

FIVE NATIONS ENERGY INC.

RESPONSES TO INTERROGATORIES FROM
BOARD STAFF

1. Ref: Ex 1/T1/S12/ Appendix A – Board of Directors

(a) At Appendix A, FNEI has identified its current Board of Directors. The appendix identifies 8 positions. Of these eight positions, two seats are vacant (Fort Albany Power & Moose Cree First Nation). For each of the Directors that are listed, please identify the LDC/ related First Nations organization they are associated with and their position in that utility/organization. With respect to the two vacancies, when does FNEI propose to fill these vacancies?

(b) Section 2.1.2 of the Affiliate Relationship Code states “A utility shall ensure that atleast one third of its Board of Directors is independent from any affiliate”. Please indentify if FNEI complies with section 2.1.2. If FNEI’s current Board does not reflect the split referred to in section 2.1.2, please explain why that is the case and what is FNEI’s proposal to rectify this situation.

RESPONSE

- (a)**
- | | |
|-------------------|---|
| Peter Paulmartin | (Director, Attawapiskat Power Corporation) |
| George Hookimaw | (General Manager, Attawapiskat Power Corporation) |
| Jessee Koosees | (Band Councillor, Kashechewan First Nation) |
| Mary Williams | (General Manager, Kashechewan Power Corporation) |
| Andrew Linklater | (Community Member, Fort Albany First Nation) |
| Dwight Sutherland | (Former Chief, Taykwa Tagamou First Nation) |

With respect to the two vacancies, it is not up to FNEI to fill these positions. They can be filled by Fort Albany Power Corporation and Moose Cree First Nation whenever they wish.

(b) FNEI is not affiliated with Attawapiskat Power Corporation, Fort Albany Power Corporation or Kashechewan Power Corporation. The issue of there being an affiliate relationship among these entities has recently arisen in other Board proceedings. A copy of the correspondence relating thereto (including FNEI’s position) is attached.

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April 9, 2010

BY E-MAIL AND PRIORITY POST

Joe Gaboury
Chief Executive Officer
Five Nations Energy Inc.
P.O. Box 370
Moose Factory, ON
P0L 1W0

Dear Mr. Gaboury:

Re: Compliance with Electricity Reporting and Record Keeping Requirements (RRR)

Under the terms for condition of licence, all electricity transmitters that are licensed by the Board under Part V of the *Ontario Energy Board Act, 1998* are required to comply with the Electricity Reporting and Record Keeping Requirements (RRR). The RRR came into force on July 1, 2005.

There are the following requirements under RRR related to electricity transmitters:

1. **RRR 3.1.1 - Deferral/Variance account balances:** A transmitter shall provide in the form and manner required by the Board, quarterly, on the last day of the month following the quarter end, balances of all deferral/variance accounts, their related sub-accounts and associated information.
2. **RRR 3.1.2 - Affiliated arrangements and transactions:** A transmitter shall provide in the form and manner required by the Board, annually, by April 30, information on affiliate arrangements and transactions for the preceding calendar year.
3. **RRR 3.2 - Certification**

I understand that FNEI did not have any deferral and variance account balances since its last electricity transmission rate proceeding in 2002 (RP-2001-0036) to report to the Board. However, it would be helpful if FNEI makes a short statement in each of its

filings, confirming that it does not have deferral and variance account balances to report. In the future, FNEI will be required to report all deferral and variance account balances if the Board issues an accounting order to FNEI to track various regulatory costs.

I also note that FNEI has been reporting zero balances for the RRR 3.1.2 and provided no information under RRR 3.2. However, I understand that FNEI purchases services from the three First Nation distributors and the transactions are being reported in the FNEI's Financial Statements. Therefore, FNEI is required to provide RRR 3.1.2 and RRR 3.2 filings for all its affiliates.

As discussed in our recent telephone conversation, we would like FNEI to take the necessary action steps in fulfilling its regulatory obligations related to the RRR filings. Please provide Regulatory Audit and Accounting with an action plan by May 10, 2010 which outlines the activities and associated timelines that FNEI will undertake in filing its RRR with the Board.

I realize that FNEI filed its final 2010 transmission rate application with the Board on February 25, 2010 (EB-2009-0387). Since matters associated with FNEI's RRR non-filing could become an issue before the Board, I suggest that FNEI take a proactive role and voluntarily file this letter as well as its response action plan with the Board, simultaneously with the EB-2009-0387 rate proceeding.

I have included the links below to provide further information regarding RRR filings.

http://www.oeb.gov.on.ca/OEB/Documents/Regulatory/RRR_Electricity.pdf

http://www.oeb.gov.on.ca/OEB/Documents/e-Filing/electricity_rrr.pdf

Please do not hesitate to contact me at 416-440-7614 if you require further information.

Yours truly,



Daria Babaie, *P. Eng., CMA*
Manager, Regulatory Audit & Accounting
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Cc: Viive Sawler, Manager, Conservation & Reporting - Ontario Energy Board
David Richmond, Manager, Electricity Facilities & Infrastructure - Ontario Energy Board

Direct Dial: (416) 216-2311
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rking@ogilvyrenault.com

Toronto, May 17, 2010

Daria Babaie
Manager, Regulatory Audit & Accounting
Ontario Energy Board
Suite 2700
2300 Yonge Street
Toronto ON M4P 1E4

Dear Mr. Babaie:

**RE: Compliance with Electricity Reporting and
Recording Keeping Requirements ("RRR")**

We are counsel to Five Nations Energy Inc. ("FNEI"), and are responding to your letter to Mr. Joe Gaboury of April 9, 2010 in respect of the above-noted matter.

Your letter sets out three requirements (numbered, on the first page of your letter) that the Board believes FNEI is not currently meeting. The purpose of this letter is to clarify those requirements.

The first requirement is to provide the Board with the balances of all deferral/variance accounts, their related sub-accounts and associated information (RRR 3.1.1). As the Board is aware, FNEI has never had any deferral or variance accounts in the history of its operations. However, your letter indicates that it would be helpful to the Board if FNEI confirms that it continues to have no deferral or variance accounts each time it makes a RRR filing. FNEI will make this statement going forward.

With respect to the second and third requirements noted in your letter, they both deal with requirements triggered by the Affiliate Relationships Code. Your letter indicates that the Board may consider the three First Nation-owned distributors in the James Bay region (namely, Attawapiskat Power Corporation ("APC"), Fort Albany Power Corporation ("FAPC"), or Kashechewan Power Corporation ("KPC")) to be affiliates. None of these four entities (i.e., FNEI, APC, FAPC or KPC) are affiliated with one another.

The definition of “affiliate” adopted by the Board in its Affiliate Relationships Code for Electricity Distributors and Transmitters (“ARC”) is the definition of “affiliate” utilized in the *Business Corporations Act* (Ontario) (“OBCA”). An “affiliate” in the OBCA means an affiliated body corporate as set out in subsection 1(4) of the OBCA.

Subsection 1(4) of the OBCA states that “[f]or the purposes of this Act, one body corporate shall be deemed to be affiliated with another body corporate if, but only if, one of them is the subsidiary of the other or both are subsidiaries of the same body corporate or each of them is controlled by the same person.” Thus, there are three ways in which two corporate entities may be affiliated for the purposes of the OBCA (and in turn, the ARC):

- if the two entities are in a parent-subsidary relationship;
- if the two entities are “sister corporations” (i.e., have a common parent); or,
- if the two entities are “controlled” by the same person.

Each of these is discussed in turn.

Is FNEI in a Parent-Subsidiary Relationship with APC, FAPC or KPC?

The OBCA provides guidance in order to determine whether two entities are in a parent-subsidiary relationship. Subsection 1(2) of the OBCA states that:

... a body corporate shall be deemed to be a subsidiary of another body corporate if, **but only if**:

- (a) it is controlled by,
 - (i) that other, or
 - (ii) that other and one or more bodies corporate each of which is controlled by that other, or
 - (iii) two or more bodies corporate each of which is controlled by that other; or
- (b) it is a subsidiary of a body corporate that is that other’s subsidiary.
(emphasis mine)

Paragraph (b) of subsection 1(2) is clearly not applicable. With respect to paragraph (a), the determination to be made is whether FNEI is directly or indirectly *controlled* by either APC, FAPC or KPC. Here, the OBCA is again very prescriptive. Subsection 1(5) of the OBCA states that:

...a body corporate shall be deemed to be **controlled** by another person or by two or more bodies corporate if, **but only if**,

(a) voting securities of the first-mentioned body corporate carrying more than 50 per cent of the votes for the election of directors are held, other than by way of security only, by or for the benefit of such other person or by or for the benefit of such other bodies corporate; and

(b) the votes carried by such securities are sufficient, if exercised, to elect a majority of the board of directors of the first-mentioned body corporate.

This is a two-fold “control in law” test, requiring both majority share ownership and also the right to elect a majority of the board of directors. The first branch of the test is a simple test and requires ownership of more than 50.1% of the voting securities. The second branch of the test is required to deal with the factual situation where cumulative voting for the election of the board of directors is permitted by the articles pursuant to section 120 of the OBCA.

Thus, the term “control” turns on the parent (directly or indirectly) having the ability to elect a majority of the board of directors. Neither APC, FAPC or KPC have the ability to elect a majority of FNEI’s Board of Directors. Consequently, none of the three First Nation-owned distributors control FNEI, and therefore none are in a parent-subsidary relationship with FNEI.

Is FNEI a sister corporation with any of APC, FAPC or KPC?

APC, FAPC and KPC are the three “members” of FNEI. Members are akin to shareholders, but because FNEI is a non-share capital corporation, it has members and not shareholders. Clearly, FNEI is not a sister corporation with any of APC, FAPC or KPC.

Is FNEI controlled by the same person as either APC, FAPC or KPC?

As noted above, “control” has a specific meaning. Each of the three distributors are “controlled” by their respective Chief and Council. None of the three Chiefs and Council can individually control FNEI. Consequently, FNEI is not controlled by the same person as either APC, FAPC or KPC. Indeed, FNEI has no controlling entity.

It is clear from the legislation (which is explicitly incorporated into the ARC), that FNEI is not an affiliated entity with APC, FAPC or KPC.

Your letter notes that transactions between FNEI on the one hand and the three distributors on the other hand nevertheless are disclosed in FNEI’s financial statements. This is true. However, the standards governing disclosure of “related party transactions” as set out in the Canadian Institute

of Chartered Accountants (“CICA”) Handbook are different. The definition of “related parties” in the CICA Handbook (Section 3840) is as follows:

Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.

Thus, for accounting purposes, “related parties” encompass much more than affiliates within the meaning of the OBCA, including concepts of “joint control”, “common significant influence” and “management”. For that reason, transactions between FNEI and the distributors are appropriately reflected in FNEI’s financial statements. However, reporting in accordance with CICA standards does not make the relationship between FNEI and the distributors an affiliate relationship. That is governed by the ARC, which as pointed out above relies upon the OBCA.

For all of the above reasons, FNEI is not subject to the ARC in respect of its transactions with APC, FAPC or KPC, and is therefore not obliged to report or certify under sections 3.1.2 or 3.2 of the RRR.

Because this issue has arisen not only in your letter of April 9, 2010 but also in FNEI’s current rate proceeding (EB-2009-0387), FNEI would like to address one further issue. In the context of a rate proceeding, FNEI acknowledges that the Board may very well exercise its discretion to apply the same level of scrutiny to the transactions between FNEI and the distributors as they would to affiliate transactions. This has been the approach of the Board in the past (see EB-2005-0544, Transcript of July 24, 2006, pages 80 to 82). In that case, in acting for the applicant gas distribution company, I stated that:

At the end of the day, and I’ve spoken with Mr. Faye about this, I think it has no bearing on this case. They are still related entities. The beneficiaries of all of the trusts are common. Certain employees are common. So for the purposes of a rate case and your scrutiny, I would assume, and I think Mr. Faye agrees, that you’re going to apply the same level of scrutiny to these transactions among these related parties as if they were affiliates. They’re not arm’s-length.

I was referring there to a transaction between the gas distribution company and a related company that technically was not an affiliate. The Board did go on in that proceeding to closely examine the commercial relationship between those two entities, and even impose a specific methodology to govern the pricing for the sale of gas between the two entities.

Thus, FNEI understands that the Board will (in FNEI's rate case) likely look more closely at FNEI's dealings with APC, FAPC and KPC than FNEI's dealings with other parties. That having been said, the "affiliate" definition is a meaningful one. Two parties that are "affiliates" within the meaning of the ARC, because they are under common control, could easily enter into an uneconomic commercial arrangement. That is not necessarily the case with parties that are merely related, but not affiliates. For example, KPC cannot demand a contract from FNEI at whatever terms it wishes because KPC does not have sufficient control (i.e., majority of Board appointees) to approve such a transaction. In fact, KPC has at most a 33% interest in FNEI. That is different than if KPC was truly an affiliate of FNEI (i.e., if KPC could elect the majority of FNEI's directors). If that were the case, KPC could direct its elected FNEI directors to enter into a contract with KPC on terms dictated by KPC. In summary, because FNEI has three members, it has no entity that truly controls it, and therefore has no affiliates.

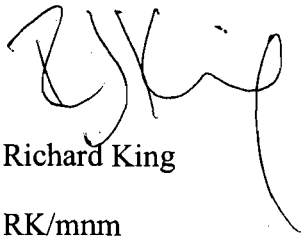
However, because FNEI expects that these transactions will be scrutinized by the Board in its current rate case, we can advise that these transactions are of two types: (a) the purchase of electricity by FNEI from each of the LDCs; and (b) the purchase of services from each of the LDCs. With respect to the latter, FNEI utilizes the power line maintainers of the LDCs when doing maintenance on the transmission line, and also use LDC staff to perform routine maintenance checks for FNEI. FNEI does not have any full time power line maintainers located in the three communities, and given the remote location and costly travel in the region, use of LDC staff is by far the most economical way for FNEI to have this work completed. The work is done on an "as needed" basis. There is no formal contract between FNEI and any of the LDCs. FNEI is currently contemplating putting contracts in place not because of any ARC requirement (because as pointed out above, these transactions are not subject to ARC) but rather to clearly delineate responsibility and liability for work carried out. Since January 1, 2006, the amount paid to each LDC for these services has been as follows:

- Attawapiskat Power Corporation = \$121,795.64
- Fort Albany Power Corporation = \$111,853.68
- Kashechewan Power Corporation = \$249,685.11

Please note that in order to complete the record, this letter will be filed by FNEI in response to Board Staff Information Request 1(b) in FNEI's current rate proceeding (EB-2009-0387).

I trust this clarifies the issue.

Yours very truly,

A handwritten signature in black ink, appearing to read 'R. King', with a long, sweeping horizontal line extending to the right.

Richard King

RK/mnm

cc. Viive Sawler, Ontario Energy Board
David Richmond, Ontario Energy Board
Mary Anne Aldred, Ontario Energy Board
Joe Gaboury, Five Nations Energy Inc.

2. Ref: Ex 1/T1/S13 – Insurance Reserve

- (a) At page 3, FNEI states that the quantum of the Insurance Reserve was determined by a credit agreement between Manulife Financial Corp. and Pacific Western Bank of Canada. Please provide the terms and conditions agreed to between FNEI and its lenders with respect to operation and design of the insurance reserve.
- (b) How was the upper limit for the Insurance Reserve determined? Please describe the methodology. Please also confirm that FNEI is not proposing an increase to the Insurance Reserve in 2010.
- (c) The Insurance Reserve is reflected in FNEI's financial statements as "RESTRICTED DEPOSITS". From an accounting point of view and from a reserve design perspective, please provide FNEI's understanding of "restricted" deposits.
- (d) Does FNEI have a reserve policy that outlines the process that is to be followed when funds are withdrawn from the Insurance Reserve? Please provide the policy. If such a policy is not available, please describe the process that is used.
- (e) Please provide the schedule of payments to the Insurance Reserve, from 2002 to 2007.
- (f) Were there any withdrawals from the Insurance Reserve between 2002-2009? Please identify the withdrawals, if any, and the reason for the withdrawals. In your response, please identify the instances, when the withdrawals from the Insurance Reserve were used to fund initiatives that were not directly related to an insurance matter.

RESPONSE

- (a) Section 6.01 of the Credit Agreement between FNEI and Manulife/Pacific & Western dated November 15, 2006 states that:

The Borrower hereby covenants and agrees with the Lenders that it will:

...

- (k) obtain from financially responsible insurance companies satisfactory to the Lenders and maintain liability insurance, all-risks property insurance on a replacement cost basis and insurance in respect of such other risks as the Lenders may reasonably require from time to time or self-insure with respect to such risks supported at all times by, subject to section 6.91(l), a minimum of \$4,000,000 in the Insurance Reserve Account; all of which policies of insurance or self-insurance arrangements shall be upon terms and conditions satisfactory to the Lenders; and the interest of the Lenders shall be noted as first mortgagee

or loss payee on any such policies (except liability insurance); and the Lenders shall be named as additional insureds under any such liability insurance policies; and the Lenders shall be provided with certificates of insurance and certified copies of any such policies from time to time upon request;

(l) the Lenders acknowledge that the balance in the Insurance Reserve Account as at the Closing Date will be an amount less than \$4,000,000 but greater than \$3,657,000; which balance the Borrower agrees shall increase monthly and reach \$4,000,000 no later than April 1, 2007; and the parties hereto agree that in the event of a casualty even involving any of the Project Assets (which, for greater certainty, does not include regular maintenance and repair) which the Borrower is not able to pay for through its operating budget, the Borrower shall be entitled to withdraw funds from the Insurance Reserve Account to deal with the costs of such casualty event without breaching the requirement to maintain a minimum balance of \$4,000,000 in the Insurance Reserve Account; provided that in any such event, and to the extent the balance in the Insurance Reserve Account is then less than \$4,000,000, the Borrower shall (i) only use such funds to pay the costs associated with such casualty event, (ii) provide the Lenders with copies of invoices supporting such expenditures together with a reconciliation statement with respect to the balance in the Insurance Reserve Account and an explanation of the costs incurred (which the Borrower shall include with its quarterly compliance certificate delivered pursuant to Section 6.04(b)), (iii) thereafter deposit to the Insurance Reserve Account any Net Cash Flow until such time as the balance of \$4,000,000 has been restored, and (iv) until the balance with its quarterly compliance certificate delivered to the Lenders pursuant to Section 6.04(b), a reconciliation statement setting out the amount of Net Cash Flow achieved during the fiscal quarter covered by such compliance certificate; and provide, further that the Borrower agrees that it shall only be permitted (in addition to simply leaving funds on deposit in the Insurance Reserve Account) to invest funds in the Insurance Reserve Account in the following instruments:

- (i) in short to medium term investments with a term to maturity not exceeding 90 days, issued by a bank listed on Schedule 1 to the *Bank Act* (Canada) with at least a "R-1 (mid)" short term debt rating by Dominion Bond Rating Services Limited; or
- (ii) in bankers' acceptances having a term to maturity not exceeding 90 days with a bank listed on Schedule 1 to the *Bank Act* (Canada) with at least a "R-1 (mid)" short term debt rating by Dominion Bond Rating Services Limited; or

(iii) in short or medium term investments with a term to maturity not exceeding 90 days, issued or guaranteed by the Government of Canada or by any Province of Canada with at least a “R-1 (mid)” short term debt rating by Dominion Bond Rating Services Limited.

(b) The upper limit of \$4 million was established by the lenders. FNEI does not know of any specific methodology utilized by the lenders but understood it to be based on the lenders’ assessment of exposure to loss due to weather and other incidents. The definition of “Insurance Reserve Account” in the Credit Agreement refers to a specific bank account established “for purposes of maintaining insurance reserves in an amount sufficient to meet maximum probable claims under its self-insurance program.” FNEI’s prior credit agreement with Bank of Montreal and Pacific & Western required a \$5 million insurance reserve.

(c) The Insurance Reserve is identified as “Restricted Deposits” because FNEI’s ability to withdraw funds from the account is restricted by the Credit Agreement terms (see excerpt of Section 6.01(l) of the Credit Agreement reproduced in the response to (a) above).

(d) There is no formal policy. Section 6.01(l) of the Credit Agreement sets out how funds in the Insurance Reserve may be accessed.

(e) Please see attached.

(f) No.

Five Nations Energy Inc.**Schedule of Contributions to Insurance Reserve Fund**

Date	Description	Amount	Balance
02/21/2003	To reallocate term deposit	500,000.00	500,000.00
02/25/2003	to reallocate Term deposits	1,000,000.00	1,500,000.00
06/30/2003	To accrue Interest on term deposits	14,172.60	1,514,172.60
09/30/2003	To adjust accrued interest	7,361.65	1,521,534.25
12/31/2003	To adjust interest accrual on term depo	(580,716.12)	940,818.13
12/31/2003	To reallocate accrued interest	(10,318.13)	930,500.00
03/31/2004	To adjust insurance reserve	430,500.00	1,361,000.00
09/30/2004	to adjust insurance reserve to proper b	430,500.00	1,791,500.00
02/10/2005	To record monthly contribution reserve	430,500.00	2,222,000.00
07/25/2005	To record monthly contribution reserve	71,750.00	2,293,750.00
07/25/2005	To record monthly contribution reserve	287,000.00	2,580,750.00
08/25/2005	To record monthly contribution reserve	71,750.00	2,652,500.00
09/25/2005	To record monthly contribution reserve	71,750.00	2,724,250.00
10/25/2005	To record monthly contribution reserve	71,750.00	2,796,000.00
11/25/2005	To record monthly contribution reserve	71,750.00	2,867,750.00
12/25/2005	To record monthly contribution reserve	71,750.00	2,939,500.00
01/31/2006	To record monthly appropriation to rese	71,750.00	3,011,250.00
02/28/2006	To record monthly appropriation to rese	71,750.00	3,083,000.00
03/31/2006	To record allocation to reserve	71,750.00	3,154,750.00
04/25/2006	To record allocation to reserve	71,750.00	3,226,500.00
05/25/2006	To record allocation to reserve	71,750.00	3,298,250.00
06/25/2006	To record monthly contribution reserve	71,750.00	3,370,000.00
07/25/2006	To record monthly contribution reserve	71,750.00	3,441,750.00
08/25/2006	To record monthly contribution reserve	71,750.00	3,513,500.00
09/25/2006	To record monthly contribution reserve	71,750.00	3,585,250.00
10/25/2006	To record monthly contribution reserve	71,750.00	3,657,000.00
11/25/2006	To record monthly contribution reserve	71,750.00	3,728,750.00
12/25/2006	To record monthly contribution reserve	71,750.00	3,800,500.00
01/25/2007	To record monthly contribution reserve	71,750.00	3,872,250.00
02/25/2007	To record monthly contribution reserve	127,750.00	4,000,000.00
		4,000,000.00	

3. Ref: Ex 1/T1/S13/p. 6 – Operating & Capital Reserves & Ex 1/T1/S15 - Financial Policies and Procedures

Preamble: At page 6, FNEI states – “Amounts required for capital projects and unbudgeted operating requirements can be somewhat unpredictable, due to new customers, new regulatory requirements and unanticipated revenue declines. For these reasons FNEI does not support any caps (i.e. upper limits) for the Capital Reserve or Operating Reserve (as it does for the Insurance Reserve)”.

(a) Given that FNEI is not forecasting any new customers or loss of an existing customer, please elaborate why a cap for the Operating Reserve and Capital Reserve is not appropriate?

(b) Section 6.1.2 of FNEI’s Financial Policies and Procedures states, “The maximum amount in the Operating Reserve shall be reviewed annually with the amount to be recommended by the Finance and Human Resources Committee and approved by the Board of Directors.” While no limit for the Operating Reserve is proposed, it appears that a maximum amount in the Operating Reserve is determined, albeit internally by the Company. Please provide the maximum limit for the Operating Reserve in 2010, as determined by the review under section 6.1.2.

RESPONSE

(a) The Board’s direction to establish such reserves is contained in FNEI’s only previous rate application decision, at a time when FNEI was in the process of coming into commercial operation. FNEI’s application to the Board that gave rise to the decision was novel not only because FNEI’s assets were not in operation when the application was made (i.e., there was no operational or financial history for FNEI’s system), but also because the Board had not previously regulated a non-profit utility. Since FNEI’s original decision, FNEI has had several years of operational experience and has carried out extensive capital expenditures to both connect a large customer and created needed redundancy in its system. Based on this operational experience, it is FNEI’s position that a Capital Reserve and in particular an Operating Reserve (with prescriptive rules as to caps, disbursement conditions, and fund transfer conditions) is of limited utility. The reasons are explained below, but it turns primarily on the need for a utility to flexibly meet their ongoing requirements.

From time to time, like any other utility, FNEI needs to access funds for operating and capital needs. Sometimes these are predictable and planned, but sometimes they are unplanned. For those unplanned requirements in particular, FNEI will use its funds on hand and credit to meet those requirements in the most appropriate manner. It seems unduly cumbersome to require FNEI to: (a) have dollars ear-marked solely for operational needs (with some sort of definition as to what these operational needs are); (b) have other dollars solely for capital needs (again, with some sort of definition as to what these capital needs are); and (c) a policy governing when and under what conditions funds might be transferred between the Capital Reserve and Operating

Reserve. FNEI's revenue requirement has been (and always will be) set at a level that results in just and reasonable rates. That generates funds that FNEI uses to operate and maintain its system. FNEI's capital expenditures will always be subject to scrutiny on a prudence basis for proper inclusion in rate base. FNEI's historic operating expenditures will similarly undergo scrutiny at each cost of service application made by FNEI. So any Capital Reserve and Operating Reserve requirements would not serve any purpose in terms of bringing discipline to FNEI's operational or capital spending. However, such rules might place undue restrictions on FNEI's use of the funds that might not be apparent when established. For the past several years, FNEI has shown its unappropriated equity in its financial statements as an operating fund. At the end of every calendar year, FNEI transfers the annual income to the Capital Reserve. This approach has worked to date for FNEI.

In terms of a cap on FNEI's Capital and Operating Reserve, it is also FNEI's position that caps would serve no purpose. There are a couple of reasons for this: (a) the flexibility issue noted above; and (b) the fact that FNEI may wish to spend money in accordance with its corporate objectives (i.e., not on operational or capital requirements). With respect to the first reason, there may be times when a major capital expenditure is planned and establishment of a cap would require FNEI to carry out a project in a manner that FNEI believes is less than optimal. Although the interrogatory above notes that no new customers is anticipated by FNEI, it is not always possible to predict. When FNEI's system was being brought into commercial operation, it did not know that a short time later a new customer would need to be connected that would require major system reinforcement. There is a general sense that with the region now connected to the grid, an existing diamond mine in the region and an increase in wind power potential in the region, the region may see more development than it has historically. With respect to the second reason, FNEI is not restricted from spending money to fulfil its corporate objectives (i.e., using its excess funds for the purposes set out in its Letters Patent). While other utilities have profit as their corporate purpose (which means that they use these excess funds to pay dividends to their shareholders), FNEI has different corporate purposes (as set out in Exhibit 1, Tab 1, Schedule 13, Page 7 of 12) which related to promoting the social, economic and civic welfare and development of the three First Nation communities in the region. It is entirely appropriate (and indeed the purpose of FNEI's existence) for FNEI to seek to fulfil those corporate purposes. The creation of a Capital Reserve and Operating Reserve with a cap implies that either: (a) there should be no other use of FNEI funds (for these other corporate purposes); or (b) FNEI should not utilize such funds for these corporate purposes until such time as the Capital Reserve and Operating Reserve are fully funded. Neither of these positions can be correct. Other utilities are not similarly restricted. The Board scrutinizes dividend payments by utilities to ensure that the size of the dividend does not compromise the utility (e.g., resulting in expensive borrowing) at the expense of the ratepayer. FNEI would expect the Board to similarly scrutinize FNEI's spending on non-operational and capital spending.

To FNEI's knowledge, other Ontario rate-regulated utilities do not have any capped capital reserve or operating reserve accounts.

(b) Consistent with its position on the Capital Reserve and Operating Reserve, FNEI has not established an upper limit on its Operating Reserve as contemplated by Section 6.1.2 of FNEI's Financial Policies and Procedures. FNEI plans to delete this Section. Moreover, the practice that FNEI has followed about accumulating unappropriated equity in an Operating Fund and transferring it at year-end to a Capital Reserve makes the establishment of a cap on the Operating unnecessary.

4. Ref: Ex 1/T1/S13 – Operating & Capital Reserves

(a) Please provide FNEI's Operating and Capital Reserve policy. If a such a policy has not been developed, please provide the following:

(i) Please identify if FNEI utilizes its annual business planning and budgeting process to review, establish, and monitor the level for its operating and capital reserves. If yes, please provide evidence and information regarding that process. If not, please describe what mechanism FNEI uses for monitoring and establishing various reserve levels.

(ii) Please describe in detail, what are the internal control mechanisms with respect to the transfer of funds from one reserve category to another category?

(iii) What triggers a transfer from one reserve category to another reserve category?

(iv) Who approves the transfer from one reserve category to another reserve category? In your response, please describe the review and approval process.

(v) Does FNEI's management acquire approval from its Board of Directors for transfer of funds from one reserve category to another reserve category? If no such approval is required, what involvement does the FNEI's Board of Directors have in relation to the management of the operating and capital reserves?

(b) Please provide a description of the accounting mechanism and the specific accounts used by FNEI to record, track and monitor amounts in the proposed reserves?

RESPONSE

Please see response to Board Staff IR 3.

5. Ref: Ex 1/T1/S13 – Operating & Capital Reserves

(a) At page 4 of Exhibit 1, Tab 1, Schedule 13, lines 1 to 3, FNEI states, “The amount in the Capital Reserve represents the equity set aside for future capital expenditures. The balance of the Capital Reserve is expected to be nil at December 31, 2009”. Please explain the reasons for the above approach. In your response, please explain why the balance in the reserve was expected to be nil at December 31, 2009.

(b) At page 4 of Exhibit 1, Tab 1, Schedule 13, lines 7, FNEI states that “Thus, the Operating Fund and Capital Reserve are linked (in the current earnings are held in the Operating Fund in any current year, and then transferred at year’s end)...”.

(i) FNEI has used the terms “Fund” and “Reserve” in its evidence. These terms are also used in the financial statements. Please provide the definition of “Operating Fund” and “Operating Reserve. In your response, please elaborate on how the two are distinguished and highlight the different characteristics of each.

(ii) Why are the “Operating Fund” and “Capital Reserve” linked? In your response, please also explain why such an approach is appropriate and the rationale for this approach.

(iii) When transferring funds from the “Operating Fund” to the “Capital Reserve”, does FNEI transfer partial amounts or full amounts? What are the decision criteria for the transfer? If FNEI transfers the partial amount from “Operating Fund” to “Operating Reserve” at the year-end, why is a partial amount transferred and how is the remaining amount used?

(iv) If FNEI transfers the full amount from “Operating Fund” to “Operating Reserve”, then why did FNEI create an “Operating Fund”? Why doesn’t FNEI transfer the amounts directly to the “Capital Reserve”?

(v) For the period 2002 to 2009, please provide a schedule that shows, the transfer of funds to and from the Capital Reserve and Operating Reserve.

(c) At page 5 of Exhibit 1, Tab 1, Schedule 13, lines 11 to 13, FNEI states that “Now that the Insurance Reserve is fully funded, FNEI will start to build up its Capital Reserve and Operating Fund”

(i) What is the purpose for building the Capital and Operating Reserve?

(ii) What is FNEI’s schedule/plan for building these reserves in 2010 and beyond? Please provide a schedule that shows the amounts and the associated timelines (i.e., over what period this would take place)? If such a plan is not available, please provide a reasonable estimate for the purposes of completing this interrogatory.

(d) At page 5 of Exhibit 1, Tab 1, Schedule 13, lines 16 to 17, FNEI states that “Obviously, if funds in the Insurance Reserve need to be used to repair FNEI system, FNEI will immediately replenish the Insurance Reserve out of whatever funds are available in the Operating Fund or Capital Reserve”. Please elaborate how this process would work.

(e) At page 6 of Exhibit 1, Tab 1, Schedule 13, lines 1 to 5, FNEI states, “FNEI does not propose to set any “caps” (i.e., upper limits) for the Capital Reserve or Operating Fund (as it does for the Insurance Reserve). Amounts required for capital projects and unbudgeted operating requirements can be somewhat unpredictable (e.g. new customers, new regulatory requirements, unanticipated revenue declines, etc.) and require a more dynamic approach to management of funds set aside for these purposes”.

(i) What is FNEI’s understanding of the use of Reserves in relation to dealing with “unpredictable” or “extraordinary” events?

(ii) Please explain the statement “a more dynamic approach to management of funds set aside for these purposes”. In your response, please elaborate on the types of activities that FNEI proposes to uses the Reserves for.

(iii) Does FNEI believe that “funds can be set aside for these purposes” or not? If not, why not?

(iv) If FNEI believes that funds cannot be set aside for these purposes, does FNEI accept that the fact that the planning for setting aside funds for various purposes is a dynamic process and may not necessarily result in the desired outcome given the reality of the business environment and challenging nature of planning under uncertainties?

(f) If planning under uncertainties is a challenge for any management of an organization and management still needs to do planning based on its best knowledge of the business environment and its planned assumptions, why does FNEI believe that it is not appropriate to set “upper limits” for the Capital Reserve and Operating Reserve”?

RESPONSE

Please see (generally) the response to Board Staff IR 3.

(a) By its very nature, a reserve account cannot be negative. The year 2009 was unique in that an amount exceeding net income was transferred to the Capital Reserve in order to eliminate the deficit in that reserve (which was caused primarily by capital improvements in excess of the amounts financed). It is a reserve, by its very nature a reserve cannot be negative. How can one set aside negative equity for future.

(b)(i) The following definitions are taken from FNEI’s Financial Statements (Note 1(e)):

The corporation uses fund accounting procedures which result in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions. Funds are maintained as follows:

OPERATING FUND - reports on the general transmission activities of the corporation.

INSURANCE RESERVE FUND - reports on the appropriated retained earnings set aside for damages to poles, fixtures, overhead conductors and devices.

CAPITAL RESERVE - reports on the appropriated retained earnings set aside for future capital improvements. The corporation's policy is to appropriate all operating profits to the capital reserve on an annual basis.

CAPITAL FUND - reports on the capital assets of the corporation, together with related financing.

(b)(ii) They are not linked except to the extent that the combination of the total equity must balance the statement of financial position (as per normal). The Operating Fund and the Capital Reserve represent residual equity with the Operating Fund representing unappropriated equity, and the Capital Reserve representing residual equity set aside for future capital expansion.

(b)(iii) Almost since FNEI began operations, FNEI has transferred any surplus from operations to the Capital Reserve in anticipation of substantial upgrades to its system. (As noted in the response to Board Staff IR 3, the year 2009 was an exception in that an amount exceeding net income was transferred to the Capital Reserve in order to eliminate the deficit in that Reserve).

FNEI started appropriating equity into the Capital Reserve in 2004. In that year, only the residual net income for 2004 was put in the Capital Reserve (i.e., income not otherwise appropriated to the Insurance Reserve and the Capital Fund). This was also done in 2005, however, the appropriation to the Capital Reserve also included the accumulated Operating Fund equity from prior to 2004 bringing the Operating Fund balance to nil at December 31, 2005. From 2006 to 2008, all residual net income for the year was appropriated to the Capital Reserve on December 31st of those years. In 2009, as a result of a deficit in the Capital Reserve, the amount appropriated to the Capital Reserve exceeded the residual income in order to eliminate the Capital Reserve deficit and bring the Capital Reserve balance to nil.

In 2007, the Capital Reserve was divided into 2 components. It was felt the use of the term Capital Reserve was somewhat of a misnomer since it implied the equity in the reserve was available for future capital expansion when in reality a significant portion had already been invested in capital assets. The Capital Fund was created to report the capital assets net of related financing with the balance becoming the Capital Reserve. The attachments to Board Staff IR 5(b)(v) details the transfers between the various equity accounts from 2002 to 2009 and details the Capital Fund and the transactions therein for the same period. The schedules have been prepared retroactively to assume that the Capital Fund has existed since prior to 2002.

(b)(iv) The Operating Fund represents unappropriated retained earnings -- an account within the uniform system of accounts. From an accounting perspective, there is no reason that the transfer could not be made every quarter.

(b)(v) Please see attached.

(c)(i) and (ii) Please see response to Board Staff IR 3.

(d) Please see response to Board Staff IR 2(a) and (d). This is governed by the Credit Agreement.

(e)(i) through (iv) Please see response to Board Staff IR 3.

(f) Please see response to Board Staff IR 3.

Five Nation Energy Inc.**Continuity of Utility Equity (Retroactively restated to include Capital Fund)****For the years December 31, 2002 to 2009**

	Operating Fund	Capital Reserve	Capital Fund (1)	Insurance Reserve Fund	Total Equity
2001 ending balance	(3,707,063)	-	3,663,779	-	(43,284)
2002 net income	61,660	-	-	-	61,660
2002 capital fund transactions (1)	245,993	-	(245,993)	-	-
2002 ending balance	(3,399,410)	-	3,417,786	-	18,376
2003 net income	1,645,089	-	-	-	1,645,089
2003 capital fund transactions (1)	3,532,991	-	(3,532,991)	-	-
2003 insurance reserve requirement	(930,500)	-	-	930,500	-
2003 ending balance	848,170	-	(115,205)	930,500	1,663,465
2004 net income	4,620,311	-	-	-	4,620,311
2004 capital fund transactions (1)	(2,141,109)	-	2,141,109	-	-
2004 insurance reserve requirement	(861,000)	-	-	861,000	-
2004 appropriation to capital reserve (3)	(1,733,407)	1,733,407	-	-	-
2004 ending balance	732,965	1,733,407	2,025,904	1,791,500	6,283,776
2005 net income	2,689,359	-	-	-	2,689,359
2005 capital fund transactions (1)	(714,073)	-	714,073	-	-
2005 insurance reserve requirement	(1,148,000)	-	-	1,148,000	-
2005 appropriation to capital reserve (3)	(1,560,251)	1,560,251	-	-	-
2005 ending balance	-	3,293,658	2,739,977	2,939,500	8,973,135
2006 net income	2,491,169	-	-	-	2,491,169
2006 capital fund transactions (1)	(4,321,788)	-	4,321,788	-	-
2006 insurance reserve requirement	(861,000)	-	-	861,000	-
2006 appropriation to capital reserve (3)	2,691,619	(2,691,619)	-	-	-
2006 ending balance	-	602,039	7,061,765	3,800,500	11,464,304
2007 net income (2)	2,525,295	-	-	-	2,525,295
2007 capital fund transactions (1, 2)	-	(2,130,980)	2,130,980	-	-
2007 insurance reserve requirement	(199,500)	-	-	199,500	-
2007 appropriation to capital reserve (2)	(2,325,795)	2,325,795	-	-	-
2007 ending balance	-	796,854	9,192,745	4,000,000	13,989,599
2008 net income (2)	2,522,768	-	-	-	2,522,768
2008 capital fund transactions (1, 2)	-	(2,999,137)	2,999,137	-	-
2008 appropriation to capital reserve (2)	(2,522,768)	2,522,768	-	-	-
2008 ending balance	-	320,485	12,191,882	4,000,000	16,512,367
2009 net income	1,727,267	-	-	-	1,727,267
2009 capital fund transactions (1)	-	(2,540,855)	2,540,855	-	-
2009 appropriation to capital reserve	(2,220,370)	2,220,370	-	-	-
2009 ending balance	(493,103)	-	14,732,737	4,000,000	18,239,634

Note 1 - See continuity of capital fund schedule attached. The capital fund was not reported prior to 2007.

Note 2 - 2007 and 2008 figures restated to reflect retroactive capitalization of interest on fibre optic project.

Note 3 - Amount of appropriation per the financial statements includes capital fund transactions.

Five Nation Energy Inc.**Continuity of Capital Fund****For the years ended December 31, 2002 to 2009**

	<u>2001 (1)</u>	<u>2002 (1)</u>	<u>2003 (1)</u>	<u>2004 (1)</u>	<u>2005 (1)</u>	<u>2006 (1)</u>	<u>2007 (2)</u>	<u>2008 (2)</u>	<u>2009</u>
Capital assets	34,855,820	20,991,082	12,726,156	9,518,982	9,784,743	13,439,081	17,845,345	27,070,485	28,607,299
LTD - Current	(6,750,715)	(4,732,585)	(3,848,283)	(448,311)	(725,938)	(245,000)	(600,422)	(1,229,097)	(324,176)
LTD - Long term	(24,441,326)	(12,840,711)	(8,993,078)	(7,044,767)	(6,318,828)	(6,132,316)	(8,052,178)	(13,649,506)	(13,550,386)
	3,663,779	3,417,786	(115,205)	2,025,904	2,739,977	7,061,765	9,192,745	12,191,882	14,732,737
Balance - Beginning of year	3,663,779	3,417,786	(115,205)	2,025,904	2,739,977	7,061,765	9,192,745	12,191,882	
Capital asset additions	6,333,407	631,400	716,991	720,359	4,170,735	4,989,132	9,870,319	2,307,985	
Proceeds of disposal	(8,400,000)	-	(2,600,000)	(15,000)	-	-	-	-	
Contributions in aid	(11,237,168)	(8,329,311)	(2,737,811)	-	-	-	-	-	
Gain (Loss) on disposal	-	-	1,857,659	7,534	-	-	-	-	
Amortization	(560,977)	(567,015)	(444,013)	(447,132)	(516,397)	(582,868)	(645,179)	(771,171)	
Proceeds of long term debt	-	-	-	-	-	(3,997,600)	(7,002,400)	-	
Repayment of long term debt	13,618,745	4,731,935	5,348,283	448,312	667,450	1,722,316	776,397	1,004,041	
Total capital fund transactions	(245,993)	(3,532,991)	2,141,109	714,073	4,321,788	2,130,980	2,999,137	2,540,855	
Balance - End of year	3,417,786	(115,205)	2,025,904	2,739,977	7,061,765	9,192,745	12,191,882	14,732,737	

Note 1 - Capital fund was not reported prior to 2007.

Note 2 - 2007 and 2008 figures for capital assets and additions to capital assets restated to reflect capitalization of interest on fibre optic project.

6. Ref: Decision with Reasons, EB-2001-0036

Preamble: The Board in its Decision in FNEI's last rate case, RP-2001-0036, noted that the operating reserve was intended to provide a cushion for unanticipated expenses and the capital reserve was intended to create sufficient funds for planned equipment replacements. In this application, FNEI argues "...a cap on these reserves implies that FNEI cannot use its funds in other ways that are consistent with its corporate objectives until such time as these caps have been reached".

(a) Given that the operating and capital reserves are for a specific purpose, please explain why FNEI believes that it is appropriate to use these reserves for purposes, other than those noted by the Board?

(b) Please explain in what "other ways" FNEI proposes to use these funds. In your response, please identify the specific projects/initiatives, the funding needed and the associated timelines for these initiatives.

RESPONSE

As noted in the response to Board Staff IR 3, FNEI should be free to utilize funds to fulfil its corporate objectives like any other corporation, provided the use of those funds for non-operational and non-capital purposes does not compromise the utility at the expense of ratepayers. To date, FNEI has really not used its funds for anything other than for operational or capital spending because FNEI has spent significant amount of its funds upgrading its system.

7. Ref: Decision with Reasons, EB-2005-0233, dated October 14, 2005

Preamble: The Board in its Decision in an application by Attawapiskat Power Corporation (APC), EB-2005-0233, approved the utility's request for an operating reserve and established a "cap" of \$350,000 for that reserve. With respect to the utility's request for a capital reserve, the Board disallowed APC's request noting that it was "premature to establish a capital reserve until the limits and uses were more clearly understood".

Given the Board's Decision in EB-2005-0233, please prepare the following scenarios:

(a) Please provide a reasonable preliminary estimate for the maximum amount of the capital reserve required to support FNEI's capital expenditure plan. Please explain the methodology used to calculate the cap and the period over which this reserve will be funded. If FNEI does not have a capital plan, please indicate when such a plan will be available and complete the interrogatory using reasonable assumptions.

(b) Please provide a reasonable preliminary estimate for the maximum amount of the operating reserve. Please describe the methodology used to calculate the cap and the period over which the reserve will be funded.

RESPONSE

Please see response to Board Staff IR 3.

8. Ref: Ex 1/T1/S13 – Status of Board Directives

Preamble: At page 8, FNEI states that “FNEI’s status as non-profit has only two implications for the Board’s jurisdiction as it relates to rate regulation: (a) FNEI does not pay income tax as long as it remains non-profit, so there is no income tax expense included in FNEI’s revenue requirement; ..”¹

However, a Non-Profit Organization is not tax exempted automatically by maintaining its non-profit status. As stated in FNEI’s decision RP-2001-0036, “the Board is aware that a non-profit corporation that accumulates funds that are excess to its current expenditures must give careful consideration to maintaining its non-taxable status.”

Income Tax Act 149 (1)(l) provides the listing of the conditions for a NPO to qualify for tax-exempt status. The interpretation bulletin number IT-496R issued by CRA which interprets the 149 (1) (l) states: “Whether a particular association meets all of the above conditions and qualifies under 149 (1) (l) as a tax-exempt NPO is a question of fact that can only be determined after we review the purposes and activities of the association.”

Paragraph 9 of IT-496R further states “the amount of accumulated excess income considered reasonable in relation to the needs of an association to carry on its non-profit activities and goal is a question of fact to be determined with regard to the association’s particular circumstance.... Where the present balance of accumulated excess is considered excessive or an annual excess is regularly accumulated that is greater than an association’s needs to carry on its non-profit activities, it may indicate that the association’s aims are two-fold: to earn profits and to carry out its non-profit purposes...In such case, the operated exclusively requirement in paragraph 149(1) (l) would not be met.”

(a) Please explain if FNEI has considered maintaining its non-taxable status in the context of a non-profit corporation earning excess revenues over its expenditures. If so, please provide any evidence including FNEI’s policies, plans or any other documents, which supports your consideration of maintaining the non-taxable status. If not, please provide your rational why it is not an issue for FNEI.

RESPONSE

The stated corporate purpose of FNEI has not changed since its inception, and such purposes are not profit. FNEI keeps abreast of tax case law developments in this area, because as noted in the excerpt from IT-496R the amount of accumulated excess income considered reasonable in relation to the needs of an association to carry on its non-profit activities and goal is **a question of fact** to be determined with regard to the associate’s particular circumstance.

¹ (b) is not reproduced here because it is not relevant to this IR.

When sub-section 149(1)(l) is broken down into its essential parts, the following necessary conditions must exist before an organization qualifies for exemption:

- the organization cannot be a charity in the opinion of the Minister of Revenue;
- it must be organized exclusively for social welfare, civic improvement, pleasure, recreation or any other purpose except profit;
- it must be in fact operated exclusively for those purposes;
- it cannot pay any part of its income (or make its income payable or otherwise available) for the personal benefit of any proprietor, member, or shareholder of the organization.

The most relevant cases on this point are: *The Canadian Bar Insurance Association v. Her Majesty the Queen* and *Gull Bay Development Corporation v. The Queen*. Both deal with the question of whether carrying on a measure of commercial activity makes them for-profit organizations. In the first case, the company had as its state purpose to make insurance plans and benefits available to Canadian lawyers (and other persons as the Board of Directors may determine from time to time). The Minister of National Revenue issued assessments for four years where the company had made a profit. In issuing those four assessments, the Minister assumed that the company was not organized and operated for purposes other than profit. The company appealed the assessments claiming that it was exempt from tax under the provisions of paragraph 149(1)(l) of the *Income Tax Act* (Canada). In examining the applicable tests, the Tax Court relied on an earlier decision which noted that the question was whether the social and welfare activities of the organization are a cloak to avoid payment of taxation on a commercial enterprise or are its real objectives. The case of *Gull Bay Development Corporation v. The Queen* dealt with a logging company that provided employment to members of a First Nation. The Court noted that the situation for the insurance company was quite different. The company did not compete with insurers or brokers, but acted on behalf of a restricted class of consumers. The judge went on to say that if the competitive logging operation in *Gull Bay* did not cause the corporation to lose its tax-exempt status, then the non-competitive activities in the commercial area of insurance ought not to be regarded as proof of a profit purpose. The Tax Court then quoted from a 1983 Supreme Court of Canada decision (*The Regional Assessment Commissioner and the Municipal Clerk of the Corporation of the Town of Hearst v. Caisse populaire de Hearst Limitée*), as follows:

“...Many community and charitable organizations, relying from time to time on what would be termed commercial activity to raise funds for the fulfilment of their objectives, could be classed as businesses by such a test. To attach primary importance to the commercial aspect of an operation in question will offer, in my opinion, no sure or helpful guide. In my view, the commercial activity test is too indefinite to allow consistent application. I agree that . . . all relevant factors regarding an operation must be considered and weighed. However, they must be considered and weighed in order to determine not whether in some general sense the operation is of a commercial nature or has certain commercial attributes, but whether it has as its preponderant purpose the

making of a profit. If it has, it is a business; if it has not, it is not a business.”

FNEI is of the view, based on professional advice, that it continues to meet the conditions for tax exemption.

9. Ref: Ex 1/T2/S3 – Methodology & Changes to Methodology

Preamble: FNEI states, “Certain assets with immediate and ongoing value, such as berms and transformer energization projects, are capitalized as they are constructed, rather than upon completion of the project”.

- (a) What is the rationale for this approach?**
- (b) Is FNEI aware of any other utility that has received Board approval for such an approach?**
- (c) What is the impact on the 2010 rate base if the Board were to disallow FNEI’s proposed approach?**

RESPONSE

- (a) For these particular projects, they are useful as they are constructed. For instance, a berm is built from the bottom up, and half a berm is useful (or more useful than no berm).
- (b) No.
- (c) FNEI’s applied-for rate base would be greater because depreciation would have begun later in time.

RATE BASE AND CAPITAL EXPENDITURES

10. Ref: Ex 1/T1/S15 - Financial Policies and Procedures, Section 7.4 & Harmonized Sales Tax Impact on OMA

Preamble: The provincial government has announced plans to harmonize the provincial sales tax (PST) with the goods and services tax (GST) effective July 1, 2010 to create a harmonized sales tax (HST). Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. If the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures. Based on the proposed elimination of the PST effective July 1, 2010:

- (a) Please confirm that FNEI has not made any adjustments to the capital expenditure forecast to reflect the elimination of the 8% provincial sales tax.**
- (b) Please provide the estimated costs of the provincial sales tax included in the capital expenditure forecast for 2010.**
- (c) Please provide the amount of provincial sales tax paid by FNEI on capital expenditures in each of 2007, 2008 and 2009.**
- (d) Does FNEI see any reason why the reductions in capital expenditures cannot be captured in a variance account?**

RESPONSE

- (a) Confirmed.**
- (b) The estimated costs would be minimal because very little capital spending is projected for the remainder of 2010.**
- (c) According to FNEI's best information, the PST amounts paid on capital expenditures are as follows:**

2007	\$NIL
2008	\$17,814.98
2009	\$167,096.41

- (d) No.**

11. Ref: Ex 1/T1/S10/p.1 – Organizational Structure

Preamble: At line 17 of the above reference, FNEI states that the assets FNEI is currently operating that are owned by De Beers Canada will be transferred once certain permits to be issued under the *Indian Act* (Canada) are obtained.

(a) What is the status of this transaction? When does FNEI expect the transfer to be completed?

(b) Are these assets currently in FNEI's 2010 rate base?

RESPONSE

(a) FNEI expects the transfer to be completed soon. The requisite Band Council Resolutions that underpin the subsection 28(2) permit of the *Indian Act* (Canada) were signed earlier this week. The process now becomes an internal Department of Indian Affairs and Department of Justice issue.

(b) No. Please note that the assets will not impact FNEI's rate base because they are being transferred at nominal consideration.

12. Ref: Ex 2/T1/S1/p.1/lines 3-6 & Filing Requirements for Transmission and Distribution Applications, May 27, 2009 (Filing Requirements”)

Preamble: At the above reference, FNEI states that the methodology used for calculating rate base is “... the total of the average of the forecasted opening and closing net fixed assets”. However, the schedules provided in Ex 2/T11/S1 for 2010 and other historic years suggest that gross assets (and accumulated depreciation) are calculated as an average of total assets by month. For example, the Total Asset of \$33,226 appears to be an average of total monthly asset balance in Ex 2/T11/S2/p.1 and not an average of 2010 opening and closing balances.

It also appears that FNEI’s methodology for calculating asset balances and accumulated depreciation does not use December closing balance from the past year as the opening balance for the following year. For example, the December 2008 Asset balance differs from the January 2009 balance.

- (a) Is Board staff’s interpretation of the methodology to calculate total assets, accumulated depreciation and the approach used to determine the opening/closing balances correct? If staff’s interpretation is incorrect, please clarify the approach used.**
- (b) Please explain why has FNEI not relied on the approach outlined in Section 2.3 of the Filing Requirements (i.e. average of opening and closing balances) to calculate total assets and accumulated depreciation?**
- (c) In the rate base calculations, please explain why December balances from the prior year, were not used as the opening balance for the following year. In your response, please also explain why this particular approach was used to estimate rate base, while a different approach was used to calculate the depreciation expense.**
- (d) Please provide a detailed description of the methodology used to calculate Total Assets, Accumulated Depreciation and Net Assets.**
- (e) How long has FNEI been using this approach?**
- (f) Please identify other distributors, transmitters or regulated entities that follow this approach.**

RESPONSE

(a) Staff’s interpretation of the methodology used to calculate total assets, accumulated depreciation and the approach used to determine the opening/closing balances is correct. The methodology used for calculating rate base is based on the average of the monthly closing balances. These monthly closing balances are shown in Schedule 2 of Exhibit 2, Tabs 3 through 11 for 2002 through 2010, respectively. The heading on Schedule 1 in the corresponding Tabs 3

through 11 are labelled incorrectly as "Average of Opening and Closing Balances" and should be labelled "Average of Monthly Closing Balances".

(b) The average of the opening and closing balances does not provide an accurate calculation of total assets and accumulated depreciation. This can be seen by comparing the net book value of the property, plant and equipment shown in Exhibit 2, Tab 1, Schedule 2 with the corresponding figures provided in the response to Board Staff IR 13. These two sets of figures are reproduced here for ease of comparison.

Year	Average of Monthly Closing Balances (Exhibit 2, Tab 1, Schedule 2)	Average of Opening and Closing Balances (Board Staff # 13)	Difference
2002	15,051.9	23,729.7	(8,677.8)
2003	14,224.8	16,858.6	(2,633.8)
2004	10,235.4	11,122.6	(887.2)
2005	9,679.9	9,651.8	28.1
2006	11,063.8	10,893.1	170.7
2007	12,355.7	12,487.7	(132.0)
2008	14,794.1	14,527.2	266.9
2009	17,599.8	22,371.7	(4,771.9)
2010	28,180.2	28,206.7	(26.5)

In the early years of FNEI (2002 through 2004), use of the average opening and closing balances substantially overestimates rate base. This is due to both the change in the monthly fixed assets and also due to the timing of the addition and removal of assets from rate base in these early years.

In 2009, use of the opening and closing balance methodology again overestimates rate base significantly since most of the capital expenditures placed into service in 2009 were done so in December of that year.

In the remaining years (2005, 2006, 2007, 2008 and forecast 2010) the difference between the figures produced by the two methodologies is relatively small. This reflects the low level of capital expenditures in these years and the timing of when the assets were put into service.

(c) As explained above, rate base has been calculated using the average of the monthly closing balances. As a result the January monthly figure used in the calculation is equal to the December closing balance, plus any additions or deletions from rate base that took place in the month of January. Because accumulated depreciation at the end of January is higher than it was at the end of the previous December, the January figure has been lower than the December figure in five out of the 8 years from 2003 through 2010 including the 2010 test year (Schedule 2 of Exhibit 2, Tabs 3 through 11).

FNEI is not clear by what is meant a different approach was used to calculate the depreciation expense from the approach used to estimate rate base. The accumulated depreciation used in the calculation of rate base is equal to the accumulated depreciation at the end of the previous year, plus depreciation for the current year plus any adjustments as shown in Exhibit 4, Tab 3, Schedule 3. These schedules show that the opening and closing balances are consistent with the corresponding figures shown in Schedule 2 of Exhibit 2, Tabs 3 through 11.

FNEI calculates its depreciation expense on a monthly basis based on all assets in service at the end of the month. The depreciation expense calculation shown in Exhibit 4, Tab 3, Schedule 3 is consistent with this approach. More detail is provided in the response to Board Staff IR 13.

(d) Total assets is the cost of all assets in service and is calculated on a monthly basis. Accumulated depreciation is also calculated monthly and is the sum of all depreciation expenses for previous months and the current month, net of adjustments to reflect the disposal of assets to that point in time. Net assets is the difference between total assets and accumulated depreciation.

(e) Since its inception as a corporation.

(f) FNEI is aware that the regulated natural gas distributors in Ontario use a similar approach to calculate the property, plant and equipment component of rate base. Rather than using an average of the monthly closing balances, they use an average of the average monthly balances methodology. Mathematically this is very similar to the method used by FNEI. Both methodologies use the closing balance figures for January through November. The difference between the two methodologies is that the average of the monthly average approach uses one-half the current December closing balance and one-half of the previous December closing balance as compared to the current December closing balance only used in the FNEI approach.

13. Ref: Section 2.3 & Appendix 2-C - Filing Requirements

Preamble: Section 2.3 of the Filing Requirements, state, “For Rate Base, the applicant must include the opening and closing balances, and the average of the opening and closing balances for gross assets, accumulated depreciation and allowance for working capital.” The guidelines further state “The information outlined in Appendix 2-C should be provided for each year”.

(a) Please calculate the historical (2002-2008), bridge and test year rate base using the approach described under section 2.3 of the Board’s Filing Requirements. Please also complete Appendix 2-C and provide the MS Excel worksheets with all formula and links left active. Please note, as per section 2.3.3, the “Continuity statements should be reconcilable to the calculated depreciation expenses (under Operating Expenses) and presented by asset account”.

(b) Please provide the impact on the test year revenue requirement of the above scenario.

RESPONSE

(a) The rate base calculated using the average of the opening and closing balances is provided in the attached Excel spreadsheet for each of 2002 through 2010. The attached Excel spreadsheet shows the spreadsheet from Appendix 2-C for all of the accounts for which FNEI has assets. With the exception of rounding differences, the spreadsheet is consistent with the information provided at Exhibit 4 , Tab 3, Schedule 3.

The calculation of rate base based on the average of opening and closing balances for the property plant and equipment and the addition of the working capital allowance as shown in Exhibit 2, Tab 1, Schedule 2 has been added to the bottom of each set of tables.

As noted in the response to Board Staff IR 12, part (c), FNEI calculates the depreciation expense on a monthly basis based on assets in service as of the end of each month. The Excel spreadsheet provided shows the calculation of the depreciation expense each year by each asset category based on this methodology. In particular, the appropriate depreciate rate is applied to the average cost base for each category of assets. The average cost base is shown in Exhibit 4, Tab 3, Schedule 3 and is simply the average of the monthly balances for the year on which monthly depreciation expense is calculated which is also shown in Schedule 2 of Exhibit 2, Tabs 3 through 11.

Additional adjustments to the depreciation expense are also shown in the Excel spreadsheet in the "Adjustments to Depreciation" column on the right hand side. The adjustments shown in 2002 reflect some minor adjustments made due to the calculation of depreciation in the previous year, which was the first year of operation of FNEI. Minor adjustments are shown for 2004 through 2007.

Larger adjustments are shown for 2008 through 2010. These adjustments were and are required to reflect two things. First, in 2008, the reduction in the depreciation expense for account 1910 (-14.6) was required to ensure that the net book value of this account at the end of 2008 was not less than zero. Second, the remaining adjustments in 2008 through 2010 are required to reflect the fact that some of the individual assets in the various accounts have been fully depreciated. An example of this adjustment is the reduction of \$14.2 shown for account 1920 - computer hardware in 2009. Computer equipment with an approximate cost of \$67,500 was fully depreciated by the beginning of 2009. This reduced the depreciation expense by \$13,500 (i.e. $\$67,500 \times 20\%$). During 2009 computer equipment with a value of approximately \$6,500 became fully depreciated, with a depreciation expense of \$600 rather than \$1,300 (i.e. $\$6,500 \times 20\%$), resulting in the remaining adjustment of \$700, for a total of \$14,200.

(b) As shown in the attached Excel spreadsheet, the 2010 test year rate base using the average of the opening and closing balances would be 28,714.6, which represents an increase of \$26,500 from the figure of 28,688.1 shown in Exhibit 2, Tab 1, Schedule 2.

Based on the deemed capital structure for the 2010 test year shown on page 3 of Exhibit 5, Tab 1, Schedule 2 and the corresponding weighted average return of 6.60%, the impact on the test year revenue requirement is an increase of \$1,749.

Fixed Asset Continuity Schedule

2002

		Cost					Accumulated Depreciation					Adjustment	
OEB	Description	Depreciation Rate	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Net Book Value	Average Cost Base	to Depreciation
1715	Station Equipment	2.50%	7,920.8	-312.0	2,356.7	5,252.1	28.6	111.9	17.8	122.7	5,129.3	4,685.0	-5.2
1725	Poles and Fixtures	4.00%	13,986.2	2,823.5	4,607.2	12,202.5	90.2	325.4	61.4	354.2	11,848.3	7,894.3	9.6
1730	Overhead Conductors & Devices	4.00%	4,662.1	941.2	1,535.7	4,067.5	30.1	108.5	20.5	118.1	3,949.4	2,790.1	-3.1
1908	Buildings & Fixtures	4.00%	0.0			0.0	0.0			0.0	0.0		
1910	Leasehold Improvements	50.00%	0.0			0.0	0.0			0.0	0.0		
1915	Office Furniture & Equipment	20.00%	0.0			0.0	0.0			0.0	0.0		
1920	Computer - Hardware	20.00%	21.7	31.1		52.9	0.9	8.8		9.7	43.2	44.0	
1925	Computer Software	20.00%	0.0			0.0	0.0			0.0	0.0		
1930	Transportation Equipment	20.00%	32.1			32.1	4.8	6.4		11.2	20.8	32.1	
1940	Tools, Shop & Garage Equipment	20.00%	0.0			0.0	0.0			0.0	0.0		
										0.0			
	Total		26,622.9	3,483.7	8,499.7	21,606.9	154.6	561.0	99.7	615.9	20,991.0	15,445.5	1.3

Transportation	
Stores Equipment	

Less: Fully Allocated Depreciation	
Transportation	0.0
Stores Equipment	0.0
Net Depreciation	561.0

Average of Opening and Closing Balance	24,114.9	385.2	23,729.7
Working Capital Allowance			503.2
Total Rate Base			24,232.9

Fixed Asset Continuity Schedule

2003

		Cost					Accumulated Depreciation					Adjustment	
OEB	Description	Depreciation Rate	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Net Book Value	Average Cost Base	to Depreciation
1715	Station Equipment	2.50%	5,252.1	260.4	1,940.8	3,571.6	122.7	95.8		218.5	3,353.1	3,831.6	
1725	Poles and Fixtures	4.00%	12,202.5	227.3	4,791.4	7,638.3	354.2	336.8		691.0	6,947.4	8,419.5	
1730	Overhead Conductors & Devices	4.00%	4,067.5	75.8	1,597.1	2,546.1	118.1	112.3		230.4	2,315.8	2,806.5	
1908	Buildings & Fixtures	4.00%	0.0			0.0	0.0	0.0		0.0	0.0		
1910	Leasehold Improvements	50.00%	0.0			0.0	0.0	0.0		0.0	0.0		
1915	Office Furniture & Equipment	20.00%	0.0	14.7		14.7	0.0	1.8		1.8	12.9	8.9	
1920	Computer - Hardware	20.00%	52.9	11.0		63.9	9.7	11.7		21.4	42.5	58.5	
1925	Computer Software	50.00%	0.0	2.1		2.1	0.0	0.8		0.8	1.3	1.7	
1930	Transportation Equipment	20.00%	32.1	32.5		64.6	11.2	7.0		18.2	46.4	34.8	
1940	Tools, Shop & Garage Equipment	20.00%	0.0	7.7		7.7	0.0	0.9		0.9	6.8	4.5	
	Total		21,606.9	631.4	8,329.3	13,909.1	615.9	567.0	0.0	1,182.9	12,726.1	15,166.0	0.0
	Transportation												
	Stores Equipment												

Average of Opening and Closing Balance	17,758.0	899.4	16,858.6
Working Capital Allowance			384.4
Total Rate Base			17,243.0

Fixed Asset Continuity Schedule

2004

		Cost					Accumulated Depreciation				
OEB	Description	Depreciation Rate	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Net Book Value
1715	Station Equipment	2.50%	3,571.6	347.6	694.6	3,224.6	218.5	78.6		297.2	2,927.4
1725	Poles and Fixtures	4.00%	7,638.3	184.5	2,244.3	5,578.6	691.0	247.7	125.4	813.3	4,765.3
1730	Overhead Conductors & Devices	4.00%	2,546.1	8.5	745.6	1,809.1	230.4	80.9	41.8	269.5	1,539.6
1908	Buildings & Fixtures	4.00%	0.0	172.9		172.9	0.0	2.1		2.1	170.9
1910	Leasehold Improvements	50.00%	0.0			0.0	0.0	0.0		0.0	0.0
1915	Office Furniture & Equipment	20.00%	14.7	8.0		22.7	1.8	3.8		5.6	17.1
1920	Computer - Hardware	20.00%	63.9	9.8		73.7	21.4	14.1		35.5	38.2
1925	Computer Software	50.00%	2.1			2.1	0.8	1.1		1.9	0.2
1930	Transportation Equipment	20.00%	64.6	7.5		72.1	18.2	13.8		32.0	40.1
1940	Tools, Shop & Garage Equipment	20.00%	7.7	15.3		23.0	0.9	1.9		2.8	20.2
	Total		13,909.1	754.1	3,684.5	10,978.7	1,182.9	444.0	167.2	1,459.8	9,519.0

Adjustment	
Average Cost Base	to Depreciation
3,145.3	
6,193.6	
2,022.2	
66.5	-0.6
19.0	
70.6	
2.1	
69.0	
9.7	
11,597.9	-0.6

Transportation
Stores Equipment

Less: Fully Allocated Depreciation	
Transportation	0.0
Stores Equipment	0.0
Net Depreciation	444.0

Average of Opening and Closing Balance	12,443.9	1,321.3	11,122.6
Working Capital Allowance			273.1
Total Rate Base			11,395.7

Fixed Asset Continuity Schedule

2005

		Cost					Accumulated Depreciation				
OEB	Description	Depreciation Rate	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Net Book Value
1715	Station Equipment	2.50%	3,224.6	277.8		3,502.4	297.2	84.0		381.2	3,121.2
1725	Poles and Fixtures	4.00%	5,578.6	292.9		5,871.5	813.3	229.5		1,042.8	4,828.7
1730	Overhead Conductors & Devices	4.00%	1,809.1	19.8		1,828.9	269.5	73.0		342.5	1,486.4
1908	Buildings & Fixtures	4.00%	172.9	10.2		183.2	2.1	7.2		9.2	173.9
1910	Leasehold Improvements	50.00%	0.0	13.4		13.4	0.0	5.5		5.5	7.9
1915	Office Furniture & Equipment	20.00%	22.7	13.2		35.9	5.6	6.3		11.8	24.0
1920	Computer - Hardware	20.00%	73.7	31.9		105.5	35.5	18.3		53.8	51.7
1925	Computer Software	20.00%	2.1			2.1	1.9	0.2		2.1	0.0
1930	Transportation Equipment	20.00%	72.1	53.8	32.1	93.8	32.0	17.8	24.6	25.2	68.6
1940	Tools, Shop & Garage Equipment	20.00%	23.0	7.5		30.5	2.8	5.5		8.3	22.1
	Total		10,978.7	720.4	32.1	11,667.0	1,459.8	447.3	24.6	1,882.4	9,784.6

Adjustment	
Average Cost Base	to Depreciation
3,361.9	
5,737.3	
1,825.0	
178.9	
10.9	
31.3	
91.5	
2.1	-0.2
89.2	
27.5	
11,355.6	-0.2

Transportation
Stores Equipment

Less: Fully Allocated Depreciation	
Transportation	0.0
Stores Equipment	0.0
Net Depreciation	447.3

Average of Opening and Closing Balance	11,322.9	1,671.1	9,651.8
Working Capital Allowance			361.7
Total Rate Base			10,013.5

Fixed Asset Continuity Schedule

2006

		Cost				Accumulated Depreciation				Net Book Value
OEB	Description	Depreciation Rate	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	
1715	Station Equipment	2.50%	3,502.4	2,191.6		5,693.9	381.2	120.2		5,192.6
1725	Poles and Fixtures	4.00%	5,871.5	351.6		6,223.1	1,042.8	240.8		4,939.5
1730	Overhead Conductors & Devices	4.00%	1,828.9	1.8		1,830.7	342.5	73.2		1,415.0
1908	Buildings & Fixtures	4.00%	183.2	64.2		247.3	9.2	8.8		229.4
1910	Leasehold Improvements	50.00%	13.4	7.4		20.8	5.5	10.0		5.3
1915	Office Furniture & Equipment	20.00%	35.9	14.0		49.8	11.8	8.4		29.6
1920	Computer - Hardware	20.00%	105.5	15.2		120.7	53.8	22.8		44.1
1925	Computer Software	20.00%	2.1	2.5		4.6	2.1	0.2		2.3
1930	Transportation Equipment	20.00%	93.8	50.5		144.3	25.2	24.4		94.7
1940	Tools, Shop & Garage Equipment	20.00%	30.5	34.8		65.3	8.3	7.9		49.1
	Total		11,667.0	2,733.4	0.0	14,400.4	1,882.4	516.4	0.0	12,001.5

Adjustment	
Average Cost Base	to Depreciation
4,807.5	
6,019.3	
1,829.6	
218.9	
19.9	
42.0	
115.8	-0.4
2.7	-0.4
121.8	
39.3	
13,216.8	-0.8

Transportation	
Stores Equipment	

Less: Fully Allocated Depreciation
Transportation 0.0
Stores Equipment 0.0
Net Depreciation 516.4

Average of Opening and Closing Balance	13,033.7	2,140.7	10,893.1
Working Capital Allowance			378.0
Total Rate Base			11,271.1

Fixed Asset Continuity Schedule

2007

		Cost				Accumulated Depreciation				Net Book Value
OEB	Description	Depreciation Rate	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	
1715	Station Equipment	2.50%	5,693.9	1,255.6	15.5	6,934.1	501.4	155.0		6,277.6
1725	Poles and Fixtures	4.00%	6,223.1	275.5	1.5	6,497.1	1,283.6	254.0		4,959.4
1730	Overhead Conductors & Devices	4.00%	1,830.7	18.3	3.6	1,845.4	415.6	73.8		1,356.0
1908	Buildings & Fixtures	4.00%	247.3			247.3	18.0	9.9		219.5
1910	Leasehold Improvements	50.00%	20.8	3.9		24.7	15.4	11.5		2.3
1915	Office Furniture & Equipment	20.00%	49.8	2.7		52.5	20.2	10.1		22.2
1920	Computer - Hardware	20.00%	120.7	11.6		132.3	76.6	25.2		101.8
1925	Computer Software	20.00%	4.6	1.4		5.9	2.3	0.5		3.1
1930	Transportation Equipment	20.00%	144.3			144.3	49.6	28.9		65.9
1940	Tools, Shop & Garage Equipment	20.00%	65.3	6.9		72.2	16.2	14.0		42.0
	Total		14,400.4	1,576.0	20.6	15,955.8	2,398.9	582.9	0.0	12,973.9

Adjustment	
Average Cost Base	to Depreciation
6,201.1	
6,351.2	
1,844.0	
247.3	
23.0	
50.4	
129.6	-0.7
4.9	-0.4
144.3	
70.0	
15,065.8	-1.1

Transportation	
Stores Equipment	

Less: Fully Allocated Depreciation
Transportation 0.0
Stores Equipment 0.0
Net Depreciation 582.9

Average of Opening and Closing Balance	15,178.1	2,690.4	12,487.7
Working Capital Allowance			418.7
Total Rate Base			12,906.4

Fixed Asset Continuity Schedule

2008

		Cost					Accumulated Depreciation				Net Book Value
OEB	Description	Depreciation Rate	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
1715	Station Equipment	2.50%	6,934.1	3,394.7		10,328.7	656.4	222.0		878.4	9,450.3
1725	Poles and Fixtures	4.00%	6,497.1	104.7	1.4	6,600.3	1,537.6	263.2		1,800.9	4,799.4
1730	Overhead Conductors & Devices	4.00%	1,845.4			1,845.4	489.4	73.8		563.2	1,282.1
1908	Buildings & Fixtures	4.00%	247.3	99.6		346.9	27.9	11.4		39.2	307.7
1910	Leasehold Improvements	50.00%	24.7			24.7	27.0	-2.3		24.7	0.0
1915	Office Furniture & Equipment	20.00%	52.5			52.5	30.3	8.7		39.0	13.5
1920	Computer - Hardware	20.00%	132.3	1.5		133.8	101.8	6.4		108.2	25.6
1925	Computer Software	20.00%	5.9	2.3		8.2	2.8	1.1		3.9	4.3
1930	Transportation Equipment	20.00%	144.3	132.0		276.3	78.4	44.9		123.3	153.0
1940	Tools, Shop & Garage Equipment	20.00%	72.2	18.5		90.7	30.2	15.9		46.1	44.6
	Total		15,955.8	3,753.2	1.4	19,707.5	2,981.8	645.2	0.0	3,627.0	16,080.5

Adjustment	
Average Cost Base	to Depreciation
8,879.8	
6,580.8	
1,845.4	
283.9	
24.7	-14.6
52.5	-1.8
133.3	-20.2
7.7	-0.4
227.2	-0.5
84.1	-0.9
18,119.3	-38.5

Transportation	
Stores Equipment	

Less: Fully Allocated Depreciation	
Transportation	0.0
Stores Equipment	0.0
Net Depreciation	<u>645.2</u>

Average of Opening and Closing Balance	17,831.6	3,304.4	14,527.2
Working Capital Allowance			337.6
Total Rate Base			<u>14,864.8</u>

Fixed Asset Continuity Schedule

2009

		Cost					Accumulated Depreciation				Net Book Value
OEB	Description	Depreciation Rate	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
1715	Station Equipment	2.50%	10,328.7	3,111.5		13,440.2	878.4	279.7		1,158.2	12,282.1
1725	Poles and Fixtures	4.00%	6,600.3	4,767.7		11,368.1	1,800.9	281.6		2,082.5	9,285.6
1730	Overhead Conductors & Devices	4.00%	1,845.4	5,342.7		7,188.0	563.2	93.7		656.9	6,531.1
1908	Buildings & Fixtures	4.00%	346.9	17.9		364.8	39.2	14.4		53.7	311.1
1910	Leasehold Improvements	50.00%	24.7	1.1		25.8	24.7	0.4		25.1	0.6
1915	Office Furniture & Equipment	20.00%	52.5	0.7		53.3	39.0	6.8		45.8	7.5
1920	Computer - Hardware	20.00%	133.8	15.3		149.1	108.2	14.1		122.3	26.8
1925	Computer Software	20.00%	8.2			8.2	3.9	1.2		5.2	3.0
1930	Transportation Equipment	20.00%	276.3	54.4		330.7	123.3	58.7		182.0	148.7
1940	Tools, Shop & Garage Equipment	20.00%	90.7	46.9		137.6	46.1	24.9		71.0	66.6
	Total		19,707.5	13,358.1	0.0	33,065.6	3,627.0	775.7	0.0	4,402.7	28,663.0

Adjustment	
Average Cost Base	to Depreciation
11,189.9	
7,040.1	
2,342.6	
361.2	
25.5	-12.3
52.8	-3.8
141.3	-14.2
8.2	-0.4
330.6	-7.4
134.0	-1.9
21,626.1	-40.0

Transportation	
Stores Equipment	

Less: Fully Allocated Depreciation	
Transportation	0.0
Stores Equipment	0.0
Net Depreciation	<u>775.7</u>

Average of Opening and Closing Balance	26,386.6	4,014.8	22,371.7
Working Capital Allowance			<u>420.4</u>
Total Rate Base			<u>22,792.1</u>

Fixed Asset Continuity Schedule

2010

		Cost				Accumulated Depreciation				Net Book Value
OEB	Description	Depreciation Rate	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	
1715	Station Equipment	2.50%	13,440.2	150.0		13,590.2	1,158.2	338.2		12,093.9
1725	Poles and Fixtures	4.00%	11,368.1	35.0		11,403.1	2,082.5	455.5		8,865.0
1730	Overhead Conductors & Devices	4.00%	7,188.0	60.0		7,248.0	656.9	288.9		6,302.2
1908	Buildings & Fixtures	4.00%	364.8	20.0		384.8	53.7	15.1		316.0
1910	Leasehold Improvements	50.00%	25.8	2.0		27.8	25.1	1.1		1.6
1915	Office Furniture & Equipment	20.00%	53.3	2.0		55.3	45.8	4.6		4.9
1920	Computer - Hardware	20.00%	149.1	2.0		151.1	122.3	11.5		17.2
1925	Computer Software	20.00%	8.2	0.5		8.7	5.2	1.3		2.2
1930	Transportation Equipment	20.00%	330.7	1.5		332.2	182.0	48.9		101.2
1940	Tools, Shop & Garage Equipment	20.00%	137.6	2.0		139.6	71.0	22.3		46.3
	Total		33,065.6	275.0	0.0	33,340.6	4,402.7	1,187.5	0.0	27,750.5

	Transportation
	Stores Equipment

Less: Fully Allocated Depreciation	
Transportation	0.0
Stores Equipment	0.0
Net Depreciation	1,187.5

Adjustment	
Average Cost Base	to Depreciation
13,527.7	
11,388.5	
7,223.0	
376.4	
26.9	-12.4
54.4	-6.3
150.2	-18.5
8.5	-0.4
331.6	-17.4
138.7	-5.4
33,226.0	-60.4

Average of Opening and Closing Balance	33,203.1	4,996.4	28,206.7
Working Capital Allowance			507.9
Total Rate Base			28,714.6

14. Ref: Treatment of 2010 Capital Additions

Preamble: FNEI is adding \$275,000 in capital additions to the test year rate base. For the net asset calculations, these are added to rate base in June 2010, i.e. mid-year.

(a) Have these additions been recorded in June to reflect the Board's ½ year rule, or are these additions meant to be used and useful as of June 2010?

(b) If the depreciation expense is calculated on a monthly basis, please explain why the additions are not included in rate base in the month that they are used and useful as opposed to mid-year.

RESPONSE

(a) The majority of the 2010 capital expenditures are related to Account 1715 - station equipment (\$150,000), Account 1730 - overhead conductors & devices (\$60,000) and Account 1725 - poles and fixtures (\$35,000). These expenditures have been forecasted to be used and useful at June 2010. The remaining capital expenditures (\$30,000) are expected to be used and useful throughout the year. For simplicity, these additions were assumed to be in place in June 2010 as well.

(b) As noted above, the major additions are forecast to be in service in June 2010. The remaining small additions were assumed to be used and useful as simplifying assumption that would approximate the 1/2 year rule.

15. Ref: Accumulated Depreciation (Rate Base); Depreciation Expense (OM&A) and Section 2.5.7 Filing Requirements

Preamble: In the rate base calculations, the accumulated depreciation is not a function of opening and closing balances and is an average of total monthly-accumulated depreciation. However, the methodology used to estimate the depreciation expense (under OMA), uses the December balances from the prior year as the opening balance for the following year.

(a) Please explain the rationale for using different methodologies for calculating accumulated depreciation as part of rate base versus OMA.

RESPONSE

(a) FNEI is not using a different methodology for calculating depreciation as compared to that shown by the accumulated depreciation figures. As shown in the Excel spreadsheet provided in response to Board Staff IR 13, the depreciation expense calculated ties back in to the accumulated depreciation continuity schedule in Schedule 2 of Exhibit 2, Tabs 3 through 11, as does the depreciation expense shown in Exhibit 4, Tab 3, Schedule 3.

For example, the 2009 depreciation expense is shown as \$775.6 on Exhibit 4, Tab 3, Schedule 3, page 9. This schedule also shows the accumulated depreciation opening balance of \$3,626.7 and the closing balance of \$4,402.3. The difference between these figures is \$775.7. The opening balance is also shown at the closing (December, 2008) balance in Exhibit 2, Tab 9, Schedule 2, page 2. Similarly, the closing balance is also shown as the closing (December 2009) balance in Exhibit 2, Tab 10, Schedule 2, page 2.

16. Ref: Ex 2/T1/S3 & Ex 2/T13/S1 – Capital Expenditures & Section 2.3.5 - Filing Requirements

Preamble: FNEI is proposing to spend \$275,000 in capital expenditures in the test year. However, it appears that the information requested under section 2.3.5 of the Board's Filing Requirements has not been provided.

(a) As noted in the Filing Requirements, please complete Appendix 2-B and provide the following information on a project specific basis:

(i) Overall summary of capital expenditures over the past five historical years, the bridge year and the test year, showing capital expenditures, treatment of contributed capital and additions and deductions from Construction Work in Progress (CWIP). The applicant should group projects appropriately and avoid presentations that result in classification of significant components of the capital budget in the miscellaneous category. (One suggested format for filing this material is in Appendix 2-B);

(ii) Need, scope, purpose of project, related customer attachments, volumes and capital costs for projects over the applicable materiality threshold, as well as any applicable cost-benefit analysis;

(iii) Detailed breakdown of starting dates and in-service dates for each project;

(iv) Drivers of capital expenditure increases for the Test year;

(v) Components of Other Capital Expenditures (Reconcile components to Total Capital Budget);

(vi) Written explanation of variances;

(vii) The proposed accounting treatment, including the treatment of costs of funds for capital projects that have a project life cycle greater than one year.

(b) Please provide a prioritization of the projects. Please also explain, how were the projects prioritized? In your response, please provide a description of FNEI's prioritization policy.

RESPONSE

(a)(i) Please see attached.

(a)(ii) See the Exhibit 2, Tab 1, Schedule 1.

(a)(iii) Please refer to chart below:

Project	Start Date	In-Service Date
Transformer Moving Equipment	April 2003	April 30, 2003
Attawapiskat Garage	June 1, 2004	November 30, 2004
Accommodation of APC's Second Distribution Feeder	July 31, 2004	October 31, 2004
Fort Albany Spare Circuit Switcher and CVT	October 7, 2005	October 7, 2005
Kashechewan Garage	February 10, 2006	October 31, 2006
Attawapiskat 2nd Transformer Energization Project	November 30, 2005	October 31, 2007
Ice Protection Berm Walls	January 26, 2004	July 31, 2008
ARGOs – Amphibious All Terrain Vehicles	August 13, 2008	September 30, 2008
Fort Albany 2nd Transformer Energization Project	February 21, 2006	October 31, 2008
Structure 908 Erosion Control	April 1, 2005	April 18, 2008
Fort Albany Garage	January 2, 2008	September 30, 2009
Station Civil Upgrades 2009	January 28, 2009	September 30, 2009
Kashechewan Second Transformer Energization Project	September 30, 2007	November 30, 2009
Fibre Optic Communication System	March 1, 2006	November 2009

(a)(iv) FNEI is proposing to spend \$275,000 in capital expenditures in the test year. The cost drivers can be broken down as follows:

Improvements to stations equipment (approx. \$150,000): FNEI aims to replace or improve original station battery systems and battery chargers at the 3 original stations. These units are all 10-years old and are in need of an upgrade (they are experiencing increased failure rates, resulting in growing maintenance expenses for FNEI). This work will account for approximately 50% of the forecasted amount. The balance was required for the removal of old relay panels and wiring in February through March of 2010 (replaced as a result of the 3 new transformer installations in 2008 & 2009).

Poles and fixtures (approx. \$35,000) and overhead conductors and devices (approx. \$60,000): These amounts were/are required for guy work beginning in February and repair work currently taking place on the skywire. This amount may end up exceeding the forecasted amount as work continues.

Buildings and fixtures (approx. \$20,000): This is required to complete the closing of the new control building in Kashechewan (the base must be covered off for storage and winter shelter protection must be established). Additional fencing must be erected to close off an area between the old and new station, as well as to separate a fiber optic shelter from the rest of the yard in Kashechewan. Much of work is allotted for later in 2010.

Miscellaneous (approx. \$10,000): This is required for miscellaneous obligations. For example – certain window unit air conditioners in the original control buildings are still in use and will require replacement (the units are over 6-years old).

(a)(v) It is unclear what is required for this question.

(a)(vi) See the Exhibit 2, Tab 1, Schedule 1.

(a)(vii) The proposed accounting treatment involves capitalizing the interest as per the Board-approved method and rate.

(b) Projects forecasted for the test year were prioritized in the order set out above: 1) improvements to stations; 2) poles, fixtures, overhead conductors and devices; 3) buildings and fixtures; and 4) miscellaneous. Any safety-related concerns are deemed most important, followed by any reliability-related issues that arise. Experienced FNEI representatives evaluate any risks or consequences as they occur before deciding on service restoration initiatives (versus general maintenance). Other costs are assessed on a lower priority basis. In situations where larger equipment is required or longer delivery times are expected (based on limited access to the winter road or barge timetables), decisions must be made well in advance of the planned work.

While FNEI is still in the midst of developing its Asset Management Program, FNEI's approach to capital budgeting is also explained to some extent in Exhibit 2, Tab 13, Schedule 1.

Five Nations Energy Inc.
Appendix 2-B Capital Expenditures

Year: 2010 Test Year

	Uniform System of Accounts #										Total
	1715	1725	1730	1908	1910	1915	1920	1925	1930	1940	
	Station Equipment	Poles and Fixtures	Overhead Conductors and Devices	Buildings and Fixtures	Leasehold Improvements	Office Furniture and Equipment	Computer Equipment-Hardware	Computer Software	Transportation Equipment	Tools, Shop, Garage Equipment	
Spare LV Breakers FA Kash	60,000										60,000
Restrung M3K Skywire			25,000								25,000
Extend Kash Garage				20,000							20,000
Substation Battery Replacement	20,000										20,000
Spare LV Regulators	35,000										35,000
Contingency	25,000	25,000	25,000								75,000
Misc Capital	10,000	10,000	10,000		2,000	2,000	2,000	500	1,500	2,000	40,000
											-
Total	150,000	35,000	60,000	20,000	2,000	2,000	2,000	500	1,500	2,000	275,000

Five Nations Energy Inc.

Appendix 2-B Capital Expenditures

Year: 2009 (Actual Year-there is no bridge year)

	Uniform System of Accounts #										Total
	1715	1725	1730	1908	1910	1915	1920	1925	1930	1940	
	Station Equipment	Poles and Fixtures	Overhead Conductors and Devices	Buildings and Fixtures	Leasehold Improvements	Office Furniture and Equipment	Computer Equipment-Hardware	Computer Software	Transportation Equipment	Tools, Shop, Garage Equipment	
Fort Albany 2nd Transformer	65,570										65,570
Kashechewan 2nd Transformer	1,000,485										1,000,485
Fibre Optic Project	558,824	497,616	599,803								1,656,243
Albany Garage				17,852							17,852
Pickup Truck									43,098		43,098
Station Civil Upgrades	120,319										120,319
Misc. Capital Purchases	11,633	761	2,494		1,068	729	15,252		11,278	7,069	50,286
Total	1,756,831	498,377	602,297	17,852	1,068	729	15,252	-	54,377	7,069	2,953,852

Five Nations Energy Inc.
Appendix 2-B Capital Expenditures
Year: 2008

	Uniform System of Accounts #										Total
	1715	1725	1730	1908	1910	1915	1920	1925	1930	1940	
	Station Equipment	Poles and Fixtures	Overhead Conductors and Devices	Buildings and Fixtures	Leasehold Improvements	Office Furniture and Equipment	Computer Equipment-Hardware	Computer Software	Transportation Equipment	Tools, Shop, Garage Equipment	
Fort Albany 2nd Transformer	467,145										467,145
Kashechewan 2nd Transformer	2,821,153										2,821,153
Fibre Optic Project	960,496	2,501,651	2,212,473								5,674,621
Ice Protection Berm Walls		46,732									46,732
Structure 908 Erosion Site		38,608									38,608
Albany Garage				99,498							99,498
Vehicle									56,002		56,002
ATV Argo's									69,004		69,004
Misc. Capital Purchases	100,792	17,760	2				1,500	2,270	7,022	18,457	147,802
Total	4,349,586	2,604,752	2,212,475	99,498	-	-	1,500	2,270	132,028	18,457	9,420,565

Five Nations Energy Inc.
Appendix 2-B Capital Expenditures
Year: 2007

	Uniform System of Accounts #										Total
	1715	1725	1730	1908	1910	1915	1920	1925	1930	1940	
	Station Equipment	Poles and Fixtures	Overhead Conductors and Devices	Buildings and Fixtures	Leasehold Improvements	Office Furniture and Equipment	Computer Equipment-Hardware	Computer Software	Transportation Equipment	Tools, Shop, Garage Equipment	
Fort Albany 2nd Transformer	1,051,718										1,051,718
Kashechewan 2nd Transformer	32,308										32,308
Attawapiskat 2nd Transformer	130,359										130,359
Fibre Optic Project	386,641	1,767,184	1,098,020								3,251,845
Ice Protection Berm Walls		201,338									201,338
Structure 908 Erosion Site		66,059									66,059
Misc. Capital Purchases	25,735	6,604			3,930	2,703	11,644	1,377		6,866	58,858
Total	1,626,761	2,041,185	1,098,020	-	3,930	2,703	11,644	1,377	-	6,866	4,792,485

Five Nations Energy Inc.
Appendix 2-B Capital Expenditures
Year: 2006

	Uniform System of Accounts #										Total
	1715	1725	1730	1908	1910	1915	1920	1925	1930	1940	
	Station Equipment	Poles and Fixtures	Overhead Conductors and Devices	Buildings and Fixtures	Leasehold Improvements	Office Furniture and Equipment	Computer Equipment-Hardware	Computer Software	Transportation Equipment	Tools, Shop, Garage Equipment	
Fort Albany 2nd Transformer	342,875										342,875
Kashechewan 2nd Transformer											-
Attawapiskat 2nd Transformer	1,837,589										1,837,589
Ice Protection Berm Walls		328,049									328,049
Structure 908 Erosion Site		1,851									1,851
Fibre Optic Project			1,422,657								1,422,657
Kashechewan Garage				64,177							64,177
Pickup Truck									50,472		50,472
Misc. Capital Purchases	11,103	38,726			7,396	13,971	15,153	2,462		34,433	123,244
Total	2,191,567	368,626	1,422,657	64,177	7,396	13,971	15,153	2,462	50,472	34,433	4,170,913

Five Nations Energy Inc.
Appendix 2-B Capital Expenditures
Year: 2005

	Uniform System of Accounts #										Total
	1715	1725	1730	1908	1910	1915	1920	1925	1930	1940	
	Station Equipment	Poles and Fixtures	Overhead Conductors and Devices	Buildings and Fixtures	Leasehold Improvements	Office Furniture and Equipment	Computer Equipment-Hardware	Computer Software	Transportation Equipment	Tools, Shop, Garage Equipment	
Attawapiskat 2nd Transformer	80,000										80,000
Ice Protection Berm Walls		209,631									209,631
Spare Relays	36,867										36,867
Spare HV Circuit Switch	78,317										78,317
Structure 908 Erosion Site		61,541									61,541
Attawapiskat Garage				10,223							10,223
Transformer Moving Materials	44,268										44,268
Misc. Capital Purchases	37,778	21,765	19,756		13,347	13,164	29,455		21,742	10,434	167,441
Total	277,230	292,937	19,756	10,223	13,347	13,164	29,455	-	21,742	10,434	688,288

17. Ref: Asset Management Plan (“Plan”) and Ref: Transmission System Code, section 4.5 – Performance Standards

Preamble: FNEI states that it is currently developing and formalizing its first comprehensive Plan. An outline of the Plan is provided in Ex 3/T13/S1/Appendix A.

- (a) Please provide the final version of the Plan. If the Plan is not finalized, please indicate when the final Plan will be available?**
- (b) Pursuant to section 4.5 of the Transmission System Code, has FNEI developed performance standards? If FNEI has not developed any performance standards, please explain the reason for that approach.**
- (c) Please also explain if the lack of such standards affects the reliability of FNEI’s maintenance (capital and OMA) budgets.**

RESPONSE

- (a) The Plan is not available yet, but should be by the end of the third quarter 2010.**
- (b) and (c) FNEI filed its Customer Delivery Point Performance Standards for approval with the Board on October 25, 2007. The Board ultimately approved CDPPS for FNEI by way of a Decision and Order dated September 24, 2008 (EB-2007-0906).**

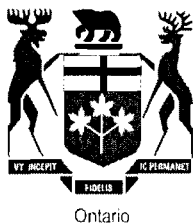
OPERATING REVENUE AND CHARGE DETERMINANTS

18. Ref: Exhibit 3, Exhibit 8 and Filing Requirements

(a) Preamble: As noted at page 6 of the Filing Requirements, please file an electronic copy of the Revenue Requirement Work Form, found at Appendix 2-T. A blank electronic copy of this form is available on Board's website at, <http://www.oeb.gov.on.ca/OEB/Industry/Rules+and+Requirements/Rules+Codes+Guidelines+and+Forms>

RESPONSE

See attached (the Revenue Requirement Work Form will also being filed separately on the Board's RESS system).



Revenue Requirement Work Form

Name of LDC: Five Nations Energy Inc.

File Number: EB-2009-0387

Rate Year: 2010

Version: 1.0

Table of Content

<u>Sheet</u>	<u>Name</u>
A	<u>Data Input Sheet</u>
1	<u>Rate Base</u>
2	<u>Utility Income</u>
3	<u>Taxes/PILS</u>
4	<u>Capitalization/Cost of Capital</u>
5	<u>Revenue Sufficiency/Deficiency</u>
6	<u>Revenue Requirement</u>
7	<u>Bill Impacts</u>

Notes:

- (1) Pale green cells represent inputs
- (2) Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.

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(1)



Revenue Requirement Work Form
 Name of LDC: Five Nations Energy Inc.
 File Number: EB-2009-0387
 Rate Year: 2010

(1)

Data Input

	Application	Adjustments	Per Board Decision
1 Rate Base			
Gross Fixed Assets (average)	\$33,226,000 (4)	\$ -	\$33,226,000
Accumulated Depreciation (average)	(\$5,045,800) (5)	\$ -	(\$5,045,800)
Allowance for Working Capital:			
Controllable Expenses	\$3,386,100 (6)	\$ -	\$3,386,100
Cost of Power	\$ -	\$ -	\$0
Working Capital Rate (%)	15.00%		15.00%
2 Utility Income			
Operating Revenues:			
Distribution Revenue at Current Rates	\$4,978,000 (6)		\$4,978,000
Distribution Revenue at Proposed Rates	\$6,366,100 (7)		\$6,366,100
Other Revenue:			
Specific Service Charges	\$ -		\$ -
Late Payment Charges	\$ -		\$ -
Other Distribution Revenue	\$ -		\$ -
Other Income and Deductions	\$100,000		\$100,000
Operating Expenses:			
OM+A Expenses	\$3,386,100	\$ -	\$3,386,100
Depreciation/Amortization	\$1,187,400	\$ -	\$1,187,400
Property taxes	\$ -	\$ -	\$0
Capital taxes	\$0		\$0
Other expenses	\$ -	\$ -	\$0
3 Taxes/PILs			
Taxable Income:			
Adjustments required to arrive at taxable income	\$ - (3)		\$ -
Utility Income Taxes and Rates:			
Income taxes (not grossed up)	\$ -		\$ -
Income taxes (grossed up)	\$ -		\$ -
Capital Taxes	\$ -		\$ -
Federal tax (%)	0.00%		0.00%
Provincial tax (%)	0.00%		0.00%
Income Tax Credits	\$ -		\$ -
4 Capitalization/Cost of Capital			
Capital Structure:			
Long-term debt Capitalization Ratio (%)	56.0%		56.0%
Short-term debt Capitalization Ratio (%)	4.0% (2)		4.0% (2)
Common Equity Capitalization Ratio (%)	40.0%		40.0%
Preferred Shares Capitalization Ratio (%)	0.0%		0.0%
Cost of Capital			
Long-term debt Cost Rate (%)	4.41%		4.41%
Short-term debt Cost Rate (%)	4.75%		4.75%
Common Equity Cost Rate (%)	9.85%		9.85%
Preferred Shares Cost Rate (%)	0.00%		0.00%

Notes:

This input sheet provides all inputs needed to complete sheets 1 through 6 (Rate Base through Revenue Requirement), except for Notes that the utility may wish to use to support the components. Notes should be put on the applicable pages to understand the context of each such note.

- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%)
- (2) 4.0% unless an Applicant has proposed or been approved for another amount.
- (3) Net of addbacks and deductions to arrive at taxable income.
- (4) Average of Gross Fixed Assets at beginning and end of the Test Year
- (5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
- (6) Average of Monthly Closing Balances of Gross Fixed Assets
- (7) Average of Monthly Closing Balances of Accumulated Depreciation
- (8) Transmission Revenue at Current Rates
- (9) Transmission Revenue at Proposed Rates



Revenue Requirement Work Form
 Name of LDC: Five Nations Energy Inc.
 File Number: EB-2009-0387
 Rate Year: 2010

Ontario

Rate Base

Line No.	Particulars		Application	Adjustments	Per Board Decision
1	Gross Fixed Assets (average)	(3)	\$33,226,000	\$ -	\$33,226,000
2	Accumulated Depreciation (average)	(3)	(\$5,045,800)	\$ -	(\$5,045,800)
3	Net Fixed Assets (average)	(3)	\$28,180,200	\$ -	\$28,180,200
4	Allowance for Working Capital	(1)	\$507,915	\$ -	\$507,915
5	Total Rate Base		\$28,688,115	\$ -	\$28,688,115

(1) Allowance for Working Capital - Derivation					
6	Controllable Expenses		\$3,386,100	\$ -	\$3,386,100
7	Cost of Power		\$ -	\$ -	\$ -
8	Working Capital Base		\$3,386,100	\$ -	\$3,386,100
9	Working Capital Rate %	(2)	15.00%		15.00%
10	Working Capital Allowance		\$507,915	\$ -	\$507,915

Notes

- (2) Generally 15%. Some distributors may have a unique rate due as a result of a lead-lag study.
 (3) Average of opening and closing balances for the year.
 (3) Average of monthly closing balances



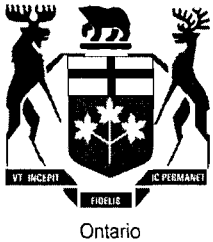
Revenue Requirement Work Form
Name of LDC: Five Nations Energy Inc.
File Number: EB-2009-0387
Rate Year: 2010

Utility Income

Line No.	Particulars	Application	Adjustments	Per Board Decision
Operating Revenues:				
1	Distribution Revenue (at Proposed Rates)	\$6,366,100	\$ -	\$6,366,100
2	Other Revenue (1)	\$100,000	\$ -	\$100,000
3	Total Operating Revenues	\$6,466,100	\$ -	\$6,466,100
Operating Expenses:				
4	OM+A Expenses	\$3,386,100	\$ -	\$3,386,100
5	Depreciation/Amortization	\$1,187,400	\$ -	\$1,187,400
6	Property taxes	\$ -	\$ -	\$ -
7	Capital taxes	\$ -	\$ -	\$ -
8	Other expense	\$ -	\$ -	\$ -
9	Subtotal	\$4,573,500	\$ -	\$4,573,500
10	Deemed Interest Expense	\$762,298	\$ -	\$762,298
11	Total Expenses (lines 4 to 10)	\$5,335,798	\$ -	\$5,335,798
12	Utility income before income taxes	\$1,130,302	\$ -	\$1,130,302
13	Income taxes (grossed-up)	\$ -	\$ -	\$ -
14	Utility net income	\$1,130,302	\$ -	\$1,130,302

Notes

(1)	Other Revenues / Revenue Offsets		
	Specific Service Charges	\$ -	\$ -
	Late Payment Charges	\$ -	\$ -
	Other Distribution Revenue	\$ -	\$ -
	Other Income and Deductions	\$100,000	\$100,000
	Total Revenue Offsets	\$100,000	\$100,000



Revenue Requirement Work Form

Name of LDC: Five Nations Energy Inc.

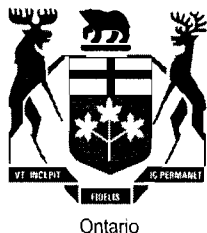
File Number: EB-2009-0387

Rate Year: 2010

Taxes/PILs

Line No.	Particulars	Application	Per Board Decision
<u>Determination of Taxable Income</u>			
1	Utility net income	\$1,130,312	\$1,130,312
2	Adjustments required to arrive at taxable utility income	\$ -	\$ -
3	Taxable income	<u>\$1,130,312</u>	<u>\$1,130,312</u>
<u>Calculation of Utility income Taxes</u>			
4	Income taxes	\$ -	\$ -
5	Capital taxes	\$ -	\$ -
6	Total taxes	<u>\$ -</u>	<u>\$ -</u>
7	Gross-up of Income Taxes	\$ -	\$ -
8	Grossed-up Income Taxes	<u>\$ -</u>	<u>\$ -</u>
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$ -</u>	<u>\$ -</u>
10	Other tax Credits	\$ -	\$ -
<u>Tax Rates</u>			
11	Federal tax (%)	0.00%	0.00%
12	Provincial tax (%)	<u>0.00%</u>	<u>0.00%</u>
13	Total tax rate (%)	<u>0.00%</u>	<u>0.00%</u>

Notes



Revenue Requirement Work Form
Name of LDC: Five Nations Energy Inc.
File Number: EB-2009-0387
Rate Year: 2010

Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
Application					
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$16,065,344	4.41%	\$707,791
2	Short-term Debt	4.00%	\$1,147,525	4.75%	\$54,507
3	Total Debt	60.00%	\$17,212,869	4.43%	\$762,298
	Equity				
4	Common Equity	40.00%	\$11,475,246	9.85%	\$1,130,312
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.00%	\$11,475,246	9.85%	\$1,130,312
7	Total	100%	\$28,688,115	6.60%	\$1,892,610
Per Board Decision					
		(%)	(\$)	(%)	
	Debt				
8	Long-term Debt	56.00%	\$16,065,344	4.41%	\$707,791
9	Short-term Debt	4.00%	\$1,147,525	4.75%	\$54,507
10	Total Debt	60.00%	\$17,212,869	4.43%	\$762,298
	Equity				
11	Common Equity	40.0%	\$11,475,246	9.85%	\$1,130,312
12	Preferred Shares	0.0%	\$ -	0.00%	\$ -
13	Total Equity	40.0%	\$11,475,246	9.85%	\$1,130,312
14	Total	100%	\$28,688,115	6.60%	\$1,892,610

Notes

(1) 4.0% unless an Applicant has proposed or been approved for another amount.



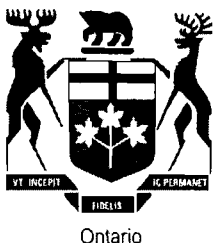
Revenue Requirement Work Form
Name of LDC: Five Nations Energy Inc.
File Number: EB-2009-0387
Rate Year: 2010

Revenue Sufficiency/Deficiency

Line No.	Particulars	Per Application		Per Board Decision	
		At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates
1	Revenue Deficiency from Below		\$1,388,110		\$1,388,110
2	Distribution Revenue	\$4,978,000	\$4,977,990	\$4,978,000	\$4,977,990
3	Other Operating Revenue Offsets - net	\$100,000	\$100,000	\$100,000	\$100,000
4	Total Revenue	\$5,078,000	\$6,466,100	\$5,078,000	\$6,466,100
5	Operating Expenses	\$4,573,500	\$4,573,500	\$4,573,500	\$4,573,500
6	Deemed Interest Expense	\$762,298	\$762,298	\$762,298	\$762,298
	Total Cost and Expenses	\$5,335,798	\$5,335,798	\$5,335,798	\$5,335,798
7	Utility Income Before Income Taxes	(\$257,798)	\$1,130,302	(\$257,798)	\$1,130,302
	Tax Adjustments to Accounting				
8	Income per 2009 PILs	\$ -	\$ -	\$ -	\$ -
9	Taxable Income	(\$257,798)	\$1,130,302	(\$257,798)	\$1,130,302
10	Income Tax Rate	0.00%	0.00%	0.00%	0.00%
11	Income Tax on Taxable Income	\$ -	\$ -	\$ -	\$ -
12	Income Tax Credits	\$ -	\$ -	\$ -	\$ -
13	Utility Net Income	(\$257,798)	\$1,130,302	(\$257,798)	\$1,130,302
14	Utility Rate Base	\$28,688,115	\$28,688,115	\$28,688,115	\$28,688,115
	Deemed Equity Portion of Rate Base	\$11,475,246	\$11,475,246	\$11,475,246	\$11,475,246
15	Income/Equity Rate Base (%)	-2.25%	9.85%	-2.25%	9.85%
16	Target Return - Equity on Rate Base	9.85%	9.85%	9.85%	9.85%
	Sufficiency/Deficiency in Return on Equity	-12.10%	0.00%	-12.10%	0.00%
17	Indicated Rate of Return	1.76%	6.60%	1.76%	6.60%
18	Requested Rate of Return on Rate Base	6.60%	6.60%	6.60%	6.60%
19	Sufficiency/Deficiency in Rate of Return	-4.84%	0.00%	-4.84%	0.00%
20	Target Return on Equity	\$1,130,312	\$1,130,312	\$1,130,312	\$1,130,312
21	Revenue Sufficiency/Deficiency	\$1,388,110	(\$10)	\$1,388,110	(\$10)
22	Gross Revenue Sufficiency/Deficiency	\$1,388,110 (1)		\$1,388,110 (1)	

Notes:

(1) Revenue Sufficiency/Deficiency divided by (1 - Tax Rate)



Revenue Requirement Work Form
 Name of LDC: Five Nations Energy Inc.
 File Number: EB-2009-0387
 Rate Year: 2010

Revenue Requirement

Line No.	Particulars	Application	Per Board Decision
1	OM&A Expenses	\$3,386,100	\$3,386,100
2	Amortization/Depreciation	\$1,187,400	\$1,187,400
3	Property Taxes	\$ -	\$ -
4	Capital Taxes	\$ -	\$ -
5	Income Taxes (Grossed up)	\$ -	\$ -
6	Other Expenses	\$ -	\$ -
7	Return		
	Deemed Interest Expense	\$762,298	\$762,298
	Return on Deemed Equity	\$1,130,312	\$1,130,312
8	Distribution Revenue Requirement before Revenues	<u>\$6,466,110</u>	<u>\$6,466,110</u>
9	Distribution revenue	\$6,366,100	\$6,366,100
10	Other revenue	<u>\$100,000</u>	<u>\$100,000</u>
11	Total revenue	<u>\$6,466,100</u>	<u>\$6,466,100</u>
12	Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)	<u>(\$10) (1)</u>	<u>(\$10) (1)</u>

Notes

(1) Line 11 - Line 8



Revenue Requirement Work Form
 Name of LDC: Five Nations Energy Inc.
 File Number: EB-2009-0387
 Rate Year: 2010

Selected Delivery Charge and Bill Impacts Per Draft Rate Order										
		Monthly Delivery Charge					Total Bill			
		Current	Per Draft Rate Order	Change			Current	Per Draft Rate Order	Change	
				\$	%				\$	%
Residential	800 kWh/month	NA	NA	#VALUE!	#VALUE!		NA	NA	#VALUE!	#VALUE!
GS < 50kW	2000 kWh/month	NA	NA	#VALUE!	#VALUE!		NA	NA	#VALUE!	#VALUE!

Notes:

19. Ref: Ex 3 and Ex 8 – Transmission Operating Revenues

Preamble: At Ex 3/T1/S1/p.2, FNEI states, “For the 2010 test year, FNEI has used the 2009 forecast. FNEI has reviewed the IESO’s most recent 10-Month Outlook (covering the period from December 2009 to June 2011). The IESO projects electricity demand to show a slight increase over the forecast horizon as the economy recovers from the recent recession (a forecast 141.1 TWh in 2010 compared to a forecasted 140.5 TWh in 2009), but that peak demands are expected to decline due to conservation programs, the introduction of time of use rates and the growth in embedded generation. Based on this, FNEI believes it reasonable to assume relatively flat revenues over 2009 and 2010”.

(a) Please explain why is it appropriate to rely only on IESO demand projections, given that these projections do not specifically address the demand of FNEI’s customers. Please file the IESO report indentifying the sections in the report relied on by FNEI.

(b) In addition to the IESO report, did FNEI analyse other factors such as industrial activity, residential and commercial building activity or regional economic activity when developing its revenue forecast? Please describe the analysis undertaken by FNEI.

RESPONSE

(a) The total annual electricity demand of FNEI’s four customers is immaterial to the provincial demand. The overall provincial demand coupled with FNEI’s revenue requirement (as compared to the consolidated revenue requirement of all four rate-regulated transmitters) are the only two factors that determine FNEI’s revenues. Please note that FNEI’s evidence incorrectly refers to the document as a 10-month outlook, when it in fact was an 18-month outlook. The relevant page from the IESO report is attached.

(b) No . There was no added value in FNEI carrying out such analysis, as noted in the answer to (a) above.

From December 2009 to May 2011



Power to Ontario. On Demand.

An Assessment of the Reliability and Operability of the Ontario Electricity System

3.0 Demand Forecast

The IESO is responsible for forecasting electricity demand on the IESO-controlled grid. This demand forecast covers the period December 2009 to June 2011 and supersedes the previous forecast released August 2009. Tables containing supporting information are contained in the 2009 Q4 Outlook Tables spreadsheet.

Electricity demand is expected to show a slight increase over the forecast horizon as the economy recovers from the recent recession. Modest improvement in the industrial sector will stabilize demand. However, the high dollar will act as a brake on growth.

Unlike energy demand, peak demands are expected to decline over the forecast horizon. Conservation programs, the growth in embedded generation and the full-scale introduction of time of use rates will act to reduce peak demand.

The following table shows the seasonal peaks and annual energy demand over the forecast horizon of the Outlook.

Table 3.1: Forecast Summary

Winter 2009-10	22,717	23,883
Summer 2010	23,608	25,806
Winter 2010-11	22,447	23,527
2006 Energy	152.3	-1.9%
2007 Energy	151.6	-0.5%
2008 Energy	148.9	-1.8%
2009 Energy (Forecast)	140.5	-5.7%
2010 Energy (Forecast)	141.1	0.4%
2011 Energy (Forecast)	142.3	0.8%

Forecast Details

The companion document, the Ontario Demand Forecast, looks at demand in more detail. It contains the following:

- details on the demand forecast,
- analysis of historical demand,
- discussion on the drivers affecting demand

The data contained in the Ontario Demand Forecast document are included in the Outlook – Tables spreadsheet.

- End of Section -

20. Ref: Ex 3 and Ex 8 – Transmission Operating Revenues

Preamble: FNEI is forecasting transmission revenue of \$4.9 million in 2010. The 2010 forecast is based on 2009 revenues. However, based on the proposed charge determinants and existing rates, staff estimates the test year revenues to be \$5.2 million. Further, FNEI's 2009 Audited Financial Statements indicate 2009 revenues to be \$5.0 million.

	<u>Source</u>	<u>Network</u>	<u>LC</u>	<u>TC</u>	
Proposed Charge Determinants (MW)	Ex 8/T2/S1/p.4	247,270	238,342	206,387	
Current UTRs (\$/kW-m)	Ex 8/T2/S1/p.3	2.97	0.73	1.71	
Current FNEI Factors	Ex 8/T2/S1/p.3	0.00411	0.00411	0.00411	
Revenue per Pool		\$ 3,018,349	\$ 715,096	\$ 1,450,508	
Total Revenue at Existing Rates					\$ 5,183,953
Revenue as per 2009 Audited Fin. Statements					\$ 5,023,982
As-filed Revenue					\$ 4,978,000

(a) Please provide the impact on revenue deficiency if the revenue at existing rates (\$5,183,953) is used as the revenue forecast for 2010.

(b) In this application, FNEI has used an estimate of 2009 revenues as the basis for its as-filed 2010 forecast. Based on FNEI's 2009 Audited Financial Statements, the actual revenue for 2009 was \$5,023,982. Given that the actual revenue in 2009 was higher than initially estimated, is FNEI agreeable to updating its as-filed revenue estimate?

(c) FNEI states that it is reasonable to assume relatively flat revenues over 2009 and 2010. Further, Board staff notes that the 2010 forecast of transmission revenues of \$4.9 million, is the lowest in 8 years. Please explain with supporting analysis, why the decline in 2009 revenues, is expected to continue in 2010?

(d) Please provide in table format for the years 2002 to 2009, the total Ontario transmission revenue and demand for each asset pool and the allocation of revenues to FNEI. Please provide all calculations preferably in MS Excel format and reconcile the total revenue with those presented in Ex 3. Please explain any variances between the as-filed revenues and those presented in response to this interrogatory. For 2009, please provide the full year's actual revenue. If needed please source this information from the IESO. Please provide the information for each year in the format below:

Year	Network		Line Connection		Transformation Connection		Total Revenue
	Charge (\$)	Demand (MW)	Charge (\$)	Demand (MW)	Charge (\$)	Demand (MW)	
Jan							
Feb							
Mar							
Apr							
May							
Jun							
Jul							
Aug							
Sep							
Oct							
Nov							
Dec							
Total							

(e) Please provide FNEI's forecast of 2009 revenues and compare this forecast to actual 2009 revenues. The suggested format is below.

<u>Year 2009</u>	<u>Actual Revenues</u>	<u>Forecasted Revenue</u>	<u>Forecast Error</u>	<u>% Difference</u>
Jan-09				
Feb-09				
Mar-09				
Apr-09				
May-09				
Jun-09				
Jul-09				
Aug-09				
Sep-09				
Oct-09				
Nov-09				

Dec-09				
TOTAL				

(f) Please provide the month-to-date actual revenues remitted to FNEI for the period Jan 2010 to April 2010. Please provide FNEI's forecast for the same January to April period. The suggested format is below:

Year 2010	Actual Revenues	Forecasted Revenue	Forecast Error	% Difference
Jan-10				
Feb-10				
Mar-10				
Apr-10				
TOTAL				

(g) Please provide FNEI's monthly revenue forecast for the period May 2010 to December 2010.

RESPONSE

Please note that the numbering in the original filed Board Staff IR 20 was incorrect. The original questions were numbered (a), (b), (c), (a), (b), (c) and (d). We have renumbered them in our response below.

(a) If transmission revenue of \$5,183,953 is used, the deficiency drops from \$1,388,160 to \$1,182,206.

(b) Yes, but only the transmission revenue changes. The large amount of revenue attributable to "Miscellaneous services" (\$189,130) is anomalous, and the forecast of \$50,000 at Exhibit 3, Tab 1, Schedule 2 remains more realistic. If the actual transmission revenue (as per our financial statements) is utilized, the deficiency drops from \$1,388,160 to \$1,342,177.

(c) We believe revenues will remain flat (over years 2009 and 2010), based on provincial electricity demand as forecast by the IESO.

(d) Please see attached.

(e)

<u>Year 2009</u>	<u>Actual Revenues</u>	<u>Forecasted Revenue</u>	<u>Forecast Error</u>	<u>% Difference</u>
Jan-09	457055.67	431500	25555.67	5.59
Feb-09	438252.57	431500	6752.57	1.54
Mar-09	432041.43	431500	541.43	0.13
Apr-09	381525.62	431500	-49974.38	-13.10
May-09	361006.17	431500	-70493.83	-19.53
Jun-09	447442.38	431500	15942.38	3.56
Jul-09	412986.57	431500	-18513.43	-4.48
Aug-09	494700.16	431500	63200.16	12.78
Sep-09	390717.29	431500	-40782.71	-10.44
Oct-09	373896.30	431500	-57603.7	-15.41
Nov-09	396998.43	431500	-34501.57	-8.69
Dec-09	437359.79	431500	5859.79	1.34
TOTAL	5,023,982.38	5178000.00	-154017.62	-3.07

(f)

<u>Year 2010</u>	<u>Actual Revenues</u>	<u>Forecasted Revenue</u>	<u>Forecast Error</u>	<u>% Difference</u>
Jan-10	459391.72	516666.67	-57274.95	-12.47
Feb-10	441921.81	516666.67	-74744.86	-16.91
Mar-10	401075.15	516666.67	-115591.52	-28.82
Apr-10	370605.56	516666.67	-146061.11	-39.41
TOTAL	1672994.24	2066666.67	-393672.43	-23.53

(g)

10-May	516,666.67
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10-May	516,666.67
10-Jun	516,666.67
10-Jul	516,666.67
10-Aug	516,666.67
10-Sep	516,666.67
10-Oct	516,666.67
10-Nov	516,666.67
10-Dec	516,666.67

Charge Type	Year	Month	FNEI Allocation Factor	FNEI Pool Revenue (\$)	FNEI Total Revenue (all pools) (\$)	Demand Quantity (KW)	Total Pool Revenue Amount (\$)	Total Revenue (all pools) (\$)
600	2002	5	0.00423	243,699.67	417,036.78	20,400,732	57,738,214.68	98,921,111.90
600	2002	6	0.00423	283,468.79	484,659.09	23,679,823	67,012,781.24	114,579,016.04
600	2002	7	0.00423	307,253.16	526,748.15	25,669,006	72,636,993.91	124,535,510.83
600	2002	8	0.00423	301,349.65	515,230.87	25,173,517	71,242,589.80	121,837,984.25
600	2002	9	0.00423	298,256.63	507,984.78	24,915,138	70,515,871.27	120,096,995.25
600	2002	10	0.00423	254,117.55	436,378.25	21,227,940	60,094,359.48	103,246,690.38
600	2002	11	0.00423	260,140.88	441,869.14	21,731,105	61,597,349.84	104,658,821.88
600	2002	12	0.00423	277,028.19	471,887.11	23,141,801	65,502,571.55	111,543,079.33
600	2003	1	0.00423	288,022.10	488,528.98	24,060,188	68,082,317.48	115,487,415.18
600	2003	2	0.00423	279,228.19	476,449.59	23,325,580	66,011,391.40	112,635,836.52
600	2003	3	0.00423	276,727.52	469,414.65	23,116,685	65,420,218.55	110,972,731.67
600	2003	4	0.00423	253,830.53	431,624.82	21,203,964	60,007,218.12	102,061,905.38
600	2003	5	0.00423	227,855.13	390,489.91	19,034,085	53,911,808.47	92,419,896.99
600	2003	6	0.00423	296,678.01	505,444.23	24,783,267	70,133,470.35	119,486,395.65
600	2003	7	0.00423	281,330.32	481,779.39	23,501,184	66,509,029.92	113,896,666.42
600	2003	8	0.00423	288,641.14	490,929.49	24,111,900	68,237,223.19	116,145,177.39
600	2003	9	0.00423	239,246.10	413,881.19	19,985,640	58,437,496.36	99,722,387.18
600	2003	10	0.00423	250,884.07	420,155.34	20,957,829	60,676,298.04	101,174,527.00
600	2003	11	0.00423	255,602.13	436,525.10	21,351,956	60,512,709.89	103,405,262.39
600	2003	12	0.00423	267,741.22	458,482.54	22,366,006	63,391,134.02	108,612,244.18
600	2004	1	0.00423	294,589.58	500,464.53	24,608,808	69,642,926.64	118,313,127.10
600	2004	2	0.00423	266,592.79	455,805.55	22,270,071	63,046,335.31	107,778,174.03
600	2004	3	0.00423	255,982.88	437,353.68	21,383,762	60,516,046.46	103,393,303.88
600	2004	4	0.00423	237,248.94	407,324.46	19,818,806	56,132,585.88	96,365,556.52
600	2004	5	0.00423	244,046.46	417,245.69	20,386,643	57,734,535.68	98,691,340.20
600	2004	6	0.00423	276,556.95	472,137.83	23,102,436	65,419,734.62	111,718,362.70
600	2004	7	0.00423	271,064.62	460,734.96	22,643,629	64,081,843.63	108,921,171.91
600	2004	8	0.00423	275,802.74	469,834.25	23,039,432	65,204,702.73	111,072,266.39
600	2004	9	0.00423	261,048.90	445,480.61	21,806,957	61,739,373.39	105,406,626.23
600	2004	10	0.00423	237,605.02	407,626.37	19,848,551	56,150,607.32	96,382,217.30
600	2004	11	0.00423	256,875.93	437,176.68	21,438,559	60,700,007.05	103,348,805.55
600	2004	12	0.00423	296,506.23	501,057.01	24,749,112	70,024,766.49	118,363,670.47
600	2005	1	0.00423	289,500.48	492,301.26	24,163,881	68,439,864.61	116,382,524.61
600	2005	2	0.00423	264,783.05	452,630.52	22,099,088	62,615,277.47	107,076,072.45
600	2005	3	0.00423	269,414.21	456,685.44	22,485,956	63,723,975.25	108,057,346.95
600	2005	4	0.00423	230,978.50	395,922.10	19,275,194	54,631,799.36	93,668,339.09
600	2005	5	0.00423	228,680.57	392,113.65	19,083,234	54,113,558.44	92,768,540.58
600	2005	6	0.00423	310,182.70	528,768.72	25,891,589	73,354,948.98	125,144,042.92

600	2005	7	0.00423	309,314.78	528,695.66	25,819,086	73,124,072.12	124,978,266.48
600	2005	8	0.00423	304,077.30	517,348.97	25,381,569	71,943,894.93	122,527,691.57
600	2005	9	0.00423	283,794.64	481,392.16	23,687,238	67,131,216.01	113,948,468.15
600	2005	10	0.00423	251,211.25	431,008.08	20,965,355	59,412,436.29	101,921,852.27
600	2005	11	0.00423	269,326.01	456,926.92	22,498,393	64,117,985.56	108,480,023.90
600	2005	12	0.00423	280,354.53	477,947.84	23,419,670	66,418,707.64	113,236,706.60
600	2006	1	0.00423	269,466.79	458,977.61	22,510,153	63,653,073.16	108,459,206.18
600	2006	2	0.00423	263,107.23	451,835.00	21,978,901	62,200,408.69	106,817,303.89
600	2006	3	0.00423	256,594.49	437,485.15	21,434,854	60,693,461.99	103,513,280.01
600	2006	4	0.00423	232,994.65	399,010.82	19,463,420	55,067,478.59	94,301,149.49
600	2006	5	0.00423	294,818.12	502,287.43	24,627,899	69,727,337.05	118,810,097.13
600	2006	6	0.00423	273,551.89	467,422.83	23,092,963	64,655,238.05	110,489,009.88
600	2006	7	0.00423	308,717.34	528,246.85	25,788,983	72,991,702.43	124,893,476.15
600	2006	8	0.00423	319,566.36	543,893.50	26,695,266	75,577,445.13	128,630,560.07
600	2006	9	0.00423	239,736.52	412,363.63	20,026,608	56,680,564.44	97,520,784.26
600	2006	10	0.00423	236,583.64	406,703.81	19,763,229	55,928,285.35	96,145,731.85
600	2006	11	0.00423	252,567.46	430,206.31	21,098,452	59,698,312.30	101,689,416.42
600	2006	12	0.00423	272,505.99	461,815.69	22,764,035	64,421,019.13	109,201,829.85
600	2007	1	0.00423	277,671.20	471,526.96	23,195,516	65,618,168.56	111,442,779.54
600	2007	2	0.00423	283,905.86	482,897.40	23,716,334	67,117,225.22	114,160,142.38
600	2007	3	0.00423	273,450.30	464,982.07	22,842,919	64,660,963.51	109,969,181.35
600	2007	4	0.00423	239,244.76	410,438.78	19,985,528	56,560,111.15	97,031,973.10
600	2007	5	0.00423	255,481.50	436,728.78	21,341,879	60,620,513.08	103,569,120.04
600	2007	6	0.00423	302,785.48	516,059.58	25,293,460	71,572,324.42	121,990,194.62
600	2007	7	0.00423	290,200.76	499,717.47	24,242,184	68,606,238.21	118,137,376.21
600	2007	8	0.00423	302,952.92	517,775.72	25,307,447	71,619,588.25	122,404,965.47
600	2007	9	0.00423	283,098.43	484,394.21	23,648,884	66,926,341.72	114,514,090.38
600	2007	10	0.00423	230,756.48	403,822.80	19,276,452	54,560,871.80	95,476,644.70
600	2007	11	0.00479	243,141.06	439,821.95	21,974,086	50,760,748.50	91,821,925.03
600	2007	12	0.00479	250,693.04	455,855.89	22,656,602	52,334,221.17	95,165,175.51
600	2008	1	0.00479	249,727.27	454,362.32	22,569,320	52,135,080.69	94,858,669.03
600	2008	2	0.00479	250,906.46	454,923.53	22,675,890	52,381,324.38	94,973,932.89
600	2008	3	0.00479	230,362.03	420,104.92	20,818,551	48,116,200.03	87,735,267.16
600	2008	4	0.00479	216,101.46	394,093.60	19,526,840	45,116,929.80	82,276,912.74
600	2008	5	0.00479	205,911.54	374,239.55	18,609,435	42,989,619.75	78,131,313.38
600	2008	6	0.00479	264,242.24	478,768.09	23,881,123	55,196,847.09	99,989,170.21
600	2008	7	0.00479	261,884.99	476,537.13	23,668,085	54,675,701.85	99,493,760.70
600	2008	8	0.00479	249,489.58	452,211.03	22,547,839	52,083,643.92	94,405,209.17
600	2008	9	0.00479	252,917.52	455,732.50	22,857,642	52,806,426.75	95,152,348.69
600	2008	10	0.00479	216,561.01	390,144.53	19,571,890	45,182,604.39	81,427,816.30
600	2008	11	0.00479	233,829.56	421,748.14	21,132,551	48,830,366.97	88,073,090.69
600	2008	12	0.00479	250,037.74	453,379.11	22,597,379	52,226,066.97	94,684,998.25
600	2009	1	0.00439	258,009.95	456,896.74	22,868,560	58,822,501.81	104,149,818.71
600	2009	2	0.00439	246,908.04	438,163.06	21,884,548	56,311,925.35	99,902,854.85
600	2009	3	0.00439	244,025.49	432,451.90	21,629,055	55,586,671.35	98,508,404.53
600	2009	4	0.00439	212,682.02	381,184.15	18,850,945	48,481,184.18	86,907,885.68
600	2009	5	0.00439	202,471.51	361,315.91	17,944,470	46,131,702.24	82,318,033.10
600	2009	6	0.00439	252,909.39	447,929.26	22,418,098	57,525,876.07	101,930,983.00
600	2009	7	0.00438	237,855.39	412,681.25	20,415,370	54,267,000.48	94,185,919.37
600	2009	8	0.00438	280,414.64	485,475.88	24,041,025	63,949,126.50	110,756,294.09
600	2009	9	0.00438	229,449.76	399,411.10	19,693,218	52,385,608.10	91,270,682.70
600	2009	10	0.00438	214,120.07	372,828.16	18,378,143	49,037,807.56	85,445,386.21
600	2009	11	0.00438	230,766.39	398,421.06	19,806,914	52,686,391.24	90,963,713.35

600	2009	12	0.00438	251,254.51	437,359.37	21,565,452	57,364,043.63	99,853,737.14
600	2010	1	0.00411	269,137.34	459,391.20	22,048,329	65,483,664.84	111,774,142.70
600	2010	2	0.00411	259,784.22	441,906.08	21,284,274	63,207,839.09	107,519,728.94
600	2010	3	0.00411	235,809.19	401,047.30	19,318,013	57,381,276.15	97,585,196.76
600	2010	4	0.00411	216,022.34	370,626.98	17,697,030	52,561,744.29	90,178,445.37
601	2002	5	0.00423	67,592.06		19,532,066	16,087,781.72	
601	2002	6	0.00423	77,707.26		22,403,063	18,374,367.30	
601	2002	7	0.00423	84,420.46		48,734,524	19,958,784.42	
601	2002	8	0.00423	82,526.69		47,606,278	19,542,410.95	
601	2002	9	0.00423	81,100.77		23,381,414	19,172,759.48	
601	2002	10	0.00423	70,875.15		20,433,360	16,778,343.90	
601	2002	11	0.00423	70,711.57		20,386,199	16,751,880.04	
601	2002	12	0.00423	75,123.12		21,658,052	17,756,426.78	
601	2003	1	0.00423	77,107.21		22,230,066	18,232,113.70	
601	2003	2	0.00423	75,814.20		21,857,291	17,922,978.62	
601	2003	3	0.00423	74,348.37		21,434,691	17,576,446.62	
601	2003	4	0.00423	69,386.67		20,004,230	16,411,576.76	
601	2003	5	0.00423	64,082.10		18,474,918	15,168,061.52	
601	2003	6	0.00423	80,645.62		23,250,192	19,064,028.30	
601	2003	7	0.00423	77,321.57		22,291,867	18,279,481.00	
601	2003	8	0.00423	77,936.79		22,469,234	18,510,421.70	
601	2003	9	0.00423	68,309.14		19,693,576	16,148,732.32	
601	2003	10	0.00423	66,029.19		19,036,265	16,075,507.96	
601	2003	11	0.00423	70,220.71		20,244,684	16,644,052.50	
601	2003	12	0.00423	73,272.55		21,124,532	17,367,569.66	
601	2004	1	0.00423	78,402.34		22,603,453	18,534,831.46	
601	2004	2	0.00423	72,632.67		20,940,055	17,171,534.72	
601	2004	3	0.00423	70,433.50		20,306,031	16,650,945.42	
601	2004	4	0.00423	66,125.82		19,064,124	15,641,768.14	
601	2004	5	0.00423	67,764.94		19,536,684	16,031,439.52	
601	2004	6	0.00423	75,993.59		21,909,010	17,993,152.58	
601	2004	7	0.00423	73,439.88		21,172,774	17,361,678.78	
601	2004	8	0.00423	75,087.92		21,647,905	17,753,420.66	
601	2004	9	0.00423	71,773.86		20,692,458	16,995,022.34	
601	2004	10	0.00423	66,590.50		19,198,091	15,755,593.98	
601	2004	11	0.00423	70,259.71		20,255,927	16,623,306.50	
601	2004	12	0.00423	78,523.85		22,638,484	18,556,754.98	
601	2005	1	0.00423	78,179.07		22,539,084	18,481,775.00	
601	2005	2	0.00423	72,849.58		21,002,589	17,240,900.98	
601	2005	3	0.00423	72,416.30		20,877,674	17,172,489.20	
601	2005	4	0.00423	65,024.70		18,726,897	15,388,730.73	
601	2005	5	0.00423	64,574.03		18,616,743	15,264,732.14	
601	2005	6	0.00423	84,803.94		24,464,887	20,088,474.94	
601	2005	7	0.00423	84,712.47		24,422,670	20,026,981.36	
601	2005	8	0.00423	82,593.17		23,811,672	19,583,877.14	
601	2005	9	0.00423	76,791.38		22,123,166	18,190,698.64	
601	2005	10	0.00423	70,165.53		20,228,775	16,591,850.48	
601	2005	11	0.00423	72,822.25		20,969,044	17,219,631.56	
601	2005	12	0.00423	76,129.19		21,948,103	17,997,444.46	
601	2006	1	0.00423	73,307.70		21,134,666	17,336,715.52	
601	2006	2	0.00423	72,935.73		21,027,425	17,242,742.70	

601	2006	3	0.00423	70,103.18	20,210,799	16,595,025.52
601	2006	4	0.00423	64,967.40	18,712,920	15,353,803.39
601	2006	5	0.00423	80,467.33	23,198,791	19,027,644.08
601	2006	6	0.00423	75,713.24	22,070,203	17,899,621.07
601	2006	7	0.00423	85,013.64	24,509,497	20,101,476.72
601	2006	8	0.00423	86,886.81	25,049,532	20,541,936.44
601	2006	9	0.00423	67,633.19	19,498,700	15,998,754.32
601	2006	10	0.00423	66,726.28	19,237,238	15,774,504.00
601	2006	11	0.00423	69,213.63	19,954,341	16,358,664.62
601	2006	12	0.00423	73,481.35	21,184,729	17,380,450.22
601	2007	1	0.00423	75,183.44	21,675,443	17,779,046.48
601	2007	2	0.00423	76,954.14	22,185,938	18,192,469.16
601	2007	3	0.00423	74,389.96	21,446,681	17,589,747.84
601	2007	4	0.00423	67,536.09	19,336,009	15,966,440.45
601	2007	5	0.00423	71,492.05	20,611,211	16,960,841.46
601	2007	6	0.00423	82,785.93	23,867,246	19,571,829.70
601	2007	7	0.00423	81,304.24	23,440,075	19,220,861.50
601	2007	8	0.00423	82,928.54	23,908,360	19,604,700.22
601	2007	9	0.00423	78,230.28	22,553,850	18,494,249.66
601	2007	10	0.00423	67,708.72	19,520,474	16,013,755.40
601	2007	11	0.00479	58,875.88	20,798,200	12,291,864.35
601	2007	12	0.00479	60,808.58	21,516,783	12,694,758.60
601	2008	1	0.00479	60,726.01	21,487,566	12,677,916.46
601	2008	2	0.00479	60,434.93	21,384,570	12,617,213.13
601	2008	3	0.00479	56,654.87	20,047,014	11,834,510.87
601	2008	4	0.00479	53,961.35	18,886,248	11,266,289.18
601	2008	5	0.00479	51,242.41	18,131,845	10,698,436.96
601	2008	6	0.00479	64,509.23	22,826,239	13,469,464.00
601	2008	7	0.00479	64,224.22	22,624,493	13,410,086.56
601	2008	8	0.00479	60,824.58	21,522,444	12,698,004.78
601	2008	9	0.00479	60,925.61	21,558,193	12,722,002.44
601	2008	10	0.00479	51,301.95	18,307,881	10,711,957.87
601	2008	11	0.00479	56,137.46	19,863,931	11,724,162.58
601	2008	12	0.00479	60,086.06	21,261,123	12,551,770.92
601	2009	1	0.00439	65,776.90	21,404,785	15,006,157.60
601	2009	2	0.00439	62,930.70	20,478,588	14,359,876.30
601	2009	3	0.00439	62,420.18	20,312,458	14,218,720.60
601	2009	4	0.00439	56,333.77	18,112,190	12,845,564.10
601	2009	5	0.00439	53,550.68	17,423,499	12,198,330.36
601	2009	6	0.00439	64,771.66	21,077,665	14,748,771.80
601	2009	7	0.00438	59,259.95	19,328,100	13,528,244.10
601	2009	8	0.00438	69,180.61	22,559,791	15,791,853.70
601	2009	9	0.00438	57,769.02	18,841,819	13,213,879.00
601	2009	10	0.00438	53,827.49	17,556,260	12,346,818.40
601	2009	11	0.00438	56,665.57	18,483,672	12,937,344.70
601	2009	12	0.00438	62,253.77	20,304,340	14,213,188.40
601	2010	1	0.00411	62,040.67	20,678,156	15,095,053.88
601	2010	2	0.00411	59,824.18	19,940,211	14,555,762.61
601	2010	3	0.00411	54,885.77	18,293,427	13,354,201.71
601	2010	4	0.00411	51,952.56	17,022,038	12,640,524.79
602	2002	5	0.00423	105,745.05	16,728,850	25,095,115.50

602	2002	6	0.00423	123,483.04	19,461,472	29,191,867.50
602	2002	7	0.00423	135,074.53	42,637,688	31,939,732.50
602	2002	8	0.00423	131,354.53	20,702,054	31,052,983.50
602	2002	9	0.00423	128,627.38	20,272,243	30,408,364.50
602	2002	10	0.00423	111,385.55	17,554,854	26,373,987.00
602	2002	11	0.00423	111,016.69	17,496,720	26,309,592.00
602	2002	12	0.00423	119,735.80	18,870,891	28,284,081.00
602	2003	1	0.00423	123,399.67	19,448,332	29,172,984.00
602	2003	2	0.00423	121,407.20	19,134,311	28,701,466.50
602	2003	3	0.00423	118,338.76	18,650,711	27,976,066.50
602	2003	4	0.00423	108,407.62	17,085,519	25,643,110.50
602	2003	5	0.00423	98,552.68	15,532,337	23,340,027.00
602	2003	6	0.00423	128,120.60	20,192,372	30,288,897.00
602	2003	7	0.00423	123,127.50	19,405,437	29,108,155.50
602	2003	8	0.00423	124,351.56	19,598,355	29,397,532.50
602	2003	9	0.00423	106,325.95	16,757,439	25,136,158.50
602	2003	10	0.00423	103,242.08	16,271,407	24,422,721.00
602	2003	11	0.00423	110,702.26	17,447,165	26,248,500.00
602	2003	12	0.00423	117,468.77	18,513,596	27,853,540.50
602	2004	1	0.00423	127,472.61	20,090,246	30,135,369.00
602	2004	2	0.00423	116,580.09	18,373,536	27,560,304.00
602	2004	3	0.00423	110,937.30	17,484,208	26,226,312.00
602	2004	4	0.00423	103,949.70	16,382,932	24,591,202.50
602	2004	5	0.00423	105,434.29	16,616,910	24,925,365.00
602	2004	6	0.00423	119,587.29	18,847,484	28,305,475.50
602	2004	7	0.00423	116,230.46	18,318,433	27,477,649.50
602	2004	8	0.00423	118,943.59	18,746,034	28,114,143.00
602	2004	9	0.00423	112,657.85	17,755,375	26,672,230.50
602	2004	10	0.00423	103,430.85	16,301,159	24,476,016.00
602	2004	11	0.00423	110,041.04	17,342,954	26,025,492.00
602	2004	12	0.00423	126,026.93	19,862,400	29,782,149.00
602	2005	1	0.00423	124,621.71	19,640,932	29,460,885.00
602	2005	2	0.00423	114,997.89	18,124,175	27,219,894.00
602	2005	3	0.00423	114,854.93	18,101,644	27,160,882.50
602	2005	4	0.00423	99,918.90	15,747,660	23,647,809.00
602	2005	5	0.00423	98,859.05	15,580,623	23,390,250.00
602	2005	6	0.00423	133,782.08	21,084,646	31,700,619.00
602	2005	7	0.00423	134,668.41	21,224,336	31,827,213.00
602	2005	8	0.00423	130,678.50	20,595,508	30,999,919.50
602	2005	9	0.00423	120,806.14	19,039,580	28,626,553.50
602	2005	10	0.00423	109,631.30	17,278,377	25,917,565.50
602	2005	11	0.00423	114,778.66	18,079,805	27,142,406.78
602	2005	12	0.00423	121,464.12	19,143,281	28,820,554.50
602	2006	1	0.00423	116,203.12	18,314,124	27,469,417.50
602	2006	2	0.00423	115,792.04	18,249,337	27,374,152.50
602	2006	3	0.00423	110,787.48	17,460,596	26,224,792.50
602	2006	4	0.00423	101,048.77	15,923,970	23,879,867.51
602	2006	5	0.00423	127,001.98	20,016,073	30,055,116.00
602	2006	6	0.00423	118,157.70	18,864,193	27,934,150.76
602	2006	7	0.00423	134,515.87	21,200,294	31,800,297.00
602	2006	8	0.00423	137,440.33	21,661,203	32,511,178.50
602	2006	9	0.00423	104,993.92	16,547,505	24,841,465.50
602	2006	10	0.00423	103,393.89	16,295,333	24,442,942.50

602	2006	11	0.00423	108,425.22	17,088,293	25,632,439.50
602	2006	12	0.00423	115,828.35	18,255,059	27,400,360.50
602	2007	1	0.00423	118,672.32	18,703,282	28,045,564.50
602	2007	2	0.00423	122,037.40	19,233,632	28,850,448.00
602	2007	3	0.00423	117,141.81	18,462,066	27,718,470.00
602	2007	4	0.00423	103,657.93	16,335,013	24,505,421.50
602	2007	5	0.00423	109,755.23	17,297,908	25,987,765.50
602	2007	6	0.00423	130,488.17	20,565,512	30,846,040.50
602	2007	7	0.00423	128,212.47	20,206,851	30,310,276.50
602	2007	8	0.00423	131,894.26	20,787,118	31,180,677.00
602	2007	9	0.00423	123,065.50	19,395,666	29,093,499.00
602	2007	10	0.00423	105,357.60	16,604,823	24,902,017.50
602	2007	11	0.00479	137,805.01	17,869,138	28,769,312.18
602	2007	12	0.00479	144,354.27	18,718,380	30,136,195.74
602	2008	1	0.00479	143,909.04	18,660,647	30,045,671.88
602	2008	2	0.00479	143,582.14	18,618,258	29,975,395.38
602	2008	3	0.00479	133,088.02	17,257,688	27,784,556.26
602	2008	4	0.00479	124,030.79	16,068,925	25,893,693.76
602	2008	5	0.00479	117,085.60	15,182,458	24,443,256.67
602	2008	6	0.00479	150,016.62	19,452,615	31,322,859.12
602	2008	7	0.00479	150,427.92	19,437,659	31,407,972.29
602	2008	8	0.00479	141,896.87	18,399,729	29,623,560.47
602	2008	9	0.00479	141,889.37	18,398,757	29,623,919.50
602	2008	10	0.00479	122,281.57	15,856,218	25,533,254.04
602	2008	11	0.00479	131,781.12	17,088,023	27,518,561.14
602	2008	12	0.00479	143,255.31	18,575,878	29,907,160.36
602	2009	1	0.00439	133,109.89	18,716,765	30,321,159.30
602	2009	2	0.00439	128,324.32	18,043,860	29,231,053.20
602	2009	3	0.00439	126,006.23	17,717,909	28,703,012.58
602	2009	4	0.00439	112,168.36	15,641,416	25,581,137.40
602	2009	5	0.00439	105,293.72	14,805,390	23,988,000.50
602	2009	6	0.00439	130,248.21	18,314,484	29,656,335.13
602	2009	7	0.00438	115,565.91	16,805,676	26,390,674.79
602	2009	8	0.00438	135,880.63	19,754,977	31,015,313.89
602	2009	9	0.00438	112,192.32	16,315,086	25,671,195.60
602	2009	10	0.00438	104,880.60	15,251,810	24,060,760.25
602	2009	11	0.00438	110,989.10	16,140,113	25,339,977.41
602	2009	12	0.00438	123,851.09	18,010,572	28,276,505.11
602	2010	1	0.00411	128,213.19	18,242,938	31,195,423.98
602	2010	2	0.00411	122,297.68	17,401,244	29,756,127.24
602	2010	3	0.00411	110,352.34	15,701,590	26,849,718.90
602	2010	4	0.00411	102,652.08	14,450,831	24,976,176.29

Legend

600 - Network
601 - Line
602 - Transformation

21. Ref: Ex 3 and Ex 8 – Transmission Operating Revenues & Charge Determinants

(a) Please provide the actual charge determinants by customer and by asset pool for the period 2002 to 2009 and forecast for 2010, in the format below. If needed please source this information from the IESO.

Years	Historical Annual Charge Determinants	Kashechewan	Fort Albany	Attawapiskat	De Beers	Total FNEI Load
2002	Network (MW)					
	Line Connection (MW)					
	Transformation Connection (MW)					
2003	Network (MW)					
	Line Connection (MW)					
	Transformation Connection (MW)					
2004	Network (MW)					
	Line Connection (MW)					
	Transformation Connection (MW)					
2005	Network (MW)					
	Line Connection (MW)					
	Transformation Connection (MW)					
2006	Network (MW)					
	Line Connection (MW)					
	Transformation Connection (MW)					
2007	Network (MW)					
	Line Connection (MW)					
	Transformation Connection (MW)					

Years	Historical Annual Charge Determinants	Kashechewan	Fort Albany	Attawapiskat	De Beers	Total FNEI Load
2008	Network (MW)					
	Line Connection (MW)					
	Transformation Connection (MW)					
2009	Network (MW)					
	Line Connection (MW)					
	Transformation Connection (MW)					
2010	Network (MW)					
	Line Connection (MW)					
	Transformation Connection (MW)					

RESPONSE

Please see attached. **[Confidential Filing Request]**

22. Ref: Ex 8 – Charge Determinants – Alternate Forecast Scenarios

(a) Update: The test year charge determinants forecast is based on an average of 2007, 2008 and 2009 peak load by pool. With respect to 2009 load data, it appears that this may be a blend of actual and forecast. If that is case, please restate the 2010 forecast using actual 2009 load data.

(b) Average of Full Data Scenario: FNEI has used the average of 3 years of load data by pool to estimate the 2010 Charge Determinants. For the purposes of this interrogatory, please provide the 2010 Charge Determinant forecast based on an average of 2002 to 2009 load data by asset pool. If the full extent of the historical data is not available, please identify why it is not available and use the available data to complete the interrogatory.

(c) Simple Linear Trend using Full Data Scenario: Please provide the test year Charge Determinant forecast based on a simple linear trend using 2002 to 2009 actual charge determinant by pool data. If the full extent of the historical data is not available, please identify why it is not available and use the available data to complete the interrogatory.

RESPONSE

(a) The data for 2009 is not a blend of actual and forecast but is based on the actual 2009 transmission data files from the IESO.

(b) and (c) Please see attached. **[Confidential Filing Request]**

23. Ref: Ex 8 – Charge Determinants – Forecast Accuracy

Preamble: To test the forecast accuracy of FNEI's forecasting methodology, please provide the following ex-post analysis.

(a) 3-Year Average Method: Please estimate the charge determinant by pool for 2007, 2008 and 2009, using the 3 year average method proposed in this application. (i.e. for the 2007 estimate use 2004-2006 data, for the 2008 estimate use 2005-2007 data, and for the 2009 estimate use 2006-2008 data). Please compare this estimate to the actual charge determinant in each respective year and identify the forecast error in each year.

(b) Average of Full Data Method: Please provide a charge determinant forecast for 2007, 2008 and 2009 using the average of full historical data. (i.e. for the 2007 estimate use 2002 to 2006 data, for the 2008 estimate, use 2002-2007 data and for the 2009 estimate, use 2002-2008 data). Please compare the estimates to the actual charge determinant in each of those years and identify the forecast error. Please also provide the MS Excel worksheets if available.

(c) Simple Linear Trend using Full Data Method: Please provide a charge determinant forecast by pool for 2007, 2008 and 2009 using a simple linear trend based on the full extent available data. (i.e. for the 2007 estimate use 2002 to 2006 data, for the 2008 estimate, use 2002-2007 data and for the 2009 estimate, use 2002-2008 data). Please compare the estimates to the actual charge determinant in each of those years and identify the forecast error.

RESPONSE

(a), (b) and (c) Please see attached. [Confidential Filing Request]

24. Ref: Ex 8 – Charge Determinants

(a) FNEI has used a simple 3 year average peak load by pool to calculate the test year charge determinants. Please explain why FNEI has not relied on an econometric or end-use model to forecast charge determinants.

(b) The charge determinants are based on actual load and are not weather normalized. Please explain how FNEI's forecast methodology deals with issues of weather normalization.

(c) Did FNEI refer to any regional economic forecasts, population growth estimates, industrial activity or residential and commercial building activity to test the appropriateness of the charge determinant forecast?

(d) Why has FNEI not developed a more sophisticated approach to forecasting and weather normalizing the charge determinants?

RESPONSE

(a) It is not clear to FNEI that transmission billing determinants would be strongly related to heating and or heating degree days. In any event, degree day information for the area (available for Moosonee) is only available starting in 2006. As a result, any econometric forecast would be based on only four years of data. FNEI does not have any end use data for any of the customers it serves.

(b) The FNEI methodology does not deal with the issue of weather normalization, other than the forecast is implicitly based on the average of the weather over the three years used in the calculation of the average. As noted above, FNEI only has four years of historical weather data available to it.

(c) No, as FNEI serves a remote area, there are no regional economic forecasts that would be applicable. Residential, commercial, and industrial activity is limited in the 3 communities served by FNEI and no significant changes are forecast for 2010. DeBeers production is expected to remain at recent levels.

(d) A limited amount of historical data, including billing determinants, degree day information and economic activity measures specific to the communities served limits the forecasting approaches that can be undertaken at this time. Over time, it may be possible to develop a more sophisticated approach to forecasting, such as billing determinants as a function of degree days.

25. Ref: Ex 3/T1/S2 – Other Revenues – Miscellaneous Revenues

Preamble: FNEI's 2009 Audited financial statements indicate that FNEI earned \$189,130 in miscellaneous revenues. FNEI's as-filed forecast of miscellaneous revenues is \$50,000. The source of this revenue is the work performed by FNEI for De Beers. Please provide the following information:

- (a) Please provide a copy of the cost recovery agreement, with De Beers referenced at Ex 3/T1/S1/p.2. Please identify the services performed by FNEI and the pricing structure for these services.**
- (b) How was the as-filed estimate for miscellaneous revenues developed? Please explain.**
- (c) What are the drivers that contributed to the significant increase in actual 2009 miscellaneous revenues compared to FNEI's as-filed forecast of \$50,000? Are these factors likely to affect the 2010 estimate as well? Please explain.**
- (d) Given that the actual misc. revenue in 2009 was higher than initially estimated, is FNEI agreeable to updating its as-filed misc. revenue estimate?**

RESPONSE

- (a)** Please see attached. Refer to section 5 for how FNEI's costs for services.
- (b)** The \$50,000 forecast represents the amount expected to be paid by De Beers under the Connection and Cost Recovery Agreement.
- (c) and (d)** Most work related to the De Beers assets is now complete, and consequently, the \$50,000 is a far more appropriate estimate of the 2010 miscellaneous revenues than the previous year's \$189,130 figure.

VICTOR MINE SITE CONNECTION

THIS CONNECTION AND COST RECOVERY AGREEMENT is made as of the 28th day of November, 2005, between De Beers Canada Inc. ("De Beers") and Five Nations Energy Inc. ("FNEI").

WHEREAS the connection of De Beers' Victor Mine Site to FNEI's transmission system requires certain work to be performed on certain connection facilities forming part of FNEI's transmission system;

AND WHEREAS to permit such connection De Beers will construct certain transmission facilities, the ownership of which shall be transferred to FNEI;

AND WHEREAS pursuant to the Transmission System Code, De Beers will pay a capital contribution to FNEI in respect of the connection to FNEI's transmission system.

THEREFORE in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby irrevocably acknowledged by the parties, the parties agree as follows:

1. Each party represents and warrants to the other that:
 - (a) it is a corporation duly incorporated and validly subsisting in all respects under the laws of its jurisdiction of incorporation;
 - (b) it has all the necessary corporate power, authority and capacity to enter into this Agreement and to perform its obligations hereunder;
 - (c) the execution of this Agreement and compliance with and performance of the terms, conditions, and covenants contemplated in this Agreement have been duly authorized by all necessary corporate action on its part;
 - (d) no proceedings have been instituted by or against it with respect to bankruptcy, insolvency, liquidation or dissolution;
 - (e) subject to the extent that equitable remedies such as specific performance and injunction are in the discretion of the court from which they are sought, this Agreement constitutes a valid and binding obligation enforceable against it in accordance with its terms and conditions, and it is not a party to, bound or affected by or otherwise subject to any indenture, mortgage, lease, charter or by-law provision, agreement or other instrument, or any statute, rule, regulation, judgement or other order which would be violated, contravened or breached by, or under which default by it would occur as a result of, the execution of this Agreement or the compliance with and performance of any of the terms, conditions and covenants contemplated herein;
 - (f) it is registered for purposes of Part IX of the *Excise Tax Act* (Canada);
 - (g) except for (i) any approvals required pursuant to the *Ontario Energy Board Act, 1998* (Ontario), and (ii) the permits specified in Schedule "D" attached hereto, no consent, authorization or approval of, or exemption by, any governmental or public body or authority, or by any person, pursuant to statute, contract or otherwise, is required in connection with the execution and performance of this Agreement, or any of the covenants or transactions contemplated herein referred to, or the taking of any action contemplated herein.
2. **Term**
 - 2.1 The term of this Connection and Cost Recovery Agreement (the "Agreement") commences on the date first written above and terminates on the Guaranteed Revenue Date.

3. Contestable Work Assets

- 3.1 To complete the connection of the Victor Mine Site, De Beers will construct certain transmission facilities that are more particularly described as Contestable Work Assets. De Beers will construct and transfer title to the Contestable Work Assets to FNEI in accordance with the terms and conditions set out in Exhibit "A".

4. Medium Risk Connection

- 4.1 The parties acknowledge that contemporaneous to the Transfer Date Phase I, De Beers will be connected to the FNEI Facilities – HV as a load customer and the basis for the connection shall be in accordance with the terms and conditions set out in Exhibit "B". De Beers will pay on the Transfer Date Phase II, the Capital Contribution prepared in accordance with Exhibit "B".

5. FNEI Connection Work

- 5.1 The FNEI Connection Work be completed by FNEI by the Ready for Service Date and as such the Ready for Service Date is subject to:

- (a) any delays caused by third parties; and
- (b) all necessary approvals and permits contemplated pursuant hereto have been obtained.

- 5.2 De Beers shall pay the actual cost for the FNEI Connection Work which is estimated to be the amount specified in Schedule "C" (plus applicable taxes) in the manner specified in Schedule "C" (the "Actual Cost"). Within 10 days before the Transfer Date Phase II, FNEI shall provide De Beers with a final invoice or credit memorandum which shall indicate whether the amount already paid by De Beers for the FNEI Connection Work exceeds or is less than the Actual Cost. Any difference between the Actual Cost (plus applicable taxes) and the amount already paid by De Beers for the FNEI Connection Work shall be paid on the Transfer Date Phase II, by FNEI to De Beers, if the amount already paid by De Beers exceeds the Actual Cost (plus applicable taxes), or by De Beers to FNEI, if the amount already paid by De Beers is less than the Actual Cost (plus applicable taxes).

- 5.3 Subsection 6.6.2(d) of the Transmission System Code issued by the Ontario Energy Board on July 25, 2005 (the "Transmission System Code") references that De Beers is required to pay Ontario Energy Board-approved fees for inspection, testing and commissioning by FNEI (the "Board Approved Fees"). As FNEI does not have any Board Approved Fees as at the execution of this Agreement, De Beers shall pay the inspection, testing and commissioning fees of FNEI contemplated by and that comprise the FNEI Connection Work as invoiced by FNEI. Once FNEI has Board Approved Fees, if the amounts paid by De Beers for inspection, testing and commissioning to FNEI in respect of the FNEI Connection Work:

- (i) exceed the Board Approved Fees, FNEI shall refund the difference to De Beers (plus applicable taxes); or
- (ii) are less than the Board Approved Fees, De Beers shall pay the difference to FNEI (plus applicable taxes) in accordance with the invoice issued by FNEI.

- 5.4 FNEI shall keep proper accounts and records of all of its costs related to the Contestable Work Project, including without limitation, the FNEI Connection Work. De Beers shall have the right to audit, inspect, examine and copy FNEI's accounts and records related to the Contestable Work Project, including, without limitation, the FNEI Connection Work during regular business hours on Business Days, on not less than two Business Days' notice. FNEI shall preserve and keep available for audit, inspection, examination and copying all such accounts and records for a period not less than seven years.

6. Inconsistency with the Transmission System Code

- 6.1 If any provision of this Agreement is inconsistent with the Transmission System Code, the Parties agree to negotiate in good faith to replace the inconsistent provision. In the event of a Dispute (as that term is

defined in Section 11.1), the process described in Section 11.1 shall apply. At any time, including if the parties are unable to agree on a new provision or provisions to replace an inconsistent provision, De Beers shall have the right to terminate this Agreement, and if De Beers terminates the Agreement:

- (i) prior to the Ready for Service Date, Section 10.1 shall apply; and
- (ii) after the Ready for Service Date, the parties agree that the termination shall be deemed a voluntary and permanent disconnection of the Victor Mine Site from the IESO-controlled Grid and FNEI shall perform a True-Up of the Line Connection Revenue in accordance with the Transmission System Code.

6.2 Nothing contained within this Agreement shall preclude, prevent, prohibit or operate as a waiver of any of the Parties' rights to:

- (i) make application to the OEB;
- (ii) participate in any hearings before the OEB; or
- (iii) make any appeals to a court of competent jurisdiction regarding any decision by the OEB,

with respect to any matter, issue, thing, interpretation, consideration or consequence whatsoever that is related to the terms of this Agreement.

7. Events of Default

7.1 Each of the following events shall constitute an "Event of Default" under this Agreement:

- (a) failure by De Beers or FNEI to pay any amount due under this Agreement within the time stipulated for payment;
- (b) breach by De Beers or FNEI of any Material term, condition or covenant of this Agreement; or
- (c) the making of an order or resolution for the winding up of De Beers or FNEI or of its operations or the occurrence of any other dissolution, bankruptcy or reorganization or liquidation proceeding instituted by or against De Beers or FNEI.

For greater certainty, a Dispute (as defined below in Section 11.1 below) will not be considered an Event of Default under this Agreement. However, a Party's failure to comply with the terms of a settlement or resolution of a dispute by the OEB or a court of competent jurisdiction will be considered an Event of Default under this Agreement.

7.2 Upon the occurrence of an Event of Default by De Beers hereunder (other than those specified in Subsection 7.1(c) above for which no notice is required to be given by FNEI), FNEI shall give De Beers written notice of the Event of Default and allow De Beers 30 calendar days from the date of receipt of the notice to rectify the Event of Default, at De Beers' sole expense. If such Event of Default is not cured to FNEI's reasonable satisfaction within the 30 calendar day period, FNEI may, in its sole discretion, exercise the following remedy in addition to any remedies that may be available to FNEI under the terms of this Agreement, at common law or in equity: terminate this Agreement without further notice and, if FNEI terminates this Agreement after the Transfer Date Phase II, FNEI may perform a True-Up and if the Actual De Beers Load to the date of termination is less than the load in the Load Forecast and therefore has not generated the forecasted Line Connection Revenue required for the economic evaluation period, after giving De Beers at least 10 calendar days' prior written notice thereof, FNEI may recover, as liquidated damages and not as a penalty, the shortfall. FNEI will provide an invoice to De Beers in respect of any shortfall.

7.3 Upon the occurrence of an Event of Default by FNEI hereunder (other than those specified in Subsection 7.1(c) above for which no notice is required to be given by De Beers), De Beers shall give FNEI written notice of the Event of Default and shall allow FNEI 30 calendar days from the date of receipt of the notice

to rectify the Event of Default at FNEI's sole expense. If such Event of Default is not cured to De Beers' reasonable satisfaction within the 30 calendar day period, De Beers may pursue any remedies available to it at law or in equity, including at its option the termination of this Agreement.

- 7.4 All rights and remedies of FNEI and De Beers in this Agreement are cumulative and in addition to any other right or remedy otherwise available to FNEI and De Beers respectively at law or in equity, and any one or more of FNEI's and De Beers' rights and remedies may from time to time be exercised independently or in combination and without prejudice to any other right or remedy FNEI or De Beers may have or may have exercised. The parties further agree that where any of the remedies provided for and elected by the non-defaulting party are found to be unenforceable, the non-defaulting party shall not be precluded from exercising any other right or remedy available to it at law or in equity.

8. Force Majeure

- 8.1 Neither party shall be considered to be in default in the performance of its obligations under this Agreement, except obligations to make payments with respect to amounts already accrued, to the extent that performance of any such obligation is prevented or delayed by any cause, existing or future, which is beyond the reasonable control of, and not a result of the fault or negligence of, the affected party ("Force Majeure") and includes, but is not limited to, system operating conditions mandated by the IESO, strikes, lockouts and any other labour disturbances and manufacturer's delays for equipment or materials required for the Contestable Work Assets or the FNEI Connection Work not acquiesced in by the affected party, acts of God, acts of War or conditions arising out of or attributable to War, whether declared or undeclared; riot, civil strife, insurrection or rebellion; fire, explosion, earthquake, storm, flood, drought or adverse weather conditions. The non-affected party shall be relieved of any obligation hereunder during the continuation of the event of Force Majeure.

If a party is prevented or delayed in the performance of any such obligation by Force Majeure, such party shall immediately provide notice to the other party of the circumstances preventing or delaying performance and the expected duration thereof. Such notice shall be confirmed in writing as soon as reasonably possible. The party so affected by the Force Majeure shall endeavour to remove the obstacles which prevent performance and shall resume performance of its obligations as soon as reasonably practicable, except that there shall be no obligation on the party so affected by the Force Majeure where the event of Force Majeure is a strike, lockout or other labour disturbance.

9. Sale, Lease, Transfer or Other Disposition of the Victor Mine Site

- 9.1 In the event that De Beers sells, leases or otherwise transfers or disposes of the Victor Mine Site to a third party or to an Affiliate, during the Term of this Agreement, De Beers shall cause the purchaser, lessee or other third party or Affiliate to whom the Victor Mine Site is transferred or disposed to enter into an assumption agreement with FNEI, having a form and content satisfactory to FNEI, acting reasonably, to assume all of De Beers' obligations in this Agreement. Notwithstanding such assumption agreement, unless FNEI agrees otherwise in writing, which agreement shall not be unreasonably withheld, De Beers shall remain obligated hereunder. Notwithstanding the foregoing, in the event that such third person or Affiliate is classified as a medium-low to low risk customer in accordance with Section 6.5.2(a) of the Transmission System Code, then De Beers shall not remain obligated hereunder and no agreement shall be required from FNEI to this effect.

10. Cancellation of Connection and Early Termination of Agreement for Breach

- 10.1 If the connection of the Victor Mine Site is cancelled or this Agreement is terminated prior to the Transfer Date Phase II for any reason whatsoever other than breach of this Agreement by FNEI, De Beers shall pay FNEI's project related costs (plus applicable taxes) incurred before the connection of the Victor Mine Site was cancelled or this Agreement was terminated, including all costs associated with the winding up of the FNEI Connection Work, including, but not limited to, storage costs, vendor cancellation costs, facility removal expenses and any environmental remediation costs.

If De Beers provides written notice to FNEI that it is cancelling the connection of the Victor Mine Site or terminating this Agreement prior to the Transfer Date Phase II, FNEI shall have 10 Business Days to provide written notice to De Beers that:

- (i) De Beers shall remove all equipment and materials constructed within or installed in the applicable electrical stations as at its date of such cancellation or termination and require De Beers to return said stations to their condition prior to the commencement of any work by De Beers or its contractor on the Contestable Work Station Assets; or
- (ii) it wishes to purchase, and De Beers shall transfer to FNEI title to, the applicable equipment and materials for \$1.00 on an "as is, where is" basis.

For greater certainty, FNEI shall have the above option if the cancellation or termination occurs at any time prior to the Transfer Date Phase II, including if such cancellation is after the Transfer Date Phase I.

- 10.2 If De Beers wishes to defer the connection of the Victor Mine Site, the Parties will negotiate the terms of such deferral.

11. Resolution of Certain Disputes

- 11.1 Unless the Parties agree otherwise, either party may refer disputes, disagreements, controversies, questions or claims arising out of or relating to whether any of the terms of this Agreement are inconsistent with the Transmission System Code ("Dispute") to a committee to be composed of one (1) representative of each of the Parties with responsibility for the business unit involved in the dispute, to hear the Dispute and attempt to reach a resolution. If the committee cannot resolve the Dispute, either party may refer the Dispute to the Ontario Energy Board for a review and resolution.

Neither Party may suspend or cease performing their obligations under this Agreement in the event of a Dispute.

- 11.2 This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the Province of Ontario and the laws of Canada applicable therein, and, subject to Section 11.1 above and Section 9 of Exhibit "B", the courts of Ontario shall have exclusive jurisdiction to determine all disputes arising out of this Agreement.

12. General

- 12.1 The failure of any party hereto to enforce at any time any of the provisions of this Agreement or to exercise any right or remedy shall in no way be construed to be a waiver of such provision or any other provision nor in any way affect the validity of this Agreement or any part hereof or the right of any party to enforce thereafter each and every provision and to exercise any right or remedy. The waiver of any breach of this Agreement shall not be held to be a waiver of any other or subsequent breach. Nothing shall be construed or have the effect of a waiver except an instrument in writing signed by a duly authorized officer of the party against whom such waiver is sought to be enforced.

- 12.2 No amendment, modification or supplement to this Agreement shall be valid or binding unless set out in writing and executed by the parties with the same degree of formality as the execution of this Agreement.

- 12.3 Any written notice required by this Agreement shall be deemed properly given only if either mailed or delivered:

- (a) in the case of FNEI to:

70C Mountjoy Street North
Suite 421
Timmins, Ontario
P4N 4V7

Attention: General
Fax No.: (705) 268-0071

- (b) in the case of De Beers to:

65 Overlea Boulevard
Suite 400
Toronto, Ontario
M4H 1P1

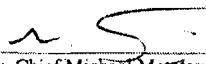
Attention: Jeremy Wyeth, Vice President Victor Project
Fax No.: (905) 829-4407

A faxed notice will be deemed to be received on the date of the fax if received before 3 p.m. or on the next Business Day if received after 3 p.m. Notices sent by courier or registered mail shall be deemed to have been received on the date indicated on the delivery receipt. The designation of the person to be so notified or the address of such person may be changed at any time by either party by written notice.

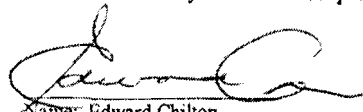
- 12.4 This Agreement may be executed in counterparts, including facsimile counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same agreement.
- 12.5 Invoiced amounts are due 30 days after invoice issuance. All overdue amounts shall bear interest at 1.5% per month compounded monthly (19.56 percent per year) for the time they remain unpaid.
- 12.6 Termination or expiry of all or part of this Agreement for any reason does not affect any rights of either party against the other which:
- (a) arose prior to the time at which such termination or expiration occurred; or
- (b) otherwise relate to or may arise at any future time from any breach or non-observance of obligation under this Agreement occurring prior to the termination or expiration.
- 12.7 Schedules "A", "B", "C", "D" and "E" attached hereto, and Exhibit "A" - The Transfer of Contestable Work Terms and Conditions and Exhibit "B" - The Medium Risk Connection Terms and Conditions attached hereto are to be read with and form part of this Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all prior oral or written representations and agreements concerning the subject matter of this Agreement.
- 12.8 If there is a conflict between any term or provision of this Agreement and Exhibit "A" or Exhibit "B", then the terms and provisions of this Agreement shall govern and prevail.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by the signatures of their proper authorized signatories, as of the day and year first written above.

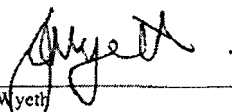
FIVE NATIONS ENERGY INC.


Name: Chief Michael Metlawaabin
Title: President

I have the authority to bind the Corporation.


Name: Edward Chilton
Title: Secretary - Treasurer and Project Co-ordinator
I have the authority to bind the Corporation.

DE BEERS CANADA INC.


Name: Jeremy Wyeth
Title: Vice President Victor Project
I have the authority to bind the Corporation.

Schedule "A"

CONTESTABLE WORK ASSETS:

As described in the document "Five Nations Energy Inc. Victor Project, Requirements for Extension of Fort Albany, Kashechewan, and Attawapiskat Substations, Technical Specifications, February 2005" and in "De Beers Canada Victor Project CONTRACT NO: 143232-C403, 115kV Transmission Line (EPC) Volume 2 Technical Issue, February 2005":

- approximately 170 km of new high voltage 115 kV line (energized at 138 kV) from Moosonee Switching Station to Kashechewan Transformer Station;
- a new high voltage circuit breaker and bushing current transformer, one manually operated high voltage line disconnect, one motorized high voltage disconnect with line side ground switch in the Attawapiskat Transformer Station;
- 2 new high voltage circuit breakers and bushing current transformers; 1 new high voltage circuit breaker without bushing current transformers, 3 new manually operated high voltage line disconnects; 2 new motorized high voltage disconnect switches with grounding switches, a new 5.5 Mvar 138 kV shunt reactor complete with surge arrestors, and a new high voltage switchyard station site adjacent to the Kashechewan Transformer Station;
- modification of the existing 115 kV line (energized at 138 kV) and the addition of the new 138 kV line to feed into the new site adjacent to the Kashechewan Transformer Station.
- connection of the existing Kashechewan Transformer Station to the new Kashechewan site for the continued supply of the existing Kashechewan station and the Kashechewan to Attawapiskat 115 kV line (energized at 138 kV).
- power line carrier telecommunications equipment and system at Five Nations Energy Inc. transformer stations in Fort Albany, Kashechewan, and Attawapiskat; including insulated temperature controlled buildings at each site adequate to house controls for communications and power equipment at Attawapiskat and Kashechewan, and communication controls in Fort Albany;
- station fence plus yard modifications at Attawapiskat Transformer Station and Fort Albany Transformer Station.
- insulated temperature controlled buildings at the Attawapiskat Station adequate to house controls for communications and power equipment.

Schedule "B"

Estimated Transformation Connection Pool Work Capital Cost: \$9,843,448.00

Estimated Line Connection Pool Work Capital Cost: \$22,579,684.00

Estimated OM&A Annual Total Costs: \$397,900, being calculated as follows:

Additional 170 km of ROW & HV Line, separate location

- 1) Annual Helicopter patrol - \$ 15,000
- 2) Vegetation management 6 year cycle - \$9000 (\$150 / km; \$54,000 in 6th year)
- 3) Periodic guy work - \$ 3000 / yr
- 4) Snow Machine Patrol every 3 years (\$5000 / yr - \$15,000 every 3rd year)
- 5) MNR Land Use Permit : \$6000
- 6) Erosion Management River Crossings: \$ 10,000 (\$30,000 every 3 years)
- 7) Albany Reserve # 67 HV Line Land use fees ; \$10,000
- 8) Historical Trouble call fly by on line trips : \$10,000
- 9) Minor Contingency cost : \$10,000 (\$100,000 in 10 years)

Subtotal HV Lines: \$78,000 / yr on average

Station Expense Kashechewan, Attawapiskat, Fort Albany

- 1) PLCC checks & verifications : \$10,000
- 2) Added 4 HV SF6 breakers inspections, testing, overhauls : \$15,000
- 3) Station Inspections and routine checks : \$25,000
- 4) Electricity costs new buildings & heaters SF6 : \$20,000
- 5) Kashechewan TS Sect 28 Permit Land Use ; \$40,000
- 6) Operating Services Hydro One Agreement Modification: \$68,000
- 7) Station Insurance cost increase: \$50,000
- 8) Historical trouble call ins : \$10,000
- 9) Major Contingency cost : \$30,000 (\$300,000 once in 10 years)

Subtotal FNEI Stations: \$268,000

Administrative Support & Planning Functions:

Apply the FNEI general overhead of 15% to all activities above: \$51,900/ yr

Estimated Pool Cost: \$35,309,211.00

Estimated Capital Contribution: \$35,303,913.00

Line Connection Revenue Requirements and Load Forecast

Guaranteed Revenue Date: 15 years from the Transfer Date Phase I

Period: One Year following the anniversary of the Ready for Service Date and annually thereafter	LOAD FORECAST: Incremental Load (Average Monthly Peak Load KW)	Line Connection Revenue (\$)	
Year 1	2737	114	
Year 2	6335	264	
Year 3	10332	430	
Year 4	17035	709	
Year 5	18325	763	
Year 6	18801	783	
Year 7	18525	771	
Year 8	18894	786	
Year 9	18894	786	
Year 10	18894	786	
Year 11	18894	786	
Year 12	18677	777	
Year 13	18738	780	
Year 14	19323	804	
Year 15	19323	804	

Schedule "C" (Victor Mine Site Connection)

Estimated Actual Cost for FNEI Connection Work. \$310,000.00 plus FNEI overhead to be invoiced by FNEI from time to time as it deems necessary

FNEI Connection Work:

FNEI work associated with inspection, testing, commissioning, and incorporating into existing systems of Contestable Work Assets

1. Implementation of changes to protection settings Attawapiskat & Kashechewan breakers
2. Implementation of voltage control plan modifications all sites
3. Implementation of PLC communications signals all sites
4. Verification of telecommunications and alarms all sites
5. Verification of Victor TS operating parameters & communications back to FNEI stations
6. Inspection of future new FNEI assets during construction
7. Registration with IESO; IESO authorization to energize approval
8. Modify Hydro One operating services agreement (OGCC)
9. New Transmission Facilities Agreement with Hydro One – added FNEI HV line connection Moosonee)
10. Change IESO - FNEI Operating agreement (new equipment & operating rules)
11. Modify O&M agreement Timmins Hydro One
12. Create/sign Transmission Connection Agreement with DBC
13. Transmission Line inspection (Moosonee to Kash)
14. FNEI review & acceptance of permits and external approvals records associated with new FNEI Facilities
15. FNEI familiarization with new assets (operating, maintenance protocols, record keeping, monitoring information, equipment manuals review etc.) – local resources and FNEI staff, plus contract maintenance staff.
16. Asset record keeping database inputs
17. New parts that are critical - inventory plan & resource
18. FNEI involvement with Community / FNEI leaders information activities during construction
19. Coordination of work interfacing with FNEI existing system or sites (HV outages; working at limit of approach; access to FNEI sites & equipment, information on equipment, LDC outages)

Schedule "D" Land Permits

- 1) For High Voltage Line from Moosonee to Albany Reserve # 67 : Ontario Ministry Of Natural Resources Land Use Permit.
- 2) For Assets on Albany Reserve # 67 – Indian Act Section 28(2)

Schedule "E" - Definitions

Throughout this Agreement, the following words shall have the following meanings:

"**Actual Cost**" has the meaning ascribed thereto in section 5.2 of this Agreement.

"**Actual De Beers Load**" means the actual load delivered to De Beers by Five Nations Energy Inc. up to the True-Up point.

"**Affiliate**" has the meaning ascribed thereto in the *Business Corporations Act* (Ontario).

"**Applicable Laws**", means any and all laws, including environmental laws, statutes, codes, licensing requirements, treaties, directives, rules, regulations, protocols, policies, by-laws, orders, injunctions, rulings, awards, judgments or decrees or any requirement or decision or agreement with or by any governmental or governmental department, commission board, court authority or agency, including the OEB, applicable to a party.

"**Bill of Sale**" means a bill of sale substantially in the form of the Bill of Sale attached to Exhibit "A" as Appendix "A".

"**Business Day**" means a day other than Saturday, Sunday, statutory holiday in Ontario or any other day on which the principal chartered banks located in the City of Toronto, are not open for business during normal banking hours.

"**Capital Contribution**" means a capital contribution calculated in accordance with section 3 of Exhibit "B".

"**Claim**" means a claim or cause of action in contract, in tort, under any Applicable Law or otherwise.

"**Claim Notice**" means a written notice of a Claim specifying in reasonable detail the specific basis of the Claim, the specific nature of the Losses and the estimated amount of such Losses;

"**Contestable Work Assets**" means the assets described in Schedule "A" of this Agreement.

"**Contestable Work Project**" means the design and construction of the Contestable Work Assets.

"**Contestable Work Station Assets**" means the design and construction of that part of Contestable Work Assets that are in FNEI's stations.

"**Embedded Generation**" shall have the meaning ascribed thereto in the Transmission System Code.

"**Environmental Law(s)**" means all applicable federal, provincial and local laws, by-laws, rules, regulations, guidelines, codes and judgments relating to the protection of the environment and public health and safety and without restricting the generality of the foregoing, includes without limitation those Environmental Law(s) relating to the storage, transportation, treatment and disposal of Hazardous Substances, employee and product safety and the emission, discharge, release or threatened release of Hazardous Substances into the air, surface water, ground water, land surface, subsurface strata or any building or structure and, in each such case, as such Environmental Law(s) may be amended or supplemented from time to time.

"**Equipment Commissioning Date**" means the date any equipment forming part of the Contestable Work Assets is commissioned and/or goes in-service.

"**Exhibit A**" means the exhibit of this Agreement entitled Exhibit "A": The Transfer of Contestable Work Terms and Conditions.

"**Exhibit B**" means the exhibit of this Agreement entitled Exhibit "B": The Medium Risk Connection Terms and Conditions.

"**FNEI Connection Work**" means the work to be performed by FNEI, which is described in Schedule "C" of this Agreement.

"**FNEI Facilities – HV**" means the facilities owned by FNEI that convey electricity at voltages of more than 50 kilovolts.

"**Good Utility Practice**" has the meaning set forth in the Transmission System Code.

"**Governmental Authority**" means any federal, provincial, municipal or local government, or any agency, board, commission, council, court, tribunal or instrumentality thereof having jurisdiction.

"**Guaranteed Revenue Date**" has the meaning set out in Schedule "B" of the Agreement.

"Hazardous Substance(s)" means any contaminant, pollutant or hazardous substance that is likely to cause immediately, or at some future time, harm or degradation to the environment or risk to human health or safety, and without restricting the generality of the foregoing, includes without limitation any pollutant, contaminant, waste, hazardous waste, PCBs, toxic substance or dangerous goods which is defined or identified in any federal or provincial statute, codes or regulations or which is present in the environment in such quantity or state that it contravenes any Environmental Law.

"IESO" means the Independent Electricity System Operator.

"Indemnifier" means the party obligated to provide indemnification under this Agreement;

"Indemnified Party" means any person entitled to indemnification under this Agreement;

"Line Connection Pool" is as defined in FNEI's transmission rate schedules approved by the OEB.

"Line Connection Pool Work Capital Cost" is the cost estimate described in Schedule "B" of this Agreement and as adjusted pursuant to Section 3 of Exhibit "B".

"Line Connection Revenue" means the amount of line connection revenue to be received by FNEI through the monthly collection of the Line Connection Service Rate during the fifteen year economic evaluation period.

"Line Connection Service Rate" means FNEI's line connection service rate approved by the OEB from time to time, or any mechanism instituted in accordance with Section 9 of Exhibit "B".

"Load Forecast" means the initial load forecast used in the initial economic evaluation for the fifteen year economic evaluation period as set forth in Schedule "B" of this Agreement.

"Losses" means any and all claims, demands suits, losses, damages, liabilities, penalties, obligations, payments, costs and expenses and accrued interest thereon (including the costs and expenses of, and accrued interest on, any and all actions, suits, proceedings for personal injury (including death) or property damage, assessments, judgements, settlements and compromises relating thereto and reasonable lawyers' fees and reasonable disbursements in connection therewith); and

"Material" relates to the essence of the contract, more than a mere annoyance to a right, but an actual obstacle preventing the performance or exercise of a right.

"OEB" means the Ontario Energy Board.

"OM&A Costs" means the operation, maintenance and administration costs in respect to the Contestable Work Assets that FNEI will have to incur after the Transfer.

"Phase I Contestable Work Assets" means the Contestable Work Assets specified in Appendix "B" of Exhibit "A".

"Phase II Contestable Work Assets" means the Contestable Work Assets specified in Appendix "C" of Exhibit "A", and for greater certainty excludes the Phase I Contestable Work Assets.

"Pool Cost" means the present value of Line Connection Pool Work Capital Cost and Transformation Connection Pool Work Capital Cost, projected on-going operation and maintenance cost and other related incremental costs (including, but not limited to income and other taxes), for the Contestable Work Assets as adjusted to based upon the Transfer Prices for the Contestable Work Assets, all as calculated in accordance with the principles, criteria and methodology set out in Appendices 4 and 5 of the Transmission System Code.

"Ready for Service Date" means the date upon which the Contestable Work Assets are fully and completely constructed, installed, commissioned and energised by De Beers.

"Remedial Order" means any complaint, direction, order or sanction issued, filed or imposed by any Governmental Authority with respect to any Environmental Law, including any complaint, direction or order requiring investigation, assessment or remediation of any site or Hazardous Substance, or requiring that any release or discharge of a Hazardous Substance be reduced, modified or eliminated, or requiring any form of payment or cooperation be provided to any Governmental Authority.

"Successful Commissioning" means that the Contestable Work Assets have been finally connected to FNEI's transmission system and that De Beers has remedied to FNEI's satisfaction, acting reasonably, all defects identified by FNEI.

"Technical Standards" has the meaning ascribed thereto in Section 1.1 of Exhibit "A" hereof.

"Third Party Claim" means any Claim asserted against an Indemnified Party that is paid or payable to, or claimed by, any person who is not a party to the Agreement or an affiliate of a party.

"Transfer" means the transfer of legal title to the Contestable Work Assets on the Transfer Date Phase I and Transfer Date Phase II, as applicable, in accordance with Exhibit "A".

"Transfer Date Phase I" means the date of Successful Commissioning of the Phase I Contestable Work Assets.

"Transfer Date Phase II" means the date of the Successful Commissioning of the Phase II Contestable Work Assets.

"Transfer Price" means the price paid by FNEI for the Contestable Work Assets in accordance with Section 4 of Exhibit "A" and shall include the price applicable to Contestable Work Assets relating to assets transferred on Transfer Date Phase I and Transfer Date Phase II.

"Transformation Connection Pool" is as defined in FNEI's transmission rate schedules approved by the OEB.

"Transformation Connection Pool Work Capital Cost" is the cost estimate described in Schedule "B" of this Agreement and as adjusted pursuant to Section 3 of Exhibit "B".

"Transmission System Code" means the code of standards and requirements issued by the OEB on July 25, 2005, as it may be amended, revised or replaced in whole or in part from time to time.

"True-Up" means the process whereby FNEI revises the Line Connection Revenue, based on the Actual De Beers Load and the Updated Load Forecast, using the same methodology used to carry out the initial economic evaluation and the same inputs except for load.

"True-Up Point" means any point in time that a True-Up will occur as contemplated in the Transmission System Code.

"Updated Load Forecast" means the load forecast for the remainder of the fifteen year economic evaluation period when the Load Forecast is adjusted to the point where the present value of the Line Connection Revenue equals the present value of the Pool Funded Cost.

"Victor Mine Site" means a mine site located in the James Bay Lowlands of Northern Ontario (approximately 90 kilometres west of Attawapiskat, Ontario).

EXHIBIT A: The Transfer of Contestable Work Terms and Conditions

1. Technical Requirements.

- 1.1 DeBeers shall ensure that the Contestable Work Project complies with, and the Contestable Work Assets are constructed in accordance with, FNEI's requirements, conceptual design, drawings, technical standards and specifications, including, but not limited to those contained in (i) the document entitled "Hydro One Networks Inc. Technical Requirements for the Design, Supply and Installation of a 115 kv, Single Circuit Transmission Line Connecting Hydro One Networks Inc., Otter Rapids Junction and Moosonee SS" with the deviations as identified in AMEC Scope of Work - 115 Transmission Lines (EPC) Feb 5 2005 Section 5.2 Lines to FNEI Standard, plus FNEI's "Requirements for Extension of Fort Albany, Kashechewan and Attawapiskat Substations, February 2005", and all requirements, drawings and specifications referred to therein, (ii) the Substations Extensions Specifications prepared by SNC Lavalin for FNEI, and (iii) FNEI's Resonance Study in respect of the Contestable Work Assets (collectively referred to as the "Technical Standards").
- 1.2 DeBeers shall comply with all Applicable Laws relating to the design and completion of the Contestable Work Project. Without limiting the generality of the foregoing, DeBeers shall strictly conform to all safety requirements, including those legislated, those established by FNEI, or those regulated under the *Occupational Health and Safety Act (Ontario)*.
- 1.3 DeBeers will not proceed with any plans or changes which could conflict with DeBeers' obligation in respect of the Technical Standards without obtaining FNEI's prior written approval.
- 1.4 At any time, FNEI may have an inspector on-site at its sole risk. FNEI may perform a final inspection verification test of the Contestable Work Assets prior to Transfer, as well as due diligence evaluations, the results of which must be to FNEI's satisfaction prior to Transfer.
- 1.5 For work within FNEI transformer stations or on its existing high voltage line or right of way, FNEI will control access to the stations, high voltage lines and its equipment, and have authority to stop work being performed that may interfere with the normal operation of its stations and high voltage lines. Such authority shall not be unreasonably enforced.

1.6 DeBeers will, at its sole expense, conduct such work as may be required by FNEI, acting reasonably, to correct to FNEI's satisfaction, any deficiencies identified by FNEI prior to Transfer.

1.7 (a) DeBeers, on its own behalf and on behalf of FNEI, shall be responsible for obtaining, from the applicable manufacturer, warranties for a period of two (2) years from the Equipment Commissioning Date for all transmission line equipment that comprises the Contestable Work Assets.

(b) DeBeers shall transfer all warranties referenced in Section 1.7(a) to FNEI with effect on the Transfer Date Phase I or the Transfer Date Phase II, as applicable.

2. Land Rights.

2.1 DeBeers shall facilitate the assignment to FNEI of any and all land use permits (or such other land related permits) save and except the permit issued to DeBeers pursuant to Section 28(2) of the *Indian Act*.

2.2 Nothing in this Exhibit "A" shall be deemed to authorize DeBeers to act as agent for FNEI in connection with any amendment or alteration to the terms and conditions of a permit unless the prior authorization to such alterations or amendments has been granted by FNEI.

3. Purchase of Contestable Work Assets.

3.1 On the terms and subject to the fulfillment of the conditions of this Agreement, DeBeers agrees to sell, transfer and assign to FNEI, and FNEI agrees to purchase and accept from DeBeers all title, rights and interests of DeBeers in the Contestable Work Assets in two phases. DeBeers shall transfer the Phase I Contestable Work Assets set out in Appendix B to this Exhibit "A" to FNEI on the Transfer Date Phase I. DeBeers shall transfer the Phase II Contestable Work Assets as shown in Appendix "C" to this Exhibit "A" shall be transferred on the Transfer Date Phase II.

4. Contestable Work Project Cost and Transfer Price.

4.1 By no later than 15 days prior to the Transfer Date Phase I and 15 days prior to Transfer Date Phase II, as the case may be, DeBeers shall provide FNEI with a breakdown of the cost of the Phase I Contestable Work Assets in respect

of Transfer Date Phase I and the Phase II Contestable Work Assets in respect of Transfer Date Phase II in the applicable form attached to this Exhibit "A" as Appendix "D", together with copies of all documents related to the Phase I Contestable Work Assets or the Phase II Contestable Work Assets, as the case may be, including, but not limited to, all invoices, purchase orders and fixed price contracts related to the design and construction of the applicable Contestable Work Assets and the procurement of transmission line and station equipment.

4.2 Subject to section 5.2, the applicable Transfer Price payable to DeBeers by FNEI on the Transfer Date Phase I and the Transfer Date Phase II shall be the applicable breakdown of cost provided by DeBeers to FNEI in accordance with Appendix "D" to this Exhibit "A".

4.3. DeBeers shall keep proper accounts and records for the Phase I Contestable Work Assets and Phase II Contestable Work Assets. FNEI shall have the right to audit, inspect and copy accounts and records, including invoices, receipts, time records and vouchers related to either the Phase I Contestable Work Assets or the Phase II Contestable Work Assets during regular business hours on Business Days, on not less than two Business Days' notice. Accounts and records shall be preserved and kept available for audit for a period not to be less than seven years.

5. Payment of Capital Contribution and Transfer Price.

5.1 Subject to the terms and conditions of this Agreement, DeBeers will be connected to the FNEI Facilities – HV as a load customer in accordance with the terms and conditions set out in Exhibit "B". Pursuant to Exhibit "B", DeBeers is required to pay a capital contribution relating to the cost of connection. The Parties agree that the Capital Contribution will be paid to FNEI by DeBeers on the Transfer Date Phase II.

5.2 The Parties agree that at the time of transfer of the Phase I Contestable Work Assets on the Transfer Date Phase I, the amount owing by FNEI to DeBeers in respect of the Transfer Price applicable to the Phase I Contestable Work Assets shall be satisfied by the delivery by FNEI to DeBeers of an acknowledgment acknowledging and confirming that the Transfer Price applicable to the Phase I Contestable Work Assets shall be set-off against the amount of

Capital Contribution owing by DeBeers to FNEI and payable by DeBeers on the Transfer Date Phase II. DeBeers shall on the Transfer Date Phase I deliver to FNEI an irrevocable direction directing that the Transfer Price for the Phase I Contestable Work Assets be set-off against the Capital Contribution of DeBeers. The Parties agree that at the Transfer Date Phase II the amount owing by FNEI to DeBeers in respect of the Transfer Price applicable to the Phase II Contestable Work Assets shall be satisfied by way of set-off against the amount of Capital Contribution owing by DeBeers to FNEI. The Parties further acknowledge that the Transfer Price will be less than the Capital Contribution and that, as a result, after such set-off there will be a net difference owing to FNEI which reflects primarily the OM&A Costs Component of the Project (the "OM&A Costs"). DeBeers shall pay such OM&A Costs to FNEI as follows:

(a) DeBeers shall pay FNEI the OM&A Costs in equal annual instalments as shown in Exhibit B, Appendix 1 as amended by Section 3 of Exhibit B, at the beginning of each twelve (12) month period (a "Contract Year") commencing on the Transfer Date Phase II and on each subsequent anniversary date of the Transfer Date Phase II and ending on the anniversary date of the Transfer Date Phase II prior to the Guaranteed Revenue Date (the "Annual OM&A Costs"). Within thirty (30) days of the expiry of each Contract Year (or the Guaranteed Revenue Date in respect of the last annual payment), FNEI shall provide DeBeers with an itemized statement setting out the details of all actual OM&A Costs incurred by FNEI for the preceding Contract Year (the "Actual OM&A Costs"). FNEI shall establish a notional account to record any net difference between Annual OM&A Costs payments by DeBeers and actual OM&A Costs incurred by FNEI (the "OM&A Cost Account"). If the Annual OM&A Costs paid by DeBeers to FNEI exceed the Actual OM&A Costs for such Contract year, then FNEI shall credit the OM&A Cost Account in favour of DeBeers in the amount of the positive net difference. If Annual OM&A Costs paid by DeBeers is less than the Actual OM&A Costs for such Contract Year, then FNEI shall debit the OM&A Account in the amount of the negative net difference. Attached as Appendix "E" of this Exhibit A is a hypothetical working example of how the

OM&A Cost Account will be debited or credited as the case may be. Appendix "E" has been included for illustrative purposes only and if there is a conflict between another term or provision of this Agreement and Appendix "E", such other term or provision will govern.

- (b) FNEI shall perform a true-up of the OM&A Cost Account at points in time which coincide with the True-Up Points provided for in this Agreement and at the Guaranteed Revenue Date. The net difference between the Annual OM&A Costs and the Actual OM&A Costs for each Contract Year prior to a True-Up Point shall be added or subtracted from the OM&A Cost Account balance and such amounts shall accumulate in the period prior to the True-Up Point (the "Accumulated Difference"). If at a True-Up Point, the Accumulated Difference is negative, then DeBeers shall pay to FNEI with interest the Accumulated Difference. If at a True-Up Point the Accumulated Difference is positive, then FNEI shall pay to DeBeers with interest the Accumulated Difference.
- (c) For the purposes of this Section 5.2, interest will be Prime plus 1% where "Prime" is the interest rate posted from time to time by the Bank of Montreal as "Prime". Interest will be simple interest and will not be compounded. Interest will be calculated on the opening Accumulated Difference at the beginning of each Contract Year commencing on the second Contract Year.
- (d) On the Transfer Date Phase II, DeBeers shall deliver to FNEI a diminishing standby letter of credit issued by a Canadian chartered bank or such other financial institution that is acceptable to FNEI, acting reasonably, in an amount equal to the OM&A Costs (the "Letter of Credit"). The amount of the Letter of Credit shall be reduced after each Contract Year by the amount of the Actual OM&A Costs in respect of each such Contract Year, as determined in accordance with this Section 5.2. If DeBeers fails to pay (i) an annual instalment payment of OM&A Costs within five (5) Business Days when due, or (ii) the Accumulated Difference, if such amount is negative, within five (5) Business Days of the date of the applicable True-Up Point (collectively referred to hereinafter as the

"Defaulted Payments"), FNEI may give written notice to DeBeers of such failure to pay. DeBeers shall have 30 calendar days from the date of receipt of such notice (the "Cure Period") to pay the Defaulted Payments. If DeBeers fails to pay the Defaulted Payments within the Cure Period, FNEI may, without limiting any other remedies FNEI may have under this Agreement or in law or equity, draw upon the Letter of Credit for: (a) all outstanding amounts owed under this section, (b) the present value of all future instalments of OM&A Costs, or (c) the amounts in (a) and (b). For purposes of calculating the present value amount the discount factor shall be FNEI's OEB approved weighted average cost of capital.

- (e) If DeBeers requires further information in respect of, or disputes the accuracy or validity of, any item in an itemized statement of OM&A Costs delivered by FNEI, such matters shall be reviewed by the committee referenced in Section 11.1 of the Connection and Cost Recovery Agreement, which committee shall attempt to settle such dispute. If such matters are not resolved within ten (10) Business Days of such referral then the matter may be referred to the Ontario Energy Board.
- (f) Subject to Section 3 of Schedule "B", the OM&A Costs components are listed in Schedule "B" of the Connection and Cost Recovery Agreement and shall not be amended without the prior written approval of DeBeers. FNEI agrees that its Actual OM&A Costs shall only include those actual costs incurred by it that pertain to the OM&A Costs components listed in Schedule "B" of the Connection and Cost Recovery Agreement.

5.3 Notwithstanding any other term to the contrary in this Agreement, in addition to the Transfer Price payable by FNEI to DeBeers for and in respect of the Contestable Work Assets, FNEI shall be liable for and shall pay any GST owing on the transfer of the Phase I Contestable Work Assets on the Transfer Date Phase I or on the transfer of the Phase II Contestable Work Assets on the Transfer Date Phase II.

6. Closing.

6.1 DeBeers shall obtain all consents, approvals, orders and authorizations of any persons or governmental authorities in Canada (including the OEB) or elsewhere (or registrations, declarations, filings or records with any authorities) including, without limitation, all registrations, recordings and filings with public authorities as may be required in connection with the Transfer of the Phase I Contestable Work Assets and the Phase II Contestable Work Assets and all clearance certificates required pursuant to any applicable retail sales tax legislation on or before the Transfer Date Phase I or the Transfer Date Phase II, as applicable. For greater certainty, DeBeers shall deliver a certificate issued by the Minister of Finance of Ontario under Section 6 of the *Retail Sales Tax Act* (Ontario) to the effect that all requisite taxes under such Act have been paid by DeBeers.

6.2 DeBeers shall deliver to FNEI all necessary deeds, conveyances, Bill of Sale, assurances, transfers, assignments and consents, and any other documents necessary or reasonably required to effectively transfer the Contestable Work Assets to FNEI on the Transfer Date Phase I or the Transfer Date Phase II, as applicable, such that FNEI purchases the Contestable Work Assets:

- (a) with good and marketable title, free and clear of all mortgages, liens, demands, charges, pledges, adverse claims, rights, title, retention agreements, security interests, or other encumbrances of any nature and kind whatsoever; and
- (b) free and clear of any work orders, non-compliance orders, deficiency notices or other such notices relative to the Contestable Work Assets or any part thereof which have been issued by any regulatory authority, police or fire department, sanitation, environment, labour, health or other governmental authorities or agencies.

Furthermore, DeBeers shall represent and warrant to FNEI on and as of the Transfer Date Phase I with respect to the Phase I Contestable Work Assets and on and as of the Transfer Date Phase II with respect to the Phase II Contestable Work Assets that there are no matters under discussion with any regulatory authority, police or fire department, sanitation, environment, labour, health or other governmental authorities

or agencies relating to work orders, non-compliance orders, deficiency notices or other such notices pertaining to the applicable Contestable Work Assets.

6.3 DeBeers shall deliver to FNEI on the Transfer Date Phase I a certificate from a senior officer of DeBeers confirming to the best of his/her knowledge, information and belief after due inquiries, as of the Transfer Date Phase I, the truth and correctness in all material respects of the following representations and warranties of DeBeers:

- (i) DeBeers is the sole owner of the Phase I Contestable Work Assets immediately prior to the Transfer of the Phase I Contestable Work Assets and has good and marketable title to such Phase I Contestable Work Assets free and clear of all mortgages, liens, demands, charges, pledges, adverse claims, rights, title, retention agreements, security interests, or other encumbrances of any nature and kind whatsoever; and;
- (ii) any land rights relating to the Phase I Contestable Work Assets and delivered in favour of FNEI under Section 2.1 are all the land rights required in respect of the Phase I Contestable Work Assets and all such land rights delivered by DeBeers have been executed by all necessary and proper parties;
- (iii) all warranties associated with the Phase I Contestable Work Assets have been transferred to FNEI with effect as of the Transfer Date Phase I;
- (iv) the warranties and covenants of DeBeers in Section 7 of this Exhibit "A" are valid and binding obligations of DeBeers;
- (v) all deficiencies identified by FNEI in accordance with Section 1.6 above with respect to the Phase I Contestable Work Assets have been remedied;
- (vi) the Contestable Work Assets, except for the transmission line equipment are free from defect, errors and omissions in design, engineering, materials, construction and workmanship;
- (vii) transmission line equipment purchased by DeBeers or its subcontractors for the

Contestable Work Project shall be new and in accordance with the Technical Standards; and

- (viii) the Contestable Work Project has been performed in accordance with, and meets the requirements of the Technical Standards and the Contestable Work Assets continue to conform to the Technical Standards.

6.4 DeBeers shall deliver to FNEI on the Transfer Date Phase II a certificate from a senior officer of DeBeers confirming to the best of his/her knowledge, information and belief after due inquiries, as of the Transfer Date Phase II, the truth and correctness in all material respects of the representations and warranties of DeBeers contained in Section 6.3 as they pertain to the Phase II Contestable Work Assets and the Transfer Date Phase II.

7. DeBeers Warranties and Covenants.

7.1 DeBeers shall reperform any deficient work pertaining to the Contestable Work Assets identified in writing by FNEI to DeBeers within two (2) years of the Transfer Date Phase II. The warranty period for such reperformed work shall recommence for a further period of two (2) years. DeBeers shall not be liable for warranty under this Section 7.1 to the extent that the deficiency is covered by any manufacturer's or other warranty obtained by DeBeers pursuant to Section 1.7(a) of this Exhibit "A" and transferred to FNEI in accordance with Section 1.7(b) of this Exhibit "A" or is caused by normal wear and tear or by FNEI's failure to use and maintain the Contestable Work Assets in accordance with Good Utility Practice.

8. Survival of Representations and Warranties.

8.1 All representations and warranties contained in this Agreement on the part of each of the parties shall survive for a period of two (2) years from the Transfer Date Phase II. All covenants and agreements of each of the parties contained in this Agreement shall survive the Transfer, and the execution and delivery of any of the Bill of Sale, assignments or other instruments of transfer of title to the Contestable Work Assets and the payment of the Purchase Price.

9. Indemnity.

9.1 (a) DeBeers shall indemnify and save harmless FNEI and its successors, directors, officers, employees, representatives and agents (the "FNEI Indemnities") from and against any and all Losses actually suffered or incurred by the FNEI Indemnities arising out of, resulting from, connected with or attributable to:

- (i) a breach by DeBeers or its contractors, sub-contractors or agents of any Environmental Law(s) prior to the Transfer of the Contestable Work Assets;
- (ii) a release or discharge of any Hazardous Substance(s) related to the Contestable Work Assets caused by DeBeers or its contractors, sub-contractors, or agents prior to the Transfer of the Contestable Work Assets and contamination of the properties over which the Contestable Work Assets are located as a result of such release or discharge;
- (iii) any leaching, migration or seepage onto, across or into the property or premises of any person at any time of any Hazardous Substances caused by DeBeers or its contractors, sub-contractors or agents prior to the Transfer of the Contestable Work Assets that is present on, at or under any of the property over which the Contestable Work Assets are located;
- (iv) a breach by DeBeers of a provision of these Contestable Work Terms and Conditions;
- (v) non-compliance by DeBeers with or any liability arising out of the provisions of the Bulk Sales Act; and/or
- (vi) any fines or Remedial Order(s) of any kind that may be levied or made pursuant to any Environmental Law(s) attributable to a breach by DeBeers or its contractors, sub-contractors or agents of any Environmental Law(s) prior to the Transfer of the Contestable Work Assets.

except DeBeers shall not indemnify the FNEI Indemnities in accordance with this Section 9.1(a) if:

- (i) the contamination or release or discharge of Hazardous Substance(s) is caused by the negligence of FNEI, and then only to the extent of such negligence; or

- (ii) it is satisfactorily shown by DeBeers that the Hazardous Substances related to the Contestable Work Project were not present on, at, in or under the properties of which the Contestable Work Assets are located on or prior to the Transfer of the Contestable Work Assets.
- (b) FNEI shall indemnify and save harmless DeBeers and its successors, directors, officers, employees, representatives and agents (the "DeBeers Indemnities") from and against any and all Losses actually suffered or incurred by the DeBeers Indemnities arising out of, resulting from, connected with or attributable to:
- (i) any breach by FNEI of any of its representations, warranties or covenants contained in the Agreement;
 - (ii) any circumstance, occurrence, activity, event or state of affairs related to or in any way connected with the Contestable Work Assets on and after the Transfer thereof; and/or
 - (iii) any deficiency, default, error or omission in or adequacy of the design of the Technical Standards.
- (c) Notwithstanding the foregoing or any other provision to the contrary in this Agreement, neither party shall be liable to the other party under this Agreement under any circumstances whatsoever for any loss of profits or revenues, business interruption losses, loss of contract or loss of goodwill, or for any indirect, consequential, incidental, economic or special damages, including but not limited to punitive or exemplary damages, whether any of the said liability, loss or damages arises in statute, contract, tort or otherwise. This Section 9.1(c) shall survive the expiry or the termination of this Exhibit "A".
- 9.2 (a) It is understood and agreed between the parties that FNEI is not assuming and shall not be liable or responsible for any of the liabilities, debts or obligations and demands, direct or indirect, absolute or contingent, of DeBeers, existing or accruing prior to the Transfer of the Contestable Work Assets, whether or not related to the Contestable Work Assets. DeBeers shall pay, satisfy, assume, discharge, observe, perform, fulfil, release, and indemnify and save harmless the FNEI Indemnities from and against
- any such liabilities, debts and obligations and all costs, expenses, debts, demands, proceedings, suits, actions, losses, or claims in connection therewith.
- (b) Notwithstanding Section 9(a) above and for greater certainty, FNEI acknowledges and agrees that it shall be liable and responsible for any and all liabilities, debts or obligations and demands, direct or indirect, absolute or contingent, related to, attributable to or in any way connected with the Phase I Contestable Work Assets existing or accruing on or after the Transfer Date Phase I and the Phase II Contestable Work Assets existing or accruing on or after the Transfer Date Phase II. FNEI shall pay, satisfy, assume, discharge, observe, perform, fulfil, release and indemnify and save harmless the DeBeers Indemnities from and against such liabilities, debts and obligations and all costs, expenses, debts, demands, proceedings, suits, actions, losses or claims in connection therewith.
- (c) Notwithstanding anything contained herein to the contrary, DeBeers shall indemnify, defend and hold the FNEI Indemnities harmless from and against and all Losses actually incurred or suffered by the FNEI Indemnities relating to, in connection with, resulting from, or arising out of
- (i) any occurrence or event relating to the Contestable Work Assets that would not have occurred but for the negligence of DeBeers, or
 - (ii) any breach by DeBeers of any of its representations and covenants contained in this Agreement, provided that in each such case DeBeers shall not be liable hereunder to the FNEI Indemnities to the extent that any Loss is attributable to the negligence or wilful misconduct of the FNEI Indemnities. For greater certainty, in the event of contributory negligence or other fault of the FNEI Indemnities, then the FNEI Indemnities shall not be indemnified hereunder in the proportion that the FNEI Indemnities' negligence or other fault contributed to any Loss.
10. (a) Promptly after receipt by an Indemnified Party of notice of any Third Party Claim, the Indemnified Party shall provide a Claim Notice to the Indemnifier within five (5) days after the Indemnified Party's receipt of notice of the Third Party Claim.
- (b) The Indemnifier shall have the right, upon written notice delivered to the Indemnified Party within thirty (30) days after receipt of the Claim Notice, to assume

the defence of such Third Party Claim, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of the reasonable fees and disbursements of such counsel. The Indemnified Party shall co-operate in good faith in the defence of each Third Party Claim, even if the defence has been assumed by the Indemnifier and may participate in such defence assisted by counsel of its own choice at its own expense.

(c) If the Indemnifier declines or fails to assume the defence of the Third Party Claim on the terms provided above within such thirty (30) day period, the Indemnified Party may, at its option, employ counsel to represent or defend it in any such Third Party Claim and, if such Third Party Claim is a matter with respect to which the Indemnified Party is entitled to receive payment from the Indemnifier for the damage or loss in question, the Indemnifier will pay the reasonable fees and disbursements of such counsel as incurred; provided, however, that the Indemnifier will not be required to pay the fees and disbursements of more than one (1) counsel for all Indemnified Parties in any jurisdiction in any single Third Party Claim.

(d) In any Third Party Claim with respect to which indemnification is being sought hereunder, the Indemnified Party or the Indemnifier, whichever is not assuming the defence of such action, shall have the right to participate in such matter and to retain its own counsel at such party's own expense. The Indemnifier and the Indemnified Party, as the case may be, shall at all times use all reasonable efforts to keep each other reasonably apprised of the status of any matter the defence of which they are maintaining and to co-operate in good faith with each other with respect to the defence of any such matter.

(e) The Indemnified Party may not make any admission of liability or settle or compromise any Third Party Claim or consent to the entry of any judgement with respect to such Third Party Claim without the prior written consent of the Indemnifier, such consent not to be unreasonably withheld or delayed. Without the prior written consent of the Indemnified Party, such consent not to be unreasonably

withheld or delayed the Indemnifier shall not enter into any compromise or settlement of any Third Party Claim which would lead to liability or create any financial or other material obligation on the part of the Indemnified Party.

(f) The failure to provide a Claim Notice of a Third Party Claim to the Indemnifier shall relieve the Indemnifier from liability under this Agreement with respect to such Third Party Claim only if, and only to the extent that, such failure to provide a Claim Notice to the Indemnifier results in (i) the forfeiture by the Indemnifier of rights and defences otherwise available to the Indemnifier with respect to such Third Party Claim, (ii) material prejudice to the Indemnifier with respect to such Third Party Claim, or (iii) the loss of any right by the Indemnifier to recover any payment under its applicable insurance coverage.

(g) Each of DeBeers and FNEI agrees that it accepts each indemnity in favour of its respective directors, officers, employees, representatives, and agents, as applicable, as agent and trustee of each such director, officer, employee, representative and agent, as applicable. Each of DeBeers and FNEI agrees that the other party may enforce an indemnity in favour of any of that party's directors, officers, employees, representatives and agents, as applicable, on behalf of each such director, officer, employee, advisor, and agent, as applicable.

11. On the Transfer Date Phase I and Transfer Date Phase II, as applicable, DeBeers shall deliver to FNEI all documents (or copies thereof) and other data, technical or otherwise, regardless of format, which relate directly to the Phase I Contestable Work Assets and the Phase II Contestable Work Assets, as applicable, and which are necessary or convenient for the ownership, operation or maintenance of such Contestable Work Assets, including, but not limited to documentation describing the as-built electrical characteristics of the Contestable Work Assets. This documentation shall include, without limitation, such information as outlined in the Technical Standards and further information as may be determined by FNEI necessary for operation and maintenance of such Contestable Work Assets.

12. The following Appendices form part of these Contestable Work Terms and Conditions:

Appendix A: Form of Bill of Sale
Appendix B: Phase I Contestable Work Assets
Appendix C: Phase II Contestable Work Assets
Appendix D: Form of Contestable Work Project Cost Breakdown

Appendix E: OM&A Account Working Example

13. If there is a conflict between a term of this Exhibit "A" and Exhibit "B", this Exhibit "A" will govern with respect to the Contestable Work Project.

Appendix "A" - Form of Bill of Sale

THIS BILL OF SALE made as of the _____ day of _____, 200__

BETWEEN:

(hereinafter referred to as "Transferor")

OF THE FIRST PART,

- and -

FIVE NATIONS ENERGY INC.

(hereinafter referred to as the "Transferee")

OF THE SECOND PART.

WHEREAS the Transferor agrees to transfer all of its right, title and interest in the Contestable Work Assets for the consideration and on the terms herein set forth;

NOW THEREFORE this Bill of Sale witnesseth that in consideration of payment of the sum of \$ _____ in Canadian funds by the Transferee to the Transferor and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. The Transferor does hereby grant, sell, convey, assign, transfer and set over unto Transferee, its successors and assigns, all of the Transferor's right, title and interest in the Contestable Work Assets described in Appendix I attached hereto (the "Contestable Work Assets") with effect as at [time] on the date hereof.
2. The Transferee hereby acquires and accepts all of the right, title and interest of the Transferee in and to the Contestable Work Assets with effect as at [time] on the date hereof.
2. The Transferor represents and warrants to the Transferee that it has the authority to convey its right, title and interest in the Contestable Work Assets to the Transferee.
3. The Transferee shall immediately upon the execution and delivery of this Bill of Sale have possession of and may from time to time and at all times hereafter peaceably and quietly have, hold, possess and enjoy the Contestable Work Assets and every part thereof to and for its own use and benefit:
 - (a) with good and marketable title, free and clear of all mortgages, liens, demands, charges, pledges, adverse claims, rights, title, retention agreements, security interests, or other encumbrances of any nature and kind whatsoever; and
 - (b) free and clear of any work orders, non-compliance orders, deficiency notices or other such notices relative to the Contestable Work Assets or any part thereof which have been issued by any regulatory authority, police or fire department, sanitation, environment, labour, health or other governmental authorities or agencies; and there are no matters under discussion with any such department or authority relating to work orders, non-compliance orders, deficiency notices or other such notices.
4. Non-Merger. The parties agree that all covenants, agreements and other provisions in the Connection and Cost Recovery Agreement made between the Parties on [insert date, 2005] to be performed after the Transfer Date and all representations and warranties contained therein will survive for a period of two (2) years after the closing and the delivery of this Bill of Sale and will not merger therewith.

5. **Further Assurances.** Each of Transferor and the Transferee will from time to time execute and deliver all such further documents and instruments and do all acts and things as any other party may, reasonably require to effectively carry out or better evidence or perfect the full intent and meaning of this Bill of Sale.
6. **Applicable Law.** This Bill of Sale shall be construed, interpreted and enforced in accordance with, and the respective rights and obligations of the parties shall be governed by, the laws of the Province of Ontario and the federal laws of Canada applicable therein, and each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of such province and all courts competent to hear appeals therefrom.
7. **Successors and Assigns.** This Bill of Sale shall enure to the benefit of and shall be binding on and enforceable by the Parties and their respective successors and assigns.
8. **Severability.** If any provision of this Bill of Sale is determined by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such determination shall not impair or affect any other provisions of this Bill of Sale which are hereby declared to be separate, severable and distinct.
9. **Counterparts.** This Bill of Sale may be executed in counterparts and the counterparts together shall constitute an original.
10. **Amendments.** No amendment of any provision of this Bill of Sale shall be binding on either Party unless consented to in writing by such Party.

IN WITNESS WHEREOF, the Transferor and the Transferee have caused this Bill of Sale to be executed by the signature of their proper authorized signatories, as of the day and year first written above.

FIVE NATIONS ENERGY INC.

Name:

Title:

I have the authority to bind the Corporation.

[INSERT NAME OF TRANSFEROR]

Name:

Title:

Name:

Title:

I/We have the authority to bind the Corporation.

Appendix "B" - Phase I Contestable Work Assets

- a new high voltage circuit breaker and bushing current transformers, one manually operated high voltage line disconnect, one motorized high voltage disconnect with line side ground switch in the Attawapiskat Transformer station.
- Insulated temperature controlled buildings at the Attawapiskat Station adequate to house controls for communications and power equipment.

Appendix "C" – Phase II Contestable Work Assets

- approximately 170 km of new high voltage 115 kV line (energized at 138 kV) from Moosonee Switching Station to Kashechewan Transformer Station;
- 2 new high voltage circuit breakers and bushing current transformers; 1 new high voltage circuit breaker without bushing current transformers, 3 new manually operated high voltage line disconnects; 2 new motorized high voltage disconnect switches with grounding switches, a new 5.5 Mvar 138 kV shunt reactor complete with surge arrestors, and a new high voltage switchyard station site adjacent to the Kashechewan Transformer Station;
- modification of the existing 115 kV line (energized at 138 kV) and the addition of the new 138 kV line to feed into the new site adjacent to the Kashechewan Transformer Station.
- connection of the existing Kashechewan Transformer Station to the new Kashechewan site for the continued supply of the existing Kashechewan station and the Kashechewan to Attawapsikat 115 kV line (energized at 138 kV).
- power line carrier telecommunications equipment and system at Five Nations Energy Inc. transformer stations in Fort Albany, Kashechewan, and Attawapsikat; including insulated temperature controlled buildings at each site adequate to house controls for communications and power equipment at Attawapsikat and Kashechewan, and communication controls in Fort Albany;
- station fence plus yard modifications at Attawapsikat Transformer Station and Fort Albany Transformer Station.

Appendix "D" - Form of Contestable Work Project Cost Breakdown

Permitting and Approvals: \$

Preliminary Engineering: \$

Design and Construction of 115 kV Transmission Line Moosonee to Kashechewan (170 km): \$

Design and Construction of Modifications to Kashechewan, Fort Albany and Attawapiskat 115 kV substations: \$

FNEI Connection Work Costs: \$

Project Management & Construction Supervision: \$

Contingencies: \$

GST @ 7%

Total = \$

Appendix "E" – OM&A Account Working Example

<u>Year</u>	<u>DeBeers Payment</u>	<u>FNEI Actual Cost</u>	<u>Difference</u>	<u>Opening Accumulated Difference</u>	<u>Closing Accumulated Difference</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Accumulated Interest</u>	<u>True-Up</u>
1	\$397,900	\$447,900	-\$50,000	\$0	-\$50,000			\$0	
2	\$397,900	\$372,900	\$25,000	-\$50,000	-\$25,000	6.00%	-\$3,000	-\$3,000	
3	\$397,900	\$392,900	\$5,000	-\$25,000	-\$20,000	5.50%	-\$1,375	-\$4,375	\$24,375
4	\$397,900	\$372,900	\$25,000	\$0	\$25,000	5.50%	\$0	\$0	
5	\$397,900	\$407,900	-\$10,000	\$25,000	\$15,000	6.00%	\$1,500	\$1,500	
6	\$397,900	\$387,900	\$10,000	\$15,000	\$25,000	6.50%	\$975	\$2,475	-\$27,475
7	\$397,900	\$422,900	-\$25,000	\$0	-\$25,000	6.00%	\$0	\$0	
8	\$397,900	\$382,900	\$15,000	-\$25,000	-\$10,000	6.00%	-\$1,500	-\$1,500	

1. Interest rate could be fixed, or change each year to reflect actual cost of borrowing such as prime rate plus a fixed amount.
2. Interest is simple interest and is not compounded.
3. Interest is calculated on opening accumulated balance at beginning of following year.
4. If the true-up took place at the end of the third year, the true-up would be a payment of \$24,375, including \$4,375 in interest from DeBeers to FNEI.
5. If the next true-up took place at the end of the sixth year, the true-up would be payment of \$27,475, including \$2,475 in interest from FNEI to DeBeers.
6. Note that after each true-up takes place, the accumulated difference and accumulated interest are reset to \$0.

Exhibit B - Terms and Conditions for the Victor Mine Site Medium Risk Connection

1. DeBeers and FNEI shall perform their respective obligations outlined in this Exhibit "B" in a manner consistent with Good Utility Practice and the Transmission System Code, in compliance with all Applicable Laws, including, but not limited to the requirements of the Electrical Safety Code, and using duly qualified and experienced people.

2. An estimate of Line Connection Pool Work Capital Costs, Transformation Connection Pool Work Capital Costs, OM&A Costs and a revenue and load forecast are provided in Schedule "B" of the Agreement. These costs and revenue form the basis of the estimated Pool Cost and Capital Contribution shown in Schedule "B".

3. By no later than 10 calendar days prior to the Transfer Date Phase II, FNEI shall provide DeBeers with a new Schedule "B" to replace Schedule "B" of the Agreement, which such replacement Schedule "B" shall make the necessary adjustments to the estimates in Schedule "B" for the purposes of determining and finalizing the Capital Contribution in accordance with the manner agreed to by the Parties in Appendix I hereto. The costs established pursuant to Section 4.1 of Exhibit "A" of the Phase I Contestable Work Assets and Phase II Contestable Work Assets shall be the basis of the adjusted and actual Line Connection Pool Work Capital Costs and the Transformation Connection Pool Work Capital Costs. Any adjustments to OM&A Costs or the revenue forecast in Schedule "B" shall be agreed upon by the Parties. The new Schedule "B" shall be made a part of the Agreement as though it had been originally incorporated into the Agreement.

4. (a) To the extent that the Pool Cost is not recoverable by the Line Connection Revenue, DeBeers agrees to pay FNEI the Capital Contribution towards the Pool Cost of the Line Connection Pool Work.

(b) DeBeers shall pay the Capital Contribution calculated in accordance with section 3 above on the Transfer Date Phase II.

(c) Attached as Appendix I of this Exhibit B is a hypothetical working example of how the Capital Contribution shall be calculated based on estimated project costs. Appendix I has been included for illustrative purposes only and if there is a conflict between another term or provision of this Agreement and Appendix I, such other term or provision will govern.

5. FNEI shall perform a True-Up of Line Connection Revenue at each True-Up Point.

By no later than 30 calendar days following completion of each True-Up, FNEI shall provide DeBeers with all information in respect of the True-Up that DeBeers is entitled to receive in accordance with the requirements of the Transmission System Code and a new Schedule "B" to replace Schedule "B" of the Agreement which shall identify the following:

- (i) the Guaranteed Revenue Date if that date has changed as a result of the Updated Load Forecast; and
- (ii) an updated Table showing the Line Connection Revenue requirements and the Updated Load Forecast for the remainder of the fourteen year economic evaluation period where those amounts have changed as a result of the True-Up.

Each new Schedule "B" shall be made a part of the Agreement as though it had been originally incorporated into the Agreement.

6. If the result of a True-Up performed is that the Actual Load and Updated Load Forecast is:

- (i) less than the load in the Load Forecast and therefore does not generate the forecasted Line Connection Revenue required for the applicable economic evaluation period. DeBeers shall pay FNEI an amount to be calculated by FNEI in accordance with the requirements of the Transmission System Code applicable to medium-high and medium-low risk connections by no later than 30 days after the date of FNEI invoice therefor; and
- (ii) more than the load in the Load Forecast and therefore generates more than the forecasted Line Connection Revenue required for the applicable economic evaluation period, FNEI shall comply with the requirements of the Transmission System Code applicable to medium-high and medium-low risk connections and shall pay any amounts payable to DeBeers by no later than 30 days following the date that such amount is due and payable.

7. With respect to the installation of Embedded Generation; the effect of energy conservation, energy efficiency, load management or renewable energy activities and the effect thereof on True-Ups, FNEI shall comply with the requirements of the Transmission System Code.

8. Until FNEI has published and the Ontario Energy Board has accepted FNEI's procedure and methodology for determining the requirement for a capital contribution in accordance with the requirements of the Transmission System Code, any Capital Contributions paid by DeBeers under the terms this Exhibit "B" are subject to adjustment with such adjustment to be solely based on the procedure and methodology accepted by the OEB.

9. (a) In the event that the Line Connection Service Rate is rescinded or the methodology of determination or components is materially changed, the Parties agree to negotiate a new mechanism for the purposes of this Exhibit "B". The Parties shall have 90 calendar days from the effective date of rescission or fundamental change of the Line Connection Service Rate to agree to a new mechanism. If the Parties are unable to successfully negotiate a replacement within that 90 calendar day period, they shall submit to arbitration, in accordance with the requirements of the Transmission System Code (or the

Connection Agreement attached thereto); or if there is no arbitration provision in the Transmission System Code (or the Connection Agreement attached thereto), to the requirements of the Arbitration Act (Ontario), as amended, to settle on a new mechanism. The decision of the arbitrator shall be binding on each party with no right of appeal subject to a right of either party to appeal on a standard of review of reasonableness simpliciter.

- (b) The terms of reference of the arbitration shall be to identify a new mechanism that is, to the extent possible, fair to the parties and constitutes a reasonably comparable replacement for the Line Connection Service Rate.
- (c) Any settlement on a new mechanism pursuant to this Section 9 shall apply retroactively from the date on which the Line Connection Service Rate was rescinded or fundamentally changed. Until such time as a new mechanism is determined hereunder, any amounts to be paid by DeBeers under this Exhibit "B" shall be based on the Line Connection Service Rate in effect before the effective date of any such changes.

10. DeBeers shall provide FNEI with a copy of DeBeers' final monthly bills or authorize the IESO to provide FNEI with copies. FNEI agrees to use this information solely for the purpose of this Exhibit "B".

Exhibit B - Terms and Conditions for the Victor Mine Site Medium Risk Connection

Appendix 1 - Capital Contribution Calculation Working Example

Connection Cost Recovery Agreement - FNEI and DBC																	
Appendix E - Capital Contribution Requirements																	
Victor Mine Site Energy and Peak Power Requirements - (Source spreadsheet 143232-CA-0000-002 Rev1)																	
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Expected Max Loads	Kw	2993	8130	15643	18535	18709	18893	18669	19136	19136	19136	19136	18362	20174	20239	20239	
(Grid power available Oct 2006, Mine Operational Oct 2008 to Mar 2020, thereafter mine site remediation (assume peak load 10,000 kW))																	
Project Costs - (De Beers Canada Builds Facilities and Transfers to FNEI)																	
115 kV Transmission Line Moosonee to Kashechewan		\$22,57															
		9,684															
Fort Albany Substation Modifications		\$1,149,															
		730															
Kashechewan Substation Modifications		\$6,161,															
		979															
Attawapiskat Substation Modifications		\$2,531,															
		739															
Permitting and Approvals		\$450,0															
		00															
Preliminary Engineering		\$350,0															
		00															
Project Management & Construction Supervision		\$650,0															
		00															
Sub - Total =		\$33,87															
		3,132															
Contingencies		\$3,387,															
		313															
Total =		\$37,26															
		0,445															
Capital Contribution Requirement Calculation Payable by De Beers Canada to FNEI																	
	Cost	XNPV	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
FNEI Connection Costs		\$362,700	\$362,700	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$362,700
			0														
Annual O & M		\$2,871,701	\$0	\$200,000	\$397,900	\$397,900	\$397,900	\$397,900	\$397,900	\$397,900	\$397,900	\$397,900	\$397,900	\$397,900	\$397,900	\$397,900	\$5,372,700
			1		00	00	00	00	00	00	00	00	00	00	00	00	0
Incremental Revenue		(\$5,839)	(\$211)	(\$495)	(\$712)	(\$775)	(\$783)	(\$782)	(\$787)	(\$797)	(\$797)	(\$797)	(\$781)	(\$802)	(\$841)	(\$843)	-\$10,624
Date/Value			38899	39264	39630	39995	40360	40725	41091	41456	41821	42186	42552	42917	43282	43647	44013
Capital Contribution =		\$3,228,562															

[illegible]

26. Ref: Ex 8/T2/S1/p.3 & 4 - Calculation of Uniform Transmission Rates

(a) At page 3 of the above reference, FNEI has provided a table of Actual 2010 Uniform Transmission Rates. Under the section titled "Total Charge Determinants", the total Line Connection Charge Determinant of 263,217.555 MW appears to be incorrect. Please confirm that the total of Line Connection Charge Determinant is in fact 238,217.555 MW.

(b) At page 4 of the above reference, FNEI has provided a table of Proposed 2010 Uniform Transmission Rates. The sum of the Line Connection Charge Determinants is 238,341.627 MW. According to Staff's calculations, this should be 238,361.627 MW. Please confirm if the above calculations are correct and file revised tables.

RESPONSE

(a) Confirmed. Please see corrected table on next page. It appears that only the single number changes.

(b) Not confirmed.

Table 8-2-1 A – Actual 2010 Uniform Transmission Rates

Transmitter	Revenue Requirement (\$)			
	Network	Line Connection	Transformation Connection	Total
FNEI	\$3,012,819	\$714,093	\$1,451,088	\$5,178,000
CNPI	\$2,683,749	\$636,098	\$1,292,596	\$4,612,443
GLPT	\$20,239,894	\$4,797,224	\$9,748,304	\$34,785,422
HIN	\$707,878,000	\$167,780,000	\$340,941,000	\$1,216,599,000
All	\$733,814,462	\$173,927,415	\$353,432,988	\$1,261,174,865

Transmitter	Total Annual Charge Determinants (MW)			
	Network	Line Connection	Transformation Connection	
FNEI	44.915	44.915	44.915	
CNPI	583.420	668.600	668.600	
GLPT	4,150.498	2,847.032	2,777.933	
HIN	242,387.818	234,657.008	202,860.490	
All	247,166.651	238,217.555	206,351.938	

Transmitter	Uniform Rates and Revenue Allocators			
	Network	Line Connection	Transformation Connection	
UTR (\$/kW-m)	2.97	0.73	1.71	
FNEI Factor	0.00411	0.00411	0.00411	
CNPI Factor	0.00366	0.00366	0.00366	
GLPT Factor	0.02758	0.02758	0.02758	
HIN Factor	0.96465	0.96465	0.96465	
All	1.00000	1.00000	1.00000	

OPERATIONS, MAINTENANCE AND ADMINISTRATION

27. Ref: Harmonized Sales Tax Impact on OMA

Preamble: The provincial government has announced plans to harmonize the provincial sales tax (PST) with the goods and services tax (GST) effective July 1, 2010 to create harmonized sales tax (HST). Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. If the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures. Based on the proposed elimination of the PST effective July 1, 2010:

- (a) Please confirm that FNEI has not made any adjustments to the OM&A forecasts to reflect the elimination of the 8% provincial sales tax.**
- (b) Please provide the estimated costs of the provincial sales tax included in the OM&A forecast for 2010.**
- (c) Please provide the amount of provincial sales tax paid by FNEI in each of 2007, 2008 and 2009 on OM&A expenses.**
- (d) Is there any reduction in compliance costs that will result from the reduction in the administrative burden on FNEI to comply with two separate sets of tax rules?**
- (e) In the event that PST and GST are harmonized effective July 1, 2010, does FNEI see any reason why the reductions in OM&A cannot be captured in a variance account?**

RESPONSE

- (a) None, but much of FNEI's OM&A expenses are not subject to PST (e.g., wages, air travel, etc.).**
- (b) No specific amount of PST was budgeted.**
- (c) FNEI has never tracked the amount of PST it pays.**
- (d) No. FNEI has never had any PST filing requirements.**
- (e) FNEI is unsure of how amounts accrued in a variance account would be dealt with.**

28. Ref: Accumulated Depreciation (Rate Base); Depreciation Expense (OM&A) and Section 2.5.7 Filing Requirements

Board staff understands FNEI's approach to estimating the depreciation expenses to be the following:

2010 Depreciation Calculation - Ref: Ex 4/T3/S3/p.10

	<u>A/c 1715 - Station Equipment</u>	<u>Formula Used</u>
Opening Gross PPE	\$ 13,440.2	Col. 1 : Jan-2010 Gross Asset (Ex 2/T11/S2/p.1)
Addition	\$ 150.0	Col. 4 : Ex 4/T3/S3/p.10
Adjusted Cost Base	<u>\$ 13,590.2</u>	Col. 6 : (Opening Asset + Additions)
Average Cost Base	\$ 13,527.7	Col. 7 : (Avg. of Monthly Gross Asset - Ex 2/T11/S2/p.1)
Depreciation Rate	2.5%	Col. 8
Depreciation Expense	\$ 338.2	Col. 9
Opening Accumulated Depreciation	\$ 1,158.0	Col. 2 : (Depreciation Expense at Dec 2009 - Ex 2/T10/S2/p.2)
Closing Accumulated Depreciation	\$ 1,496.2	Col. 11: (Depreciation Expense + Op. Acc. Dep.)
Closing Net Book Value	\$ 12,094.0	Col. 12 : (Col 6. - Col. 11)

(a) Is Board staff's understanding of FNEI's methodology accurate? Please explain. If it is not accurate, using the above example, please explain the methodology.

(b) Please explain the reasons for the difference in net book value in the Depreciation Expense schedules under OMA, versus under rate base.

(c) Please provide a description of the methodology used by FNEI and as per section 2.5.7 please provide FNEI's depreciation policy. If such a policy is not available, please state when it will be available.

(d) As per the Board's Filing Requirements, please provide the depreciation expense in the format presented in Appendix 2-N. Please provide the calculations in MS Excel with all links and formula left active. Please note, as per section 2.3.3, the "Continuity statements should be reconcilable to the calculated depreciation expenses (under Operating Expenses) and presented by asset account". If the depreciation expense is different from the as-filed expense, please identify the reasons for the difference and calculate the impact on the as-filed revenue requirement.

RESPONSE

(a) Board Staff's understanding appears to be accurate. See the response to Board Staff IR 12 and 13 (including the attached Excel spreadsheet) for a further explanation of the methodology used to calculate the depreciation expense. The average cost base used to calculate depreciation is the average of the monthly closing balances for the year.

(b) There is no difference in the net book value shown in the depreciation expense schedules as compared to that shown for rate base. For example, for the 2010 test year, the opening net book value shown in Exhibit 4, Tab 3, Schedule 3, page 10 of \$28,663.7 is identical to the figure shown for the December closing balance shown in Exhibit 2, Tab 10, Schedule 2, page 3. Similarly, the closing net book value shown in Exhibit 4, Tab 3, Schedule 3, page 10 of \$27,750.8 is identical to the figure shown for the December closing balance in Exhibit 2, Tab 11, Schedule 2, page 3.

(c) Please see the response to Board Staff IR 12 and 13 for an explanation of the methodology used to calculate the depreciation expense. There is no formal policy.

(d) The chart below will also being filed separately on the Board's RESS system:

Depreciation Expense - 2010

Account	Description	Opening Balance	Less Fully Depreciated	Net for Depreciation (c) = (a) - (b)	Additions (d)	Total for Depreciation e) = (c) + 0.5 x (d)	Years (f)	Depreciation Expense (g) = (e) / (f)
		(a)	(b)	(c) = (a) - (b)	(d)	e) = (c) + 0.5 x (d)	(f)	(g) = (e) / (f)
1715	Station Equipment	13,440.2	0.0	13,440.2	150.0	13,515.2	40	337.9
1725	Poles and Fixtures	11,368.0	0.0	11,368.0	35.0	11,385.5	25	455.4
1730	Overhead Conductors & Devices	7,188.0	0.0	7,188.0	60.0	7,218.0	25	288.7
1908	Buildings and Fixtures	364.8	0.0	364.8	20.0	374.8	25	15.0
1910	Leasehold Improvements	25.7	24.7	1.1	2.0	2.1	2	1.0
1915	Office Furniture & Equipment	53.2	31.5	21.8	2.0	22.8	5	4.6
1920	Computer Equipment - Hardware	149.1	92.7	56.4	2.0	57.4	5	11.5
1925	Computer Software	8.2	2.1	6.1	0.5	6.4	5	1.3
1930	Transportation Equipment	330.7	86.8	243.9	1.5	244.7	5	48.9
1940	Tools, Shop and Garage Equipment	137.6	27.4	110.2	2.0	111.2	5	22.2
	Total	33,065.6	265.1	32,800.4	275.0	32,937.9		1,186.5
	Exhibit 4, Tab 3, Schedule 3, page 10							1,187.4
	Difference							-0.9

The depreciation expense as filed in Exhibit 4, Tab 3, Schedule 3, page 10 is \$0.9 higher than that calculated in the above schedule.

This difference is the result of the one month difference between adding the capital additions in July (for the half year rule) as compared to the additions in the month of June, as forecast by FNEI.

29. Ref: Ex 4/T3/S1 - Depreciation and Amortization Expense

Preamble: The depreciation rates used by FNEI for assets recorded in Account 1908 Buildings & Fixtures, Account 1915 Office Furniture & Equipment and Account 1940 Tools, Shop & Garage Equipment are higher than the depreciation rates in the 2006 EDR Handbook (EDRH).

(a) Please recalculate the depreciation expense for the above three accounts using the EDRH depreciation rates. Please identify the impact on the test year depreciation expense and revenue requirement, of using the EDRH depreciation rates.

(b) Has FNEI undertaken a depreciation study to justify the use of different depreciation rates for the above three accounts?

RESPONSE

(a) FNEI uses a depreciation rate of 4.00% for account 1908 Buildings & Fixtures (versus 2.00% in 2006 EDR Handbook), a rate of 20.00% for account 1915 Office Furniture & Equipment (versus 10.00% in 2006 EDR Handbook) and a rate of 20.00% for account 1940 Tools, Shop & Garage Equipment (versus 10.00% in 2006 EDR Handbook).

Assuming the question is requesting the recalculation of the depreciation expense only for the 2010 test year, the depreciation expense for account 1908 would fall from \$15.1 to \$7.5, account 1915 would fall from \$4.6 to \$2.8 and account 1940 would fall from \$22.3 to \$11.4, for a total reduction in the depreciation expense associated with these three accounts of approximately \$20.3.

(b) No.

30. Ref: Ex 4/T1/S1; EB-2004-0545 – Decision and Order dated July 18, 2005; EB-2009-0395 – Interim Order dated December 18, 2009 – Depreciation related to De Beers’ transmission assets

Preamble:

(1) The Board issued a decision in 2005 stating in part that, “FNEI will own the new line that will run from the Moosonee TS to the Kashechewan TS. Under the Revised TSC, the transmitter is obligated to pay a transfer price that is the lower of the cost to the load customer or the transmitter’s reasonable cost to do the same work.” The Board also stated that, “the estimated transfer costs based on the Revised TSC would be \$23.4 million for Hydro One and \$28.5 million for FNEI.” (Emphasis added)

(2) The Board granted interim approval of the proposed licence amendment effective November 3, 2009, providing approval to own and operate a 138-kV line from Moosonee to Kashechewan and associated switching facilities in Kashechewan.

Questions:

(a) With respect to Preamble (1) and (2), and for the record, what was the transfer price of the assets cited from DeBeers’ to FNEI?

(b) Has FNEI accounted for increased depreciation charges associated with the newly transferred assets? Has FNEI taken into account the recent transfer of the De Beers’ assets in its calculation of forecast depreciation costs for both 2009 and 2010? Please provide an explanation as well as a numerically worked example that confirms FNEI’s response.

(c) If increases to depreciation charges have not been included for 2010, please provide an updated to FNEI’s evidence.

RESPONSE

(a) The De Beers assets will be transferred to FNEI for nominal consideration (i.e., \$1).

(b) Because the transfer price is nominal, there will be no assets to be depreciated.

(c) Not applicable.

31. Ref: Ex 4/T2/S1/p. 2/line 14-15; Ex 4/T2/S2/p. 2/line 4 – Operating Costs, Employee Complement

Preamble:

(1) FNEI states because of its small size that, “it is often more cost-effective to hire certain operations and administration expertise on a part-time or contractual basis, because in most cases this is more cost-effective than a full-time employee position.”

(2) FNEI states that, “FNEI now moves from a capital expansion phase to more of a maintenance phase, FNEI expects to move some costs normally done by external consultants and workers to an internal employee position (which is reflected in an increase in Accounts 5605 and 5610, and a decrease in Account 5630).

Questions:

(a) In light of Preamble (2), citing increased maintenance activities, has FNEI considered the potential value of employing additional staff on a full-time basis?

(b) Has FNEI considered replacing functions covered by part-time employees with full-time employees local to the transmission system area to provide continuity and institutional knowledge from a regulatory standpoint?

RESPONSE

(a) Yes, FNEI is actively considering how to move maintenance services in-house.

(b) It is not economical to have full-time employees located in the three remote communities. These are fly-in only communities (i.e., no road connection betweenl to the transmission system area

32. Ref: Ex 4/T2/S1/p.34 – Maintenance program

Preamble: FNEI indicates in the reference that it sets its maintenance program to ensure compliance with a number of factors.

Questions:

- (a) Please provide the Board a copy of FNEI's maintenance program.**
- (b) Can FNEI provide evidence which demonstrates that the maintenance program incorporates good utility practice, industry reliability standards, safety, and environmental stewardship as stated in the pre-filed evidence? If so, please provide concrete examples for each of the criteria listed above**
- (c) Please explain how FNEI prioritizes maintenance work.**
- (d) How does FNEI make allowance and plan for unexpected work or unplanned outages?**

RESPONSE

- (a) The FNEI maintenance program is outlined in Exhibit 2, Tab 13, Schedule 1, Appendix B.
- (b) This maintenance program was developed using the professional experience in high voltage transmission systems of engineering staff at SNC-Lavalin. As well, FNEI used as a reference the Electrical Maintenance and Procedures (1988) booklet of the former Ontario Hydro which outlines required inspections, tests, and work activities for each piece of equipment in their high voltage stations. In addition, original manufacturer recommendations are also included in establishing what is required. These proven programs incorporate the good utility practices, industrial reliability standards, safety, and environmental stewardship.
- (c) Currently FNEI is developing its Asset Management program to address predictive and preventative maintenance of its assets. In the initial years of operations, line and station maintenance have been predominately a reactive model based on inspections and testing.
- (d) FNEI has contractual arrangements with organizations to provide qualified staff to respond to unexpected work or unplanned outages. The Maintenance Services Contract with Hydro One is an example of the agreement to assist in such cases. The Meter Service Provider contract with Hydro One is another example. FNEI also has agreements with qualified contract trades staff and with SNC Lavalin for resources to assist. In addition, FNEI uses line staff from the three First Nation LDCs. FNEI also has an understanding with Timmins local charter aircraft company to respond immediately to calls to provide pilots and available aircraft as soon as possible.

A contingency inventory of critical and/or long delivery parts has also been developed. Since material delivery is limited to winter road availability or small aircraft space, plans were developed to store some critical components at various sites to enable an emergency response to be carried out. Examples of such spare parts are high voltage circuits switchers, low voltage breakers, PLCC cabinets, spare relays, conductor reels, stringing tools, temporary pole bases, and spare western cedar poles (lighter for helicopter short distance transportation).

33. Ref: Ex 4/T2/S1/p.5 – Fibre Optic line operating and maintenance costs

Preamble: FNEI refers to its old telephone system, used primarily for station communications purposes. FNEI states in part that:

“The average fixed monthly cost per [telephone] line was approximately \$75, with the long distance charges required to call from Moosonee every 30 minutes ranging from \$2,000 to \$5,000 per month depending upon the quality of the connection. With the installation of the fibre optic line, these costs are now all avoided with the exception of one voice line for emergency purposes at each site. Thus, while the primary purpose of the fibre optic network was not cost savings, there are certain costs that are now avoided going forward.”

Questions:

- (a) What is the approximate total operating cost of the new fibre optic system per month compared with the total operating cost per month of the old ‘plain old telephone system’ (POTS)?**
- (b) What is the budgeted cost of ongoing maintenance of the fibre optic system compared against the POTS configuration?**
- (c) What are the benefits of the new fiber optic system, and have these benefits been reflected elsewhere on other items in the budget? Do the new monitoring capabilities of the fiber optic system reduce maintenance and repair costs, and can this be determined from FNEI’s 2010 operating and maintenance expenses budgets? Please provide a breakdown of the benefits and costs, to the extent possible in a table, providing references to the FNEI application and additional evidence where necessary.**
- (d) Will the fiber optic asset also be used by the 3 member utilities? If it will, what agreements has FNEI entered into with the three member LDC’s. Please file the agreements and summarize any discussions that may have taken place on this issue.**

RESPONSE

(a), (b) and (c) It is difficult for FNEI to compare the operating and maintenance costs of the POTS as compared to the new fibre optic system because FNEI has such little operational experience with the fibre optic system.

In FNEI’s view, comparing the POTS and fibre optic system is of little value – it is an apples versus oranges comparison. The fibre optic system will provide FNEI with far superior operational control (real-time as opposed to dial-up every thirty minutes), metering communication, and the ability to monitor stations for security and public safety. Not only will there be cost savings (e.g., fewer trips to the communities from Timmins to determine equipment

status), but the system will be able to be better operated, more safely and securely. Also see FNEI's evidence at Exhibit 2, Tab 1, Schedule 1, pages 37 to 44.

(d) FNEI does not know whether the three member utilities will utilize the fibre optic asset. The fibre strands not currently being utilized by FNEI will be leased to The Western James Bay Telecom Network ("WJBTN"), an Ontario corporation without share capital. The three member utilities will have to contract with WJBTN, which has seven members: Attawapiskat First Nation, Fort Albany First Nation, Kashechewan First Nation, Moose Cree First Nation, Town of Moosonee, Five Nations Energy Inc. and the Mushkegowuk Council. Each member is entitled to appoint one director. Consequently, because FNEI's ultimate owners (the three First Nations) and FNEI would have the ability to elect a majority of directors of WJBTN, FNEI and WJBTN would be considered affiliates.

34. Ref: Ex 4/T2/S1/p.6/lines 9-10 – Operating Services Agreement with Hydro One

Request: Please provide a copy of the Operating Services Agreement.

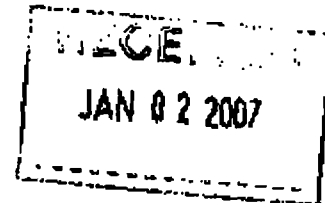
RESPONSE

Please see attached.

Hydro One Networks Inc.
49 Sarjeant Drive
Barrie, Ontario L4N 4V9
Tel: (705) 792-3108
Fax: (705) 792-3116



Dave McKendrick
Sr. Network Mgt Officer
Operating Support
Customer Business Relations



December 20, 2006

Re: Hydro One Networks Inc and Five Nations Energy Inc Operating Services Agreement

Cecil:

Attached for your records is a copy of the executed Operating Services Agreement.

Thanks,

A handwritten signature in black ink, appearing to read "Dave McKendrick". The signature is written in a cursive, flowing style.

Dave McKendrick
705-792-3102
705-627-2400 – cell
705-792-3116 – fax
d.mckendrick@hydroone.com

Operating Services Agreement

Made Between

Hydro One Networks Inc.

and

Five Nations Energy Inc.

for the

Operation of the Five Nations Energy Inc.

115 kV Transmission System

THIS OPERATING SERVICES AGREEMENT
made in duplicate this 2nd day of November, 2006
but made effective as of September 27, 2006

BETWEEN:

HYDRO ONE NETWORKS INC., a corporation
incorporated under the laws of the Province of
Ontario (hereinafter referred to as "Hydro One
Networks")

PARTY OF THE FIRST PART;

- and -

FIVE NATIONS ENERGY INC., a non-share
corporation incorporated under the laws of Canada
(hereinafter referred to as "Five Nations Energy")

PARTY OF THE SECOND PART.

WHEREAS in accordance with the *Electricity Act*,
the Independent Electricity System Operator ("the
IESO") directs the operation of the *IESO-Controlled
Grid*;

WHEREAS in accordance with the appropriate
regulations and rules in effect from time to time, the
Parties wish to enter into this *Agreement* to describe
the terms and conditions applicable to the provision
of *Operating Services* by Hydro One Networks to
Five Nations Energy on the terms and conditions as
set out in this agreement;

NOW THEREFORE in consideration of the
foregoing, and the mutual covenants, agreements,
terms and conditions herein contained, the Parties
intending to be legally bound hereby agree as
follows:

ARTICLE I: GENERAL

1.1 Each of the Parties hereto confirms the truth
and accuracy of the recitals and agrees that the
recitals form part of this *Agreement*.

1.2 This *Agreement* constitutes the entire
agreement between the parties with respect to the
Operating Services and supersedes all prior oral or
written representations and agreements concerning
the subject matter of this *Agreement*.

1.3 Any written notice required by this
Agreement shall be deemed properly given only if
either mailed, facsimiled or delivered to the
addresses specified in Schedule "D". Notices sent
by registered mail shall be deemed to have been
received on the date indicated on the delivery
receipt. Notices sent by courier or facsimile shall
be deemed to have been received on the date
indicated in the delivery receipt or transmission slip
if delivered during normal business hours; if not
delivered during normal business hours, delivery
shall be deemed to have occurred on the next
Business Day. The designation of the person to be
so notified or the address or facsimile number of
such person may be changed at any time by either
Party by written notice.

1.4 Unless otherwise specified, references in this
Agreement to Sections or Articles are to sections and
articles of this *Agreement*. Any reference in this
Agreement to any statute or any section thereof will,
unless otherwise expressly stated, be deemed to be a
reference to such statute or section as amended,
restituted or re-enacted from time to time. The
insertions of headings are for convenience only and
shall not affect the interpretation of this *Agreement*.
Unless the context requires otherwise, words
importing the singular include the plural and vice
versa and words importing gender include all
genders.

1.5 Neither Party shall assign this *Agreement* or
any of its rights or obligations thereunder without
obtaining the consent in writing of the other, except
that no consent is necessary where assignment is to an
Affiliate, provided a written notice of the assignment
is delivered to the other Party.

This *Agreement* shall extend to, be binding upon
and enure to the benefit of the said assigns and the
respective successors of Five Nations Energy and
Hydro One Networks.

1.6 Neither this *Agreement* or any provision
hereof is intended to confer upon any person other
than the Parties hereto any rights or remedies
hereunder.

ARTICLE II: DEFINITIONS

2.1 Defined Terms

The following terms, wherever used in this *Agreement*, shall have the following meanings (where applicable, the source of the definition is indicated between parentheses following the definition):

"Affiliate" means, for Hydro One Networks, affiliates as that term is defined in the *Business Corporations Act* (Ontario), and for Five Nations Energy, affiliates as that term is defined in the *Business Corporations Act* (Canada).

"Agent" means a *Qualified* person duly authorized by a Party to perform specific activities or actions on its behalf (*IESO-Hydro One Networks Operating Agreement*);

"Agreement" means this *Agreement* and Schedules "A", "B", "C" and "D" and all amendments made hereto by written agreement between the Parties in accordance with the terms of this *Agreement*;

"Business Day" means a day other than a Saturday, a Sunday or a public holiday in the Province of Ontario (*Market Rules*);

"Confidential Information" means:

- (i) the terms of this *Agreement* and the operations and dealings under this *Agreement*;
- (ii) all information disclosed by a Party to the other Party under this *Agreement* or in negotiating this *Agreement* which by its nature is confidential to the Party disclosing the information; and
- (iii) all interpretative reports or other data generated by a Party that are based in whole or in part on information that is made *Confidential Information* by clauses (i) and (ii) (*Transmission System Code*);

"Controlling Authority" means a person or officer responsible for:

- (i) authorizing changes in the conditions or physical position of *Equipment*;
- (ii) forcing *Equipment* out of service;
- (iii) de-rating *Equipment*;
- (iv) applying *Equipment* limitations;

- (v) issuing *Operating Orders*;
- (vi) establishing conditions necessary for *Work Protection* and *Supporting Guarantees*, and
- (vii) establishing the appropriate conditions for and the coordination or switching on the *Equipment* under its control (*IESO-Hydro One Networks Operating Agreement*);

"Electricity Act" means the *Electricity Act, 1998* (being Schedule "A" of the *Energy Competition Act, S.O.1998, c.15*), as may be amended from time to time (*Market Rules*);

"Emergency" means any abnormal system condition that requires remedial action to prevent or limit loss of *Transmission Facilities* and/or generation facilities that adversely affects the reliability of the electricity system (*Transmission System Code*);

"Equipment" means any structures, transmission lines or cables, transformers, breakers, disconnect switches, buses for the purpose of conveying electricity; and their related voltage/current transformers, protection systems, telecommunications systems, or any other auxiliary *Equipment* (*IESO-Hydro One Networks Operating Agreement*);

"Force Majeure Event" means, in relation to a person, any event or circumstance, or combination of events or circumstances,

- (i) that is beyond the reasonable control of the person;
- (ii) that adversely affects the performance by the person of its obligations under this *Agreement*; and
- (iii) the adverse effects of which could not have been foreseen or prevented, overcome, remedied or mitigated in whole or in part by the person through the exercise of diligence and reasonable care and includes, but is not limited to, acts of war (whether declared or undeclared), invasion, armed conflict or act of foreign enemy, blockade, embargo, revolution, riot, insurrection, civil disobedience or disturbances, vandalism or acts of terrorism, strikes, lockouts, restrictive work practices or other labour disturbances, unlawful arrests or restraints by government or governmental, administrative or regulatory agencies or

authorities unless the result of a violation by the person of a permit, licence or other authorization or of any applicable law, and acts of God including lightning, earthquake, fire, flood, landslide, unusually heavy or prolonged rain or accumulation of snow or ice or lack of water arising from weather or environmental problems; provided however, for greater certainty, that the lack, insufficiency or non-availability of funds shall not constitute a *Force Majeure Event* (*Market Rules*);

"Forced Outage" means an unscheduled *Outage* due to the actual or potential failure of *Equipment* (*Market Rules*);

"Good Utility Practice" means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry in North America during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgement in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. *Good Utility Practice* is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to be acceptable practices, methods, or acts generally accepted in North America (*Transmission System Code*);

"Hold-Off" means a guarantee to limit operation of apparatus to facilitate work or reduce work hazards. Under no circumstances shall *Hold-Off* be used in place of *Work Protection* (*Work Protection Code*);

"IESO" means the Independent Electricity System Operator established under Part II of the Electricity Act that directs the operations of Hydro One Networks' *Transmission System* (*Market Rules*);

"IESO-Controlled Grid" has the same meaning ascribed thereto under the *Electricity Act, 1998*; (*Market Rules*);

"IESO-Hydro One Networks Operating Agreement" means the Operating Agreement entered into by the *IESO* and Hydro One Networks

in accordance with the *Electricity Act, 1998* and the *Market Rules*;

"Maintenance" means, but is not limited to, routine maintenance, troubleshooting, repairs, approved changes, and such other modifications as may be required for the safe and efficient operation of the *Equipment* (*Transmission System Code*);

"Market Rules" means the rules made by the *IESO* under Section 32 of the *Electricity Act*;

"Material" or "Materially" relates to the essence of the contract, more than a mere annoyance to a right or obligation, but an actual obstacle preventing the performance or exercise of a right or obligation;

"OEB" means the Ontario Energy Board established pursuant to the Ontario Energy Board Act, 1998 (being Schedule "B" of the Energy Competition Act, S.O. 1998, c. 15), as may be amended from time to time (*Market Rules*);

"Operating Orders" are orders issued by a *Controlling Authority* to facilitate the removal or restoration of *Equipment* or to establish the necessary conditions for *Work Protection* (*Transmission System Code*);

"Operating Services" means those services provided by Hydro One Networks to Five Nations Energy with respect to the operation of Five Nations Energy's *Transmission System* as described in Schedule "A";

"Outage" means the removal of *Equipment* from service, unavailability of *Equipment* connection or temporary de-rating, restriction of use, or reduction in performance of *Equipment* for any reason including, but not limited to, permitting the inspection, testing, *Maintenance* or repair of *Equipment* (*Market Rules*);

"Planned Outage" means an *Outage* that is planned or intentional by a *Controlling Authority* at a pre-selected time, usually for construction, preventive *Maintenance* or repair (*Transmission System Code*);

"Promptly" means performed in an expeditious manner and without undue delay, using due

diligence, and with the intent of completing the required act or task as quickly as practicable (*Transmission System Code*);

"Protections" means *Equipment* designed to detect and isolate failed or faulted elements;

"Qualified" means assessed by a party in personal competency, familiarity with and knowledge of all applicable rules, regulations, guidelines, policies, codes, procedures, apparatus and *Equipment*, and dangers with respect to work and operation (*Transmission System Code*);

"Supporting Guarantee" is a guarantee issued in support of a *Work Permit* and/or another *Supporting Guarantee*. It certifies that an *Isolated* or *Isolated* and *De-energized* condition exists at points under the control of the Issuer of the *Supporting Guarantee* (*Work Protection Code*);

"Transmission System" means a system for transmitting electricity and includes any structures, *Equipment* or other things used for that purpose (*Market Rules*);

"Transmission System Code" means the code of standards and requirements issued by the OEB on July 25, 2005, as it may be amended, reissued or replaced from time to time.

"Transmitter" means a person who owns or operates a *Transmission System*.

"Work Authority" means the person responsible and in charge of specific work/test (*IESO-Hydro One Networks Operating Agreement*);

"Work Permit" is a written guarantee that an *Isolated*, or *Isolated* and *De-energized* condition has been established for work, and will continue to exist, except for authorized tests, until the *Work Permit* is surrendered;

"Work Protection" means a guarantee issued by a Party that an *Isolated* or *Isolated* and *De-energized* condition has been established for work on *Equipment*, and shall continue to exist, except for authorized tests, until the guarantee is surrendered (*Transmission System Code*); and

"Work Protection Code" means Hydro One Networks' work protection code attached hereto as Schedule "E" which establishes conditions for work on Hydro One Networks' *Equipment* that when combined with appropriate work practices described therein, is meant to provide Hydro One Networks employees with a safe work area.

ARTICLE III: TERM

3.1 Effective Date & Term

This *Agreement* shall take effect as of September 27, 2006 and subject to Section 3.2 below, shall continue in full force and effect for five (5) years therefrom (the "Initial Term") and shall thereafter be automatically renewed for successive periods of one (1) years upon the same terms and conditions herein (hereinafter the Initial Term and renewal periods collectively referred to as the "Term").

3.2 Termination

(a) This *Agreement* may be terminated at any time by mutual agreement. It may also be terminated upon at least one years prior notice in writing given by either Party to the other, provided that such unilateral termination shall not prejudice any outstanding obligations entered into under this *Agreement* that have accrued as of the date of termination.

(b) A party ("Terminating Party") may, on giving notice to the other party, terminate this *Agreement* on written notice to the other if the other party fails to remedy a breach of any material obligation under this *Agreement* within 30 (thirty) days after receiving notice thereof from the Terminating Party.

(c) If either party files or initiates proceedings or has proceedings filed or initiated against it, relating to its liquidation, insolvency, reorganization or other relief (such as the appointment of a trustee, receiver, liquidator, custodian or other official) under any bankruptcy, insolvency or other similar law or makes an assignment for the benefit of its creditors or enters into an agreement for the composition, extension or readjustment of its obligation in connection with the foregoing, this

Agreement shall terminate automatically, without notice.

(d) If this Agreement is terminated by operation of (a), (b) or (c) above, the parties will continue to be liable for any obligations arising, liabilities accrued or amounts payable under this Agreement prior to termination.

ARTICLE IV: RIGHTS AND OBLIGATIONS

4.1 Hydro One Networks shall provide the *Operating Services* to Five Nations Energy commencing on the Effective Date of this Agreement at the prices set forth in Schedule "A".

4.2 Hydro One Networks may use subcontractors to perform any of its obligations under this Agreement.

4.3 Annually on the anniversary date of this Agreement, Hydro One Networks will have the right to increase the prices specified in Schedule "A" upon providing Five Nations Energy 120 days prior written notice thereof. Such price increases will be based upon Hydro One Networks' fully burdened labour costs that affect the cost of providing the *Operating Services* hereunder. Upon receipt of the aforementioned notice and notwithstanding Subsection 3.2(a) hereof, Five Nations Energy shall have the right to terminate this Agreement upon providing Hydro One Networks 45 days prior written notice. If Five Nations Energy does not provide notice of termination in accordance with this Section 4.3, the price increase will be effective the 121st day following the provision of the notice.

4.4 All sales, value-added and other taxes relating to the provision of *Operating Services* by Hydro One Networks, excluding taxes on the income of Hydro One Networks, will be paid by Five Nations Energy.

4.5 Five Nations Energy shall Promptly notify Hydro One Networks of any actual or anticipated change which may *Materially* affect the provision of *Operating Services* by Hydro One Networks, such changes include, but are not limited to, the addition of new Equipment or replacement of existing Equipment which results in an increase or decrease in

the *Operating Services* to be provided hereunder and the insolvency of Five Nations Energy.

ARTICLE V: WARRANTIES

5.1 Hydro One Networks warrants that it will provide the *Operating Services* in accordance with the *Market Rules*, the *Transmission System Code* and *Good Utility Practice*.

THIS WARRANTY IS IN LIEU OF ALL OTHER WARRANTIES EXPRESS, IMPLIED, OR STATUTORY, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY, QUALITY, OR FITNESS FOR A PARTICULAR PURPOSE.

ARTICLE VI: INVOICING AND PAYMENT

6.1 All amounts payable by Five Nations Energy to Hydro One Networks under this Agreement shall be paid in accordance with the invoices rendered by Hydro One Networks. Notwithstanding the foregoing, Five Nations Energy shall pay Hydro One Networks' invoices within 60 days of the receipt of any invoice. This obligation shall survive the termination of this Agreement.

ARTICLE VII: ACCOUNTS AND RIGHT TO AUDIT

7.1 The parties hereby agree to keep all necessary proper accounts and records relating to the subject matter hereof. Such accounts and records, including invoices, receipts, time cards and vouchers shall at all reasonable times be open to audit, inspection and copying by each party to this *Agreement*. Accounts and records shall be preserved and kept available for audit for a period of six years.

ARTICLE VIII: DISPUTE RESOLUTION

8.1 The parties mutually agree to use their best efforts to resolve any disputes that may arise out of or in connection with this Agreement and the matters to which it relates.

8.2 If any dispute arises out of or in connection with any of the matters arising out of or relating to

this Agreement, and the respective line managers of the parties responsible therefor cannot resolve the dispute by mutual agreement, then the following steps shall be followed:

(a) Either party may refer the matter to a committee of 2, to be composed of 1 Vice-President from each of the parties with responsibility for the business unit involved in the dispute, to hear the dispute and attempt to negotiate a resolution;

(b) If the committee of Vice Presidents cannot resolve the dispute, either party may refer the matter to a committee of 2 to be composed of the CEO from each of the parties (or their delegates), to hear the dispute and attempt to negotiate a resolution;

(c) If the CEOs of the parties cannot resolve the dispute, either party may refer the matter to a committee of 2 to be composed of the Chair of the Board of Directors from each of the parties (or his or her delegate), to hear the dispute and attempt to negotiate a resolution;

(d) If the Chairs of the Boards of the parties cannot resolve the dispute, it shall be submitted to arbitration in accordance with Section 8.3.

8.3 The parties shall submit the dispute to binding arbitration in accordance with the *Arbitrations Act* (Ontario) and the decision of the arbitrator(s) shall be final and binding on the parties.

ARTICLE IX: LIMITATION OF LIABILITY AND FORCE MAJEURE EVENTS

9.1 Other than for sums payable under this Agreement, Hydro One Networks shall only be liable to Five Nations Energy and Five Nations Energy shall only be liable to Hydro One Networks for any damages that arise directly out of the wilful misconduct or negligence in meeting their respective obligations under this Agreement.

Notwithstanding the generality of the foregoing, neither Party shall be liable under any circumstances whatsoever for any loss of profits or revenues, business interruption losses, loss of contract or loss of goodwill, or for any indirect, consequential or incidental damages, including but

not limited to punitive or exemplary damages, whether any of the said liability, loss or damages arise in statute, contract, tort or otherwise.

9.2 In any event, the total liability of Hydro One Networks to Five Nations Energy for any claim under this Agreement whether it arises by statute, contract or otherwise, will not exceed the total payments paid by Five Nations Energy to Hydro One Networks for the *Operating Services*. The foregoing limit does not apply to death or personal injury arising from the negligence of Hydro One Networks in respect of accidental loss of, or damage to Five Nations Energy's tangible property, to the extent caused by the negligence or wilful misconduct of Hydro One Networks, its employees or subcontractors. In the latter event, the limit of liability is \$3,000,000.00.

9.3 **Force Majeure Events.** Neither party shall be liable to the other for any loss, damage or delay, or inability to perform any obligation under this Agreement in whole or in part due to a Force Majeure Event.

9.4 **Obligations in the Event of a Force Majeure Event.** In the event of a Force Majeure Event that prevents a party from performing any of its obligations under this Agreement, such party shall (1) expeditiously, without delay notify the other party of the Force Majeure Event and its good faith assessment of the effect that the Force Majeure Event will have on its ability to perform any of its obligations, which notice shall be confirmed in writing as soon as reasonably practicable if such immediate notice is not in writing; (2) not be entitled to suspend performance of any of its obligations under the Agreement to any greater extent or for any longer duration than is caused by the Force Majeure Event; (3) use commercially reasonable efforts to mitigate the effects of such Force Majeure Event, remedy its inability to perform, and resume full performance of its obligations hereunder; (4) keep the other party informed of such efforts on a continuing basis; and (5) provide written notice to the other party of the resumption of the performance of any obligations affected by the Force Majeure Event.

Notwithstanding any of the foregoing, settlement of any strike, lockout, or labour dispute constituting a

Force Majeure Event shall be within the sole discretion of the party to the Agreement involved in such strike, lockout, or labour dispute and the requirement that a party must use commercially reasonable efforts to remedy the cause of the Force Majeure Event and mitigate its effects and resume full performance hereunder shall not apply to strikes, lockouts, or labour disputes.

ARTICLE X: MISCELLANEOUS

10.1 Governing Laws. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

10.2 Rights and Obligations. The rights and obligations of the parties under this Agreement shall at all times be subject to all applicable laws, regulations, orders and directives of any authority of competent jurisdiction, and shall be deemed to be amended to the extent required to comply with same.

10.3 Further Assurances. If either party determines that in its reasonable discretion that any further instruments or other actions seem necessary or desirable to carry out the terms of this Agreement, the other party shall execute and deliver all such instruments and do all such actions as such party agree in its reasonable discretion as necessary or desirable to carry out the terms of this Agreement.

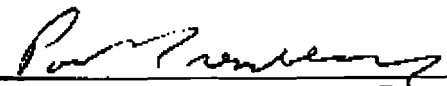
10.4 Remedies Not Exhaustive. All rights and remedies of either Party provided herein are not intended to be exclusive but rather are cumulative and are in addition to any other right or remedy otherwise available to either Party respectively at law or in equity, and any one or more of either Party's rights and remedies may from time to time be exercised independently or in combination and without prejudice to any other right or remedy either Party may have or may have exercised. The Parties further agree that where any of the remedies provided for and elected by the non-defaulting Party are found to be unenforceable, the non-defaulting Party shall not be precluded from exercising any other right or remedy available to them at law or in equity.

10.5 No Waiver. No delay or failure in exercising any right under this Agreement or any partial or single exercise of any right, will constitute a waiver of that right or any other rights under this Agreement. No consent to a breach of any express or implied term set out in this Agreement constitutes consent to any subsequent breach.

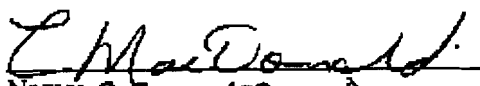
10.6 Severability. If any term, covenant or condition of this Agreement or the application or effect of any such term, covenant or condition is held to be invalid as to any person, entity or circumstance or is determined to be not in the public interest by any court or government agency of competent jurisdiction, then such term, covenant or condition shall remain in effect to the maximum extent permitted by law and, all other terms, covenants and conditions of this Agreement and their application shall not be affected, but shall remain in full force and effect and the parties shall be relieved of their respective obligations under this Agreement only to the extent necessary to comply with the court or government agency holding.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by the signatures of their proper officers duly authorized in that behalf.

HYDRO ONE NETWORKS INC.


I have the authority to bind the Corporation.
Name: PAUL TREMBLAY
Title: DIRECTOR - NETWORK OPERATIONS

FIVE NATIONS ENERGY INC.


Name: CECIL MACDONALD
Title: GENERAL MANAGER

Name:
Title:
I/We have the authority to bind the Corporation.

SCHEDULE "A": OPERATING SERVICES

Service	Annual Cost		
	A	B	C
Transmission System Monitoring/Control; Includes - alarm monitoring, asset monitoring, minor control.	\$89,367	\$111,708	\$134,050
Asset Operation within Hydro One Networks Prescribed Limits; Includes - application of Hydro One Networks equipment directives, switching on Hydro One Networks Transmission System to regulate Five Nations Energy Inc.'s Transmission System.	\$44,683	\$44,683	\$44,683
Emergency Response to Transmission System Events; Includes - response to IESO directed emergency actions, implementation of load shedding. 2 events/year x 3 hours = 2 x 3 x \$122.42 – extra events based on this formula to be adjusted at year-end.	\$735	\$735	\$735
Outage Processing; Includes - scheduling, planning, submitting to IESO. 5 outages x 8 hours processing = 5 x 8 x \$122.42 - extra events based on this formula to be adjusted at year-end.	\$4,897	\$4,897	\$4,897
Crew Dispatching; Includes - 24/7 assessment, contacting, dispatching. 20 events/year x 1 hour = 20 x \$70.62 extra events based on this formula to be adjusted at year-end.	\$2,448	\$2,448	\$2,448
Record Maintenance; Includes - retention of logged items, retention of SCADA information, trip reports. Flat fee for administration	\$1,000	\$1,000	\$1,000
Total	\$143,130	\$165,471	\$187,813

* A – Existing Services

* B – Effective with Victor Mines initial connection – September 27, 2006

* C – Effective with Victor Mine being in Production –July 2007

Annual contract amounts to be prorated effective with Victor Mines initial connection & production dates.

SCHEDULE "B": Ownership and Controlling Authority

[illegible]

FORT ALDAN, CTS (NO 3364)	
Hydro One owns and controls the following: Note: Indicate Controlling Authority belonging to Hydro One.	Electricity is supplied to the following: Note: Indicate Controlling Authority belonging to Hydro One.
Transformers NONE	Transformers 3364R1*, 3364R2*, 3364T1*
Breakers NONE	Breakers NONE
Switches NONE	Switches 3364R1-B2*, 3364R2-B2*, 3364T1-B2* 3364 3364-M3K*, 3364M3K-G*, M3K-MSO*
Current/Voltage Transformers NONE	Current/Voltage Transformers 3364B2CVT*
Feeders NONE	Feeders NONE
Protection Systems NONE	Protection Systems Line protections, Bus protections, Reactor protections
Remote Terminal Unit NONE	Remote Terminal Unit ABB MINISCADA
Telecommunications NONE	Telecommunications Bell Canada

KASHECHUWAN CTS (NO 3365)	
Indicate which of the following	City Water Supply owns the following
Note: Indicate controlling authority belongs to the Nation or City	Note: Indicate controlling authority belongs to Hydro-Quebec or City
Transformers	Transformers
NONE	3365T2*
Breakers	Breakers
NONE	3365L5B3*
Switches	Switches
NONE	3365T2-B3*, 3365M3K-G*, 3365K5A-G*, 3365-K5A*, 3365L5B3-B3*
Current/Voltage Transformers	Current/Voltage Transformers
NONE	3365B3CVT*
Feeders	Feeders
NONE	NONE
Protection Systems	Protection Systems
NONE	Line protections, Bus protections
Remote Terminal Unit	Remote Terminal Unit
NONE	ABB MINISCADA
Telecommunications	Telecommunications
NONE	Bell Canada

ATTAWAPISKAT CTR (N03366)	
For the Network owner the following:	For the Network owner the following:
Note: Indicate Controlling Authority/Ownership of the Network.	Note: Indicate Controlling Authority/Ownership of the Network.
Transformers	Transformers
NONE	3366R1*, 3366T3*, 3366T3A*
Breakers	Breakers
NONE	L7B4*
Switches	Switches
NONE	3366R1-B4*, 3366T3-B4*, 3366-K5A*, 3366K5A-G*, 3366T3A-B4*, L7B4-B4*, L7B4-7*, 3366A7V-G*
Current/Voltage Transformers	Current/Voltage Transformers
NONE	3366B4CVT*
Feeders	Feeders
NONE	NONE
Protection Systems	Protection Systems
NONE	Line protections, Bus protections, Reactor protections.
Remote Terminal Unit	Remote Terminal Unit
NONE	ABB MINISCADA
Telecommunications	Telecommunications
NONE	Bell Canada

SCHEDULE "C": SCADA CONTROL AND ALARM POINTS**New Moosonee SS:**

STATUS	CONTROL	ALARMS
138 kV B1 bus voltages - all 3 phases 111R1-B1, 111L6B1, 111L3B1, 111-C6R and 111-M3K MW and Mvars for 111M3K interface	111L6B1 open/close 111L3B1 open/close 111-C6R open/close 111R1-B1 open/close	111L6B1 and 111L3B1 <ul style="list-style-type: none"> • Trip alarm • SF6 alarms • Lockout • Trip circuit failure • Spring Discharged • Heater Failure • Breaker Fail 111R1-B1 <ul style="list-style-type: none"> • Trip alarm • SF6 alarms • Lockout • Trip circuit failure • Trouble alarm Station Urgent and Non Urgent Transformer differential or over current

Fort Albany S.S.

STATUS	CONTROL	ALARMS
138 kV single phase voltage MW and MVars 3364T1-B2, 3364R1-B2, 3364R2-B2, 3364-M3K status	3364T1-B2 3364R1-B2 3364R2-B2	T1-B2, R1-B2, R2-B2, <ul style="list-style-type: none"> • SF6 Low Density • Trip/Close Block T1, R1, R2 <ul style="list-style-type: none"> • Disconnect Trip Failure R1-B2, R2-B2 <ul style="list-style-type: none"> • Protection trip Feeder Protection Trip Station Urgent and Non Urgent

Kashechewan S.S.

STATUS	CONTROL	ALARMS
138 kV 3 phase voltage MW and MVars 3365-M3K ,L5B3-B3, 3365-K5A	3365L5B3 3365T2-B3	3365L5B3 <ul style="list-style-type: none"> • Trip alarm • SF6 alarms • Lockout • Trip circuit failure • Spring Discharged • Heater Failure • Breaker Fail DC Supply fail Rectifier failure 3385T2-B3 <ul style="list-style-type: none"> • SF6 alarm Disconnect Trip Circuit Failure T2 Protection Trip Feeder Protection Trip

Attawapiskat SS

STATUS	CONTROL	ALARMS
138 kV single phase voltage MW and MVars 3366T3A-B4 3366T3-B4 status 3366R1-B4 3366-K5A L7B4-B4 L7B4-7	3366T3-B4 3366T3A-B4 3366R1-B4 L7B4	Station Urgent and Non Urgent L7B4 <ul style="list-style-type: none"> • Breaker Trip • Protection Fail • Trip Circuit Failure • Spring Discharged • Breaker Fail • Heater Fail • SF6 Alarms DC Supply fail Rectifier failure 3366T3A, 3366T3 <ul style="list-style-type: none"> • Protection Operated Station Alarm

SCHEDULE "D": CONTACT LIST

	HYDRO ONE	Five Nations Energy	Victor Mine
Operating Contacts (Real Time)			
Position:	Controller – Sector 4		Mine Security Staff
Name:	Various		Various
Location:	Ontario Grid Control Centre, Barrie, ON		
Phone Number:			
Five Nations	1-866-384-4743 + 42213		1 st 1-416-645-3888 ext 5148
Victor Mine	1-866-384-4743 + 10011		Alt. 1-416-645-3888 ext 5149
Fax:	705-792-6884		1-416-645-3902
**Emergency Number:			
Five Nations	1-866-384-743+42213+911		
Victor Mine	1-866-384-4743+10011+911		
Outage Planning (pre-event)			
Position:	Outage Planner		
Name:	Various		
Location:	OGCC, Barrie, ON		
Phone Number:			
Five Nations	1-866-384-4743 +42213		
Debeers (Victor Mine)	1-866-384-4743+10011		
Fax Number:	705-792-3050		
Email Address:	Operating_planning.ogcc@hydroone.com		
Operating Support (post event)			
Position:	Asst. Network Mgt Officer		
Name:	Udayan Nair		
Location:	OGCC, Barrie, ON		
Phone Number:	705-792-3010		
Fax Number:	705-792-3116		
Email Address:			
Operations Manager (real time)			
Position:	On-Shift Operating Mgr	General Manager	
Name:	Various	Cecil MacDonald	
Location:	OGCC, Barrie, ON	Five Nations Energy 70-C Mountjoy St. N., Suite 421 Timmins, ON P4N 4V7	
Phone Number:	705-792-3120	705-268-0056	
		705-266-4827 - cell	
Fax Number:	705-739-1956	705-268-0071	
Email:		cmacdonald@fivenations.ca	
		a	

Notes:

****Hydro One Networks has installed an emergency phone line that will be answered on a priority basis. The number is provided for your use exclusively as per the following criteria:**

1. To reach a Controller when public/employee safety is at risk (i.e. downed power line but still energized, public inside transformer station fence, public climbing towers. Power line on a vehicle with people trapped inside, public contact with a live conductor.
2. To reach a Hydro One Controller when a serious environmental impact is possible.

Dispatch/Response to Alarms

For Non-Scheduled and emergency response to power outages, power quality problems and alarms related to FNEI during both normal business hours and after hours.

For both lines and stations related issues, Moosonee Lines should be the initial contact for Network Operating (Dispatch). Moosonee Lines will assess the situation and contact Timmins Station Maintenance Supervisory staff if required.

Local staff will advise both Cecil McDonald and Larry Brooksbank of the power outage, power quality issue or alarm

NOTICES

All correspondence, reports, documents and any other notices or other communication required to be given in connection with this *Agreement* shall be given in writing by fax, or other telegraphic or electronic means and, shall be addressed as follows below. The designation of the person to be so notified or the address of such person may be changed at any time by either party by written notice.

In the case of notices to Five Nations Energy to:

General Manager of Five Nations Energy Inc.
Five Nations Energy Inc.
70-C Mountjoy St. N., Suite 421 Timmins, Ontario P4N 4V7

Facsimile Number: 1-705-268-0071
Email: cmacdonald@fivenations.ca

and, in the case of Hydro One Networks to:

Secretary
Hydro One Networks Inc.
483 Bay Street, 15 Floor, North Tower, Toronto, Ontario M5G 2P5
Facsimile Number: (416) 345-6056

All notices shall be sufficiently given and conclusively deemed to be delivered:

- (a) on the date of transfer, receipt confirmed, if by means of facsimile, telegraphic or other electronic means of transfer;
- (b) on the third business day after the day of mailing, if by mail; and
- (c) at the time of delivery, if delivered by hand.

THIS ONGOING METERING SUPPORT SERVICES CONTRACT dated as of the 1st day of June, 2010

BETWEEN:

Five Nations Energy Inc. ("Customer"),
a Corporation formed under the laws of Ontario,
having its registered address and principal place of business at Mushkegowuk Council, P.O. Box 370,
Moose Factory, Ontario P0L 1W0 Ontario, Canada

and

HYDRO ONE NETWORKS INC. ("HONI"),
a corporation incorporated and organized under the laws of Ontario,
having its registered address and principal place of business at
483 Bay Street, 10th Floor, South Tower, Toronto, Ontario M5G 2P5.

WHEREAS HONI has provided Customer with a proposal to supply ongoing metering support services as more particularly described in a proposal;

WHEREAS HONI is a Metering Service Provider, and the Customer is a Metered Market Participant under the Market Rules made pursuant to the *Electricity Act, 1998*,

AND WHEREAS Customer and HONI wish to enter into this contract in order to the establish terms and conditions whereby HONI will provide the ongoing metering support services;

NOW THEREFORE, in consideration of the mutual covenants set forth herein and of other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto covenant and agree as follows:

1.0 CONTRACT DOCUMENTS

1.1 HONI and Customer acknowledge and agree that this agreement contains the terms and conditions which set out the rights and obligations of both HONI and Customer and, together with HONI Proposal #FN-03-70151 (2010-2013) dated February 3, 2010 (the "Proposal"), constitute the contract (the "Contract") between HONI and Customer for the sale and purchase of ongoing metering support services (the "Services").

2.0 WARRANTIES

2.1 HONI warrants to the Customer that, except as otherwise provided in the Proposal, the Services sold by HONI to the Customer and purchased by the Customer from HONI hereunder shall be free from defects in workmanship for the period of time specified in the Proposal (the "Warranty Period"). Where no Warranty Period is specified in the Proposal, then the Warranty Period shall deemed to be ninety (90) days from the date of substantial performance of said Services, which substantial performance date shall be determined by HONI in its sole discretion. In the event of any said defects occurring during the Warranty Period, the Customer shall make the product or equipment upon which the Services were performed, available to HONI at a mutually agreed time, and provided HONI is satisfied that such defect exists solely as a direct result of HONI's performance under this Contract, HONI shall repair such defects at its sole expense. HONI shall not be obliged to undertake any repair pursuant to this Section to remedy defects caused by abuse, modifications not executed by HONI, improper or insufficient maintenance, improper operation or normal wear and tear in normal usage. However, for greater certainty and clarity, HONI provides no representation or warranty in respect of any products or equipment related to

the Services, including, but not limited to, meters and other products and equipment manufactured in whole or in part by third parties, and HONI shall not be liable for any losses or damages whatsoever, including but not limited to loss of profit or revenue, loss of use, downtime costs, cost of capital, cost of substitute products, facilities, services or replacement power, penalties, fines, sanctions (including, without limitation those penalties, fines, and sanctions that may be imposed by the Independent Electricity Market Operator, or other similar body), whether or not any damages are indirect, direct or consequential, that may be suffered by Customer as a result of the functioning or malfunctioning of such meters and other products and equipment.

- 2.2 Except as expressly provided herein, HONI makes no representation or warranty, express, implied, statutory or otherwise, including any representation or warranty as to merchantability or fitness for a particular purpose with respect to the Service and any product or equipment related to the Service, including the condition or quality thereof. The express warranties contained in this Contract are in lieu of all other warranties and conditions (express and implied and those arising by statute or otherwise in law or from a course of dealing or usage of trade), including but not limited to warranties or conditions of merchantable quality or fitness for a particular purpose. No other warranties or conditions, express or implied, are given.

3.0 PRICES AND TERM

- 3.1 The price for the Service and any product or equipment related to the Service (the "Price") payable by the Customer to HONI shall be as specified in the Proposal and, except as otherwise provided in the Proposal, shall be in Canadian dollars EX WORKS HONI's location (INCOTERMS 2000) and is exclusive of all applicable taxes, duties, brokerage and freight charges, all of which shall also be paid by the Customer.
- 3.2 Unless this Contract has been terminated in accordance with the herein terms, this Contract shall commence as of June 1, 2010 and end on May 31, 2013 at 11:59 pm ("First Renewal Expiration Date").

4.0 TERMS OF PAYMENTS

- 4.1 Except as expressly stated in the Proposal, HONI shall submit invoices to Customer on a monthly basis, or such other interval as HONI deems appropriate, acting reasonably, and Customer shall make full payment within thirty (30) days of the date of invoice. All payments are due within thirty (30) days from the date of invoice. The Customer shall pay interest to HONI calculated from the date payment is to be made to and including the date the payment is made, at the rate of eighteen percent (18%) per annum.
- 4.2 Notwithstanding any provision to the contrary under this Contract, the Customer hereby covenants and agrees to pay HONI for all invoices in full when due.

5.0 LIABILITY AND INDEMNIFICATION

- 5.1 Except with respect to the repair of defects as provided in Sections 2.1 and 5.3, the Customer shall assume all liability and obligation for any and all loss, damage or injury to persons or property (including loss of life) which would not have happened but for this Contract or anything done or maintained by the Customer hereunder or intended so to be, or anything omitted to be done by the Customer and the Customer shall at all times release, indemnify and hold harmless HONI and its affiliates and their respective successors and assigns, directors, officers, employees, servants, agents or representatives from and against any such loss, damage or injury and all actions, suits, proceedings, prices, charges, damages, expenses, claims and demands

Ongoing Meter Support Agreement

- (a) Loss of profit or revenue, loss of use, cost of capital, downtime costs, cost of substitute products, facilities, services or replacement power, penalties, fines, sanctions (including, without limitation those penalties, fines, and sanctions that may be imposed by the Independent Electricity Market Operator imposed on the Customer, or other similar body);
 - (b) Special, indirect, punitive or consequential damages incurred or suffered by the Customer and/or its successors and assigns, employees, servants, agents, directors, officers, representatives and/or any of its customers or suppliers and/or any other third party claiming through or under the Customer.
- 5.3 The aggregate liability of HONI and its successors and assigns, under this Contract and in particular under Section 2.1, shall at no time exceed an amount equal to the dollars actually received by HONI hereunder. HONI's liability shall terminate upon expiration of the Warranty Period referred to in Section 2.1. Every provision of the Contract, even if inconsistent or conflicting with this Section, shall be subject to the overall aggregate limitation of liability specified herein, except to the extent that such inconsistent or conflicting provisions further restrict the liability of HONI and its successors and assigns. This limitation of liability is intended to limit the liability of HONI and its successors and assigns by applicable federal, provincial or municipal laws, statutes, regulations, codes and standards. This limitation of liability shall apply to all claims arising out of or in connection with this Contract, whether based on warranty, tort (including but not limited to negligence or misrepresentation), strict liability or otherwise. The parties acknowledge that Sections 5.1, 5.2, and 5.3, in conjunction with all of the other provisions of this Contract, fairly and reasonably allocate the risks between parties, and that the Price and other financial arrangements reflect this allocation of risk. The parties further agree and acknowledge that the exclusions and limitations of liability set out in this Contract are fair and reasonable in the commercial circumstances, such that the exclusions and limitations have been, in part, an inducement to each party, and that neither party would have entered into this Contract but for such exclusions and limitations.
- 5.4 Both parties acknowledge and agree that clauses 5.1, 5.2 and 5.3 shall survive termination or expiry of this Contract and/or cancellation of any request for the Service.
- 6.0 REMEDIES FOR DEFAULT**
- 6.1 A party shall be in default under this Contract upon occurrence of any of the following:
 - (a) failure by a party to pay any amount due under this Contract;
 - (b) breach by a party of any term, condition or covenant of this Contract; and
 - (c) a party becomes insolvent or bankrupt or unable to pay its debts as they fall due or any bankruptcy, reorganization, debt arrangement or other proceeding under any bankruptcy or insolvency law being instituted by or against the said Party.

- 6.2 In the event that a party is in default under this Contract, and has failed to cure such default within a reasonable period after written notice by the non-defaulting party in respect thereof (or take such reasonable steps to cure such default as a reasonable party ought to), then the non-defaulting party shall, in addition to any other rights and remedies it may have at law or in equity, have the right to terminate this Contract upon written notice to the defaulting party. However, notwithstanding the preceding sentence, the non-defaulting may terminate this Contract immediately upon written notice to the defaulting party in the case of an event under sub-Section 6.1(c).
- 6.3 (a) The defaulting party agrees to pay all charges, including legal or other fees and expenses reasonably incurred by the other party by reason of the default hereunder or otherwise in enforcing this Contract; and
- (b) Where the Contract has been terminated by either party pursuant to Section 6.2, above, the Customer shall immediately pay all amounts payable for Services and any product or equipment related to the Service that have been provided up to the date of termination. In addition, in the event of termination by HONI pursuant to Section 6.2, above, the Customer shall pay all other amounts calculated pursuant to Section 8.1 as if the Customer had cancelled the Contract.
- 6.4 All rights and remedies of the non-defaulting party provided herein are not intended to be exclusive but rather are cumulative and are in addition to any other right or remedy otherwise available to such party at law or in equity, and any one or more of such party's rights and remedies may from time to time be exercised independently or in combination and without prejudice to any other right or remedy such party may have or may have exercised. The parties further agree that where any of the remedies provided for and elected by the non-defaulting party are found to be unenforceable, such party shall not be precluded from exercising any other right or remedy available to it at law or in equity.

7.0 FORCE MAJEURE

- 7.1 HONI shall not be deemed to be in default of this Contract where the failure to perform or the delay in performing any obligation arises from or is due wholly or in part to a cause beyond its reasonable control, including but not limited to an act of God, acts of a public enemy, act of any federal, provincial, municipal or government authority, civil commotion, strikes, lockouts and other labour disputes, fires, floods, war, explosion, malicious acts, vandalism, sabotage, earthquakes, storms, epidemics. In an event of force majeure, HONI shall promptly notify the Customer of its inability to perform or of any delay in performing due to an event of force majeure and shall provide an estimate, as soon as practicable, as to when the obligation will be performed. The time for performing the obligation shall be extended for a period equal to the time during which HONI was subject to the event of force majeure. Where the extension required is at least forty-five (45) days and HONI and the Customer have not agreed upon a revised basis for performing the obligation, then either party may, upon written notice to the other party, terminate this Contract and the Customer shall pay to HONI the Cancellation Fees determined in accordance with Section 8.0.

8.0 CANCELLATION FEES

- 8.1 The Customer shall be entitled to cancel any request for a Service and any product or equipment related to the Service after execution of the Proposal and related Purchase Order by providing written notice to HONI and in the event the Customer exercises this right of cancellation, the Customer shall pay to HONI, by no later than fifteen (15) days after issuance of an invoice therefor by HONI the following amounts:
- (a) All outstanding amounts and any amounts billed for performance up to and including the effective date of cancellation;
 - (b) ten percent (10%) of the unbilled portion of the Price; and
 - (c) the total of all costs and expenses incurred by HONI in relation to the cancellation including, but not limited to, the following:
 - (i) material and labour costs and indirect expenses; and
 - (ii) any undertakings or commitments by HONI that cannot be reasonably avoided.

9.0 CONFIDENTIALITY

- 9.1 The Customer and HONI agree to maintain all information and material that may be provided to the other in relation to the Service and any product or equipment related to the Service, or otherwise obtained by either party in the course of purchasing the Service and any product or equipment related to the Service, in strict confidence for a period two (2) years following disclosure thereof, and, where the other party is an entity, to disclose this information and material only to those of its employees having a need to know same and who have agreed in writing to be bound by and comply with this Section. Subject to the preceding sentence, neither party shall use the said information and material for any purpose other than for the intended use of the Service and any product or equipment related to the Service and shall not publish, reproduce, copy, disseminate or disclose the said information and material to others without the prior written consent of the other party. Notwithstanding any disclosure of said information and material by either party, the owner of the information and material shall retain all right, title and interest in and to the information and material.

10.0 SHIPMENTS

- 10.1 Where shipment of any product or equipment related to the Service is specified in the Proposal, in the event that the shipment is delayed as a result of any act or omission by the Customer, its servants, agents, employees or representatives, or in the event that the shipment is refused by the Customer or rendered impracticable or impossible by reason of the Customer's premises not being ready for receipt of the product or equipment for whatever reason, the Customer shall be responsible for all costs and expenses in relation to such shipment.

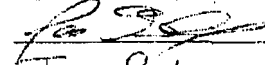
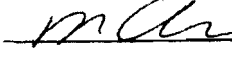

11.0 GENERAL

- 11.1 Unless expressly stated otherwise in the Proposal, HONI shall adhere to its own usual and customary rules and procedures that are applicable, if any, with respect to safety, equipment operation, training or other similar matters in connection with products or services being provided. The Customer covenants and agrees to indemnify and save HONI harmless for any costs and expenses incurred in connection with any requirements of the Customer that are in excess of HONI's usual and customary rules and procedures.
- 11.2 This Contract and the rights and obligations of the parties shall be governed by and interpreted in accordance with the laws of the Province of Ontario and of Canada applicable therein, as if performed wholly within Ontario and without giving effect to the principles of conflict of law, and the parties hereto irrevocably attorn to the exclusive jurisdiction of the courts of competent jurisdiction in the City of Toronto, Ontario in the event of any dispute hereunder.
- 11.3 Except as expressly provided herein, no amendment, modification or supplement to this Contract shall be valid or binding unless set out in writing in the Proposal and executed by the parties.
- 11.4 Neither this Contract nor any of the rights and obligations contained herein shall be assigned by the Customer without HONI's prior written consent. Notwithstanding any other provision of this Contract, HONI may assign all of its rights and benefits and delegate all of its duties and obligations or other liabilities under this Contract to any other wholly-owned subsidiary in Canada ("Assignee") of Hydro One Inc., in which event such Assignee shall be substituted for all purposes for HONI as a party to this Contract and HONI shall thereby be forever released and discharged from the performance of all such duties, obligations or other liabilities under this Contract. Subject to the foregoing, this Contract shall extend to, be binding upon and enure to the benefit of the parties hereto and their respective successors and assigns.
- 11.5 If any provision of this Contract is declared invalid or unenforceable by competent authority such provision shall be deemed severed and shall not affect the validity or enforceability of the remaining provisions of this Contract, unless such invalidity or unenforceability renders the operation of this Contract impossible.
- 11.6 The failure of either party to exercise any right, power or option or to enforce any remedy or to insist upon the strict compliance with the terms, conditions and covenants under this Contract shall not constitute a waiver of the terms, conditions and covenants herein with respect to that or any other or subsequent breach thereof nor a waiver by the party at any time thereafter to require strict compliance with all terms, conditions and covenants hereof, including the terms, conditions and covenants with respect to which the party has failed to exercise such right, power or option. Nothing shall be construed or have the effect of a waiver except an instrument in writing signed by a duly authorized officer of the party which expressly or impliedly waives a right, power or option under this Contract.
- 11.7 In the event of any conflict or inconsistency between the Proposal and the terms and conditions in this agreement, the terms and conditions herein shall prevail, unless the Proposal expressly states that a particular term or condition of the Proposal shall prevail over this agreement. Any terms and conditions in any related purchase order, order acknowledgement/request, confirmation, or similar form or document, whether or not any such document is signed by the parties before or after the date of this Contract, shall have no force or effect if such terms and conditions are inconsistent with or in conflict with any of the terms and conditions of the Contract.

- (n) If delivered by hand, upon receipt;
- (b) If delivered by electronic transmission, forty-eight (48) hours after the time of transmission, excluding from the calculation weekends and public holidays;
- (c) If delivered by registered mail, six (6) days after the mailing thereof, provided that if there is a postal strike such notice shall be delivered by hand.

Either party may change its addressee and its address from time to time by giving written notice of such change to the other party in accordance with this Section.

IN WITNESS HEREOF the Parties have, by their duly appointed representatives who each have the authority to bind the Parties, executed this Contract on the day and year first written.

<u>Five Nations Energy Inc.</u>		<u>Hydro One Networks Inc.</u>	
By: 	By: 		
Name: <u>Joe Gabeau</u>	Name: <u>Dave Clare</u>		
Title: <u>Chief Executive Officer</u>	Title: <u>Manager, Metering & Technical Services</u>		
Date: <u>April 8/10</u>	Date: <u>April 20, 2010</u>		
By: 		By: _____	
Name: <u>Vladimir Gouvorov</u>	Name: _____		
Title: <u>Maintenance Supervisor</u>	Title: _____		
Date: <u>April 8th 2010</u>	Date: _____		

Hydro One Networks Inc.
6115 Danville Road
Mississauga, On L5T 2H7
www.HydroOne.com

Tel: (905) 565-7852
Fax: (905) 564-0206



Paul Szymanski
Team Lead - MSP Customer Management
Metering and Technical Services
Grid Operations

February 3, 2010

Proposal Reference No.: FN-03-70151 (2010-2013)

MR. LARRY BROOKSBANK
11 Byron Crescent
Barrie, Ontario
L4N 6G6

Tel: (705) 737-9170
Fax: (705) 737-9283

Subject: Proposal for Ongoing MSP Support for the Wholesale Revenue Metering at Five Nations Fort Albany, Kashechewan and Attawapiskat Transformer Stations (TS), June 1, 2010 to May 31, 2013

Dear Mr. Brooksbank:

HONI MSP is pleased to provide this proposal for on-going metering service provider support for three (3) wholesale revenue metering points at Fort Albany, Kashechewan and Attawapiskat for an additional three (3) year term June 1, 2010 to May 31, 2013.

Item	Metering Installation Description	No. of Metering Installations
1	Attawapiskat CTS, MPID 1000016760 / 61	1
2	Fort Albany CTS, MPID 1000019660 / 61	1
3	Kashechewan CTS, MPID 1000002230 / 31	1
Total No. of Metering Installations:		3

The following details our proposed scope of work and budgetary price and commercial rates for demand work.

Scope of Work

Baseline MSP Service

We will provide the following budgetary price baseline MSP services on a commercially reasonable basis for the subject wholesale revenue metering installation in accordance with the IESO's current Market Rules Chapter 6, Appendix 6.1, Section 1.3, including:

- Trouble call response (diagnostic assessment only) by the HONI Central Metering Meter Trouble Desk
- Conduct routine tests and maintenance
- Provide technical assistance
- Provide support for investigations and tests
- Maintain records of inspection and audit
- Maintain records of meter data and specifications
- Assist with end-to-end testing as required
- Obtain IESO approvals for changes to the metering installation
- Data recovery assistance
- Inventory management of the spare meters as required by the restoration plan
- Annual metering installation inspection – "Recommended Best Practice"

Demand MSP Services

We will provide the following demand services for the subject wholesale revenue metering installation, only when requested, at HONI commercial rates:

- a) all Field P&C costs to resolve and effect any repairs that may be required for the resolution of Meter Trouble Reports
- b) all costs for IESO audits or audits that may be requested by the Metered Market Participant (MMP) Customer
- c) all costs for any new installations or other work that may be requested by the client
- d) data reporting to parties other than the IESO and MMP Customer
- e) submission of Exemptions to the IESO, if required

The MMP customer is responsible for paying all telecom communication costs for the metering installation(s).

Pricing

Monthly Budgetary Price for Baseline MSP Service

The monthly budgetary price for the baseline MSP service described above for the subject wholesale revenue metering points is **\$450 per metering point per month**, all taxes extra. Demand work fees are estimated to be 20% of monthly budgetary price.

Budgetary Price and Demand Work Estimate		
Service Item	Calculation	Price
Baseline Support		
Monthly Budgetary Price Baseline MSP Service for Three (3) Metering Points	A ($\$450 \times 3$)	\$1,350
Annual Budgetary Price Baseline MSP Service	B ($A \times 12$)	\$16,200
Demand MSP Service above Baseline Support (20% of baseline cost – estimate)	Annual Estimate - C	\$3,240
Total Budgetary Estimate for Baseline and Demand Work – Three (3) Year Term	$B \times 3 + C \times 3$	\$58,320
<i>All taxes are extra.</i>		

Monthly Budgetary Price Qualification:

To maximize efficiencies for planned budgetary price work, Five Nations has requested HONI to leverage the travel and per diem costs paid under the Five Nations – HONI Stations Maintenance Contract for the planned MSP annual metering installation inspection noted in the above baseline price scope of work item k).

Therefore, the monthly budgetary price for MSP support is based on the following two conditions being met for all annual metering installation inspections:

1. The annual metering installation inspection is scheduled in conjunction with the annual planned stations maintenance site visit(s); and,
2. The HONI P&C Technician scheduled for such stations maintenance site visits is also qualified to perform the annual metering installation inspection on the same scheduled trip.

HONI will make commercially reasonable efforts to meet the above conditions, however, should either of the two conditions not apply to a planned stations maintenance site visit, then HONI MSP shall separately schedule the planned annual metering installation inspection, and invoice this work, including all travel time and expenses, at HONI commercial rates. Five Nations and HONI are mutually confident that this efficiency will be effectively realized based on past work experience, and that this budgetary price qualification, if actually exercised, is anticipated to be a rare exception to standard practice.

Commercial Labour Rates for Demand Work

The hourly labour rates for the demand service described above are:

Non-Scheduled Work Hourly Rate (2010)		
	Engineering Services	Technical Field Staff
	Vehicle Excluded	Vehicle Included
Regular Working Hours Regular time, Monday to Friday, 07:00 – 15:30	\$230	\$203
Overtime (1st four hours) Monday to Friday 15:30 – 17:00, excluding weekends and statutory holidays	\$276	\$241
All other overtime Monday - Friday 17:30 – 07:00, all weekends and statutory holidays	\$322	\$278
<i>Taxes are extra.</i>		

The above labour rates will be subject to escalation on January 1 for each calendar year of the initial term of the contract, or an extension thereof.

Terms of Payment

Billing will be done monthly based on accomplished scope of work (terms Net 30 days). Expense and material charges are extra and will include an administration fee of 20% for all demand work.

Proposal Validity and Terms and Conditions

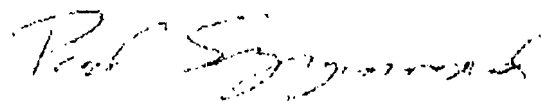
We are quoting the budgetary price baseline contract for on-going MSP support for a term of three (3) years. Either party may request an extension, subject to acceptance by the other party, by providing notification in writing to the other party at least three (3) months prior to the expiration of the initial term of contract, or any extension thereof.

This proposal is valid for your acceptance up to 30 days, at which time it shall automatically expire unless expressly renewed by us in writing. This proposal is in conjunction to the HONI – Five Nations Energy Inc. MSP Contract dated June 1, 2010, which we enclose herewith for your reference.

We look forward to your review and approval of this proposal. If you are in agreement with the terms and conditions of this Proposal, please indicate your acceptance by signing in the space provided and returning a copy of this letter to my attention.

I would be pleased to answer any questions you may have about this proposal.

Yours truly,



Paul Szymanski
Team Lead – MSP Customer Management

cc. J. Stonehouse, Acting Manager, MSP Services, HONI

ACKNOWLEDGEMENT AND AGREEMENT

The undersigned hereby acknowledges and agrees to the terms and conditions contained in this Proposal.

Dated as of February 3, 2010

FIVE NATIONS ENERGY INC.


Signature

Print Name: Vladimir Govorov C.E.T.

Print Title: Maintenance Supervisor

I have authority to bind the corporation.

35. Ref: Ex 4/T2/S1/p.6 – Increases to Account 4810 and 4815

Preamble: The following increases are observed in Account 4810 & 4815:

Account 4810	Account 4815
2009: \$198,900	2009: \$86,900
2010: \$238,700	2010: \$104,200
y/o/y: 20%	y/o/y: 20%

Question:

Please explain the drivers of the approximately 20% increases to costs from 2009 to 2010 in these each of these two accounts.

RESPONSE

Please see pages 2 and 3 of Exhibit 4, Tab 2, Schedule 2 of FNEI's evidence.

36. Ref: Ex 4/T2/S1/p.7/line 7; Affiliate Relationships Code for Electricity Distributors and Transmitters (“ARC”), dated March 15, 2010 – Labour Costs: Account 4820

Preamble:

(1) FNEI indicates at Exhibit 4 that labour is provided by each of the three local distribution companies to FNEI. FNEI indicates that this work is carried out pursuant to a contract with each LDC.

(2) Under section 2.3.1 of the ARC, the term of an Affiliate Contract between a utility and an affiliate shall not exceed five years, unless otherwise approved by the Board.

(3) Section 2.2.1 of the ARC states that:

Where a utility provides a service, resource, product or use of asset to an affiliate or receives a service, resource, product or use of asset from an affiliate, it shall do so in accordance with a Services Agreement, the terms of which may be reviewed by the Board to ensure compliance with this Code.

The Services Agreement shall include:

- (a) the type, quantity and quality of service;
- (b) pricing mechanisms;
- (c) cost allocation mechanisms;
- (d) confidentiality arrangements;
- (e) the apportionment of risks (including risks related to under or over provision of service); and
- (f) a dispute resolution process for any disagreement arising over the terms or implementation of the Services Agreement.

Request:

(a) Please provide copies of the Services Agreements with each of the three LDCs for the labour sharing arrangement contemplated in Preamble (1), and providing a summary of the details as outlined in Preamble (3), as well as the term of each agreement pursuant to Preamble (2).

(b) Pursuant to Preamble (2), if the answer to part (i) above does not provide information on each of the six criteria listed above, please provide additional details or any

document which may clarify these arrangements, as well as how FNEI intends to address any shortcomings in the parameters set out in their Service Level agreements.

RESPONSE

FNEI is not affiliated with the three LDCs. Please see the response to Board Staff IR 1(b).

37. Ref: Ex 4/T 2/S1/p.8 – Maintenance Costs: Account 4916

Preamble: FNEI indicates at the reference that:

“FNEI has an Operating Response and Maintenance Contract (effective as of January 1, 2003) with HONI to provide emergency services as required...Depending upon the work carried out, additional charges are billed on a fee-for-service basis.”

Request:

- (a) Please provide a copy of Operating Response and Maintenance Contract.**
- (b) Please provide a fee schedule for fee-for-service items.**
- (c) Please provide a summary of total charges incurred under this contract in 2009, and the forecast charges for 2010, inclusive of the \$50,000 annual fee.**

RESPONSE

- (a) Please see attached.**
- (b) Please see attached.**
- (c) \$50,000 for both 2009 and 2010.**

OPERATING RESPONSE AND MAINTENANCE

CONTRACT

Between:

FIVE NATIONS ENERGY INC.

and

HYDRO ONE NETWORKS INC.

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THIS AGREEMENT dated as of the 1ST day of January, 2003

BETWEEN:

FIVE NATIONS ENERGY INC.,
a non-share corporation validly existing under the laws of Canada,
having its registered office at
70-C Mountjoy Street North, Suite 421, Timmins, Ontario P4N 4V7
(hereinafter referred to as "FNEI")

and

HYDRO ONE NETWORKS INC.,
a corporation incorporated and organized under the laws of Ontario,
having its registered address and principal place of business at
483 Bay Street, 10th Floor, South Tower, Toronto, Ontario M5G 2P5
(hereinafter referred to as "HONI").

WHEREAS:

- A. FNEI owns and operates the transmission line and substations, which are described in this agreement. FNEI requires a service provider for Operating Response and Maintenance Services related to the transmission line and substations described herein as the Site;
- B. HONI has submitted a complete Proposal to FNEI for the provision of Operating Response and Maintenance Services; and
- C. FNEI and HONI wish to enter into this Contract in order to establish terms and conditions whereby HONI will act as FNEI's service provider, and will perform Work on FNEI's Site as more particularly defined herein.

NOW THEREFORE, in consideration of the mutual covenants set forth herein and of other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto covenant and agree as follows:

ARTICLE 1 : EFFECT OF RECITALS

Each of the Parties acknowledges and agrees that each of the foregoing recitals is true and acknowledges that the other Party hereto has relied thereupon in entering into this Contract.

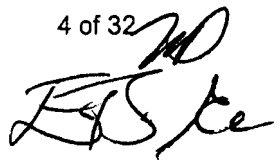
1.1 Definitions

In this Contract, unless something in the subject matter or context is inconsistent therewith, the word or phrase has the meaning set out below.

"**Business Day**" means a day other than a Saturday, Sunday, or statutory holiday in the province of Ontario.

"**Change to Purchase Order**" means any revision to the Purchase Order agreed to in writing by HONI and subsequently issued by FNEI.

"**Confidential Information**" means information designated by either Party as being confidential, and further includes any other information not in the public domain, supplied by one Party to the other in



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confidence implicitly or explicitly, where disclosure could reasonably be expected to prejudice the competitive position of the disclosing Party; interfere with the contractual or other negotiations of the disclosing Party or another person; and result in loss or gain to the disclosing Party or to another person.

"Contract" means, collectively, the documents listed in Article 2 hereof.

"Contract Administrator" means the persons identified in Appendix "D" hereof, who are designated by each Party from time to time as their authorized representatives

"Contract Price" means the value of the compensation to be paid for performance of the Work, as agreed by the Parties and subsequently set out in the Purchase Order.

"Effective Date" means January 1st, 2003, on which date the Term of the Contract commences.

"FNEI" means First Nations Energy Inc.

"FNEI Indemnatee" has the meaning set forth in Article 16.1.

"Force Majeure" means an occurrence beyond the control and without the fault or negligence of the Party affected and which is due wholly or in part to a cause beyond its reasonable control, including but not limited to: acts of God or the public enemy; expropriation or confiscation of facilities; changes in applicable law; war, rebellion, civil disturbances, sabotage, riots, floods, storms, fires, explosions, or other catastrophes; strikes or any other concerted acts of workers; other similar occurrences, but specifically excluding any occurrence which impacts upon a Party's financial standing, creditworthiness or capability (such as, but not limited to, voluntary or involuntary bankruptcy, insolvency or the inability to pay debts as they become due).

"HONI" means Hydro One Networks Inc., a corporation incorporated under the laws of the province of Ontario. "HONI agents" means the successors, assigns, Subcontractors, agents, employees and officers of HONI involved in the Work.

"HONI Indemnatee" has the meaning set forth in Article 16.1.

"Party" or "Parties" means FNEI or HONI, or both of them;

"Proposal" means the proposal completed and submitted by HONI to FNEI dated December 23, 2002, as its offer to perform the Work.

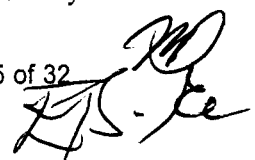
"Purchase Order" means the FNEI purchase order as accepted by HONS identified in Article 2 hereof.

"Single Point of Contact" or "SPOC" means the persons identified in Appendix "D" hereof, who are designated from time to time by each Party as their authorized representatives.

"Site" means the approximately 190 kilometres of FNEI transmission line from structure #438 on the said transmission line to the Attawapiskat substation, and including the taps into the Fort Albany and Kashechewan sub-stations, and the Fort Albany, Kashechewan, and Attawapiskat transformer substations.

"Site Conditions" means the physical and climatic conditions, applicable at any Site, together with the obligatory site instructions that regulate access and security, health and safety, work protection codes and environmental protection at a Site.

"Substantial Performance" is as defined in the lien legislation in Ontario. If such definition is not in force or is not applicable, Substantial Performance shall have been reached when the Work is ready for use or is being used for the purpose intended.

Handwritten signature and initials, possibly "J.S. Lee", in black ink.

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"Subcontractor" means a person, firm or corporation having a contract with the HONI for performance of any part of the Work.

"Term of the Contract" means the period of time during which this Contract is in force and effect as set out in Article 5 hereof.

"Work" means agreed to documentation, data, supervision, labour, ordinary transport and work vehicles, material, standard testing equipment, services and acts required to be done, furnished or performed by HONI in accordance with the Proposal.

Interpretations:

The expressions "hereof", "herein", "hereto", "hereunder", "hereby" and similar expressions refer to this Contract and not to any particular Article, section or portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and sections are to Articles and sections of this Contract.

A reference to any statute, regulation, rule, order or directive includes amendments thereto.

The division of this Contract into clauses and sections and the insertion of headings are for convenience of reference only and shall not affect the interpretation of this Contract, nor shall they be construed as indicating that all of the provisions of this Contract relating to any particular topic are to be found in any particular clause, section, subsection, schedule, appendix, provision, part or schedule.

Words importing the singular number only shall include the plural and vice versa, words importing the masculine gender shall include the feminine and neuter genders and vice versa and words importing persons shall include individuals, partnerships, associations, trusts, unincorporated organizations and corporations and vice versa.

ARTICLE 2 : CONTRACT DOCUMENTS

The Contract shall consist of the following documents which, by this reference, are incorporated herein and deemed to be part hereof:

- 2.1 FNEI Purchase Order number _____, and any Change to Purchase Order issued from time to time; and,
- 2.2 This Contract, together with the Proposal and the following Appendices annexed hereto and incorporated by reference and deemed to be part hereof:
 - (i) Appendix "A" - Scope of Work
 - (ii) Appendix "B" - Response and Restoration Guidelines
 - (iii) Appendix "C" - Facility Description
 - (iv) Appendix "D" - List of Contacts
 - (v) Appendix "E" - Authorization and Work Report Form

Handwritten signature and initials, possibly "E.S." and "de", in the bottom right corner.

ARTICLE 3 : ENTIRE AGREEMENT

3.1 Entire Agreement

This Contract constitutes the entire Agreement between the Parties hereto with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the Parties with respect thereto. There are no representations, warranties, terms, conditions, undertakings or collateral agreements, express, implied or statutory, between the Parties other than as expressly set forth in this Contract.

3.2 Amendment

Should FNEI determine that a revision to this Contract is required, FNEI shall provide HONI with written notification, and HONI shall respond thereto within five (5) Business Days. HONI shall undertake any required mutually agreed actions upon receipt of a written instruction from FNEI, and within twenty (20) Business Days thereof, FNEI shall issue a confirming Change to Purchase Order that incorporates said mutually agreed amendment(s) including any associated change in the Contract Price. However, a failure by FNEI to provide such Change to Purchase Order shall not operate to relieve the Parties from their obligations resulting from the written instructions.

3.3 Waiver

No waiver of any breach of any provision of this Agreement shall be effective or binding unless made in writing and signed by the Party purporting to give the same and, unless otherwise provided in the written waiver, shall be limited to the specific breach waived.

ARTICLE 4 : PRECEDENCE

In cases of express conflict between documents comprising this Contract, the order of precedence shall be as follows:

- 1st Change(s) to Purchase Order
- 2nd Purchase Order and the Contract
- 3rd HONI Proposal by letter dated December 23, 2002
- 4th Appendices

ARTICLE 5 : TERM OF THE CONTRACT

5.1 Force and Effect

The term of this Contract will be for a period of two (2) years beginning on the Effective Date and terminating at 11:59:59 PM Toronto time on December 31, 2004. The Contract shall expire at that time unless extended by mutual agreement of the Parties under Section 5.2, below, in which event a corresponding Change of Purchase Order will be issued by FNEI.

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5.2 Extension

If either Party wishes to extend the Term of the Contract, it shall give written notice of its intention to the other Party at least three months prior to the expiry date of the Contract. The Contract may be extended as negotiated and agreed by the Parties.

5.3 Termination or Expiration

Termination or expiry of all or part of this Contract for any reason does not affect any rights of either Party against the other which:

- (a) Arose prior to the time at which such termination or expiration occurred, or
- (b) Otherwise relate to or may arise at any future time from any breach or non-observance of obligation under this Contract occurring prior to the termination or expiration.

ARTICLE 6 : BENEFIT OF AGREEMENT

This Contract shall enure to the benefit of and be binding upon the respective successors and permitted assigns of the Parties hereto.

ARTICLE 7 : SEVERABILITY

If any provision of this Contract is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect unless such invalidity or unenforceability renders the operation of this Contract impossible.

ARTICLE 8 : SCOPE OF WORK AND SCHEDULE

8.1 Scope of Work

- (a) Work Included

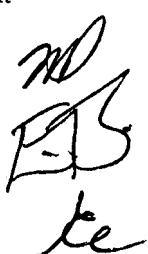
Details are as defined in the Proposal.

- (b) Changes

In accordance with the provisions of Articles 3 and 17 hereof, FNEI reserves the right to request HONI to perform additional or less Work.

8.2 Schedule

- (a) FNEI and HONI shall establish an agreed schedule for planned and preventative work. The schedule shall be contingent on the receipt of necessary outages as confirmed by the Independent Electricity Market Operator (IMO).
- (b) FNEI and HONI shall conform to the scheduling requirements as mutually agreed in 8.2 (a).

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- (c) FNEI and HONI shall hold regular review meetings at agreed intervals with a pre-defined agenda.

ARTICLE 9 : CONTRACT PRICES, PRICE REVISIONS AND TERMS OF PAYMENT

9.1 Contract Prices

As full compensation for HONI's performance of the Work and obligations under the Contract, FNEI shall pay HONI the fixed lump sum prices and cost-plus basis prices set out in the Purchase Order.

Except for provincial sales taxes and Goods and Services Tax required by law to be collected by HONI from FNEI, the prices are inclusive of all duties, license fees and all other costs imposed or incurred by reason of the Work to be performed.

9.2 Price Revisions

The Parties shall negotiate a revision to the Contract Price if, subsequent to the date of execution of this Contract:

- (a) There is a change in the Site Conditions or the applicable federal, provincial, or local laws, by-laws, rules, provincial regulations, guidelines, codes and judgements relating to the scope of work and such change has the effect of increasing or decreasing HONI's costs of performing the Work, in the opinion of HONI or FNEI, respectively. HONI and FNEI shall negotiate a change to Contract price. If the Parties cannot reach agreement the matter shall be dealt with pursuant to Article 18, Dispute Resolution;
- (b) There is a reduction in the scope of the Work resulting in a material change to HONI's costs, in which case the Parties shall negotiate a price reduction; or
- (c) FNEI, at its sole discretion requests a change in the Work in accordance with the provisions of Article 3.2.

9.3 Terms of Payment

- (a) In respect of the fixed-price Pre-Planned Activities described in the Proposal, HONI shall submit monthly invoices, beginning one month after the Effective Date, with an original invoice forwarded to the attention of FNEI Accounts Payable at the address shown in section 10.1., HONI's fixed-price invoices shall only state the fixed monthly amount due as stated in FNEI's Purchase Order number described in section 2.1.
- (b) In respect of the cost-plus Non-scheduled Work Activities described in the Proposal, HONI shall submit monthly invoices with an original to the attention of FNEI Accounts Payable at the address shown in section 10.1. The invoices shall be accompanied by summaries (agreed form of summary attached as Appendix "E" hereto) of man-hour records, equipment and material, vendors and Subcontractors invoices, which correspond to the time, materials and equipment verified by the designated FNEI Site SPOC as evidence of the work having been done.
- (c) FNEI reserves the right to conduct audits at times mutually agreeable to the Parties to verify the authenticity of all HONI cost-plus records. Notwithstanding the above, FNEI right to conduct audits shall be exercised within six (6) months of receipt of the invoice(s) being audited.
- (d) Invoices must show HONI's registration numbers for any Goods and Services and/or Provincial sales taxes required by law to be collected by HONI from FNEI.

- (e) If FNEI disputes an invoice or any portion thereof, FNEI shall pay the invoice. Together with such payment, FNEI shall provide written notice to HONI setting out the portions of the invoice that are in dispute, an explanation of the dispute and the amount that FNEI believes is the correct amount. If it is subsequently determined through arbitration or agreed that an adjustment to the invoice is appropriate, HONI will promptly prepare a revised invoice in accordance with such determination or agreement. Any overpayment or underpayment of an invoice shall bear interest at the rate of twelve percent (12%) per annum from and including the date of said overpayment or underpayment to the date of the refund or payment thereof. Payment by FNEI or HONI pursuant to the revised invoice shall be made within five (5) Business Days following the date on which the revised invoice is received by FNEI. If an invoice dispute has not been resolved between the Parties within five (5) Business Days after receipt of written notice of such dispute by HONI, the dispute may be submitted to Dispute Resolution process by either Party in accordance with Article 18.
- (f) Payments made hereunder, including final payment, shall not relieve either Party of any surviving obligations or liabilities under the Contract.

ARTICLE 10 : CONTRACT NOTICES AND COMMUNICATIONS

10.1 Notices

Except as specified for invoice submissions in section 9.3 hereof, any notice, demand, consent, or request required or permitted to be given or made under this Contract shall be addressed to the Party's Single Point of Contact identified in Appendix "D" hereof, and delivered to the address shown below:

Five Nations Energy Inc.
70-C Mountjoy Street North
Suite 421
Timmins, Ontario P4N 4V7

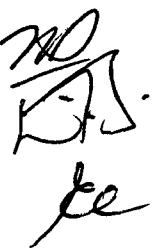
Hydro One Networks Inc.
483 Bay Street
8th Floor, South Tower
Toronto, Ontario M5G 2P5

10.2 Change of Contract Administrator

Either Party may change their nominated Contract Administrator at any time upon giving the other Party two (2) weeks written notice.

10.3 Delivery of Notice

Notices required under this Contract shall be forwarded by an agreed to form of registered delivery, and shall become effective at the recorded receipt date. Regular communications may be sent by courier, facsimile, or email, as most appropriate.

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10.4 Change in Business

Either Party shall immediately notify the other Party by registered delivery upon the occurrence of any change in business circumstance, a registration, or a license having a material effect on its ability to meet the terms of this Contract.

ARTICLE 11 : PROCEDURES

11.1 Mandatory Site Procedures

(a) Site Visits

If FNEI cancels Pre-planned site work for any reason within ten (10) Business Days of the scheduled date of the site work, then in such case, HONI shall not be held accountable for any failure to perform the Work and shall be entitled to be paid for any reasonable costs arising as a result of the cancellation. HONI will take commercially reasonable measures to re-deploy staff as a result of the cancellation. The site work shall be re-scheduled by mutual agreement between the Parties. HONI shall reschedule any Pre-Planned Site visits without unreasonable delay, acting commercially reasonably.

(b) Health and Safety, and Environmental Protection

In addition to applicable laws and regulations that may apply to HONI, the Parties acknowledge that FNEI has various internal health and safety rules and guidelines. HONI shall adhere to such rules and guidelines to the extent that HONI has been advised of same, and provided with any necessary training or orientation.

(c) Work Protection

Work protection shall be applied in accordance with practices and Agreements between FNEI and HONI.

(d) Co-operation with Others

During performance of the Work at a Site, HONI and Subcontractors shall co-operate with any other contractors working concurrently and, as far as is reasonably possible, ensure that the Work being done does not obstruct the work of others. HONI shall immediately report any conflicts to the designated Site SPOC, or the Site supervisor designated by that SPOC, for resolution.

11.2 Other Procedures

HONI shall conform to the performance standards required by the federal laws of Canada and by the laws in the province of Ontario, as applicable to HONI. HONI shall utilize its procedures and methods in performance of the Work providing said procedures meet the requirements of FNEI as set out in this Agreement,

ARTICLE 12 : CONFIDENTIALITY

12.1 Confidentiality

Other than permitted by this Contract, the Parties shall hold in confidence and not disclose to others or use, except as required for the proper performance of the Work, any Confidential Information disclosed by one Party to the other, its successors, assigns, agents, employees, or affiliates pursuant hereto, or acquired or generated by a Party in the course of performance of the Work. Each Party shall obtain the same obligation from its agents and vendors.

Neither Party, nor its agents, shall publish nor advertise information in connection with this Contract without the prior written approval of the other Party, which shall not be unreasonably withheld.

ARTICLE 13 : LABOUR REQUIREMENTS AND LIENS

13.1 General

- (a) HONI, in performing the Work, shall be deemed to be an independent contractor and not the agent or employee of FNEI. FNEI shall not have any authority to give instructions to HONI agents, and the Work shall be performed under the supervision and control of HONI. HONI shall not have authority to make statements, representations or commitments of any kind or take any other actions which would be binding upon FNEI, as otherwise specifically provided in this Contract.
- (b) No provisions of this Contract or any subcontract awarded by HONI shall be construed to create any contractual relationship between any such Subcontractor and FNEI to pay or be responsible for the payment of any monies to any Subcontractor.

13.2 Subcontractors

HONI shall obtain prior approval from FNEI of all Subcontractors to be employed by HONI in the performance of the Work, and shall not change such approved Subcontractors without the prior approval of FNEI. FNEI shall respond to such requests within a period appropriate to the urgency thereof but in any event not exceeding five (5) Business Days.

13.3 Liens

- (a) HONI shall be fully responsible for payments of accounts to HONI agents, contractors, suppliers, labourers and others related to this Contract.
- (b) Save to the extent that FNEI has failed to pay related HONI invoices, HONI agrees to pay, discharge and hold FNEI harmless from all liens, claims, suits (including but not limited to reasonable out-of-pocket expenses), or judgements and awards of Subcontractors, suppliers, labourers and others which may, whether before or after final payment is made to HONI, arise out of or have any connection with non-payment by HONI of its accounts.
- (c) Provided FNEI has paid related HONI invoices, and upon the reasonable request of FNEI, HONI shall furnish FNEI with proof that all such liens, claims, suits, judgements and awards have been satisfied and released.

ARTICLE 14 : INSURANCE

14.1 Required Insurance

- (a) HONI at its own cost agrees to provide and cause its Subcontractors to provide and maintain in full force and effect with financially responsible insurance carriers, the following insurance which shall take effect as of the Effective Date of this agreement and shall remain in effect during the Term of the Contract or any extension thereof or as otherwise specified herein:

(i) Automobile Liability Insurance

Automobile liability insurance coverage and policy limits covering owned, non-owned, hired, leased and rented automobiles and automotive equipment providing a combined inclusive limit of two million dollars (\$2,000,000) coverage for injury, death, or property damage resulting from each occurrence.

(ii) Commercial General Liability Insurance

General liability insurance coverage with a limit of two million dollars (\$2,000,000) per occurrence and in the aggregate covering bodily injury, including death, and damage to property.

Coverage shall include, but not be limited to:

- (A) Blanket contractual liability;
 - (B) Premises and/or operations liability;
 - (C) Pollution liability coverage on at least a Time Element Sudden and Accidental basis;
 - (D) Broad form property damage;
 - (E) Products and completed operations to be continuously maintained through the HONI operational insurance;
 - (F) Employer's liability; and
 - (G) Such insurance shall: i) include FNEI as an additional insured, but only with respect to liability arising from the operations of HONI with respect to this agreement; and, ii) contain a cross liability and severability of interests clause.
- (iii) Worker's Compensation
- Workers Compensation as required by the *Ontario Workplace Safety and Insurance Act* or similar legislation covering all persons employed by HONI or Subcontractors for work performed under this Contract.
- (iv) HONI shall ensure that all coverage applies to HONI agents, assigns and employees.

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14.2 General Insurance Conditions:

(a) Certificates of Insurance

Before starting work, HONI will supply and cause its Subcontractors to supply FNEI by registered mail, or courier, receipt required, with a certificate of insurance completed by a duly authorised representative of their insurer certifying that the coverages required here are in effect and that the coverages will not be cancelled, non-renewed, or materially changed by endorsement or through issuance of other policy(ies) of insurance which restricts or reduces coverage, without thirty (30) days advance written notice.

- (i) Failure of FNEI to demand such certificate or other evidence of full compliance with these insurance requirements or failure of FNEI to identify a deficiency from evidence provided shall not be construed as a waiver of HONI's obligation to maintain such insurance.
 - (ii) The acceptance of delivery by FNEI of any certificate of insurance evidencing the required coverages and limits shall not constitute approval or agreement by FNEI that the insurance requirements have been met or that the insurance policies shown in the certificates of insurance are in compliance with the requirements.
 - (iii) HONI's failure to maintain the required insurance may result in termination of this Contract at FNEI's option.
 - (iv) If any of the coverages are required to remain in force after final payment as determined by FNEI, an additional certificate evidencing continuation of such coverage shall be submitted with the HONI's final invoice.
 - (v) Certificates of Insurance shall be provided within fourteen (14) days of award of the Contract.
- (b) All deductibles shall be to the account of HONI and/or its Subcontractors.
 - (c) With the exception of Automobile Liability, all insurance noted above shall specify that it is primary coverage and not contributory with or in excess of any other insurance that may be maintained by FNEI.
 - (d) All limits and deductibles are expressed in Canadian dollars.
 - (e) Coverage provided for FNEI shall not be invalidated or vitiated by actions or inactions of others.

ARTICLE 15 : COVENANTS AND WARRANTIES

15.1 Performance

HONI covenants:

- (a) that it is fully qualified to perform the Work and is familiar with the prevailing Site Conditions as advised by FNEI;
- (b) that it will comply with all applicable legislative and regulatory requirements relating to the Work;

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- (c) that it currently holds, and will maintain for the Term of the Contract, all licenses, registrations, administrative, supervisory and skilled operative personnel, procedures, tools and equipment, and insurance coverage necessary to perform the Work in accordance with this Contract;
- (d) that, under the laws of Canada and the province of Ontario, the completion of the Work or the use of any equipment associated therewith does not infringe directly or indirectly on any patent, intellectual property rights, copyright or trademark, foreign or domestic, owned or controlled by a third party.

15.2 Materials and Workmanship Warranty

HONI warrants:

- (a) that the Work it is agreeing to provide pursuant to this Contract including Work completed by its contractors, Subcontractors, agents shall be promptly performed in a professional and workmanlike manner, but HONI provides no representation or warranty on meters and equipment manufactured by third parties and shall not be liable for any losses or damages, whether indirect, direct or consequential, or for loss of profit, that may be suffered by FNEI as a result of the functioning or malfunctioning of equipment manufactured by third parties. For greater clarity, FNEI is the owner of such equipment and shall receive benefit from any manufacturer's warranties that may be applicable thereto;
- (b) that immediately upon discovery by HONI or notification by FNEI of any fault, defect or nonconformity due solely and directly from its workmanship, HONI warrants that it shall take commercially reasonable measures necessary to make good any defect in the said workmanship, at no cost to FNEI during the warranty period;
- (c) that in respect of HONI workmanship, this warranty period shall extend to a defect or failure occurring within 1 year (365 days) of the date of Substantial Performance of the original Work.

ARTICLE 16 : LIMIT OF LIABILITY AND INDEMNIFICATION

16.1 Indemnification

- (a) HONI shall indemnify, defend and hold harmless FNEI, its affiliates, and each of their respective officers, directors, partners, general partners, limited partners, employees and agents (each a "FNEI Indemnatee") from and against any and all claims, demands, suits, losses, liabilities, damages, obligations, payments, costs and expenses and accrued interest thereon (including the costs and expenses of, and accrued interest in respect of, any and all actions, suits, proceedings, assessments, judgments, settlements and compromises relating thereto and reasonable lawyers' fees and reasonable disbursements in connection therewith) (each, an "Indemnifiable Loss"), asserted against or suffered by a FNEI Indemnatee relating to, or in connection with, or resulting from or arising out of any negligence or willful misconduct of HONI, its employees or any authorized representatives, including any of its third party contractors, Subcontractors, consultants, agents or advisors, in performing HONI's obligations under this Contract. For greater certainty, in the event of contributory negligence or other fault of a FNEI Indemnatee, then such FNEI Indemnatee shall not be indemnified hereunder in the proportion that the FNEI Indemnatee's negligence or fault contributed to any Indemnifiable Loss.
- (b) FNEI shall be deemed to hold the provisions of section 16.1 (a) that are for the benefit of the FNEI Indemnatee that are not party to this Contract in trust for such persons as third party beneficiaries under this Contract.

- (c) FNEI shall indemnify, defend and hold harmless HONI, its affiliates, subsidiaries and shareholders, and each of their respective officers, directors, partners, general partners, limited partners, employees, shareholders and agents (each an "HONI Indemnatee") from and against an Indemnifiable Loss, asserted against or suffered by any HONI Indemnatee relating to, or in connection with, or resulting from, or arising out of any negligence or willful misconduct of FNEI, its employees or any authorized representatives, including any of its third party contractors, consultants, agents or advisors, in performing FNEI's obligations under this Contract. For greater certainty, in the event of contributory negligence or other fault of an HONI Indemnatee, then such HONI Indemnatee shall not be indemnified hereunder in the proportion that the HONI Indemnatee's negligence or fault contributed to any Indemnifiable Loss.
- (d) HONI shall be deemed to hold the provisions of section 16.1 (c) that are for the benefit of the HONI Indemnitees that are not party to this Contract in trust for such Persons as third party beneficiaries under this Contract.

16.2 Limit of Liability

- (a) HONI's liability (pursuant to section 16.1 (a) or otherwise in relation to or as a consequence of this Contract) shall, save and except to the extent that the HONI is required to purchase insurance in the amounts stated under Sections 14.1(a)(i) and (ii), not exceed the fixed component of the fees expected to be paid to it in respect of the Work provided over the term of this Contract regardless of whether the term is completed or the Services are provided. For greater certainty, HONI's liability hereunder shall not exceed two hundred and ninety-three thousand six hundred dollars (\$293,600.00) in the aggregate save and except to the extent that HONI is required to purchase insurance under 14.1 (a) (ii), in which case HONI's limit of liability shall not exceed two million dollars (\$2,000,000) in the aggregate, and under section 14.1 (a) (i), in which case HONI's limit of liability shall not exceed two million dollars (\$2,000,000) per occurrence. In no event shall HONI be liable to any FNEI Indemnatee (pursuant to section 16.1 (a) or otherwise in relation to or as a consequence of this Contract) under any circumstances whatsoever for any loss of profits or revenues, business interruption losses, loss of contract, cost of capital, loss of business opportunity, or loss of goodwill, or for any indirect, consequential, incidental, or special damages, including but not limited to punitive or exemplary damages, whether any of the said liability, loss, or damages arise in contract, tort, or otherwise. The provisions of this section 16.2 (a) shall not apply to indemnification for a third party claim, save and except for any FNEI Indemnatee.
- (b) FNEI's liability (pursuant to section 16.1 (c) or otherwise in relation to or as a consequence of this Contract) shall not exceed two hundred and ninety-three thousand six hundred dollars (\$293,600.00) in the aggregate, save and except to the extent that HONI is required to purchase insurance under section 14.1 (a) (ii), in which case FNEI's limit of liability shall not exceed two million dollars (\$2,000,000) in the aggregate, and under section 14.1 (a) (i), in which case FNEI's limit of liability shall not exceed two million dollars (\$2,000,000) per occurrence. In no event shall FNEI be liable to any HONI Indemnatee (pursuant to section 16.1 (c) or otherwise in relation to or as a consequence of this Contract) under any circumstances whatsoever for any loss of profits or revenues, business interruption losses, loss of contract, cost of capital, loss of business opportunity, or loss of goodwill, or for any indirect, consequential, incidental, or special damages, including, but not limited to, punitive or exemplary damages, whether any of the said liability, loss, or damages arise in contract or tort. The provisions of this section 16.2 (b) shall not apply to indemnification for a third party claim, save and except for any HONI Indemnatee.
- (c) Neither HONI nor FNEI shall be liable to the other for loss, damage, delay in the Work or non-performance of any Contract obligation caused by Force Majeure. In such event both Parties shall be prompt in restoring normal conditions, re-establishing schedules, and resuming operations as soon as the interruptions have ceased. The duty to be prompt in restoring normal conditions, re-establishing schedules, and resuming operations shall not apply in the case where the Force Majeure is declared as a result of a strike, lockout or other labour dispute.

ARTICLE 17 : ASSIGNMENT, SUSPENSION AND TERMINATION

17.1 Assignment

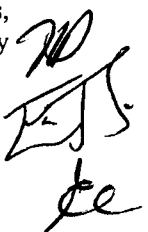
- (a) Neither Party shall assign the Contract or any portion thereof without the prior written consent of the other Party, such consent not to be unreasonably withheld, unless such assignment is to a related or affiliated corporation as defined under the Ontario *Business Corporations Act* or to one or more financial institutions as security for the indebtedness of a Party in which case such consent of the other Party shall not be required.
- (b) Subject to the above the Contract shall extend to and be binding upon the Parties hereto and their respective successors, assigns, personal representatives and estates.

17.2 Suspension

- (a) FNEI shall have the right, acting reasonably, which may be exercised at any time without invalidating the Contract, to suspend performance by HONI of any part or the whole of the Work on one occasion for a period of time not to exceed ten (10) days.
- (b) Except to the extent any such suspension arises from any material act or material omission of HONI or Force Majeure, FNEI shall, subject to resolution of all outstanding issues, within thirty (30) days pay to HONI the reasonable extra expenses incurred by HONI arising from the suspension, provided that in no event will FNEI be liable to HONI for loss of profit, interest loss or any other damages or loss occasioned to HONI by reason of any such Work suspension as described in this section 17.2. Such extra HONI expenses shall be supported by audit if so required by FNEI.
- (c) The schedule for completion of the Work after any suspension shall be agreed between FNEI and HONI.

17.3 Termination by FNEI

- (a) HONI will be deemed to be in default under this Contract if it:
 - (i) fails to perform any material obligation of HONI under this Contract;
 - (ii) becomes insolvent, bankrupt, or unable to pay its debts as they fall due, or pursuant to any bankruptcy, reorganization, debt arrangement, or other proceeding under any bankruptcy or insolvency law being instituted by or against it.
- (b) In the event HONI is in default under this Contract pursuant to section 17.3(a)(ii), FNEI may, in addition to any other rights and remedies that it may have at law or in equity, terminate this Contract. In the event HONI is in default under this Contract pursuant to section 17.3(a)(I), FNEI shall give seven (7) calendar days written notice to HONI of its default and in the event HONI has not remedied the default, or commenced steps to remedy the default satisfactory to FNEI, within that period (the "Cure Period") FNEI may, without limiting any other remedy available to it in law or equity, terminate this Contract.
- (c) If the Contract is terminated pursuant to sections 17.3(b) above HONI shall immediately discontinue the Work which can be discontinued without creating a hazardous condition, cancel all outstanding commitments which may be cancelled without undue cost, place no further orders, and FNEI shall pay to HONI, no later than fifteen (15) days after issuance of an invoice thereof by HONI, the total of all reasonable costs incurred by HONI, including but not limited to:

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- (i) reasonable material and labour costs and indirect expenses; and,
 - (ii) reasonable costs incurred by HONI by reason of any undertakings or commitments by HONI prior to the date of termination.
- (d) If the Contract is terminated for any reason other than those stated in 17.3(a), FNEI shall provide written notice to HONI of such, and shall pay to HONI, no later than fifteen (15) days after issuance of an invoice therefore by HONI, the greater of:
- (i) 25% of the unbilled portion of the Contract; and
 - (ii) the total of all reasonable costs and expenses incurred by HONI and not already paid, including but not limited to the following:
 - (A) material and labour costs and indirect expenses; and
 - (B) reasonable costs incurred by HONI by reason of any undertakings or commitments by HONI prior to the cancellation; and
 - (C) reasonable profits that HONI would have made had the Contract not been terminated.
 - (D) reasonable costs incurred by HONI by reason of any undertakings

17.4 Termination by HONI

- (a) If FNEI is in default under this Contract because it:
- (i) fails to perform any material obligation of FNEI under this Contract including the obligation to pay for work done, HONI shall give seven (7) calendar days written notice to FNEI of its default and in the event FNEI has not remedied the default or commenced steps to remedy the default satisfactory to HONI within that period (the "Cure Period") HONI may, without limiting any other remedy available to it in law or equity, terminate this Contract. The Parties agree that the Cure Period shall only apply to three events of default only; or
 - (ii) becomes insolvent, bankrupt, or unable to pay its debts as they fall due, or pursuant to any bankruptcy, reorganization, debt arrangement, or other proceeding under any bankruptcy or insolvency law being instituted by or against FNEI.

HONI may, in addition to any other rights and remedies that it may have at law or in equity, terminate this agreement.

- (b) In the event HONI terminates this Contract pursuant to sections 17.4 (a)(i) or (ii), FNEI shall pay HONI, no later than fifteen (15) days after issuance of an invoice therefore by HONI, the greater of:
- (i) 25% of the unbilled portion of the price of the Contract; and
 - (ii) the total of all reasonable costs and expenses incurred by HONI, including but not limited to the following:
 - (A) reasonable material and labour costs and indirect expenses;

- (B) reasonable costs incurred by HONI by reason of any undertakings or commitments by HONI prior to the date of termination; and
- (C) (C) reasonable profits that HONI would have made had the Contract not been terminated.

ARTICLE 18 : DISPUTE RESOLUTION

18.1 Amicable Resolution

In the event of a dispute regarding this Contract, the Parties shall attempt, in good faith to resolve the dispute amicably and promptly. If the Parties are unable to resolve the dispute within ten (10) Business Days, the Parties shall attempt to resolve the dispute by appointing a senior representative of each Party, pursuant to the notice provisions herein, to attempt to mutually agree upon a resolution prior to further action being taken by either Party in accordance with section 18.2 below.

18.2 Arbitration

- (a) If pursuant to section 18.1, the senior representatives of the Parties cannot come to a resolution within thirty (30) Business Days, then the dispute shall be submitted to arbitration. Arbitration shall be conducted pursuant to the *Arbitration Act, 1991* of Ontario, as amended and then in effect to the extent not inconsistent with the provisions herein specified.
- (b) Such arbitration shall be held in Toronto, Ontario, or in any other mutually agreed upon location. Unless otherwise mutually agreed, the dispute shall be heard by one arbitrator who has not previously been employed by either Party, does not have a direct or indirect interest in either Party, and shall be disinterested in the subject matter. Such arbitrator shall either be a mutually agreed by the Parties within thirty (30) calendar days after agreeing to arbitration, or failing agreement, shall be selected under the rules of the *Arbitration Act, 1991* of Ontario.
- (c) The judgement rendered by the arbitrator may be enforced in any court of competent jurisdiction. All costs of the arbitration shall be paid equally by the Parties, unless the award shall specify a different division of the costs. Each Party shall be responsible for its own expenses, including counsel's fees unless the award shall specify differently. Both Parties shall be afforded adequate opportunity to present information in support of its position on the dispute being arbitrated. The arbitrator may also request additional information from the Parties.
- (d) Should the Parties commence arbitration pursuant to this Article 18, then the following arbitration rules shall apply:
 - (i) The arbitrator shall be bound by the terms of the Contract and may not detract from or add to its items.
 - (ii) The Parties may by mutual agreement specify the rules that are to govern the arbitration proceedings and limit the matters to be considered.
 - (iii) The findings and award of the arbitrator shall be final and conclusive and shall be binding upon the Parties and shall not be subject to appeal.
- (e) Each Party agrees that it will not bring a lawsuit concerning any dispute covered by the arbitration provision.

ARTICLE 19: LAW

The Contract shall be governed by and interpreted in accordance with the laws of the province of Ontario and the laws of Canada applicable therein.

ARTICLE 20: COUNTERPARTS

This Contract may be signed by fax and in counterparts, each of which shall be deemed to be an original and all of which shall constitute one Contract. Any delivery of an executed copy by fax shall constitute delivery hereof. However, the Parties agree to exchange original documents within fifteen (15) days of the Effective Date of this Contract.

IN WITNESS HEREOF the Parties have, by their duly appointed representatives who each have the authority to bind the Parties, executed this Contract on the day and year first written.

Five Nations Energy Inc.
By: [Signature]
Name: Ernie T. Sutherland
Title: President
Date: January 7, 2003

Hydro One Networks Inc
By: [Signature]
Name: Clyde J. Dineen
Title: V.P. Stations & Remotes
Date: February 14, 2003

Five Nations Energy Inc.
By: [Signature]
Name: Ed Chilton
Title: Proj. Coordinator & Treasurer
Date: January 7, 2003

APPENDIX "A" – SCOPE OF WORK

1.0 INTRODUCTION

The scope of Work will provide for the supply of labour, equipment, and limited material (as deemed necessary by HONI) for the contracted operating response, pre-planned and non-scheduled maintenance, and inspection activities to the electrical power equipment, protective relay systems, and 190 kilometres of FNEI owned electrical transmission (TX) line serving the communities of Fort Albany, Kashechewan, and Attawapiskat sites.

2.0 SCOPE OF WORK

2.1 Station Maintenance and Protection & Control Services

HONI will perform the following pre-planned maintenance to the electrical power equipment and protective relay systems owned by FNEI at the Fort Albany, Attawapiskat, and Kashechewan sites. The proposed schedule is based on a HONI standard maintenance cycle.

2.1.1 Pre-planned Electrical Maintenance

2.1.1.1 High Voltage Transformer Reactor and Low Voltage Switch and Bus Maintenance and Testing:

Annual

- Visual inspection.
- Dielectric oil test from 115 kV transformer and reactor.

Proposed schedule: Spring 2003, Spring 2004.

Every two years *

- Repair oil leaks.
- Check and test temperature devices.
- Check gas relay.
- Check transformer OLTC.
- Test core ground.
- Ratio tests when required.

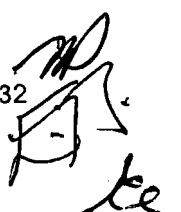
Proposed schedule: Spring 2003 on Fort Albany and Kashechewan substations; Spring 2004 on Attawapiskat substation.

(*Note: Full outage will be required).

2.1.1.2 SF6 Breaker and S&C Circuit Switcher Maintenance

Annual

- Gas checks.
- Visual inspections.



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- Check heating.

Proposed schedule: Spring 2003, and Spring 2004.

2.1.1.3 Plant AC and DC Panels and Batteries/Charger Maintenance

Annual

- Check all MCCS and starters.
- Check out and test all AC and DC panel connections and breakers.
- Battery inspection and maintenance including "Biddle" tests, specific gravity tests, intercell connections, voltage checks per cell partial discharge and cleaning of the cells and trays.
- Battery charger inspection and testing, current limiting, float and equalize adjustments.

Proposed schedule: Spring 2003 Spring 2004.

2.1.1.4 Station Inspections

Twice per annum/ Every 6 months

- Inspection will include all power and protection equipment,
- Inspect all spill containment systems.
- Battery and charger visual inspections.
- Fire extinguishers and safety equipment. (It is recommended that these items are also inspected monthly by local staff).

Proposed schedule: Spring and Fall 2003, Spring and Fall 2004.

2.1.2 Pre-planned Protection & Control Maintenance

2.1.2.1 Annual Inspections

- Visual inspections of all metering, protection and relay, and communication equipment.

Proposed schedule: Spring 2003, Spring 2004.

2.1.2.2 Inspection, Calibration and Associated Testing of All Protections and Metering at the Attawapiskat Substation Only

*Note: This level of maintenance is performed on a four-year cycle.

i) Transformer A/ Reactor A and Line A Relaying

- Transformer A/Reactor A relaying consists of calibrating and functionally testing primary relays, their associated timers, and auxiliary relays. This will also include testing associated alarms into the PLC.

Line A relaying consists of calibrating and functionally testing primary relays, their associated timers, and auxiliary relays. This will also include testing associated alarms into the SCADA.

ii) Other

- SCADA – General functionality check of the telecontrol systems from the remote centre and the dial-in dial-out system.
- General functionality check of voltage control logic on primary relays.

Proposed schedule: Spring 2003

2.1.3 Non-scheduled Emergency or Maintenance Services

In cases of Trouble Calls, delays, and other extra charges a "Customer Authorization and Work Report Form" (Appendix E) will be completed. This form will detail the work requested and/or the nature of the extra charge including the work performed and the time and materials spent on executing the work. This work will be chargeable at HONI Commercial Rates as set forth in the Purchase Order. A copy of such form shall be delivered to FNEI.

Travel and per diem costs in response to Trouble Calls will also be charged on a cost-plus basis.

2.1.4 Reporting

HONI will supply a biannual report of work accomplishments along with all test results to FNEI. HONI will complete any reports (electronic or hard copy) that the customer the forms and requirements are agreed to/provided before the initiation of the job; however, FNEI will remain responsible for reporting to the appropriate regulatory body.

2.2 Lines Maintenance Services

2.2.1 Pre-planned Annual Inspections

- Perform helicopter patrol and inspection of approximately 190 kilometres of FNEI transmission line from wood pole structure #438 to Attawapiskat, and including the taps into the Fort Albany and Kashechewan sub-stations.
- Record and photograph any damage or defects in poles, framing, insulators, guying, hardware connection, etc. that could result in potential line failures.
- Report any dangerous asset conditions to FNEI immediately.
- Prepare a written report and photographs of all findings, including cost estimates for the repair of any damage/defects, and submit to appropriate FNEI within thirty (30) days of inspection flight.

2.2.2 Pre-planned Maintenance Services

- As requested by FNEI, provide prices to perform maintenance services on the transmission line.
- Perform maintenance work as per estimates provided.

2.2.3 Non-scheduled Emergency Response Services

- Provide twenty-four (24) hour/ seven (7) days a week (24/7) response to FNEI to investigate reports of power outages or power quality problems related to the Transmission line.
- Attend scene and make repairs in order to restore power or power quality as soon as reasonably possible.

2.3 Exclusions to Pre-planned Maintenance

Weather conditions are assumed "workable"; conditions such as, but not limited to, snow clearing, if required, will be charged to the customer's account.

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Delays outside of the control of HONI staff shall be chargeable to FNEI at HONI commercial rates as set forth in the Purchase Order. These may include but are not limited to, delays in productivity caused by access to Site issues and/or excessive delays in obtaining work protection. All inspections, maintenance, and emergency response services will be performed to HONI standard work methods and procedures unless otherwise specified by the customer. A general outline of these tests standards can be made available upon request.

All major materials required for pre-planned maintenance or non-scheduled emergency response activities.

All costs for on-site board and lodging for HONI staff.

Overtime costs are excluded. Pricing for pre-planned maintenance is based on services as performed during normal HONI hours of 7:30 – 16:00 Monday to Friday, excluding holidays observed by HONI. Work performed outside these hours at the request of the customer are subject to premium charges at HONI commercial rates as set forth in the purchase order.

3.0 SCHEDULE OF WORK

- 3.1 HONI staff will participate in FNEI outage planning meetings to the extent necessary to ensure the work in this Contract is scheduled to the satisfaction of both Parties. The outage schedule is understood to fall between April 1st and November 1st of each year but is subject to change upon mutual agreement.
- 3.2 FNEI shall give HONI advance notice of scheduling requirements either ninety (90) days from the date of required Work where the duration of the required outage is five (5) days or greater, or thirty-three (33) days from the date of the required Work where the duration of the required outage is less than five (5) days.
- 3.3 It is understood that there will be instances where a short notice response from HONS will be requested by FNEI due to circumstances unforeseen by FNEI. HONI will make its commercially reasonable best efforts to accommodate these requests. However, where such instances of advance notification is less than the required notice (3.2) and can be accommodated as deemed by HONI, FNEI will be charged at the HONI premium time rates for all time worked.
- 3.4 If FNEI cancels any pre-planned site visit for any reason within the required notice period (3.2) of the scheduled date of the site visit, then in such case, HONI shall not be held accountable for any failure to perform the work or any damages resulting therefrom and shall be entitled to be paid HONI commercial rates for any reasonable costs incurred as a result of the cancellation. A replacement site visit shall be re-scheduled by mutual written agreement between both Parties. HONI shall re-schedule any pre-planned site visits without unreasonable delay and acting commercially reasonable.

APPENDIX "B" – RESPONSE AND RESTORATION GUIDELINES

Guidelines for response and restoration are not applicable in unsafe travel and work conditions. Commercially reasonable efforts will be made to resolve the problem.

If the supply to an entire community is out or the quality of the main supply is causing customer problems, a response within six (6) hours and restoration within twenty-four (24) hours are the guidelines. Notification requirements to the FNEI Site SPOC shall take place immediately after an initial assessment. The notification shall indicate the forecasted duration of the interruption or service problem. Updates on the estimated restoration time shall occur every six (6) hours or whenever a change in the forecast develops.

Response time is defined as the time taken from the notification of a problem to the actual arrival on the scene is defined as "response time". Restoration time is different from "response time" and will be addressed separately.

1.0 Response Time

The desired response to FNEI transmission line or sub-station problems will vary depending on the situation at the time but generally should follow these guidelines (Note: guidelines do not apply in unsafe travel conditions):

Situations when response time of within six (6) hours would apply:

- For total loss of supply to any community.
- In cases where supply still available, but quality of main supply is causing customer problems (i.e. voltage, frequency, very frequent & continuing automatic reclosures).
- For reports of possible public safety risks endangering lives.

Other situations call for a less urgent response:

- For reports of asset problems not deemed to be a safety or community reliability risk: within next two (2) business days.
- For reports of asset problems that involve critical and/or hard to replace components: within twenty-four (24) hours.

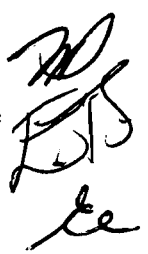
2.0 Restoration Time

Restoration time is defined as the time from notification of a problem to the time that service is restored either through repair, replacement or temporary work. Again, guidelines for restoration time will not apply in unsafe travel and work conditions.

The desired restoration times can vary with the extent of damage, but the contractor will put forth commercially reasonable efforts in restoring service to meet or exceed the guideline limits:

- Failure of Transmission line: within twenty-four (24) hours
- Failure of sub-station transformer in Fort Albany (and Attawapiskat in 2002): within four (4) business days
- Failure of station transformer in Kashechewan, restoration time is affected by the ability to move a transformer from Fort Albany. No guideline can be set – commercially reasonable efforts shall be used to restore full service.
- Failure of other sub-station components including Distribution line, etc. affecting supply: within twenty-four (24) hrs

In all cases above, notification to FNEI Site SPOC shall take place immediately after an initial assessment. The notification will indicate the forecasted duration of the interruption or service problem. Updates on the



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forecasted restoration times shall occur every six (6) hours or whenever a change in forecast develops. After two (2) days, only twice a day updates shall be required at times set by the FNEI Site SPOC.

A handwritten signature in black ink, appearing to be "L. B. Le", is located in the bottom right corner of the page.

APPENDIX "C" – FACILITY DESCRIPTION

1.0 INTRODUCTION

FNEI owns and operates a 138 kV electricity transmission grid up the West Coast of James Bay to Attawapiskat. The approximately 190 kilometres grid extends from the existing wood pole structure #438 near Moosonee to the First Nation community of Attawapiskat, with intermediate substations at the communities of Fort Albany and Kashechewan.

2.0 FACILITY DESCRIPTION

2.1 Transmission Line

A 138 kV single circuit line, tapped at the Hydro One Networks Inc. (HONI) line near Moosonee, using wood poles. Approximate line lengths are as follows:

- | | |
|---|--------|
| • Wood pole structure #438 to Fort Albany | 79km |
| • Fort Albany to Kashechewan | 11 km |
| • Kashechewan to Attawapiskat | 100 km |

2.2 Substations

Three high voltage substations are constructed at Fort Albany, Kashechewan and Attawapiskat respectively. Each of the substations contain a power transformer, shunt reactors, high voltage and low voltage switching equipment, connections to the high voltage and distribution lines, protection and control facilities and associated ancillary equipment and facilities. Distribution feeders connect to the existing distribution systems.

3.0 GENERAL TECHNICAL CHARACTERISTICS

3.1 Standards

The transmission system is designed, tested and commissioned in compliance with:

- CSA Standards
- Ontario Hydro's Connection Procedures and Requirements for Customers above 50 kV (Second Edition, 1989)
- The Regional Inspection Authority

3.2 Electrical

Voltage 138 kV \pm 10%

BIL 550 kV

550 kV for equipment, 650 kV for transmission line

Reactive Compensation to limit voltage step change to 4%.

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Maximum short circuit level (MVA) on 138 kV.

- Fort Albany 85
- Kashechewan 81
- Attawapiskat 63

Maximum short circuit level (MVA) on low voltage bus

- Fort Albany (on 8 kV bus) 39
- Kashechewan (on 8 kV bus) 38
- Attawapiskat (on 4.16 kV bus) 34

3.3 Equipment Ratings

3.3.1 Transformers

- Voltage Ratio:
Fort Albany and Kashechewan - 132 kV/8.0 kV
Attawapiskat - 132 kV/4.16 kV
- Rating: 6/8/10MVA, or 7.5/10 MVA
- Connection : delta, grounded wye
- Off-load taps: 4 taps, 2.5% each

3.3.2 Shunt Reactors

- Fort Albany: 2 x 3.4 MVAR
- Kashechewan: none
- Attawapiskat: 1 x 2.5 MVAR

3.4 Environmental

- Minimum Temperature: -38°C
- Line Design Loading Conditions:
 - Ice Thickness: 12.7mm
 - Wind Pressure: 385 N/mm²
 - Temperature: -18°C
- Lightning Protection Shield Angle: 35°

4.0 TRANSMISSION LINE DESIGN

4.1 Design

The transmission line design is generally be a single wood pole supporting the phase conductors in a triangular configuration and an overhead ground wire.



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4.2 Route

The transmission line route has been defined on the basis of the line survey project. The approximate total length of the transmission line is as follows:

•	Wood pole structure #438 to Fort Albany	79 km
•	Fort Albany to Kashechewan	11 km
•	Kashechewan to Attawapiskat	100 km
	Total	270 km

4.3 Technical Characteristics

- **Conductor** - 4/0 AWG ACSR Code Name "Penguin".
- **Shieldwire** - Galvanized steel stranded 7 x 2.8 mm.
- **Insulators** - Polymer.
- **Clearances** - Maximum temperature 49°C or 0.5 inch of ice (in accordance with CSA-C22.3 No. 1).

5.0 SUBSTATION DESIGN

5.1 General Arrangement and Location

Each of the 3 substations is a fully fenced and self-protected outdoor substation and suitably located for access. The respective locations are as follows:

- Fort Albany substation - Anderson Island, across from the old diesel station (Ref. Drawing 012111-003);
- Kashechewan substation - Adjacent to the existing diesel station (Ref. Drawing 012111-002);
- Attawapiskat substation - Southeast corner of the city limits (Ref. Drawing 012111-001).

Station arrangements implement the requirements of the corresponding single line diagrams. The station bus and equipment provide full access to the individual equipment and their maintenance. Space is provided for the transport of the major equipment such as transformers and reactors.

The stations are shielded against direct lightning strikes and are provided with appropriately dimensioned grounding grids and drainage.

The oil-filled transformers are provided with an oil separation basin and drain to an oil/water separator pit to protect the environment. Similar provisions are also made for any oil filled shunt reactors.

Two spare transformers are provided and located at Fort Albany and Attawapiskat respectively. These transformers, although fully assembled, are not connected to the station bus.

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6.0 PROTECTION, CONTROL AND OPERATION

6.1 General

Each station is designed for local protection, control, and supervision. In addition, the stations are suitable for telecontrol and monitoring through a SCADA system at the Fort Albany substation.

Each station is provided with billing metering system at the low voltage feeder terminals.

6.2 Protection Systems

The transmission line protections are zoned such that any occurring faults on the Kashechewan-Attawapiskat line are cleared at Kashechewan while faults on the Moosonee-Kashechewan line are cleared at Moosonee.

Protection systems are provided for each transformer, reactor and low voltage feeder.

7.0 LIST OF PRIMARY EQUIPMENT

Please refer to Table 1 for list and quantities of primary equipment in the respective substations.

TABLE 1 - PRIMARY EQUIPMENT BY SUBSTATIONS

ITEMS No	DESCRIPTION	FORT ALBANY SUBSTATION	KASHECHEWAN SUBSTATION	ATTAWAPISKAT SUBSTATION
1	Power Transformer 132 kV, 6/8/10 MVA or 7.5/10 MVA c/w Bushing CT's	2	1	2
ITEMS No	DESCRIPTION	FORT ALBANY SUBSTATION	KASHECHEWAN SUBSTATION	ATTAWAPISKAT SUBSTATION
2	Shunt Reactor 138 kV c/w bushing CT's	2	0	1
3	138 kV Circuit Breaker c/w Bushing CT's	0	1	0
4	138 kV Circuit switcher complete with vertical break Disconnect Switch	3	1	2
5	3 Phases Vertical Break, 138 kV Disconnect Switch	1	2	1

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	c/w ground switch			
6	Capacitive Voltage Transformer, single phase	1	3	1
7	Lightning Arrester	9	3	6
8	Low Voltage feeder Switchgear c/w PT's & CT's for Metering and Protection	2	1	1
9	Station service transformer	1	1	1

APPENDIX "D": LIST OF CONTACTS**A) FNEI:**

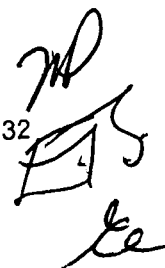
SINGLE POINT OF CONTACT	ALTERNATE CONTACT	MAILING ADDRESS
Name, Title & Contact Information	Name, Title & Contact Information	
Cecil MacDonald Transmission Manager Phone: 705 268 0056 Cell: 705 266 4827 Fax: 705 268 0071 E-mail: cecmac@ntl.sympatico.ca	Ed Chilton Project Co-ordinator Phone: 519 529 3632 or 705 658 4222 Fax: 519 529 1103 or 705 658 4250 E-mail: echilton@hurontel.on.ca	Five Nations Energy Inc. 70-C Mountjoy Street North Suite 421 Timmins, Ontario P4N 4V7

B) HONI:

SINGLE POINT OF CONTACT	ALTERNATE CONTACT	MAILING ADDRESS
Name, Title & Contact Information	Name, Title & Contact Information	
Samantha Mueller, External Business Program Officer Central Operations and Stations Support Phone: 416 345 6426 Cell: 416 884 6426 Fax: 416 345 6197 E-mail: sam.mueller@HydroOne.com	Godfrey DeSira, Manager Central Operations and Stations Support Phone: 905 421 3243 Cell: 416 526 0381 Fax: 905 839 0492 E-mail: godfrey.desira@HydroOne.com	Hydro One Networks Inc. 483 Bay Street 8th Floor, South Tower Toronto, Ontario M5G 2P5

APPENDIX "E": CUSTOMER AUTHORIZATION & WORK REPORT FORM

Completed copies to: 1. Customer 2. Hydro One Networks Contract Management 3. Hydro One Networks Finance	This form is to be used for all work for customers other than Hydro One Network management when: 1) There is out-of-scope work / charges to an existing fixed price P.O., or 2) The work is against a Time and Materials P.O.	
Customer Info (to be completed by Hydro One Networks staff receiving request or identifying "extra" charge)		
Customer Name	Purchase Order #	Other Customer reference:
Authorized by (Customer Rep):	Date Initiated:	Date Required:





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Description of Work required / additional charges:	New	work	Additional	work	Delay	Charges

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F.T.S.
34 of 32
[Signature]

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Additional documentation attached


35 of 32


EXECUTION COPY

Hydro One Networks Info (to be completed by Hydro One Networks staff receiving request or identifying "extra" charge)

RD
LTS.

LC

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Received by:

Emergency work

EXECUTION COPY

Ongoing work

A handwritten signature in black ink, appearing to be 'MD' followed by a stylized flourish.A handwritten signature in black ink, appearing to be 'do'.

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To be scheduled

EXECUTION COPY

Hydro One Networks Work Order & Task number:	Cost Centre	Scheduled Date:
Work Report / Extra Charges (to be completed by Hydro One Networks staff performing work)		
Description of work performed		

[Handwritten signature]
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Input made direct into Customer's system

Additional documentation attached

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Time / Sundry Charges: (Labour rates at HONI commercial rates as outlined in customer PO. Taxes Extra)					
	Straight time hrs	Time and a half hrs	Double time hrs	Amount (\$)	Comments (attach additional info as req'd)
Trades					
P&C					
Doble Tech					
TWE		@ Rate: \$			
TWE		@ Rate: \$			
Sundry					
Equip Rentals					
Material					
Total					
Completed by			Hydro One Networks FLM Signature		Customer Agent's Signature
Date:			Date:		Date:

[Handwritten signatures and initials]

THIS THIRD INTERIM EXTENSION AGREEMENT is dated as of the 25th day of February 2005.
BETWEEN:

FIVE NATIONS ENERGY INC.,
a non-share corporation validly existing under the laws of Canada,
having its registered office at
70-C Mountjoy Street North, Suite 421, Timmins, Ontario P4N 4V7
(hereinafter referred to as "FNEI")

and

HYDRO ONE NETWORKS INC.,
a corporation incorporated and organized under the laws of Ontario,
having its registered address and principal place of business at
483 Bay Street, 10th Floor, South Tower, Toronto, Ontario M5G 2P5
(hereinafter referred to as "HONI").

WHEREAS FNEI and HONI are Parties to the Maintenance Services Contract dated January 1, 2003, (the "Contract");

AND WHEREAS the Contract states that it shall expire on December 31, 2004 ("Expiry Date"), unless it is extended by written consent of both Parties in accordance with Sections 5.1 and 5.2 thereof;

AND WHEREAS the Parties are presently engaged in discussions in respect of a new agreement whereby HONI will continue to provide maintenance services to FNEI beyond the Expiry Date. The Parties hope that such agreement will be finalized in early 2005.

AND WHEREAS the Parties entered into an interim extension agreement dated as of December 21, 2004 to provide for an extension of the Contract on an interim basis ("First Interim Extension Agreement"). The First Interim Extension Agreement expired on January 31, 2005 before the Parties could conclude their negotiations.

AND WHEREAS the Parties entered into an interim extension agreement dated as of January 27, 2005 to provide for a further extension of the Contract on an interim basis ("Second Interim Extension Agreement"). The Second Interim Extension Agreement expires on February 26, 2005 before the Parties expect to could conclude their negotiations.

AND WHEREAS the Parties wish to provide for a further extension of the Contract, on an interim basis, on the terms set out in this third interim extension agreement ("Third Interim Extension Agreement") in order to permit the Parties further time to attempt to conclude their negotiations.

NOW THEREFORE, in consideration of the mutual covenants set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto covenant and agree as follows:

1. All capitalized terms used herein but not otherwise defined shall have the meanings attributed to them in the Contract.
2. The Term of the Contract is hereby extended from the Expiry Date such that the Contract shall now expire at 11:59:59 PM Toronto time on March 31, 2005 (the "Third Interim Extended Term"), unless it is further extended by mutual agreement of the Parties;
3. The Contract is hereby amended such that, notwithstanding anything else, commencing March 1, 2005, the Contract Prices in effect during the Third Interim Extended Term shall be in accordance with the proposal annexed and marked as Appendix "A" to the First Interim Extension Agreement.

4. Except as specifically noted in this Third Interim Extension Agreement, all other terms, provisions and covenants of the Contract shall remain in full force and effect during the Third Interim Extended Term. This Third Interim Extension Agreement, and the terms hereof, shall be binding on the Parties and the successors and permitted assigns of their respective rights and obligations under the Contract. The terms of this Third Interim Extension Agreement shall prevail over any conflicting or inconsistent terms under any previous agreement to the extent of such conflict or inconsistency.
6. This Third Interim Extension Agreement, or any amendment to it, may be executed in two or more counterparts, each of which shall be deemed to be an original agreement, and all of which shall constitute one agreement. All counterparts shall be construed together and shall constitute one and the same agreement. Any delivery of an executed copy of this Third Interim Extension Agreement by way of telecopy or facsimile shall constitute delivery hereof, provided that any party delivering by way of telecopy or facsimile shall, as soon as reasonably practicable, deliver the original executed copy to the other party.

IN WITNESS HEREOF the Parties have, by their duly appointed representatives, each of which have the authority to bind the Parties, executed this Third Interim Extension Agreement on the day and year first written above.

Five Nations Energy Inc.

By:
Name:
Title:



Hydro One Networks Inc.

By: _____
Name: Myles D'Arcy
Title: Vice President, Station & Remotes

SCHEDULE B

HYDRO ONE NETWORKS INC. - GRID OPERATIONS

STATION SERVICES 2010 COMMERCIAL RATES

Commercial Hourly Rates			
Maintenance, Repair & Technical Services	Straight Time Hourly Rate	Premium Hourly Rate #1	Premium Hourly Rate #2
Protection & Control (P&C) – incl. Doble Tech.	\$ 188	\$ 226	\$ 263
Electrical/ Mechanical	\$ 158	\$ 190	\$ 221
Technical Services	\$ 230	\$ 276	\$ 322

Notes:

1. Prices are based on an hourly rate as indicated above, subject to minimums.
2. Straight Time rates applicable from Monday- Friday 7:00a.m. - 3:30 p.m.
3. Premium Rate #1 applicable from Monday - Friday 3:30 p.m. - 5:30 p.m.
4. Premium Rate #2 applicable all other times including all day weekends and holidays.
5. Prices exclusive of site transportation charges and are extra if applicable.
6. Material charges if required are based on cost plus a 20% administration fee.
7. Exclusive of taxes and are extra if applicable.
8. Prices subject to change please reconfirm with Hydro One Networks Inc.
9. Payment terms are Net 30 days.
10. Subject to Hydro One Networks Inc. Standard Terms and Conditions of Sale of a Product or Service (Schedule A)

38. Ref: Ex 4/T 2/S1/p.8 – Meter Service Provider Contract

Please provide a copy of the Meter Service Provider contract with HONI.

RESPONSE

Please see attached.

Hydro One Networks Inc.
6115 Danville Road
Mississauga, On L5T 2H7
www.HydroOne.com

Tel: (905) 565-7852
Fax: (905) 564-0206



Paul Szymanski
Team Lead - MSP Customer Management
Metering and Technical Services
Grid Operations

February 3, 2010

Proposal Reference No.: FN-03-70151 (2010-2013)

MR. LARRY BROOKSBANK
11 Byron Crescent
Barrie, Ontario
L4N 6G6

Tel: (705) 737-9170
Fax: (705) 737-9283

Subject: Proposal for Ongoing MSP Support for the Wholesale Revenue Metering at Five Nations Fort Albany, Kashechewan and Attawapiskat Transformer Stations (TS), June 1, 2010 to May 31, 2013

Dear Mr. Brooksbank:

HONI MSP is pleased to provide this proposal for on-going metering service provider support for three (3) wholesale revenue metering points at Fort Albany, Kashechewan and Attawapiskat for an additional three (3) year term June 1, 2010 to May 31, 2013.

Item	Metering Installation Description	No. of Metering Installations
1	Attawapiskat CTS, MPID 1000016760 / 61	1
2	Fort Albany CTS, MPID 1000019660 / 61	1
3	Kashechewan CTS, MPID 1000002230 / 31	1
Total No. of Metering Installations:		3

The following details our proposed scope of work and budgetary price and commercial rates for demand work.

Scope of Work

Baseline MSP Service

We will provide the following budgetary price baseline MSP services on a commercially reasonable basis for the subject wholesale revenue metering installation in accordance with the IESO's current Market Rules Chapter 6, Appendix 6.1, Section 1.3, including:

- Trouble call response (diagnostic assessment only) by the HONI Central Metering Meter Trouble Desk
- Conduct routine tests and maintenance
- Provide technical assistance
- Provide support for investigations and tests
- Maintain records of inspection and audit
- Maintain records of meter data and specifications
- Assist with end-to-end testing as required
- Obtain IESO approvals for changes to the metering installation
- Data recovery assistance
- Inventory management of the spare meters as required by the restoration plan
- Annual metering installation inspection – "Recommended Best Practice"

Demand MSP Services

We will provide the following demand services for the subject wholesale revenue metering installation, only when requested, at HONI commercial rates:

- a) all Field P&C costs to resolve and effect any repairs that may be required for the resolution of Meter Trouble Reports
- b) all costs for IESO audits or audits that may be requested by the Metered Market Participant (MMP) Customer
- c) all costs for any new installations or other work that may be requested by the client
- d) data reporting to parties other than the IESO and MMP Customer
- e) submission of Exemptions to the IESO, if required

The MMP customer is responsible for paying all telecom communication costs for the metering installation(s).

Pricing

Monthly Budgetary Price for Baseline MSP Service

The monthly budgetary price for the baseline MSP service described above for the subject wholesale revenue metering points is **\$450 per metering point per month**, all taxes extra. Demand work fees are estimated to be 20% of monthly budgetary price.

Budgetary Price and Demand Work Estimate		
Service Item	Calculation	Price
Baseline MSP Service		
Monthly Budgetary Price Baseline MSP Service for Three (3) Metering Points	A ($\$450 \times 3$)	\$1,350
Annual Budgetary Price Baseline MSP Service	B ($A \times 12$)	\$16,200
Demand MSP Service above Baseline Support (20% of baseline cost - estimate)	Annual Estimate - C	\$3,240
Total Budgetary Estimate for Baseline and Demand Work - Three (3) Year Term	$B \times 3 + C \times 3$	\$58,320
<i>All taxes are extra.</i>		

Monthly Budgetary Price Qualification:

To maximize efficiencies for planned budgetary price work, Five Nations has requested HONI to leverage the travel and per diem costs paid under the Five Nations - HONI Stations Maintenance Contract for the planned MSP annual metering installation inspection noted in the above baseline price scope of work item k).

Therefore, the monthly budgetary price for MSP support is based on the following two conditions being met for all annual metering installation inspections:

1. The annual metering installation inspection is scheduled in conjunction with the annual planned stations maintenance site visit(s); and,
2. The HONI P&C Technician scheduled for such stations maintenance site visits is also qualified to perform the annual metering installation inspection on the same scheduled trip.

HONI will make commercially reasonable efforts to meet the above conditions, however, should either of the two conditions not apply to a planned stations maintenance site visit, then HONI MSP shall separately schedule the planned annual metering installation inspection, and invoice this work, including all travel time and expenses, at HONI commercial rates. Five Nations and HONI are mutually confident that this efficiency will be effectively realized based on past work experience, and that this budgetary price qualification, if actually exercised, is anticipated to be a rare exception to standard practice.

Commercial Labour Rates for Demand Work

The hourly labour rates for the demand service described above are:

Non-Scheduled Work Hourly Rate (2010)		
	Engineering Services	Technical Field Staff
	Vehicle Excluded	Vehicle Included
Regular Working Hours Regular time, Monday to Friday, 07:00 – 15:30	\$230	\$203
Overtime (1st four hours) Monday to Friday 15:30 – 17:00, excluding weekends and statutory holidays	\$276	\$241
All other overtime Monday - Friday 17:30 – 07:00, all weekends and statutory holidays	\$322	\$278
<i>Taxes are extra.</i>		

The above labour rates will be subject to escalation on January 1 for each calendar year of the initial term of the contract, or an extension thereof.

Terms of Payment

Billing will be done monthly based on accomplished scope of work (terms Net 30 days). Expense and material charges are extra and will include an administration fee of 20% for all demand work.

Proposal Validity and Terms and Conditions

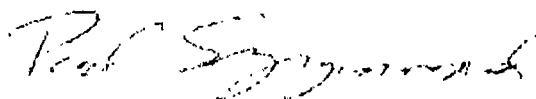
We are quoting the budgetary price baseline contract for on-going MSP support for a term of three (3) years. Either party may request an extension, subject to acceptance by the other party, by providing notification in writing to the other party at least three (3) months prior to the expiration of the initial term of contract, or any extension thereof.

This proposal is valid for your acceptance up to 30 days, at which time it shall automatically expire unless expressly renewed by us in writing. This proposal is in conjunction to the HONI – Five Nations Energy Inc. MSP Contract dated June 1, 2010, which we enclose herewith for your reference.

We look forward to your review and approval of this proposal. If you are in agreement with the terms and conditions of this Proposal, please indicate your acceptance by signing in the space provided and returning a copy of this letter to my attention.

I would be pleased to answer any questions you may have about this proposal.

Yours truly,



Paul Szymanski
Team Lead – MSP Customer Management

cc. J. Stonehouse, Acting Manager, MSP Services, HONI

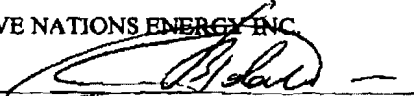
February 3, 2010

ACKNOWLEDGEMENT AND AGREEMENT

The undersigned hereby acknowledges and agrees to the terms and conditions contained in this Proposal.

Dated as of February 3, 2010

FIVE NATIONS ENERGY INC.


Signature

Print Name: Vladimir Govorov C.E.T.

Print Title: Maintenance Supervisor

I have authority to bind the corporation.

THIS ONGOING METERING SUPPORT SERVICES CONTRACT dated as of the 1st day of June, 2010

BETWEEN:

Five Nations Energy Inc. ("Customer"),
a Corporation formed under the laws of Ontario,
having its registered address and principal place of business at Mushkegowuk Council, P.O. Box 370,
Moose Factory, Ontario P0L 1W0 Ontario, Canada

and

HYDRO ONE NETWORKS INC. ("HONI"),
a corporation incorporated and organized under the laws of Ontario,
having its registered address and principal place of business at
483 Bay Street, 10th Floor, South Tower, Toronto, Ontario M5G 2P5.

WHEREAS HONI has provided Customer with a proposal to supply ongoing metering support services as more particularly described in a proposal;

WHEREAS HONI is a Metering Service Provider, and the Customer is a Metered Market Participant under the Market Rules made pursuant to the *Electricity Act, 1998*,

AND WHEREAS Customer and HONI wish to enter into this contract in order to the establish terms and conditions whereby HONI will provide the ongoing metering support services;

NOW THEREFORE, in consideration of the mutual covenants set forth herein and of other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto covenant and agree as follows:

1.0 CONTRACT DOCUMENTS

1.1 HONI and Customer acknowledge and agree that this agreement contains the terms and conditions which set out the rights and obligations of both HONI and Customer and, together with HONI Proposal #FN-03-70151 (2010-2013) dated February 3, 2010 (the "Proposal"), constitute the contract (the "Contract") between HONI and Customer for the sale and purchase of ongoing metering support services (the "Services").

2.0 WARRANTIES

2.1 HONI warrants to the Customer that, except as otherwise provided in the Proposal, the Services sold by HONI to the Customer and purchased by the Customer from HONI hereunder shall be free from defects in workmanship for the period of time specified in the Proposal (the "Warranty Period"). Where no Warranty Period is specified in the Proposal, then the Warranty Period shall deemed to be ninety (90) days from the date of substantial performance of said Services, which substantial performance date shall be determined by HONI in its sole discretion. In the event of any said defects occurring during the Warranty Period, the Customer shall make the product or equipment upon which the Services were performed, available to HONI at a mutually agreed time, and provided HONI is satisfied that such defect exists solely as a direct result of HONI's performance under this Contract, HONI shall repair such defects at its sole expense. HONI shall not be obliged to undertake any repair pursuant to this Section to remedy defects caused by abuse, modifications not executed by HONI, improper or insufficient maintenance, improper operation or normal wear and tear in normal usage. However, for greater certainty and clarity, HONI provides no representation or warranty in respect of any products or equipment related to

the Services, including, but not limited to, meters and other products and equipment manufactured in whole or in part by third parties, and HONI shall not be liable for any losses or damages whatsoever, including but not limited to loss of profit or revenue, loss of use, downtime costs, cost of capital, cost of substitute products, facilities, services or replacement power, penalties, fines, sanctions (including, without limitation those penalties, fines, and sanctions that may be imposed by the Independent Electricity Market Operator, or other similar body), whether or not any damages are indirect, direct or consequential, that may be suffered by Customer as a result of the functioning or malfunctioning of such meters and other products and equipment.

- 2.2 Except as expressly provided herein, HONI makes no representation or warranty, express, implied, statutory or otherwise, including any representation or warranty as to merchantability or fitness for a particular purpose with respect to the Service and any product or equipment related to the Service, including the condition or quality thereof. The express warranties contained in this Contract are in lieu of all other warranties and conditions (express and implied and those arising by statute or otherwise in law or from a course of dealing or usage of trade), including but not limited to warranties or conditions of merchantable quality or fitness for a particular purpose. No other warranties or conditions, express or implied, are given.

3.0 PRICES AND TERM

- 3.1 The price for the Service and any product or equipment related to the Service (the "Price") payable by the Customer to HONI shall be as specified in the Proposal and, except as otherwise provided in the Proposal, shall be in Canadian dollars EX WORKS HONI's location (INCOTERMS 2000) and is exclusive of all applicable taxes, duties, brokerage and freight charges, all of which shall also be paid by the Customer.
- 3.2 Unless this Contract has been terminated in accordance with the herein terms, this Contract shall commence as of June 1, 2010 and end on May 31, 2013 at 11:59 pm ("First Renewal Expiration Date").

4.0 TERMS OF PAYMENTS

- 4.1 Except as expressly stated in the Proposal, HONI shall submit invoices to Customer on a monthly basis, or such other interval as HONI deems appropriate, acting reasonably, and Customer shall make full payment within thirty (30) days of the date of invoice. All payments are due within thirty (30) days from the date of invoice. The Customer shall pay interest to HONI calculated from the date payment is to be made to and including the date the payment is made, at the rate of eighteen percent (18%) per annum.
- 4.2 Notwithstanding any provision to the contrary under this Contract, the Customer hereby covenants and agrees to pay HONI for all invoices in full when due.

5.0 LIABILITY AND INDEMNIFICATION

- 5.1 Except with respect to the repair of defects as provided in Sections 2.1 and 5.3, the Customer shall assume all liability and obligation for any and all loss, damage or injury to persons or property (including loss of life) which would not have happened but for this Contract or anything done or maintained by the Customer hereunder or intended so to be, or anything omitted to be done by the Customer and the Customer shall at all times release, indemnify and hold harmless HONI and its affiliates and their respective successors and assigns, directors, officers, employees, servants, agents or representatives from and against any such loss, damage or injury and all actions, suits, proceedings, prices, charges, damages, expenses, claims and demands

Ongoing Meter Support Agreement

- (a) Loss of profit or revenue, loss of use, cost of capital, downtime costs, cost of substitute products, facilities, services or replacement power, penalties, fines, sanctions (including, without limitation those penalties, fines, and sanctions that may be imposed by the Independent Electricity Market Operator imposed on the Customer, or other similar body);
 - (b) Special, indirect, punitive or consequential damages incurred or suffered by the Customer and/or its successors and assigns, employees, servants, agents, directors, officers, representatives and/or any of its customers or suppliers and/or any other third party claiming through or under the Customer.
- 5.3 The aggregate liability of HONI and its successors and assigns, under this Contract and in particular under Section 2.1, shall at no time exceed an amount equal to the dollars actually received by HONI hereunder. HONI's liability shall terminate upon expiration of the Warranty Period referred to in Section 2.1. Every provision of the Contract, even if inconsistent or conflicting with this Section, shall be subject to the overall aggregate limitation of liability specified herein, except to the extent that such inconsistent or conflicting provisions further restrict the liability of HONI and its successors and assigns. This limitation of liability is intended to limit the liability of HONI and its successors and assigns by applicable federal, provincial or municipal laws, statutes, regulations, codes and standards. This limitation of liability shall apply to all claims arising out of or in connection with this Contract, whether based on warranty, tort (including but not limited to negligence or misrepresentation), strict liability or otherwise. The parties acknowledge that Sections 5.1, 5.2, and 5.3, in conjunction with all of the other provisions of this Contract, fairly and reasonably allocate the risks between parties, and that the Price and other financial arrangements reflect this allocation of risk. The parties further agree and acknowledge that the exclusions and limitations of liability set out in this Contract are fair and reasonable in the commercial circumstances, such that the exclusions and limitations have been, in part, an inducement to each party, and that neither party would have entered into this Contract but for such exclusions and limitations.
- 5.4 Both parties acknowledge and agree that clauses 5.1, 5.2 and 5.3 shall survive termination or expiry of this Contract and/or cancellation of any request for the Service.
- 6.0 REMEDIES FOR DEFAULT**
- 6.1 A party shall be in default under this Contract upon occurrence of any of the following:
 - (a) failure by a party to pay any amount due under this Contract;
 - (b) breach by a party of any term, condition or covenant of this Contract; and
 - (c) a party becomes insolvent or bankrupt or unable to pay its debts as they fall due or any bankruptcy, reorganization, debt arrangement or other proceeding under any bankruptcy or insolvency law being instituted by or against the said Party.

- 6.2 In the event that a party is in default under this Contract, and has failed to cure such default within a reasonable period after written notice by the non-defaulting party in respect thereof (or take such reasonable steps to cure such default as a reasonable party ought to), then the non-defaulting party shall, in addition to any other rights and remedies it may have at law or in equity, have the right to terminate this Contract upon written notice to the defaulting party. However, notwithstanding the preceding sentence, the non-defaulting may terminate this Contract immediately upon written notice to the defaulting party in the case of an event under sub-Section 6.1(c).
- 6.3 (a) The defaulting party agrees to pay all charges, including legal or other fees and expenses reasonably incurred by the other party by reason of the default hereunder or otherwise in enforcing this Contract; and
- (b) Where the Contract has been terminated by either party pursuant to Section 6.2, above, the Customer shall immediately pay all amounts payable for Services and any product or equipment related to the Service that have been provided up to the date of termination. In addition, in the event of termination by HONI pursuant to Section 6.2, above, the Customer shall pay all other amounts calculated pursuant to Section 8.1 as if the Customer had cancelled the Contract.
- 6.4 All rights and remedies of the non-defaulting party provided herein are not intended to be exclusive but rather are cumulative and are in addition to any other right or remedy otherwise available to such party at law or in equity, and any one or more of such party's rights and remedies may from time to time be exercised independently or in combination and without prejudice to any other right or remedy such party may have or may have exercised. The parties further agree that where any of the remedies provided for and elected by the non-defaulting party are found to be unenforceable, such party shall not be precluded from exercising any other right or remedy available to it at law or in equity.

7.0 FORCE MAJEURE

- 7.1 HONI shall not be deemed to be in default of this Contract where the failure to perform or the delay in performing any obligation arises from or is due wholly or in part to a cause beyond its reasonable control, including but not limited to an act of God, acts of a public enemy, act of any federal, provincial, municipal or government authority, civil commotion, strikes, lockouts and other labour disputes, fires, floods, war, explosion, malicious acts, vandalism, sabotage, earthquakes, storms, epidemics. In an event of force majeure, HONI shall promptly notify the Customer of its inability to perform or of any delay in performing due to an event of force majeure and shall provide an estimate, as soon as practicable, as to when the obligation will be performed. The time for performing the obligation shall be extended for a period equal to the time during which HONI was subject to the event of force majeure. Where the extension required is at least forty-five (45) days and HONI and the Customer have not agreed upon a revised basis for performing the obligation, then either party may, upon written notice to the other party, terminate this Contract and the Customer shall pay to HONI the Cancellation Fees determined in accordance with Section 8.0.

8.0 CANCELLATION FEES

8.1 The Customer shall be entitled to cancel any request for a Service and any product or equipment related to the Service after execution of the Proposal and related Purchase Order by providing written notice to HONI and in the event the Customer exercises this right of cancellation, the Customer shall pay to HONI, by no later than fifteen (15) days after issuance of an invoice therefor by HONI the following amounts:

- (a) All outstanding amounts and any amounts billed for performance up to and including the effective date of cancellation;
- (b) ten percent (10%) of the unbilled portion of the Price; and
- (c) the total of all costs and expenses incurred by HONI in relation to the cancellation including, but not limited to, the following:
 - (i) material and labour costs and indirect expenses; and
 - (ii) any undertakings or commitments by HONI that cannot be reasonably avoided.

9.0 CONFIDENTIALITY

9.1 The Customer and HONI agree to maintain all information and material that may be provided to the other in relation to the Service and any product or equipment related to the Service, or otherwise obtained by either party in the course of purchasing the Service and any product or equipment related to the Service, in strict confidence for a period two (2) years following disclosure thereof, and, where the other party is an entity, to disclose this information and material only to those of its employees having a need to know same and who have agreed in writing to be bound by and comply with this Section. Subject to the preceding sentence, neither party shall use the said information and material for any purpose other than for the intended use of the Service and any product or equipment related to the Service and shall not publish, reproduce, copy, disseminate or disclose the said information and material to others without the prior written consent of the other party. Notwithstanding any disclosure of said information and material by either party, the owner of the information and material shall retain all right, title and interest in and to the information and material.

10.0 SHIPMENTS

10.1 Where shipment of any product or equipment related to the Service is specified in the Proposal, in the event that the shipment is delayed as a result of any act or omission by the Customer, its servants, agents, employees or representatives, or in the event that the shipment is refused by the Customer or rendered impracticable or impossible by reason of the Customer's premises not being ready for receipt of the product or equipment for whatever reason, the Customer shall be responsible for all costs and expenses in relation to such shipment.

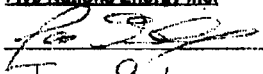
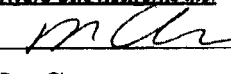

11.0 GENERAL

- 11.1 Unless expressly stated otherwise in the Proposal, HONI shall adhere to its own usual and customary rules and procedures that are applicable, if any, with respect to safety, equipment operation, training or other similar matters in connection with products or services being provided. The Customer covenants and agrees to indemnify and save HONI harmless for any costs and expenses incurred in connection with any requirements of the Customer that are in excess of HONI's usual and customary rules and procedures.
- 11.2 This Contract and the rights and obligations of the parties shall be governed by and interpreted in accordance with the laws of the Province of Ontario and of Canada applicable therein, as if performed wholly within Ontario and without giving effect to the principles of conflict of law, and the parties hereto irrevocably attorn to the exclusive jurisdiction of the courts of competent jurisdiction in the City of Toronto, Ontario in the event of any dispute hereunder.
- 11.3 Except as expressly provided herein, no amendment, modification or supplement to this Contract shall be valid or binding unless set out in writing in the Proposal and executed by the parties.
- 11.4 Neither this Contract nor any of the rights and obligations contained herein shall be assigned by the Customer without HONI's prior written consent. Notwithstanding any other provision of this Contract, HONI may assign all of its rights and benefits and delegate all of its duties and obligations or other liabilities under this Contract to any other wholly-owned subsidiary in Canada ("Assignee") of Hydro One Inc., in which event such Assignee shall be substituted for all purposes for HONI as a party to this Contract and HONI shall thereby be forever released and discharged from the performance of all such duties, obligations or other liabilities under this Contract. Subject to the foregoing, this Contract shall extend to, be binding upon and enure to the benefit of the parties hereto and their respective successors and assigns.
- 11.5 If any provision of this Contract is declared invalid or unenforceable by competent authority such provision shall be deemed severed and shall not affect the validity or enforceability of the remaining provisions of this Contract, unless such invalidity or unenforceability renders the operation of this Contract impossible.
- 11.6 The failure of either party to exercise any right, power or option or to enforce any remedy or to insist upon the strict compliance with the terms, conditions and covenants under this Contract shall not constitute a waiver of the terms, conditions and covenants herein with respect to that or any other or subsequent breach thereof nor a waiver by the party at any time thereafter to require strict compliance with all terms, conditions and covenants hereof, including the terms, conditions and covenants with respect to which the party has failed to exercise such right, power or option. Nothing shall be construed or have the effect of a waiver except an instrument in writing signed by a duly authorized officer of the party which expressly or impliedly waives a right, power or option under this Contract.
- 11.7 In the event of any conflict or inconsistency between the Proposal and the terms and conditions in this agreement, the terms and conditions herein shall prevail, unless the Proposal expressly states that a particular term or condition of the Proposal shall prevail over this agreement. Any terms and conditions in any related purchase order, order acknowledgement/request, confirmation, or similar form or document, whether or not any such document is signed by the parties before or after the date of this Contract, shall have no force or effect if such terms and conditions are inconsistent with or in conflict with any of the terms and conditions of the Contract.

- (a) If delivered by hand, upon receipt;
- (b) If delivered by electronic transmission, forty-eight (48) hours after the time of transmission, excluding from the calculation weekends and public holidays;
- (c) If delivered by registered mail, six (6) days after the mailing thereof, provided that if there is a postal strike such notice shall be delivered by hand.

Either party may change its addressee and its address from time to time by giving written notice of such change to the other party in accordance with this Section.

IN WITNESS HEREOF the Parties have, by their duly appointed representatives who each have the authority to bind the Parties, executed this Contract on the day and year first written.

<u>Five Nations Energy Inc.</u>		<u>Hydro One Networks Inc.</u>	
By: 	By: 		
Name: <u>Joe Gabeury</u>	Name: <u>Dave Clare</u>		
Title: <u>Chief Executive Officer</u>	Title: <u>Manager, Metering & Technical Services</u>		
Date: <u>April 8/10</u>	Date: <u>April 20, 2010</u>		
By: 		By: _____	
Name: <u>Vladimir Gaborov</u>	Name: _____		
Title: <u>Maintenance Supervisor</u>	Title: _____		
Date: <u>April 8th, 2010</u>	Date: _____		

39. Ref: Ex 4/Tab 2/S1/p.9/lines 4-9 – Right-of-Way (ROW) Maintenance

Preamble: FNEI intends to undertake a ROW clearing program beginning in 2011. FNEI indicates in evidence that it may amortize these costs over subsequent years in order to avoid a spike in one year's expenditures.

Request:

- (a) Please indicate if FNEI is forecasting any amount with respect to ROW clearing in 2010.**
- (b) Has FNEI prepared a budget and/or plan with respect to its ROW clearing program? Were there costs associated with preparing this information? If so, please file estimates and associated materials.**

RESPONSE

- (a) There is no planned clearing in 2010. There could be emergency clearing to address any tree threats identified by aerial patrols.
- (b) The ROW clearing program plan has not been prepared at this time. The year 2010 will be used to assess the degree of growth and location (as tree growth is not uniform along the ROW due to soil conditions). With this aerial assessment, a prioritization of the ROW clearing will be established and an assessment of what should be done annually beginning in 2011. The costs to develop this program have not been incurred yet.

40. Ref: OEB's Filing Requirements for Transmitters and Distributors, s.2.5.5; Ex 4/T2/S2/p.7; Ex 4/T2/Sch/ 3/p.1 – Account 5410 - Community Relations Sundry

Preamble: With respect to charitable donations, the Board indicates in its filing requirements that:

“The recovery of charitable donations will not be allowed for the purpose of setting rates, except for contributions to programs that provide assistance to the distributor's customers in paying their electricity bills and assistance to low income consumers. If the applicant wishes to recover such contributions, it must provide detailed information for such claims. The applicant must review the amounts filed to ensure that all other non-recoverable contributions are identified disclosed and removed.”

Request:

With respect to Preamble (3), please indicate any amounts in Account 5410 in the 2010 test year are related to charitable work, or community events, and provide an explanation for the basis for the recovery of these amounts from ratepayers, including their ability to improve a customer's ability to reduce their usage costs or otherwise pay their utility bill.

RESPONSE

Of the \$86,000 forecast for Account 5410, certain amounts would likely be considered as “community events” that would not be targeted at providing assistance to customers to reduce their electricity bills or assisting low income consumers. These amounts total \$31,225 and is made up of \$10,000 for sponsorship of Creefest, \$12,000 in scholarships for local students, and \$9,225 for other sponsorship of educational or sporting events.

The remainder of the \$86,000 do contribute to providing assistance to customers in paying electricity bills and assistance to low income consumers. These measures include promotional items (e.g., light bulbs) coupled with educational materials and newsletters translated into Cree.

41. Ref: Ex 4/T2/S1/p.12/lines 13-16 – Employee on long-term disability

Preamble: FNEI evidence states that, “[Account 5610 – Management Salaries and Expenses] in the past has included the salary and benefits of a Transmission Manager, but FNEI’s employee that held this position has been on long-term disability since December 2008.”

Questions/Requests:

- (a) If the salary and benefits of the Transmission Manager are no longer included in this account, what is the source of the long-term disability funding?**
- (b) If the source of the long-term disability is not currently paid for by FNEI, please indicate if the insurance payments will cease at some later date and become the liability of the company. If the opposite case is true, please explain.**
- (c) Does FNEI intend to bring back the former Transmission Manager, or to hire someone to replace this position? Is this amount factored into FNEI’s proposed overall 2010 forecast OM&A budget?**

RESPONSE

- (a) Benefits are paid out under FNEI’s group insurance plan.**
- (b) The insurance policy covers the Transmission Manager for as long as he is ill.**
- (c) As of March, a full-time replacement was hired and it is reflected in the 2010 forecast OM&A budget.**

42. Ref: Ex 4/T2/S1/p.10-11; Ex 4/T2/S2/p.6 – Account 5335 - Bad Debt

Preamble:

(1) FNEI discusses certain bad debts at p.10-11 of the reference. FNEI was directed by the Board to add its operating costs to the price that it charged to distribution companies. FNEI claims that the distribution companies in FNEI's service territory had no cash reserves in place to cover the additional cost of pancaked transmission costs. FNEI was forced to carry significant accounts receivable for quite some time, eventually writing off the unpaid amounts. Activity in this Account in previous years shows some of the bad debt recovery that did take place. Going forward, FNEI states that it anticipates no activity in this Account.

(2) At the same reference, FNEI states that, "An allowance of \$904,000 was made in this account in the last quarter of 2002. While a certain portion of this amount was recovered in subsequent years, FNEI decided to cease collection efforts for the outstanding amounts in 2007, as these activities negatively impacted Fort Albany Power Corporation's and Kashechewan Power Corporation's ongoing operations.

Request:

(a) Please provide the total amount of bad debt written off of the \$904,000 allowance. Also provide the total amount which was subsequently recovered in future years, and any revision to the allowance for doubtful accounts or bad debt expense.

(b) Are there corresponding bad debt amounts which the served distributors have written off as unrecoverable from customers? If not, please explain.

(c) In Preamble (2), FNEI indicates that it ceased collection efforts as it "negatively impacted FAPC and KPC ongoing operations". Please describe yearly efforts, in dollars, spent on bad debt collection efforts.

RESPONSE

(a) See attached. The attachment outlines the charges (recoveries) by customer to the allowance for doubtful accounts. The allowance for doubtful account is determined on a specific item basis. The only time that accounts receivable was ever written off was in the fourth quarter of 2008. As the amounts written off had already been included in the doubtful accounts, the write off had no effect on bad debts expense.

(b) FNEI is not privy to confidential information about the LDC's bad debt sources.

(c) There was not a great deal of money spent on collection. FNEI was in regular contact with the LDCs via phone, email and meetings, and would follow up regularly.

Five Nations Energy Inc.
Details of Allowance for Doubtful Accounts
For the years 2002 to 2009

<u>Period</u>	<u>FAPC</u>	<u>KPC</u>	<u>AFN</u>	<u>APC</u>	<u>KFN</u>	<u>FAFN</u>	<u>Other</u>	<u>Acct. Rec. Write off</u>	<u>Bad debts Expense</u>	<u>Allowance Balance</u>
Opening	-	-	-	-	-	-	-	-	-	-
2002Q4	706,500.08	197,821.65	-	-	-	-	-	-	904,321.73	904,321.73
2003Q4	-	11,888.00	37,777.37	-	-	23,535.35	-	-	73,200.72	977,522.45
2004Q1	12,629.03	5,474.72	-	-	-	-	-	-	18,103.75	995,626.20
2004Q2	(9,123.46)	8,156.94	-	-	-	-	-	-	(966.52)	994,659.68
2004Q3	(3,505.57)	-	-	-	-	-	-	-	(3,505.57)	991,154.11
2004Q4	(8,333.34)	-	(37,777.37)	116,112.52	-	-	-	-	70,001.81	1,061,155.92
2005Q1	(7,898.34)	3,564.34	-	-	-	-	-	-	(4,334.00)	1,056,821.92
2005Q2	27,412.54	21,056.81	-	(35,035.68)	-	-	-	-	13,433.67	1,070,255.59
2005Q3	(11,103.26)	470.52	-	(5,522.11)	-	-	-	-	(16,154.85)	1,054,100.74
2005Q4	(9,073.62)	(1,180.04)	-	(3,440.84)	600.00	-	-	-	(13,094.50)	1,041,006.24
2006Q1	-	-	-	-	9,570.00	-	-	-	9,570.00	1,050,576.24
2006Q3	(643.76)	45,824.64	-	45,335.06	-	-	7,925.00	-	98,440.94	1,149,017.18
2006Q4	(22,636.78)	(11,452.19)	-	(117,448.95)	-	-	(7,925.00)	-	(159,462.92)	989,554.26
2007Q1	-	15,000.00	-	-	-	-	-	-	15,000.00	1,004,554.26
2007Q2	380.00	(11,620.73)	-	-	-	-	-	-	(11,240.73)	993,313.53
2007Q4	(52,283.91)	1,965.05	-	-	-	-	-	-	(50,318.86)	942,994.67
2007Q4 W/O	(622,319.61)	(194,112.15)	-	-	-	-	-	816,431.76	-	126,562.91
2008Q1	-	(29,819.77)	10,845.64	-	(10,170.00)	(23,535.35)	-	-	(52,679.48)	73,883.43
2008Q2	-	9,667.49	(10,845.64)	-	-	-	-	-	(1,178.15)	72,705.28
2008Q3	-	7,668.89	-	-	-	-	-	-	7,668.89	80,374.17
2009Q1	-	(2,078.52)	-	-	-	23,535.35	-	-	21,456.83	101,831.00
2009Q2	-	2,596.86	-	-	10,170.00	-	-	-	12,766.86	114,597.86
	-	80,892.51	-	-	10,170.00	23,535.35	-	816,431.76	931,029.62	

43. Ref: Ex 4/T2/S2/p.2 – Account 4810 – Increase in Operating Costs

Preamble:

- (1) Load dispatching costs pursuant to an Operating Services Agreement with Hydro One have increased from \$100,000 Board approved in 2001, to \$198,000 in 2009. For the test year, FNEI has applied for \$238,000 for the cost of the services recovered through this account.**
- (2) FNEI noted that the increases in this account are attributable to (a) increases in Hydro One's labour costs, and (b) the increasing size and complexity of the FNEI transmission system.**
- (3) FNEI also noted that, 'the value of transformation assets has increased significantly as a result of the connection of three spare transformers. This further explains the increased costs in this Account.'**

Questions

- (a) For the 138% increase over the 2001 Board approved amount, please split the drivers of the cost increase into "(a)" and "(b)" as noted in the above preamble.**
- (b) For the 20% increase year over year from 2009 to 2010 test year, please split the drivers of the cost increase into "(a)" and "(b)" as noted in the above preamble.**
- (c) Please indicate the increase in costs directly attributable to the operation of the three spare transformers which are now connected.**

RESPONSE

(a) Initially in 2001, Hydro One set the hourly rate for operator time under the contract at \$66.00. This rate was re-evaluated in 2006, and Hydro One realized that the rate set in 2001 was not correctly established. The 2006 hourly rate was set at the same rate as other commercial contracts, which was \$122.42. The 2010 hourly rate is \$145.55. Approximately 90% of the increase from the OEB 2001 approved amount and the current cost is attributed to the commercial rate now charged by Hydro One.

The balance of the increase to 2009 is related to the added FNEI facilities at Attawapiskat Transformer Station - namely the energized second transformer and the associated switchgear .

(b) The increase from 2009 to 2010 is attributed partly to the increased 2010 rate and partly to the additional FNEI assets that came into service in late 2008 and late 2009 . Specifically, FNEI energized the second transformer in Fort Albany and in Kashechewan plus the associated switchgear and added these assets to Hydro One's operating responsibility .

(c) The operation of the three added transformers will increase the FNEI Operating Contract costs by \$ 35,000.

44. Ref: Ex 4/T2/S2/p.3/lines 12-13; Ex 4/T2/S2/p.12/lines 18-20 – Account 4820

Preamble:

- (1) In 2004, FNEI began using the services of local utility workers in each of the three communities for station checks.
- (2) Given the expanded system, FNEI envisions employing a second Operations Technician in May of the 2010 test year.

Questions:

- (a) Please explain the business reasons why the use of local utility workers began in 2004 and not at some earlier or later date?
- (b) Are the affiliate transactions contemplated in this question governed by a contract with each distribution utility? If so, please provide these contracts. If not, please explain.
- (c) With respect to Preamble (2), are the costs of the new staff person as of May 2010 included in this application and budgeted for in the 2010 test year? If not, please provide compensation information for this new position, and adjust any of FNEI's evidence as necessary.

RESPONSE

- (a) It was not until December 2003, that FNEI's contractors completed the system from Kashechewan to Attawapiskat . Prior to that the local staff were being trained and inspections were carried out with other FNEI resources while the system was still under construction. By 2004, the construction resources and FNEI inspectors were no longer on site and, by this point, local staff were considered qualified to carry out our desired weekly inspections.
- (b) See response to Board Staff IR 1(b).
- (c) Yes.

45. Ref: Ex 4/T2/S2/p.5 – Account 4850 – Land Survey and Locating Assets

Preamble: It has recently come to light to FNEI that a portion of the Attawapiskat station is located on Indian Reserve 91A, and an amount estimated at \$25,000 will have to be paid to the Attawapiskat First Nation.

Questions/Requests:

- (a) Please provide a copy of the survey showing the location and name of the station, the Reserve 91A boundaries, and indicate what governing body performed the survey.**
- (b) Did the survey performed cause changes to the boundaries of the Reserve 91A First Nation?**
- (c) Did FNEI survey the land prior to construction of the station to confirm that the station would not be located on First Nation lands?**
- (d) Was it possible to locate the station on adjacent lands that were not on a First Nation reserve?**

RESPONSE

- (a) The Attawapiskat TS survey (2009) is attached. This survey was carried out by Talston Rody OLS.
- (b) There is no evidence that this survey caused changes to the Reserve 91A First Nation boundary.
- (c) The site was established by the construction contractor in consultation with the Attawapiskat First Nation leadership prior to 2000. A Ministry of Natural Resources (“MNR”) Land Use Permit was acquired by FNEI (but MNR did not require a survey).
- (d) The site was selected to avoid interference with the community of Attawapiskat, which lies on the north side of the Attawapiskat River. The shortest high voltage line river crossing for the new line coming from Kashechewan (100 km south of the river) was at the far westerly end of Attawapiskat at the junction of two rivers. Once on the north side of the river, rather than extend the high voltage line through the community to some other site, it was decided that this location was the best as it did not impede future community development or affect existing dwellings. The station site has rivers on the southeast and southwest sides, and the north side is the approach for the Attawapiskat Airport, with the runway only a few hundred meters to the east. This was deemed the only suitable location (when it was thought to be entirely off Reserve 91A). Even with the knowledge now that it is partially on the Reserve 91A land, this would still be the site selected because of the constraints listed previously.

PLAN 23R-

RECEIVED AND DEPOSITED

20.-----

LAND RECEIVED FOR THE LAND TITLES DIVISION OF SASKATCHEWAN

I RESOLVE THIS PLAN TO BE DEPOSITED UNDER THE LAND TITLES ACT.

20.-----

PART	LOT	CORN./PLAN	PM NO.	AREA (ha)	REGISTERED OWNER
1					UNDEVELOPED TERRITORY
2					ATTAWAPISKAT P.O. AREA

PLAN OF SURVEY OF

PART OF
LOCATION REF 161
UNDEVELOPED TERRITORY
ATTAWAPISKAT P.O. AREA
DISTRICT OF KENORA
(PATRICIA PORTION)

TALSON ROOF, OLS
SCALE 1 : 2000

BEARING NOTE

LEGEND

- DOUBTS - SURVEY DOCUMENT FOUND
- PLAN 23R-127(LT)
- PLAN 23R-127(LT)
- PROPERTY IDENTIFICATION NUMBER

SURVEYOR'S CERTIFICATE

- I CERTIFY THAT:
THIS SURVEY AND PLAN ARE CORRECT AND IN ACCORDANCE WITH THE SURVEYS ACT, THE SURVEYORS ACT AND THE REGULATIONS MADE THEREUNDER.
- THE SURVEY WAS COMPLETED ON 20.

COCKBURN, OREGON

20.-----

TALSON ROOF
OWNED LAND SURVEYOR

METRIC DIMENSIONS SHOWN HEREON ARE IN METRES AND CAN BE CONVERTED TO FEET BY DIVISION BY 0.3048

(ATTAWAPISKAT AIRPORT LANDS)

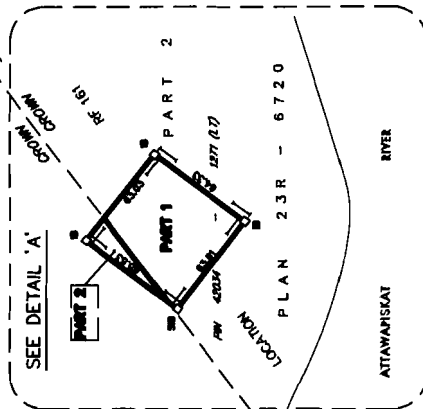
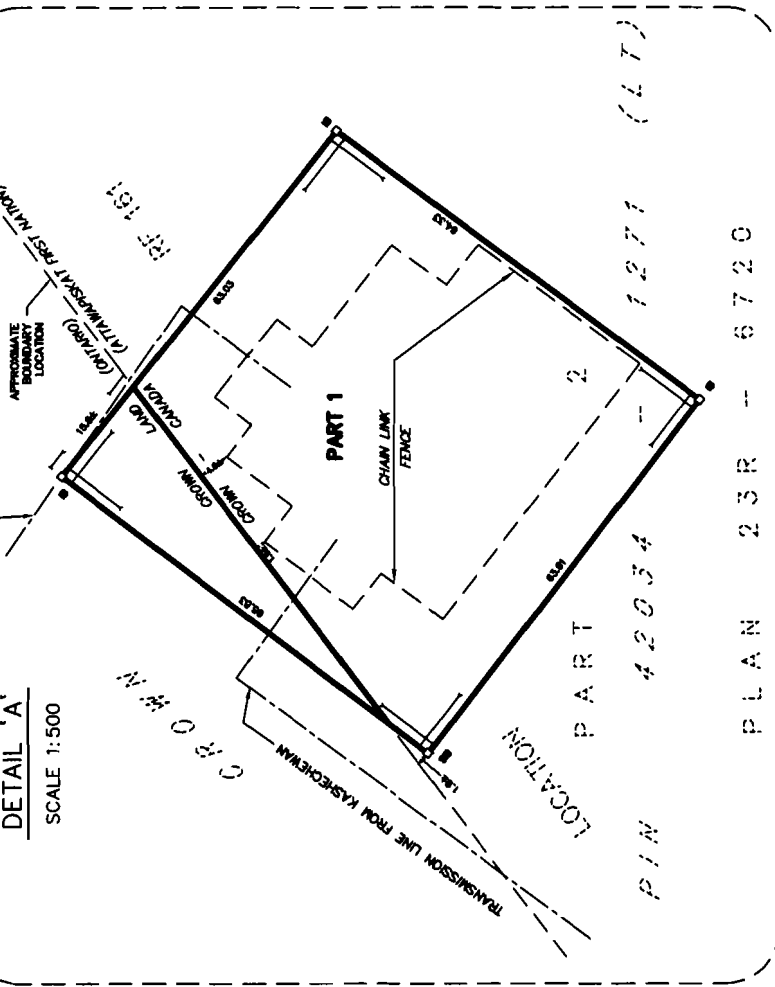
PART 1
PLAN 23R - 2888

LOCATION CL 1545

LAND CANADA (ONTARIO)
TRANSMISSION LINE TO DEEBERS
APPROXIMATE BOUNDARY LOCATION
TRANSMISSION LINE FROM KASHECHWAN
C.R.O.W.N.
GROWN

DETAIL 'A'

SCALE 1:500



Sutcliffe Roddy Queenel Inc.

Engineers & Surveyors
Keweenaw New Island Colborne Township North Bay
www.sro-inc.com

PARTY CHIEF: LORCE BERNARD

ORDERED BY: TALSON ROOF, OLS

FILE: SC07050 DRAWN BY: DOUG RANDE

46. Ref: Ex 4/T2/S2/p.9-10 – Capital Plans cost increases in Account 5605 and 5610**Preamble:**

(1) FNEI states with respect to Account 5605 that, “FNEI sought more frequent assistance from its Board of Directors during FNEI’s significant capital expansion (and in the case of the De Beers connection, unexpected expansion).”

(2) FNEI states with respect to Account 5610 that, “additional travel costs [were] incurred by FNEI’s Operation Manager to travel to the remote sites in order to familiarize himself with the installations and provide supervision over some of the capital work being done at that time.”

Requests:

(a) What are the costs attributable to more frequent meetings on account of DeBeers in years 2004 through 2010? Are these amounts already sufficiently covered by capital contributions provided by De Beers?

(b) Costs have increased in this account four-fold (> 300% increase) from the amounts approved in the Board approved 2001 application to the 2010 test year. Can FNEI provide further explanation of why these increases to executive guidance costs are necessary, and commensurate with increased complexity of FNEI’s system?

(c) With respect to Preamble (2), what were these increased costs, and were they covered by capital contributions by De Beers?

RESPONSE

(a) Direct costs were paid by De Beers, as per the terms of the Connection and Cost Recovery Agreement. However, because this was the first new connecting customer on FNEI’s system (and a substantial one), the Board of Directors and community stakeholders did need to be educated and consulted on their obligations as transmitters. The Board of Directors also sought to be updated throughout the development process. In addition, because the work essentially involved integrating the De Beers’ upgrades with FNEI’s system, there were a number of issues of importance that arose that required Board of Directors guidance, including land rights issues, timing issues (since the communities were also involved with Impact Benefit Agreement negotiations with De Beers), and whether there were opportunities for FNEI that arose as a result of the De Beers work (e.g., location of second transformer location in Kashechewan).

(b) FNEI’s asset base has more than doubled since the original construction was completed. The communities load has grown and their reliance on electricity and their expectation of 100% uptime has also increased. Whereas previously with service from diesel generators which were notoriously unreliable, the majority of the residential heating was through wood heat. This is now almost 100% electric heat. In response FNEI is seeking to be as proactive as possible to

ensuring the highest possible reliability. As the system has grown and become more complex, more time is needed with the directors to keep them informed allowing them to provide strategic direction while keeping the direct connection to the communities through the directors.

(c) Travel costs for the Operations Manager were:

2003: \$22,952

2004: \$30,945

2005: \$37,421

2006: \$58,694

2007: \$15,675

Of these costs, \$3,127.70 in 2004 was attributable to De Beers and was reimbursed by them.

47. Ref: Ex 4/T2/S2/p.11– Account 5615 – Lineworkers

Preamble: FNEI states that, “Having lineworkers stationed in each community has proven to be extremely valuable to FNEI by significantly reducing FNEI’s operations costs.”

Question/Request:

- (a) How is the budget for account 5615 developed? What are the assumptions that make up the forecasted amount, and what reasons can FNEI provide to support its assumptions?**
- (b) What are the specific drivers of the increase from \$39,000 in 2008 to \$115,000 in 2010?**
- (c) How have FNEI’s operating conditions changed from the past to 2010, in such a manner that would warrant stationing of staff in each community? How did the Board at FNEI come to this decision?**
- (d) Can FNEI demonstrate the benefits of having lineworkers stationed in each community?**
- (e) Can FNEI demonstrate specific cost savings, for example: reduced travel time, reduced downtime and associated economic cost?**

RESPONSE

- (a) The budget for Account 5615 for the year 2010 was established by accounting for the salary and benefits of FNEI’s Administrative Assistant and adding the expense of an Office Manager some time in the 2010 test year.**
- (b) The main driver would be the hiring of an Office Manager.**
- (c) FNEI has not located line staff in each community. The statement about having lineworkers stationed in each community refers to FNEI’s ability to access and utilize the LDC lineworkers in the local First Nation communities. FNEI has supervised and trained their staff over the past six years in some aspects of high voltage line work as well as station operation. Most of the local line staff have progressed in their ability to carry out assignments with less oversight by FNEI representatives (contractors or staff) .**
- (d) This reduced involvement by fly-in contractors and staff means overall significant reductions in expenditures. The energization of the expanded facilities involving the back up transformers, new buildings and low voltage switchgear, for example, have added to the overall need for their services. Some examples of such services are providing field switching on de-energized high voltage lines, disconnect operations as directed remotely by FNEI, data collection on equipment**

operations (not available on SCADA), field assessments of SCADA alarm conditions, and effluent sample collections for testing.

(e) There are a number of direct benefits of such local line staff .

- Reduced/avoided travel expense (at times, FNEI needs only to send one qualified representative to the communities, as local line staff can act as a second person when required). The typical charter costs to get to a single site is in the range of \$3,500 to \$5,000. Even scheduled flight costs could be in the range of \$1,000 per person plus the hourly expense of the workers travel time, which usually takes most of the work day.
- If any work takes longer than a single work day, using trained local staff avoids accommodation and meal expense, estimated to be \$ 200 per person per day
- By having readily trained local staff, some supply emergencies can be resolved by FNEI providing work direction to the local representatives. This temporarily can reduce (possibly eliminate) the urgency in travelling to the site. The benefit is faster service restoration, depending on the cause. As well, there have been occasions when weather conditions prevent air travel (sometimes for days) so local staff have been able to take direction from off site resources to prevent further damage or service reliability impact.

48. Ref: General OM&A – Employee Performance Measurement

Please provide details and basis for each of the following employee management tools at FNEI: performance pay, goals, measures, and any review processes which are in place and used to determine compensation of employees.

RESPONSE

The CEO conducts employee evaluations at the end of each year to review performance. The CEO makes recommendations to the Board regarding employee compensation. Attached is FNEI's Performance Review and Employee Appraisal form.



FIVE NATIONS ENERGY INC.

P.O. Box 370, Moose Factory, ON P0L 1W0
Phone: (705) 658-4222 Fax: (705) 658-4250
www.fivenations.ca

PERFORMANCE REVIEW & EMPLOYEE APPRAISAL

1. ☐ Annual Appraisal

☐ Probationary Appraisal

Period Covered

From
D M Y

To
D M Y

☐ Other

Employee Surname

Given Names

Months under present supervisor

Position Title -

2. This section to be completed by Supervisor

Performance Evaluation — This is a narrative assessment of the employee's performance for the review period under review

3. Factors Affecting Performance —

4. Training Recommended —

5. Summary

☐ Superior

☐ Fully Satisfactory

☐ Satisfactory

☐ Unsatisfactory

☐ Unable to assess (explain)

DEFINITIONS

Superior — Greatly exceeded standard of position

Fully Satisfactory — Exceeded the standard of position

Satisfactory — Met the standard of position

Unsatisfactory — Did not meet the standard of position

THIS SECTION TO BE COMPLETED BY EMPLOYEE — PERFORMANCE REVIEW AND EMPLOYEE APPRAISAL PART 2

6. New Qualifications

COURSE TITLE	DURATION	INSTITUTION	DEGREE, DIPLOMA, CERTIFICATE, ETC

Other professional qualifications and/or experience --

7. Career aspirations and work preferences --

THIS SECTION TO BE COMPLETED BY THE SUPERVISOR —

8. Potential

9. Development recommended --

Supervisors title and name	Date	Signature	Date

REVIEW AND COMMENTS --

THIS SECTION TO BE COMPLETED BY EMPLOYEE —

10. Employee's comments --

I have read this report and have discussed it with my supervisor	Signature of Employee	Date

11. Signature of Executive Director _____ Date: _____

12. Signature of Chairperson _____ Date: _____

49. Ref: OEB's Filing Requirements for Transmitters and Distributors, s.2.5.1 – Inflation rates

Preamble: The Filing Requirements require that the transmitter provide inflation rates applied to general OM&A and Wages/Benefits.

Questions/Requests:

- (a) Please indicate the inflation rate used in each year from the last Board approved year, through the 2010 test year.**
- (b) If FNEI has not used a prevailing inflation rate to adjust general OM&A, wages, and benefits, please provide an explanation and rationale for doing so.**

RESPONSE

(a) FNEI has not used any inflation rate from the last Board approved year since the figures for 2002 through 2008 reflect actual costs, not forecasts.

For the bridge (2009) and test (2010) years, FNEI did not use any specific inflation rate. FNEI forecast each specific OM&A account based on expected expenditures in 2009 and 2010. Please also note that the 2009 OM&A costs included 9 months of actual expenditures.

(b) As noted above, FNEI has reviewed each expenditure account and made a forecast for 2009 and 2010 based on actual expenditures incurred over the first 9 months of 2009 and the expected costs to be included in each account based on the expected work to be done.

With respect to wages and benefits, these costs have been forecast on an individual employee basis to reflect that some of the positions will be filled for a full 12 months (whereas the positions were partially filled in previous years), the addition of new positions and adjustments to other positions that reflect changes in qualifications. No general inflationary increase was forecast.

50. Ref: OEB's Filing Requirements for Transmitters and Distributors, Appendix 2-F – Summary of OM&A Expenses, Appendix 2-F

Preamble: The Filing Requirements require that FNEI complete a table that provides a Summary of OM&A expenses, with certain parameters that are not included in the summary documents provided in evidence by FNEI in the pre-filed evidence.

Questions/Requests:

Please complete the Table provided at Appendix 2-F of the Filing Requirements. Please state any and all assumptions made to fully complete the table.

RESPONSE

Appendix 2-F is designed for distributors on a three-year rebasing schedule. Much of the information requested in Appendix 2-F was already provided in FNEI's application (please refer to Exhibit 4, Tab 2, Schedule 3).

The key information required under Appendix 2-F which is currently unavailable in FNEI's application is: percent change (year over year); percent change test year vs. most current actuals; and percent change test year vs. last Board approved year. Values are provided below for operations (Account 4805 to 4850 inclusive), maintenance (Account 4905 to 4965 inclusive), administration (Account 5605 to 5665 inclusive) and Total OM&A costs. Note that the tables below reference updated audited financials for 2009 OM&A costs – thus these 2009 numbers below will differ from those outlined in Exhibit 4, Tab 2, Schedule 3.

Percent Change (Year Over Year):

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operations	64%	8%	139%	-50%	29%	31%	-3%	10%	46%
Maintenance	21%	16%	-33%	103%	-29%	45%	-27%	49%	-1%
Administrative	28%	-2%	-53%	84%	12%	-4%	-18%	17%	26%
Total O, M & A Costs	77%	-24%	-29%	32%	4%	11%	-19%	21%	24%

Percent Change (Test Year vs. Most Current Actuals):

	2009	2010	% Change
Operations	432.9	634.14	46%
Maintenance	471.9	468.0	-1%
Administrative	1676.0	2117.5	26%
Total O, M & A Costs	2733.3	3386.1	24%

Percent Change (Test Year vs. Last Board Approved Year)

	2002	2010	% Change
Operations	188.8	634.14	236%
Maintenance	265.7	468.0	76%
Administrative	1936.3	2117.5	9%
Total O, M & A Costs	3354.6	3386.1	1%

51. Ref: OEB's Filing Requirements for Transmitters and Distributors, s.2.5.5 – Shared Services and Corporate Cost Allocation

Preamble:

- (1) FNEI has not provided a Tab or Schedule describing how it receives shared services or performs corporate cost allocation. Staff would direct FNEI to refer to Section 2.5.5 and Appendix 2-A of the Filing Requirements for information required in the application and definitions regarding what constitutes shared services and corporate cost allocation activities.
- (2) Staff believes it is clear that FNEI has a number of agreements with other companies, including local distribution companies, and transmission companies, that would qualify for consideration and listing as shared services and/or corporate cost allocation activities.

Questions/Requests:

- (b) Please provide a completed Appendix 2-M, including all historicals, actuals, bridge year, and test year amounts (or forecasts) as per the OEB's Filing Requirements. Additional rows may be added if required to provide further data or explanation.
- (c) Please provide any 3rd party review(s) of the cost allocation methodology applied.

RESPONSE

See response to Board Staff IR 1(b). There are no transactions that fall within the definitions of "shared services" or "corporate cost allocation".

52. A.

Ref: Ex 4/T2 – OM&A Variance Analysis

Please complete the following table for all FNEI OM&A accounts:

Table - Variance Analysis, on percentage basis								
Actual or Forecast Amount (\$000)					%increase			
Account # and Description	2007	2008	2009	2010		2008	2009	2010
4810 (as example)	59.5	71.4	86.9	104.2		20%	22%	20%
...								
...								
...								
...								
Total OM&A								

(a) For each account, and for each variance that exceeds a 10% increase in costs year over year, please indicate:

- (i) the drivers of the increase and in the case of forecasted amounts, the assumptions used to determine the forecasted increase; and
- (ii) provide all reasons for the assumptions made in determining the amounts.

RESPONSE

Please see the attached table (note that accounts with \$0 balances for 2007 through 2010 were removed). Note that this table references updated audited financials for 2009 OM&A costs – thus the 2009 numbers below will differ from those outlined in Exhibit 4, Tab 2, Schedule 3. Many of the variances were explained in Exhibit 4, Tab 2, Schedule 2. We have provided additional explanation as to the variances where needed, below.

Each account is addressed in turn:

- 4810 - Load Dispatching: See pgs 2-3, Exhibit 4, Tab 2, Schedule 2. Increases in 2009 and 2010 are due to increases in Hydro One's labour costs
- 4815 - Station Buildings & Fixtures Expenses: See pg 3, Exhibit 4, Tab 2, Schedule 2. The total dollar amounts are not significant, and vary from year-to-year due to the timing of planned maintenance. Year 2008 saw more maintenance than the previous year. There was less maintenance carried out in 2009, but it is anticipated that in 2010 more planned maintenance will be carried out.
- 4820 - Transformer Station Equipment - Operating Labour: See pg 3, Exhibit 4, Tab 2, Schedule 2.
- 4850 – Rents: See pgs 4-5, Exhibit 4, Tab 2, Schedule 2.
- 4916 - Maintenance of Transformer Station Equipment: See pg 5, Exhibit 4, Tab 2, Schedule 2. The variations in this Account are due to emergency maintenance requirements. There has been a steady increase in costs in this Account because as a result of putting spare transformers on potential and integrating De Beers' assets, FNEI has more transformer station equipment.
- 4930 - Maintenance of Towers, Poles & Fixtures: See pgs 5-6, Exhibit 4, Tab 2, Schedule 2. The increases in 2008 and 2009 are due to more extensive maintenance work being carried out on the line between Kashechewan and Attawapiskat.
- 5415 - Energy Conservation: See pg 8, Exhibit 4, Tab 2, Schedule 2.
- 5420 – Community Safety: See pgs. 8-9, Exhibit 4, Tab 2, Schedule 2. These amounts are small. As a result of the accident at the Kashechewan Transformer Station where a child was injured, FNEI has increased its safety seminars in the communities.
- 5605 - Executive Salaries & Expenses: See pgs 9-10, Exhibit 4, Tab 2, Schedule 2.
- 5610 - Management Salaries & Expenses: See pgs 10-11, Exhibit 4, Tab 2, Schedule 2. The increase in 2010 is due to having replaced the Operations Manager who is off on long-term disability.
- 5615 - General Administrative Salaries & Expenses: See pg 11, Exhibit 4, Tab 2, Schedule 2. The escalation in 2009 was due to hiring a summer student in the office, as well as escalation in salaries/wages for FNEI's office staff.
- 5620 - Office Supplies & Expenses: See pg 11, Exhibit 4, Tab 2, Schedule 2.

- 5630 - Outside Services Employed: See pgs 11-13, Exhibit 4, Tab 2, Schedule 2. The increase forecast for 2010 appears to be an increase over 2009, but in fact 2009 was a fair drop compared to previous years. The forecast for 2010 (although up over 2009) is still low when compared to historic figures.
- 5655 - Regulatory Expenses: See pg 13-14, Exhibit 4, Tab 2, Schedule 2. The increase in regulatory expenses in 2009 and 2010 are due to the rate case, and keeping informed as to regulatory changes due to the *Green Energy Act* (e.g., transmission development planning, etc.).
- 5665 - Miscellaneous General Expenses: See pg 14, Exhibit 4, Tab 2, Schedule 2. In 2010, FNEI set aside funds for two best practices meetings among FNEI and the three LDCs to determine whether there are ways to enhance operating efficiencies.
- 5670 – Rent: See pgs 14-15, Exhibit 4, Tab 2, Schedule 2. The increase in rent from 2008 to 2009/2010 is due to FNEI taking over additional needed space in its main office in Timmins.
- 5675 - Maintenance of General Plant: See pg 15, Exhibit 4, Tab 2, Schedule 2.

Table - Variance Analysis, on percentage basis								
	Actual or Forecast Amount (\$000)					% increase		
Account # and Description	2007	2008	2009	2010		2008	2009	2010
4810 - Load Dispatching	172.9	154.8	208.9	238.7		-10%	35%	14%
4815 - Station Buildings & Fixtures Expenses	59.5	71.4	48.3	104.2		20%	-32%	116%
4820 - Transformer Station Equipment - Operating Labour	107.9	99.0	97.2	189.2		-8%	-2%	95%
4850 - Rents	68.2	69.9	78.5	102.0		3%	12%	30%
4916 - Maintenance of Transformer Station Equipment	346.2	196.9	251.4	348.0		-43%	28%	38%
4930 - Maintenance of Towers, Poles & Fixtures	90.9	120.3	220.5	120.0		32%	83%	-46%
5335 - Bad Debt Expense	-46.6	-46.2	34.2	0.0		-1%	-174%	0%
5410 - Community Relations - Sundry	201.0	119.1	75.2	86.0		-41%	-37%	14%
5415 - Energy Conservation	0.6	0.0	0.0	30.0		-100%	---	---
5420 - Community Safety Program	9.0	0.0	5.6	9.0		-100%	---	59%
5605 - Executive Salaries & Expenses	248.4	246.7	528.3	665.5		-1%	114%	26%
5610 - Management Salaries & Expenses	161.8	151.7	102.8	207.5		-6%	-32%	102%
5615 - General Administrative Salaries & Expenses	45.5	38.7	53.7	115.7		-15%	39%	116%
5620 - Office Supplies & Expenses	22.3	12.8	13.1	23.5		-42%	2%	79%
5630 - Outside Services Employed	720.4	555.6	429.2	503.3		-23%	-23%	17%
5635 - Property Insurance	112.6	91.0	91.4	89.0		-19%	0%	-3%
5640 - Injuries & Damages	148.0	138.9	138.2	140.0		-6%	-1%	1%
5655 - Regulatory Expenses	295.9	201.0	313.0	343.0		-32%	56%	10%
5665 - Miscellaneous General Expenses	0.0	0.0	6.3	30.0		0%	---	375%
5670 - Rent	24.0	25.5	34.0	34.0		6%	34%	0%
5675 - Maintenance of General Plant	2.9	3.6	3.4	7.5		27%	-6%	120%
Total O, M & A Costs	2791.5	2250.9	2733.3	3386.1		-19%	21%	24%

52. B.

Ref : OEB's Filing Requirements for Transmitters and Distributors, s.2.5.2, and Appendix 2-H – OM&A Cost Driver Tables

Preamble:

- (1) The Filing Requirements require that the company file a table of OM&A cost drivers, Appendix 2-H, for each account. For each year, a detailed explanation of the variance for each account is required. Please use a materiality threshold of \$25,000 when deciding whether to include an item as part of a miscellaneous “cost driver”.
- (2) In order for Board staff to test prudence of FNEI's 2010 budget, it is necessary to determine how the budgets were developed, what is driving the increase, and what are the benefits of the increased costs.

Questions/Requests:

- (a) Please complete the Table at Appendix 2-H (see below) for each of FNEI's OM&A accounts, defining cost drivers for amounts exceeding a materiality threshold of \$25,000, and for each account:
 - (i) Indicate how FNEI generated the budget for the account, in general;
 - (ii) How FNEI developed the budget for the account for the 2010 test year.
 - (iii) For each cost driver that exceeds the materiality threshold, please provide the drivers of the increase, and in the case of forecasted amounts, the assumptions used to determine the forecasted increase for the particular cost driver.

RESPONSE

Please see attached.

Appendix 2-H

OM&A Cost Driver Table

Account 4810

OM&A	2001 Board Approved	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
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Previous Year Total	100.0	100.0	64.4	87.7	110.3	116.0	136.8	172.9	154.8	208.9
Cost Driver #1		(35.6)	40.8	24.2		20.2	38.2	(18.9)	44.7	33.7
Cost Driver #2			(17.5)	(1.6)	5.7	0.6	(2.1)	0.8	9.4	(3.9)
Cost Driver #3										
Cost Driver #4										
Closing Balance		64.4	87.7	110.3	116.0	136.8	172.9	154.8	208.9	238.7

Cost Driver # 1: Hydro One Operating Contract

Cost Driver # 2: Telecommunication Costs

Cost Driver # 1 is the Operating Contract between FNEI and Hydro One. The variance in price year to year can be explained by an escalation in costs due to increased hourly rates for the operators as well as FNEI bringing on new assets increasing the complexity of the system.

Cost Driver # 2 is the cost of telecommunications for the operators to access the scada systems in each of the three substations. The variance in costs is due to the number of modem calls required and the general escalation of the costs of operating and maintaining these telecommunication links.

Appendix 2-H

OM&A Cost Driver Table

Account 4815

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	-	-	107.5	91.5	66.8	62.1	70.3	59.5	71.4	48.3
Cost Driver #1		20.8	1.2	(1.6)	1.7	7.9	(4.8)	5.6	2.4	10.7
Cost Driver #2		86.7	(17.2)	(23.1)	(6.4)	0.3	(6.0)	6.3	(25.5)	45.2
Cost Driver #3										
Cost Driver #4										
Closing Balance		107.5	91.5	66.8	62.1	70.3	59.5	71.4	48.3	104.2

Cost Driver # 1: Electricity costs at each station

Cost Driver # 2: Misc station building and yard costs

In FNEI's initial rate application this specific account was not budgeted for. As FNEI began operations it realized that it did have costs that would fit into this specific USofA account and so began recording costs in this account.

Cost Driver #1 is the electricity costs to operate the control buildings and related storage sheds and security lighting. This electricity is supplied and bought from the local distributor. FNEI is forecasting an increase in 2010 due escalation in electricity costs due to increasing rates as well as forecasted increased consumption mainly due to heating requirements.

Cost Driver #2 is the miscellaneous station building maintenance and station yard costs that are not capitalized. Reviewing 2002 actual costs, FNEI's first full year of operation, there were a lot of costs that most likely should have been capitalized in account 1715. Since then FNEI has firmed up its capitalization policy and has avoided this in subsequent years. The escalation in costs for 2010 is projected to be due mainly to maintenance of buildings that is planned for this year.

Appendix 2-H

OM&A Cost Driver Table

Account 4850 Rents

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	15.0	15.0	16.9	17.3	267.6	33.7	66.6	68.2	69.9	78.5
Cost Driver #1				250.0	(232.3)	32.3	0.5	2.5	(1.0)	(1.0)
Cost Driver #2		1.9	0.4	0.3	(1.6)	0.6	1.1	(0.8)	9.6	24.5
Cost Driver #3										
Cost Driver #4										
Closing Balance		16.9	17.3	267.6	33.7	66.6	68.2	69.9	78.5	102.0

Cost Driver # 1: Albany 67 Reserve Land fees

Cost Driver # 2: MNR Land use Fees

Cost driver number one is the annual fee that FNEI pays to the Kashechewan First Nation and the Albany First Nation for use of Albany 67 reserve lands. The amount of this fee was not determined when FNEI applied for its initial rates application. In 2004, the agreed upon amount of \$25.0 per year per First Nation was paid retroactive to 2000. Subsequent to that FNEI has generally instituted accounting policy to accrue this amount on an annual basis whether or not it is actually paid out.

Cost Driver #2 is the Ontario Ministry of Natural Resources Land Use Permit fees. These fees have remained stable historically but have increased in 2009 and 2010 due to cost escalation and the addition of the fibre optic line on the original right of way Kashechewan to Attawapiskat, the full effect of this to be felt in 2010.

Appendix 2-H

OM&A Cost Driver Table

Account 4916

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	143.3	143.3	265.7	225.4	131.3	275.2	126.2	346.2	196.9	251.4
Cost Driver #1			1.9	15.0	(16.3)	5.3	2.4	(2.1)	5.8	9.0
Cost Driver #2			38.5	(24.6)	72.5	(86.2)	133.7	(97.0)	23.4	(0.4)
Cost Driver #3			62.3	(39.4)	(9.1)	16.2	25.6	(12.6)	(5.0)	51.9
Cost Driver #4				6.3	14.7	(6.1)	2.1	16.9	(10.5)	6.6
Cost Driver #5		122.4	(143.0)	(51.5)	82.1	(78.2)	56.2	(54.4)	40.7	29.4
Closing Balance		265.7	225.4	131.3	275.2	126.2	346.2	196.9	251.4	348.0

Cost Driver # 1: Meter Service Provider Costs-Contract with Hydro One

Cost Driver # 2: Standby Generator Maintenance Costs

Cost Driver # 3: Station-Emergency Maintenance Costs

Cost Driver # 4: Station-Substation Vehicle Operation and Maintenance

Cost Driver # 5: Station-Planned Maintenance Costs

Cost Driver # 1 is the meter service provider contract cost with Hydro One. The variances are due to work being required to respond to metering problems that could not be resolved with local community help or remote diagnostics and repair.

Cost Driver # 2 is costs relating to the maintenance of the standby generators in Attawapiskat and Kashechewan. The variances are due to maintenance being performed as required at both locations. It was more economical to do all maintenance required at both locations in one mobilization, rather than try to spread the maintenance out over several years.

Cost Driver # 3 is costs relating to emergency maintenance at each substation. The large variance in the test year compared to the prior year is due to the fact that it is difficult to budget for emergencies, the budget amount is a reasonable amount given the activity over the previous years.

Cost Driver # 4 is the cost of the operations and maintenance of pickup truck vehicles in Kashechewan and Fort Albany. Variances are due to unforeseen maintenance expenses due to the remote locations and rough roads and terrain that FNEI operates in. As these are remote sites, the vehicles can only be transported out for maintenance during the winter road season.

Cost Driver # 5 is planned station maintenance costs. The spike in 2002 was due to the initial maintenance program that FNEI undertook in 2002 which utilized the resources of SNC Lavalin and other external resources. This was a onetime expense that did not re-occur. As with other expenditures in fiscal 2002 current FNEI capitalization practice would most likely have resulted in a bulk of these expenses being capitalized as station equipment improvements. The other variances, high one year, and low the next year, are the result of FNEI scheduling its major maintenance mainly over two years to avoid higher mobilization costs.

Appendix 2-H

OM&A Cost Driver Table

Account 4930

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	57.0	57.0	-	73.5	76.7	147.2	175.6	90.9	120.3	220.5
Cost Driver #1			20.0	(20.0)	9.4	126.0	(102.7)	(26.4)	16.6	13.1
Cost Driver #2			(13.2)	22.7	59.6	(29.1)	12.1	61.9	76.5	(136.5)
Cost Driver #3			66.7	0.5	1.5	(68.5)	5.9	(6.1)	7.0	23.0
Current Yr Total:		-	73.5	76.7	147.2	175.6	90.9	120.3	220.5	120.0

Cost Driver # 1: Emergency Maintenance Poles

Cost Driver # 2: Planned Maintenance Poles

Cost Driver # 3: On Call Service Contract with Hydro One.

This account had no expenditures in fiscal 2002.

Cost Driver # 1 is emergency maintenance on the poles. The major variance was due to damage from the ice during the 2006 breakup of the Albany River. Two poles were knocked down as well as some guy wire damage.

Cost Driver # 2 is planned maintenance poles. FNEI has two helicopter patrols a year. If these poles identify any leaning poles or other issues, a maintenance plan is made up and implemented either in the fall if required or normally the following winter. The variances from year to year can be explained by some years maintenance is not required while other years require more extensive maintenance. The FNEI pole line is located in the James Bay lowlands which has a lot of swamp and muskeg. Anchor replacement can only be done in the winter. Fiscal 2009 saw extensive maintenance work done on the line between Kashechewan and Attawapiskat.

Cost Driver 3 # is the On Call Service Contract with Hydro One. These services were utilized fairly extensively in 2003 and 2005 causing the spike in costs those years. FNEI anticipates a slight increase in 2010 expenditure for this cost driver in 2010.

Appendix 2-H

OM&A Cost Driver Table

Account 5335

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	-	-	904.3	73.2	83.6	(20.1)	(51.4)	(46.6)	(46.2)	34.2
Cost Driver #1		904.3	(831.1)	10.4	(103.7)	(31.3)	4.8	0.4	80.4	(34.2)
Current Yr Total:		904.3	73.2	83.6	(20.1)	(51.4)	(46.6)	(46.2)	34.2	0.0

Cost Driver # 1: Allowance for Doubtful Accounts

The variances year to year in this account are explained in detail in the bad debt expense continuity table and elsewhere.

Appendix 2-H

OM&A Cost Driver Table

Account 5410

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	50.0	50.0	59.6	55.9	69.7	62.5	61.6	201.0	119.1	75.2
Cost Driver #1		9.6	(26.2)	4.5	0.8	(0.5)	20.4	(17.1)	1.1	14.3
Cost Driver #2				20.0		(1.7)	3.7			
Cost Driver #3			22.6	(23.6)	(4.6)	0.8	97.1	(44.9)	(42.1)	(11.5)
Cost Driver #4				13.0	(3.4)	0.6	18.2	(19.9)	(2.9)	7.9
Current Yr Total:		59.6	55.9	69.7	62.5	61.6	201.0	119.1	75.2	86.0

Cost Driver # 1: Newsletter and Translator Costs

Cost Driver # 2: Scholarship and Regional Gathering Support

Cost Driver # 3: Other Public Relations Costs

Cost Driver # 4: Promotional Materials

The variances in 2007 compared to 2006 can be attributed to Cost driver number 3, Other Public Relations Costs. 2007 was FNEI's 10th anniversary and approximately \$100k was spent in hosting this celebration. The bulk of these costs were transportation costs to bring leaders and people instrumental in the success of FNEI to the celebration in Timmins. This was a one time cost that FNEI does not expect to re-occur.

Appendix 2-H

OM&A Cost Driver Table

Account 5605

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	160.0	160.0	78.2	118.6	168.5	200.3	180.9	248.4	246.7	528.3
Cost Driver #1		(81.8)	40.4	49.9	31.8	(19.4)	67.5	(33.9)	129.9	80.7
Cost Driver #2								32.2	151.7	56.5
Cost Driver #3										
Cost Driver #4										
Current Yr Total:		78.2	118.6	168.5	200.3	180.9	248.4	246.7	528.3	665.5

Cost Driver # 1: Board of Directors Expenses

Cost Driver # 2: CEO Expenses

Cost Driver # 1 recorded in this account is the costs for the Board of Directors including honoraria, travel, and disbursements. The variances are directly attributable to the number of meetings required in one fiscal year. Depending on the maintenance and capital project activity, the number of board meetings required either increase or decrease. The spike in 2009 was discussed elsewhere in the evidence and relates to additional meetings required by the Board and the newly hired CEO. FNEI's directors are located in FNEI's remote communities which have high travel costs. A need for an annual joint meeting with FNEI Board of Directors and the Chiefs of the five communities was identified and \$100k has been budgeted for this in 2010.

Cost Driver # 2 relates to the costs to identify and then hire a CEO. FNEI did not have a CEO prior to January 1, 2009. As will be discussed in a subsequent table, the majority of CEO related responsibility was covered under account 5630 Outside Services. FNEI started the process in 2008 to hire a CEO and bring a lot of these responsibilities in house. It is anticipated that the costs for 2010 will level out and only regular escalation due to inflation, etc. will occur in subsequent years.

Appendix 2-H

OM&A Cost Driver Table

Account 5610

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	124.0	124.0	157.9	130.6	159.4	183.4	230.3	161.8	151.7	102.8
Cost Driver #1		16.4	5.0	9.6	5.2	28.1	(42.1)	12.9	(35.9)	70.6
Cost Driver #2		4.1	(7.6)	7.9	6.2	0.5	3.9	(5.0)	6.3	(1.6)
Cost Driver #3		13.3	(24.8)	11.3	12.6	18.3	(30.3)	(18.0)	(19.3)	35.7
Current Yr Total:		157.9	130.6	159.4	183.4	230.3	161.8	151.7	102.8	207.5

Cost Driver # 1: Maintenance Supervisor Salary and Benefits

Cost Driver # 2: Telecommunication Costs

Cost Driver # 3: Maintenance Supervisor Travel, Vehicle, Misc. Disbursements

Cost Driver # 1 for this account is the salary and benefits for the Maintenance Supervisor position. The spike in costs in 2006 can be explained by additional salary paid for overtime required in restoring the line due to damage caused by ice during breakup of the Albany river.

Cost Driver # 2 covers the telecommunication costs for the Timmins office as well as the cell phones of the staff. These costs have been fairly consistent over the years with minor spikes correlating to additional long distance calls, etc.

Cost Driver # 3 covers the additional costs for the Maintenance Supervisor position including the costs for a vehicle, travel other than travel to the substation sites, and other disbursements. The spike in 2006 is due to the additional work required to repair the outage.

This position was vacant for 2009 due to illness of the Maintenance Supervisor. A contract employee was hired for part of that year. A new fulltime hire was completed in March 2010 which explains the anticipated spike in expenditures for 2010 and subsequent years.

Appendix 2-H

OM&A Cost Driver Table

Account 5615

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
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Previous Year Total	65.0	65.0	61.5	26.0	6.8	38.7	64.6	45.5	38.7	53.7
Cost Driver #1					36.0	9.1	0.1	(7.2)	12.0	(3.6)
Cost Driver #2		(3.5)	(35.5)	(19.2)	(4.1)	16.9	(19.2)	0.4	2.9	1.8
Cost Driver #3										63.8
Current Yr Total:		61.5	26.0	6.8	38.7	64.6	45.5	38.7	53.7	115.7

Cost Driver # 1: Administrative Assistant Salary and Benefits

Cost Driver # 2: Other related costs and travel

Cost Driver # 3: Office Manager Salary and Benefits

The cost driver responsible for the variances in this account is the Salary and Benefits for the Administrative Assistant position. FNEI first staffed this position in 2005 which accounts for the spike that year.

Cost Driver # 2 was responsible for the spike the following year. FNEI had to replace the individual in this position as well as the Maintenance Supervisor position. The costs in driver # 2 were the advertising costs and the costs for interviewee's to attend at FNEI's offices for the interviews.

Cost Driver # 3 for 2010 is the salary and benefits for a new Office Manager position.

Appendix 2-H

OM&A Cost Driver Table

Account 5630

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	230.0	230.0	239.3	252.1	562.3	621.5	648.6	720.4	555.6	429.2
Cost Driver #1			18.4	(10.6)	(1.8)	2.6	3.8	4.4	(1.0)	2.3
Cost Driver #2			(6.3)	4.0	(4.0)	10.4	1.7		(2.5)	35.8
Cost Driver #3		9.3	(21.8)	102.4	(7.9)	(17.8)	13.8	(109.8)	(27.4)	21.0
Cost Driver #4			34.5	35.8	16.5	3.0	25.5	(26.4)	48.1	(16.8)
Cost Driver #5				114.7	7.8	60.2	0.4	15.5	(124.6)	6.0
Cost Driver #6			(11.9)	63.9	48.6	(31.2)	26.6	(48.5)	(19.0)	25.8
Current Yr Total:		239.3	252.1	562.4	621.5	648.6	720.4	555.6	429.2	503.3

Cost Driver # 1: Auditing Fees

Cost Driver # 2: Accounting Services

Cost Driver # 3: Consulting Services

Cost Driver # 4: Transmission Consulting Services

Cost Driver # 5: Project Coordination

Cost Driver # 6: Payroll Administration, Travel, Misc related costs

As discussed elsewhere, FNEI has relied on external consultants for most of it's management and expertise. The variances in these cost drivers can be explained by the volume of activity in those specific years. Years with much activity resulted in additional costs, while years with less activity resulted in a reduction in costs compared to the previous year.

Cost Driver # 1 is the cost for an external auditing firm to prepare FNEI's audits. The spike in 2003 resulted due to additional audit work being required that year.

Cost Driver # 2 is the cost for a contracted individual to provide bookkeeping and cash management services for FNEI. This cost has remained fairly flat however the spike in 2010 is in anticipation of the additional work for FNEI to switch to IFRS. This has been estimated at \$100k amortized over three years, 2010, 2011, and 2012.

Cost Driver # 3 is general consulting services. These service spiked in 2004 due to the volume of work required during that year and have steadily declined with the exception of 2007 when additional activity was required hiring a new Maintenance Supervisor and Administrative Assistant. 2009 saw a lower than normal amount of activity however the amount budgeted for 2010 is what FNEI anticipates it will require for that year and going forward.

Cost Driver # 4 is the cost of FNEI hiring a retired senior Hydro One employee to provide advice on the operation and maintenance of the substations and pole lines. This saw a spike in 2009 due to the

position of Maintenance Supervisor being vacant and the responsibility of that work falling upon this individual.

Cost Driver # 5 is the services of a Project Coordinator. This individual served as the coordinator of the FNEI transmission line project prior to construction and was responsible for all aspects of coordinating the project from acquiring financing and necessary permissions to overseeing the overall construction project and development of the company. Prior to 2004 these costs were capitalized. These costs were reduced significantly in 2009 with the hiring of the CEO.

Cost Driver # 6 is a combination of payroll administration costs, travel costs not attributable to specific capital projects for the above mentioned individuals, as well as some offsite electronic data storage. These costs follow closely the other cost drivers with the exception of the payroll administration which has been fixed at \$6.0 (thousand) per year since 2003.

Appendix 2-H

OM&A Cost Driver Table

Account 5635

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	486.4	486.4	280.4	103.4	223.5	211.4	222.5	112.6	91.0	91.4
Cost Driver #1			93.4	5.1	(12.1)	11.2	(5.2)	(1.4)	0.4	(2.4)
Cost Driver #2			10.0	115.0		(0.1)	(104.7)	(20.2)		
Cost Driver # 3		(206.0)	(280.4)							
Current Yr Total:		280.4	103.4	223.5	211.4	222.5	112.6	91.0	91.4	89.0

Cost Driver # 1: Property, Vehicle and Tenant Insurance

Cost Driver # 2: Hydro One Insurance Backstop Fee

Cost Driver # 3: Contribution to Insurance Reserve

When FNEI began construction the insurance industry was still reeling from the claims due to the Quebec ice storm. FNEI was not able to obtain line insurance and so began funding its own self-insurance fund. Cost driver number 3 was only recorded as an expense in fiscal 2002 at which time accounting policy was firmed up and contributions to the reserve fund were disclosed on the balance sheet only. FNEI was required by its lenders to have an insurance reserve fund of \$5M. While this account was being funded to this amount FNEI entered into an agreement with Hydro One where for an annual fee of \$125.0 (thousand) Hydro One would “backstop” any losses beyond what FNEI had already contributed to its insurance reserve fund to a maximum of \$5M. The variances cost driver number 2 show the beginning and the ending of these payments.

Cost Driver # 1 are the annual premiums that FNEI pays for property insurance for all of its assets with the exception of the transmission line. Variances are due to assets coming on line as well as slight decreases due to premiums being lowered since FNEI has had no insurance claims for those periods.

Appendix 2-H

OM&A Cost Driver Table

Account 5640

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	69.6	69.6	161.7	141.4	171.9	143.7	154.0	148.0	138.9	138.2
Cost Driver #1		92.1	(20.3)	30.5	(28.2)	10.3	(6.0)	(9.1)	(0.7)	1.8
Current Yr Total:		161.7	141.4	171.9	143.7	154.0	148.0	138.9	138.2	140.0

Cost Driver # 1: Liability Insurances

The cost driver in this account is the various liability insurances that FNEI maintains. The spike in 2002 is when FNEI began expensing this insurance. There was a slight increase in 2004 due to higher premiums assessed that year however the following year the premiums were reduced and have stabilized at around \$140.0 per year.

Appendix 2-H

OM&A Cost Driver Table

Account 5655

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
Previous Year Total	350.0	350.0	241.9	261.3	257.3	210.1	312.0	295.9	201.0	313.0
Cost Driver #1		(36.5)	(81.4)	(0.7)	3.6	(2.8)	1.7	(3.0)		18.0
Cost Driver #2		(67.2)	84.3	(1.2)	(45.5)	101.4	(18.6)	(89.7)	113.9	5.8
Cost Driver #3		(4.4)	16.5	(2.1)	(5.4)	3.3	0.9	(2.2)	(2.0)	6.2
Current Yr Total:		241.9	261.3	257.3	210.1	312.0	295.9	201.0	312.9	343.0

Cost Driver # 1: Rate Design Consultant Costs

Cost Driver # 2: Legal Costs

Cost Driver # 3: OEB Fees and Assessments

The variances in this account are due to the level of regulatory activity required year to year, some years requiring more work and other years less. The spike in 2009 is due to preparation and work on the cost of service application FNEI is currently undergoing.

Appendix 2-H

OM&A Cost Driver Table

Account 5665

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
--------------	-------------------------	----------------	----------------	----------------	----------------	----------------	----------------	----------------	----------------	----------------------

Previous Year Total	25.0	25.0	707.0	846.1	(679.9)					3.4
Cost Driver #1		682.0	139.1	(1,526.0)	679.9					
Cost Driver #2									3.4	26.6
Current Yr Total:		707.0	846.1	(679.9)	-	-	-	-	3.4	30.0

Cost Driver # 1: Market Readiness Costs

Cost Driver # 2: Joint meetings with local distribution companies

FNEI incurred significant expenses preparing itself and the three local distribution companies for Market Opening. FNEI had requested reimbursement from one of its original funding sources, Indian and Northern Affairs Canada and was successful in having a significant portion of these costs reimbursed. These costs did not reoccur.

FNEI determined the need in 2009 for regular joint meetings with the three First Nation Power Corporations. This is cost driver number two and the anticipated costs to hold these meetings.

Appendix 2-H

OM&A Cost Driver Table

Account 5675

OM&A Account	2001 Board Approv	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Test Year
--------------	-------------------------	----------------	----------------	----------------	----------------	----------------	----------------	----------------	----------------	----------------------

Previous Year Total	-	-		8.0	40.3	6.9	5.4	2.9	3.6	3.4
Cost Driver #1			8.0	32.3	(33.4)	(1.5)	(2.5)	0.7	(0.2)	4.1
Current Yr Total:		-	8.0	40.3	6.9	5.4	2.9	3.6	3.4	7.5

Cost Driver # 1: Maintenance of Office Building

The spike in 2004 is due to FNEI performing its due diligence in determining whether the office building that they began renting space in during 2003 was suitable for purchase. It was determined that the building was not suitable. The remaining variances are due to slight increases or decreases in general janitorial and minor maintenance costs.

53. Ref: OEB's Filing Requirements for Transmitters and Distributors, s.2.5.2; Ex 4/Tab/S3/p.1 – Account 5655 - Regulatory Costs

Preamble: The Filing Requirements state that the utility is to complete a table of regulatory costs incurred over a number of years, and there are significant increases year over year from 2009 to 2010 in this account.

Questions:

- (a) Please complete Appendix 2-I of the Filing Requirements for regulatory costs.**
- (b) Regulatory expenses have increased from \$220,000 in 2009 to \$343,000 in the test year. An increase of 56% year over year. Please provide the cost drivers behind this increase. Please identify and state any costs that are one-time costs. Please also explain how the utility proposes to deal with any one-time costs.**
- (c) Does the increase in costs make the assumption that the proceeding will require an oral hearing, technical conference, and settlement conference? If so, how much cost is attributed to these items? In the event that some of these events are not required, does FNEI intend to revise its forecast for regulatory expenses to be incurred in 2010?**

RESPONSE

- (a) Please see attached. Please note that all legal costs have been recorded in Account 5665 (with the exception of very small amounts that were capitalized). This includes corporate law matters, commercial contracts, employment/labour, financing, land rights, litigation and regulatory.**
- (b) The main cost drive is this rate proceeding, which FNEI is proposing to amortize over three years.**
- (c) FNEI's estimate was a general one – not based on the level of specificity outlined in the question. Given that it has been nearly a decade since FNEI's last proceeding as well as the major capital upgrades made since the last proceeding, management expected that this particular rate proceeding would be a significant undertaking.**

Appendix 2-I

Regulatory Cost Schedule

Regulatory Cost Category	USoA Account	USoA Account Balance	Ongoing or One-time Cost?	Last Rebasing Year (2002)	2003	2004	2005	2006	2007	Last Year of Actuals (2008)	Bridge Year (2009)	% Change in bridge year vs. last year of actuals	Test Year Forecast (2010)	% Change in Test Year vs. Bridge Year
1. OEB Annual Assessment	5655		ongoing	9,796	26,254	24,109	18,782	22,078	22,887	20,731	18,787	91%	25,000	133%
2. OEB Hearing Assessments (applicant initiated)	5655													
3. OEB Section 30 Costs (OEB initiated)	5655													
4. Expert Witness cost for regulatory matters	5655													
5. Legal costs for regulatory matters	5655		ongoing	149,547	233,871	232,685	187,222	288,640	270,000	180,251	294,167	163%	300,000	102%
6. Consultants costs for regulatory matters	5655		ongoing	81,259	1,194	501	4,143	1,331	2,982	-	-	0%	18,000	0%

54. Ref: Ex 4/T2/Sch.3/p.1 – Numerical Summary of Operations

Preamble: There are amounts that either appear anomalous, or that represent significant year over year increases in certain accounts. Discussion of these accounts provided below.

Questions:

(a) Account 4916 – Maintenance of Transformer Station Equipment reports figures of \$346,200 and \$348,000 in 2007 and 2010 test year, respectively. Please explain the drivers of these increases over other years in the period shown in the table.

(b) Account 5605 – Executive Salaries & Expenses reports \$246,700 for 2008, \$437,100 for 2009, and \$665,500 for 2010 test year. Please explain the drivers of these year over year increases in these accounts.

(c) Account 5630 – Outside Services Employed reports a step increase to outside services employed from 2003 to 2004, which remains at a constant higher level from 2004 through 2010 test year. Please provide the drivers of this sustained increase, and comment on any offsetting effect of capital and operating contribution from De Beers in respect of its Victor Diamond Mine project and the twinned line installation and operation.

RESPONSE

(a) In 2007, there was a significant overhaul of the transformers at Fort Albany and Kashechewan, which required a significant deployment of equipment (back-up generators) and personnel. Because of the remoteness of the locations and significant time/money required in deploying equipment and personnel to these sites, maintenance work on FNEI's transformers tends to be "lumpy" (i.e., do as much as possible while everyone is mobilized) rather than spread out over many years. For 2010, a higher figure was estimated because FNEI's system is now much more robust than in previous years (as a result of spare transformers in each community and the twinning of much of FNEI's system). In 2010, additional planned maintenance will take place as the original system is approaching ten years in service. Please also see Exhibit 4, Tab 2, Schedule 2, page 5.

(b) The cost drivers are explained in Exhibit 4, Tab 2, Schedule 2, page 9 and 10. The main drivers for the increase in this account is the hiring of a CEO in 2009 and additional meetings with the Directors as well as the Chiefs of the three First Nations with the CEO. It is anticipated that a higher number of meetings and associated travel costs, etc., will be required in 2010 as well.

(c) The cost drivers are explained fully at Exhibit 4, Tab 2, Schedule 2, pages 11 through 13. Under the Connection and Cost Recovery Agreement with De Beers, a 15% administration and overhead charge is to be added to actual operation and maintenance costs. This is recorded in

other revenue and is used to offset the incremental cost in accounting and CEO responsibility for the asset.

55. Ref: Exhibit 4 – OM&A

Are there any one-time costs in the 2010 OMA forecast? Please identify these costs and explain how the utility proposes to deal with these costs.

RESPONSE

There are regulatory costs associated with this rate case, which FNEI proposes to amortize over three years. In addition, the \$100,000 to convert to IFRS (amortized also over three years) is included.

56. Ref: Exhibit 4 – OM&A - Services to and from third parties and 2009 Financial Statements, Related Party Transactions, p. 7

Preamble: At various places in its OMA evidence FNEI has noted that it provides and receives services from member LDC's. Further at page 7, note 5 of FNEI's 2009 Financial statements, identifies accounts receivable and payable as a result of Third Party Transactions.

- (a) For the 2010 test year, what portion of total OM&A expenses is related to contracted services from third parties? If there is an increase in 2010 from 2009, please identify the reasons for the increase.**
- (b) Please identify how these contracted services are selected?**
- (c) For each contracted service, please identify the year in which a tendering process was used to obtain the contract.**
- (d) Please provide the contracts. If these contracts have been filed in response to a previous interrogatory, please provide that reference.**
- (e) The 2009 Financial statements indicates an offset to accounts receivable. This offset is categorized as "Allowance for doubtful accounts". Given that FNEI does not have a Bad Debt expense in 2009, please explain this entry. Please also explain how this relates to FNEI's 2010 Bad Debt forecast.**
- (f) For the period 2002 to 2009, please provide the OMA expenses related to contracted services from third parties?**

RESPONSE

(a) Please see attached. There is no increase in 2010.

(b), (c) and (d) The "transactions" noted are of two types. Payments to the First Nations are for land rights, whereas payments to the LDCs are for electrical power (at the stations) and maintenance work that FNEI asks the LDC to carry out. There are no contracts underpinning the power supply from the LDC and maintenance services provided from the LDC. Nor does FNEI put out to tender the maintenance services provided by the LDCs because there is no purpose in doing so (as explained below). For an explanation as to why there are no contracts, please see the letter from FNEI's counsel to Daria Babaie (OEB) dated May 17, 2010 (and in particular the second paragraph on page 5). The letter is attached to the response to Board Staff IR 1(b). That paragraph also sets out the rationale as to why the maintenance work was not tendered.

The maintenance work carried out by the LDCs for FNEI can be done far more economically by LDC lineworkers than anyone else. The three First Nation communities of Attawapiskat, Fort Albany and Kashechewan are remote, meaning that travel between them is via plane (no roads).

This makes deployment of personnel to these locations very expensive (see response to Board Staff IR 47(e)). In addition, these are small communities and the only qualified people to provide services to FNEI at the transformer stations are LDC employees.

(e) The bad debt is created when the allowance for doubtful accounts is set up or changed, not when the account is ultimately written off. The doubtful accounts are specifically identified. If and when one of these identified accounts is written off, the entry reduces the allowance and does not affect bad debts. We assume that the question meant to refer to 2010 and not 2009, because there were bad debts in 2009 of \$34,224. No changes in allowance for doubtful account were expected for 2010 thus no amount was budgeted.

(f) Please see attached.

Five Nations Energy Inc.
Historical Related Party Transactions

	2002	2003	2004	2005	2006	2007	2008	2009	2010 (Projected)	Totals
Attawapiskat Power Corporation										
Energy Sales:			5,012	5,052	6,265	6,025	6,495	6,480	10,200	45,528
Other Services:			15,000	24,395	23,181	15,000	23,396	15,000	15,000	130,971
Totals:	-	-	20,012	29,446	29,446	21,025	29,891	21,480	25,200	176,499
Kashechewan Power Corporation										
Energy Sales:	16,009	11,872	10,387	11,342	19,944	14,193	18,068	20,069	23,400	145,284
Other Services:		600	15,000	16,324	24,160	10,540	16,188	42,339	10,000	135,151
Totals:	16,009	12,472	25,387	27,666	44,104	24,733	34,256	62,408	33,400	280,435
Fort Albany Power Corporation										
Energy Sales:	4,394	5,175	4,769	5,555	5,837	5,700	6,008	7,003	10,644	55,086
Other Services:			13,594	46,037	41,066	21,034	13,287	35,498	10,000	180,516
Totals:	4,394	5,175	18,363	51,592	46,904	26,734	19,295	42,501	20,644	235,602
Kashechewan First Nation										
Land Use Fees:				125,000						125,000
Fort Albany First Nation										
Land Use Fees:				125,000				100,000		225,000
Grand Totals:	20,403	17,647	63,761	358,704	120,454	72,492	83,442	226,389	79,244	1,042,536

57. Ref: Exhibit 4/Tab 2/Sch. 1/p.13 – IFRS Costs

Preamble: FNEI has included \$100,000 in administration costs to cover the transition cost to IFRS.

1. AcSB/PSAB Bulletin: “Not-for-Profit Organizations – Future Financial Reporting Directions Update”, November 18, 2009

Page 1 of attached PDF, paragraph 6

“The existing accounting standards used by the not-for-profit sector — those from the CICA Handbook – Accounting— will continue to apply, unchanged, until proposed new directions for not-for-profit organizations in both the public and private sectors are developed and published for comment, consultation is conducted and the standards are finalized.” [Emphasis Added]

Page 1 of attached PDF, paragraph 7

“It is important to note that although Canadian publicly accountable enterprises are required to adopt IFRSs on January 1, 2011, not-for-profit organizations are not required to make a choice or to follow the same transition schedule. The transition to a new strategy for not-for-profit financial reporting will be based on a separate timeline that allows adequate time to plan and transition successfully.” [Emphasis Added]

Page 2 of attached PDF, paragraph 4

“The AcSB and PSAB plan to release an Exposure Draft for public comment in the first half of 2010 that proposes the possible reporting options for the sector. They encourage all organizations involved in the public and private not-for-profit sector to provide comments on the proposed reporting options. Until a new direction has been established, all organizations should continue to follow the existing accounting standards found in the CICA Handbook – Accounting.” [Emphasis Added]

Questions:

(a) As the AcSB/PSAB Bulletin: “Not-for-Profit Organizations – Future Financial Reporting Directions Update”, November 18, 2009 stated in above, not-for-profit organizations are not required to make a choice or to follow the same transition schedule. Why does FNEI believe it is different from other not-for-profit organizations and can depart from the direction provided by the AcSb and PSAB for not-for-profit organizations?

(b) As stated in above, the transition to a new strategy for not-for-profit financial reporting will be based on a separate timeline that allows adequate time to plan and transition successfully. Why does FNEI believe that it should depart from a separate

timeline that would allow adequate time to plan and transition for not-for-profit organizations?

RESPONSE

FNEI, while a non-profit organization, operates in the commercial mainstream, so from an accounting perspective has followed GAAP and not the non-profit organization (“NPO”) accounting rules.

We understand the issues raised in this and the subsequent IR response, and have had many discussions with our auditors about the issue, and while not definitive on this point as of yet, they are leaning towards IFRS as more appropriate for FNEI.

As noted in the next IR, the Board states in its report that:

Examples of utilities that may not be required to use IFRS are utilities owned by First Nations incorporated as not-for-profit organizations under the Canada Corporations Act, as well as utilities that may not meet the Canadian Accounting Standards Board criteria for being publicly accountable and for whom some other form of generally accepted accounting principles has been accepted by their auditors as more appropriate. Note that government business enterprises are required by the Public Sector Accounting Board to adopt IFRS, e.g., municipally owned utilities. (emphasis added)

Under the concept of publicly accountable enterprises in the CICA Handbook, the Accounting Standards Board includes:

- public enterprises (as defined in the CICA Handbook – Accounting);
- co-operative business enterprises;
- regulated financial institutions⁹ and regulated financial institution holding companies;
- **rate-regulated enterprises (as defined in the CICA Handbook – Accounting);** and
- government business enterprises and government business-type organizations (as defined in the CICA Public Sector Accounting Handbook).

Since FNEI operates in the commercial mainstream, and its operations are like any other rate-regulated utility, FNEI’s auditors have considered GAAP reporting to be more appropriate and useful since it provides financial statements more comparable to those of other rate regulated entities. Part of the determination as to whether to move to IFRS is a consideration of whether there would be any implication for reporting on a different basis than all other utilities.

Our auditor's decision to utilize GAAP has been discussed with the Institute of Chartered Accountants of Ontario ("ICAO"), and they have agreed with our auditor's approach.

With the splitting of GAAP into IFRS and GAAP for private enterprise, FNEI's options for reporting will be: (a) NPO; (b) IFRS; or (c) GAAP for private enterprise. If movement to IFRS is not mandatory for FNEI, then it is open to FNEI to consider utilizing NPO or GAAP for private enterprise. FNEI's assessment of these options is ongoing. Both these options are still somewhat in limbo. There has recently been an exposure draft for the new NPO rules that FNEI's auditor is still reviewing. Initial indications are that they might be acceptable. Under the old NPO rules, the major difference versus existing format would be the treatment of contributions in aid, which would need to be recorded as a deferred revenue as opposed to a reduction in capital assets as they are now.

To assist the Board to understand the \$100,000 conversion cost estimate, part of the cost would have been required to complete a depreciation study. The other costs would have been primarily for doing componentization of capital assets. Our auditor remains of the view that even if IFRS is not followed by FNEI, it would not be prudent for FNEI to disclose capital assets in a manner that is different from other utilities, so the one time expenditures budgeted should still occur (whether for IFRS implementation or one of the other two options).

58. Ref: Exhibit 4/Tab 2/Sch. 1/p.13 – IFRS Costs & Report of the Board – Transition to International Financial Reporting Standards, July 29, 2009

The Report of the Board - Transition to International Financial Reporting Standards, states, at page 33, “The Board has determined that it would not require modified IFRS filing and reporting from distributors that are not otherwise required to adopt IFRS for financial reporting purposes.”

Further at page 9, (footnote 1) the Board states that “Examples of utilities that may not be required to use IFRS are utilities owned by First Nations incorporated as not-for-profit organizations under the Canada Corporations Act, as well as utilities that may not meet the Canadian Accounting Standards Board criteria for being publicly accountable and for whom some other form of generally accepted accounting principles has been accepted by their auditors as more appropriate. Note that government business enterprises are required by the Public Sector Accounting Board to adopt IFRS, e.g., municipally owned utilities”. [Emphasis Added]

Questions:

(a) Given the fact that FENI is a not-for-profit organization, Please explain how this request complies with section 8.2 of the July 28, 2009 Board Report, Transition to International Financial Reporting Standards.

(b) Why is FENI not following the Report of the Board when it stated that it would not require modified IFRS filing and reporting from entities such as FENI that are not required to adopt IFRS for financial reporting purposes?

(c) How does FENI, as a not-for-profit organization, justify a departure from the Report of the Board regarding IFRS filing and reporting?

(d) However, if FNEI believes that the IFRS costs are justified please provide the following information with respect to as-file proposal.

(i) Please explain whether these costs are one-time administrative costs or ongoing compliance costs.

(ii) Please explain if all of the costs requested is for 2010, or whether the amounts are being requested in instalments over a series of years, as in other 2010 distribution and transmission rate applications.

(iii) Can FNEI provide specific information regarding the individual cost drivers that make up the \$100,000 budgeted cost?

(iv) If the Board approves the administration costs request by the company, is the company planning on establishing a variance account to record the variances

between the approved costs and actual costs of transitioning to IFRS, as per section 8.2 of the Board Report.

(v) If the answer to a) above is yes, what account number is the company planning to use to record such variances?

RESPONSE

Please see response to Board Staff IR 57.

COST OF CAPITAL

59. Ref: Ex 5/T1/S1/p.1-2 – Capital Structure – short and long term debt

Preamble: FNEI has indicated in evidence that it has the following four debt financing arrangements:

Table - Partial List of Debt Instruments

Inst.	Type	Amount	Interest rate
Pacific & Western Bank (“PWB”)	Term facility	\$11,000,000	Gov’t CND bond + 140 bps
Pacific & Western Bank	Operating facility	\$500,000	Prime + 250 bps (floating)
Bank of Montreal (“BMO”)	Operating facility	\$500,000	Prime “plus” (floating)
Northern Ontario Heritage Fund Corporation (“NOHFC”)	Loan	\$3,500,000*	4%**

*loan was originally for \$4.9 million, but a portion of principal has been paid back.

**Interest free loan; no longer interest-free as of October 2010, and rate agreed is 4%.

Questions/Requests:

(a) Please file a copy of the agreements or contracts associated with each of the debt instruments listed above. If FNEI has other debt instruments that are not listed, please add these instruments to the table above and file summaries of the terms of those agreements with the Board.

(b) With respect to the BMO instrument, what does FNEI mean when it refers to the “prime rate for the time during the month that the account was in an overdraft position”? Please provide an explanation clearly indicating how the rate is determined, with examples, and the current prevailing rate.

(c) Has FNEI overdrawn on the BMO operating facility in the past? Please indicate the number of times this has occurred and the drivers behind the overdraft.

- (d) Please explain the reference to the overdraft “rate” and provide the interest rate (in prime plus basis points) for the BMO instrument.
- (e) Please provide a copy of the agreement ceasing principal only repayments for the NOHFC loan.
- (f) Why did FNEI cease making principal repayments on the interest free loan from NOHFC? Was this on account of insufficient operating funds? Under what circumstances will loan and interest payments resume?
- (g) What was the original maturity date of the NOHFC loan?
- (h) Please provide a table showing the cash flows towards principal repayments for the NOHFC instrument.

RESPONSE

- (a) Please see attached. The 2006 Credit Agreement contains the first two items noted in the table.
- (b), (c) and (d) The BMO facility is an overdraft protection on FNEI’s operating bank account. Interest on the BMO operating facility is calculated on the daily closing debit balance (amount being borrowed) and automatically charged monthly on the last business day of the month to the account. It has a floating interest rate based on the Prime Rate (currently 2.25%). FNEI has occasionally used part of this protection (up to \$300,000) but has never exceeded its overdraft limit of \$500,000.
- (e) Please see attached.
- (f) Please see letter from Mr. Joe Gaboury (CEO, FNEI) to Mr. Aime J. Dimatteo (Executive Director, NOHFC) dated April 8, 2010 (attached to response to Board Staff IR 59(e)).
- (g) The original maturity date was October 15, 2010.
- (h) Please see letter from Mr. Joe Gaboury (CEO, FNEI) to Mr. Aime J. Dimatteo (Executive Director, NOHFC) dated April 8, 2010 (attached to response to Board Staff IR 59(e)).

FIVE NATIONS ENERGY INC.

- and -

**THE MANUFACTURERS LIFE INSURANCE COMPANY and
PACIFIC & WESTERN BANK OF CANADA**

CREDIT AGREEMENT

November 15, 2006

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CREDIT AGREEMENT

This Agreement dated as of November 15, 2006, is made among:

FIVE NATIONS ENERGY INC.

(hereinafter called the "**Borrower**")

- and -

**THE MANUFACTURERS LIFE INSURANCE COMPANY
and PACIFIC & WESTERN BANK OF CANADA**

(hereinafter collectively called the "**Lenders**" and
individually called a "**Lender**")

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party, the parties agree as follows:

ARTICLE I - INTERPRETATION

1.01 Definitions

In this Agreement, the following words and phrases shall have the respective meanings set forth below:

"Acceleration Date" means the date on which an Acceleration Event occurs;

"Acceleration Event" means the earliest to occur of: (i) an Insolvency Default; and (ii) the delivery by the Lenders to the Borrower of written notice of the occurrence of an Event of Default (other than an Insolvency Default);

"Advance" when used as a verb means any act by a Lender which results in the Borrower incurring a direct or contingent liability to such Lender, including making a Loan; and "Advance" when used as a noun means the Borrower's obligations to any Lender resulting from any of the foregoing;

"Affiliate" shall have the meaning ascribed to that term in the *Canada Business Corporations Act*;

"Agreement" means this agreement (including the schedules) as it may be amended, replaced or restated from time to time;

"Associate" shall have the meaning ascribed to that term in the *Canada Business Corporations Act*;

"Borrower" means Five Nations Energy Inc., a corporation incorporated under the *Canada Corporations Act*;

"Borrower's Equity" means, from time to time, the aggregate of (a) the amount of "Utility Equity" and "Insurance Reserve Equity" of the Borrower reflected in the financial statements of the Borrower at such time in accordance with GAAP, and (b) 30% of the gross contribution to transmission assets by DIAND and De Beers Canada at such time as indicated in the notes to such financial statements;

"Borrower Material Agreements" means Material Agreements to which the Borrower is a party.

"Borrower Material Permit" means Material Permit to which the Borrower is a party.

"Breakage Liability" means, at any time, the Borrower's contingent or actual liability to the Lenders at such time in respect of breakage fees as provided herein, in connection with the Term Loan;

"Business Day" means a day, other than a Saturday or Sunday, on which banks in Toronto, Ontario are open for normal banking business;

"Canadian Dollars" or "\$" or "Cdn \$" means the lawful money of Canada;

"Capitalization" means, from time to time, the sum of (a) Debt of the Borrower at such time, and (b) Borrower's Equity at such time;

"CCRA" means the connection and cost recovery agreement between De Beers Canada Inc. and the Borrower dated November 28, 2005 which deals with the construction of the transmission line from Moosonee to Kashechewan and addresses the payment of the costs associated with such construction as well as the transfer of the constructed assets to the Borrower;

"Closing Date" means November 29, 2006;

"Collateral" means all property, assets and undertaking of the Borrower encumbered by the Security;

"Contractor" means Valard Construction Limited, in its capacity as contractor under the Fibre Optic Cable Installation Contract.

"Credit Facilities" means the credit facilities established by the Lenders, respectively, for the Borrower pursuant to this Agreement and **"Credit Facility"** means any one of them, as the context requires;

"De Beers Project" means the design, procurement and installation of optical ground wire telecommunication lines between Moosonee, Ontario and Kashechewan, Ontario by Valard Construction Limited, for which the Borrower has appointed De Beers Canada Inc. as its agent pursuant to the OPGW Agreement;

"De Beers Material Agreements" means Material Agreements entered into by De Beers Canada Inc. in connection with the De Beers Project.

"De Beers Material Permits" means Material Permits obtained by De Beers Canada Inc. in connection with the De Beers Project.

"Debt" of any Person means debt as determined in accordance with GAAP including, without limitation, all interest bearing liabilities and/or indebtedness and any capitalized lease obligations of such Person, the debt component (if any) of any preference shares or other securities issued by such Person which in accordance with GAAP is required to be shown as a liability on a balance sheet of such Person, and any contingent obligations in respect of borrowed money (including letters of credit) incurred by such Person, but excluding any short term non-interest bearing liabilities and long term future income taxes;

"Debt Service" in respect of any fiscal period of the Borrower means the aggregate of: (i) all principal repayments scheduled to be made during such fiscal period in respect of the Outstanding Advances; plus (ii) all amounts payable by the Borrower during such fiscal period in the nature of compensation for the Outstanding Advances, including interest, interest rate reservation fees, commitment fees, arrangement fees, administration fees and cancellation fees payable pursuant to this Agreement; plus (iii) all mandatory principal repayments required to be made by the Borrower during such fiscal period in respect of Debt other than the Outstanding Advances; plus (iv) all amounts payable by the Borrower during such fiscal period in the nature of compensation for such Debt other than the Outstanding Advances;

"DIAND" means Her Majesty the Queen in right of Canada, as represented by the Minister of Indian Affairs and Northern Development;

"Distribution" means any amount paid to or on behalf of the members of the Borrower or to any Related Person thereto, by way of salary, bonus, commission, directors' fees, dividends, payment of principal, interest or fees on Debt or otherwise, and whether payments are made to such persons in their capacity as members, directors, officers, employees or creditors of the Borrower or otherwise, or any other direct or indirect payment in respect of earnings or capital of the Borrower;

"Documents" means this Agreement, the Security and any other documents required to be given by the Borrower to the Lenders from time to time pursuant to the terms of this Agreement or the Security or otherwise acknowledged by the Borrower to constitute a "Document";

"Draw Request" means a notice substantially in the form of Schedule "B" given by the Borrower to the Lenders for the purpose of requesting an Advance;

"EBITDA" means for the fiscal period in question, the net income of the Borrower before deduction of the following expenses: interest, income taxes, extraordinary items, depreciation, amortization and all non-cash charges; all determined in accordance with GAAP;

"Event of Default" has the meaning ascribed in section 9.01;

"Fibre Optic Cable Installation Contract" means the contract between the Borrower and the Contractor dated November 9, 2006 for the installation of the fibre optic cable to be attached to new poles to be constructed between Kashechewan and Attawapiskat, Ontario;

"First Nation" means a "band" within the meaning of the *Indian Act* (Canada);

"GAAP" means generally accepted accounting principles in Canada as approved by the Canadian Institute of Chartered Accountants in effect from time to time; provided that to the extent that a change in GAAP materially affects the calculation of any of the covenants herein, GAAP shall mean, solely with respect to the covenants so affected, generally accepted accounting principles as in effect on the date of this Agreement;

"Governmental Authority" means any: (i) federal, provincial, municipal, local or other governmental or public department, central bank, court,

commission, board, bureau, agency or instrumentality in Canada; (ii) any subdivision or authority of any of the foregoing; or (iii) any quasi-governmental or private body exercising any legally-binding regulatory, expropriation or taxing authority under or for the account of any of the above;

"Gross Income from Operations" shall mean, for any period, all IESO Payments received by the Borrower during such period together with income from all other sources received by the Borrower during such period.

"Guarantee" means any agreement by which any Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes liable upon, the obligation of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person or otherwise assures any creditor of such Person against loss, and shall include, without limitation, any contingent liability under any letter of credit or similar document or instrument;

"Hazardous Materials" means any contaminant, pollutant or substance present in such quantity or state that it is likely to cause immediately or at some future time material harm or degradation to the surrounding environment or risk to human health;

"IESO" means the Independent Electricity System Operator established under Part II of the *Electricity Act* (Ontario) and its successors;

"IESO-Administered Markets" has the meaning ascribed to it by the IESO Market Rules.

"IESO-Controlled Grid" has the meaning ascribed to it by the IESO Market Rules.

"IESO Market Rules" means the rules governing the IESO-Controlled Grid and establishing and governing the IESO-Administered Markets, together with all market manuals, policies, and guidelines issued by the IESO, all as amended or replaced from time to time.

"IESO Payments" means all payments from IESO to the Borrower for the transmission of electricity pursuant to section 2.2.2 of Chapter 10 of the IESO Market Rules;

"Insolvency Default" means an Event of Default of the nature described in paragraphs 9.01(e), (f) or (g);

"Insurance Reserve Account" means the insurance reserve account number 1042034 established by the Borrower with Bank of Montreal at it's 27 Pine Street South, Timmins, Ontario, P4N 2J9 branch for purposes of maintaining insurance reserves in an amount sufficient to meet maximum probable claims under its self-insurance program.

"Land" means real and immovable property (including leasehold lands and reserve lands pursuant to the *Indian Act* (Canada)) and all buildings, improvements, fixtures and plants situated thereon;

"Laws" means all statutes, codes, ordinances, decrees, rules, regulations, municipal by-laws, judicial or arbitral or administrative or ministerial or departmental or regulatory judgments, orders, decisions, rulings or awards, policies, voluntary restraints, guidelines or any provisions of such laws, including general principles of common and civil law and equity, binding on or affecting the Person referred to in the context in which such word is used; and **"Law"** means any one of foregoing;

"Lenders" means Manulife and PW and their respective successors and permitted assigns;

"Licensed Transmitter" means a Person to whom a license to transmit electrical energy has been awarded by the OEB;

"Lien" means a lien, charge, mortgage, pledge, security interest, conditional sales agreement, lease intended as security, defect of title, restriction, deposit arrangement, voting trust, trust, deemed trust, right of set-off and any other encumbrance of any kind;

"Loan" means a loan made by a Lender to the Borrower;

"Manulife" means The Manufacturers Life Insurance Company and its successors and assigns;

"Material Adverse Change" means (a) a change which constitutes a material adverse change in the business, affairs or financial condition of the Borrower, (b) a change which constitutes a material adverse change in the validity or priority of the Security, or (c) an event which could result in the occurrence of an Event of Default;

"Material Agreements" means agreements which in the opinion of the Lenders are material to the construction of the Project, and specifically including this Agreement and those agreements listed in Schedule "F" attached hereto;

"Material Permits" means all permits, approvals, building permits, agreements and certificates except for Non-Material Permits which are required to be issued by any Governmental Authority for the construction of the Project, specifically including those listed in Schedule "G" attached hereto;

"Minor Title Defects" in respect of any Land means defects or irregularities in the title to such Land which in the opinion of the Senior Lenders are of a minor nature and which, in the aggregate, will not materially impair the use of such Land for the purposes for which such Land is held by the owner thereof;

"Net Cash Flow" shall mean, for any period, the amount obtained by subtracting Operating Expenses, Debt Service payments and capital expenditures identified in the Project Budget for such period from Gross Income from Operations for such period.

"Non-Material Permits" means Permits of an immaterial nature which are expected to be obtained in the ordinary course and which, if not obtained, the failure to obtain such Permits (i) could not reasonably be expected to have a material adverse effect on the Project and (ii) could not preclude the development, construction, operation, maintenance, repair, ownership or use of the Project;

"Obligations" means, at any time, all direct and indirect, contingent and absolute obligations and liabilities of the Borrower to the Lenders (or if the context requires, to any one of them) under or in connection with this Agreement and the Security (or if the context requires, in respect of any Credit Facility or Credit Facilities) at such time, specifically including the Outstanding Advances, all accrued and unpaid interest thereon and all fees, expenses and other amounts payable pursuant to this Agreement and the Security; and for greater certainty including the Breakage Liability in respect of the Term Loan;

"OEB" means the Ontario Energy Board and its successors;

"Operating Expenses" shall mean, for any period, the total of all expenditures, computed in accordance with GAAP, of whatever kind during such period relating to the operation, maintenance and

management of the Borrower's business and assets (including the Project Assets) that are incurred on a regular monthly or other periodic basis, including without limitation, utilities, ordinary repairs and maintenance, insurance, license fees, property taxes and assessments, payroll and related taxes, computer processing charges, operational equipment or other lease payments.

"OPGW Agreement" means the agreement between the Borrower and De Beers Canada Inc. dated October 28, 2005 pursuant to which the Borrower appoints De Beers Canada Inc. as its agent for the design, procurement and installation of optical ground wire telecommunication lines between Moosonee, Ontario and Kashechewan, Ontario;

"Outstanding Advances" means at any time, the aggregate principal amount of the obligations of the Borrower to the Lenders (or if the context requires, to any one of them) under or in connection with this Agreement and the Security (or if the context requires, in respect of any Credit Facility or Credit Facilities) which have not been repaid at such time; but for greater certainty excluding the Breakage Liability;

"Permitted Encumbrances" means:

- (a) liens for taxes, duties and assessments and liens securing workers' compensation, unemployment insurance or other social security obligations not at the time overdue;
- (b) liens for taxes, duties and assessments which may be overdue but the validity of which is being contested in good faith and in respect of which reserves satisfactory to the Lenders have been established;
- (c) liens or rights of distress reserved in or exercisable under any lease for rent not at the time overdue or for compliance with the terms of such lease not at the time in default;
- (d) any obligations or duties affecting any Land due to any public utility or to any Governmental Authority, with respect to any franchise, grant, licence or permit in good standing and any defects in title to structures or other facilities arising solely from the fact that such structures or facilities are constructed or installed on Land under government permits, leases or other grants in good standing; which obligations, duties and defects in the aggregate do not materially impair the use of such property, structures or facilities for the purpose for which they are held;

- (e) liens incurred or deposits made in connection with contracts, bids, tenders or expropriation proceedings, surety or appeal bonds, costs of litigation when required by law, public and statutory obligations, warehousemen's, carriers' and other similar liens and deposits;
- (f) security given to a public utility or any Governmental Authority to secure obligations incurred to such utility or Governmental Authority in the ordinary course of business and not at the time overdue;
- (g) liens and privileges arising out of judgments or awards in respect of which: an appeal or proceeding for review has been commenced; a stay of execution pending such appeal or proceedings for review has been obtained; and reserves satisfactory to the Lenders have been established;
- (h) any builder's, mechanic's, labourer's, materialman's statutory or other similar lien arising in the ordinary course of business or out of the construction or improvement of any Land or arising out of the furnishing of materials or supplies therefor, securing moneys not at the time overdue;
- (i) Minor Title Defects;
- (j) liens which rank subordinate to, or *pari passu* with, the security interests in favour of the Lenders created by the Security;
- (k) Purchase-Money Security Interests incurred in connection with the purchase or leasing of capital equipment;
- (l) the encumbrances described in Schedule "C"; and
- (m) the Security;

"Person" includes an individual, corporation, partnership, trust, unincorporated association, Governmental Authority or any combination of the above;

"Potential Event of Default" means an event which has occurred and which, with the giving of notice or the lapse of time or both, would constitute an Event of Default;

"Prime Rate" means a fluctuating rate of interest per annum, expressed on the basis of a year of 365 or 366 days, as applicable, which is equal at all times to the reference rate of interest (however designated) of Royal Bank of Canada for determining interest chargeable by it on Canadian Dollar commercial loans made in Canada.

"Proceeds of Security" means all monies and other personal property in any form derived directly or indirectly from any dealing with the Project Assets or the proceeds therefrom (including insurance proceeds and any other payment representing indemnity or compensation for loss of or damage thereto or the proceeds therefrom), whether arising before or in connection with the enforcement of the Security, and all other amounts which are expressly deemed to constitute "Proceeds of Security" in this Agreement;

"Project" means the construction of the Project Assets by (a) the Contractor with respect to the fibre optic cable to be installed between Kashechewan and Attawapiskat, Ontario, (b) by Valard Construction Limited with respect to the fibre optic cable to be installed between Moosonee and Kashechewan, Ontario, and (c) by SNC-Lavalin Power Ontario Inc. in connection with the Substation Contract;

"Project Assets" means (a) the fibre optic cable to be installed along the electrical transmission line between Moosonee and Kashechewan, Ontario pursuant to the OPGW Agreement, (b) the fibre optic cable to be installed between Kashechewan and Attawapiskat, Ontario pursuant to the Fibre Optic Cable Installation Contract, (c) the second transformers to be connected pursuant to the Substation Contract, and (d) all other assets ancillary to the construction and operation of such assets;

"Project Budget" means the estimate of all costs (including soft costs such as interest and professional fees) to be incurred in connection with the Project until completion of the Project and the estimated timing of required payment of such costs, all as more particularly set out in Schedule "A" hereto;

"Project Completion Date" means (a) with respect to the fibre optic cable to be installed between Kashechewan and Attawapiskat, Ontario, April 30, 2008 (b) with respect to the fibre optic cable to be installed between Moosonee and Kashechewan, Ontario, May 30, 2007 and (c) in connection with the Substation Contract, November 30, 2007;

"Project Costs" means costs actually incurred by the Borrower in connection with the construction of the Project;

"Project Lands" means all Lands which are required to be used by the Borrower in connection with the construction and operation of the Project;

"Project Schedule" means the work schedule attached hereto as Schedule "K" hereto indicating the dates by which phases of the Project are required to be achieved, as such schedule may be adjusted from time to time;

"Purchase-Money Security Interest" means a Lien on any property or asset created, issued or assumed to secure the unpaid purchase price in respect of such property or asset; provided that such Lien is restricted to such property or asset acquired and secures an amount not in excess of the purchase price thereof;

"PW" means Pacific & Western Bank of Canada, and its successors and assigns;

"PW Interest Rate" means a rate per annum equal to the Prime Rate less one quarter of one percent (0.25%);

"PW Operating Facility" is defined in section 2.01;

"PW Operating Facility Limit" means Cdn. \$2,000,000;

"PW Operating Facility Maturity Date" means, subject to annual reviews to be conducted by PW on each anniversary of the PW Operating Facility, November 15, 2009 or such later date as may be agreed upon between PW and the Borrower in writing;

"Related Person" in relation to any Person means any Affiliate or Associate of such Person;

"Requirements of Environmental Law" means (i) obligations under common law, (ii) requirements imposed by or pursuant to statutes, regulations and by-laws, (iii) requirements announced by a Governmental Authority as having immediate effect, provided that at the time of making such announcement such Governmental Authority also states its intention of enacting legislation to confirm such requirements retroactively, (iv) all directives, policies and guidelines issued by any Governmental Authority charged with the administration thereof which have the force of law, and (v) all requirements imposed under any clean-up, compliance or other legally-binding order made pursuant to any of the foregoing, in each and every case relating to environmental, health or safety matters including, but not limited to, all such obligations and requirements which relate to (i)

solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation and (ii) exposure to Hazardous Materials;

"Schedules" means the schedules identified in the table of contents set out at the beginning of this Agreement, as the same may be amended, replaced or restated from time to time;

"Security" means the security required to be provided by the Borrower pursuant to Article VII;

"Subsidiary" shall have the meaning ascribed to that term in the *Canada Business Corporations Act*;

"Substation Contract" means the turnkey contract between the Borrower and SNC-Lavalin Power Ontario Inc. dated June 16, 2006 in connection with work being completed in the Fort Albany and Attawapiskat substations to connect a second transformer;

"Term Loan" is defined in section 3.01;

"Term Loan Limit" means Cdn. \$11,000,000;

"Term Loan Maturity Date" means December 31, 2027; and

"Term Loan Interest Rate" means, with respect to each Advance under the Term Loan, the rate (based on semi-annual compounding of interest) in effect three Business Days prior to the intended date of such Advance equal to the bid side yield on that date of the Government of Canada Bond (being a non-callable marketable bond appearing on the Bloomberg screen) with a maturity date most closely equivalent to the average life of the Term Loan, plus 140 basis points. If no such Government of Canada Bond exists, the yield shall be calculated by a linear interpolation between benchmark Government of Canada Bonds to arrive at a Term Loan average life yield.

1.02 Interest and Fee Calculations, Maximum Interest Rate

(a) Unless otherwise stated, in this Agreement if reference is made to a rate of interest, fee or other amount "per annum" or a similar expression is used, such interest, fee or other amount shall be calculated on the basis of a year of 365 or 366 days, as the case may be. If the amount of any interest, fee or other amount is determined or expressed on the basis of a period of less than one year of 365 or 366 days, as the case may be, the equivalent yearly rate is equal to the

rate so determined or expressed, divided by the number of days in the said period, and multiplied by the actual number of days in that calendar year.

(b) Notwithstanding any other provisions of this Agreement, if the amount of any interest, premium, fees or other monies or any rate of interest stipulated for, taken, reserved or extracted by a Lender under this Agreement or the Security would otherwise contravene the provisions of section 347 of the *Criminal Code* (Canada), section 8 of the *Interest Act* (Canada) or any successor or similar legislation, or would exceed the amounts which such Lender is legally entitled to charge and receive under any law to which such compensation is subject, then such amount or rate of interest shall be reduced to such maximum amount as would not contravene such provision; and to the extent that any excess has been charged or received such Lender shall apply such excess against the Outstanding Advances to such Lender and refund any further excess amount to the Borrower.

1.03 Accounting Principles

Unless otherwise provided herein, all financial terms used in this Agreement shall be determined in accordance with GAAP. Where the character or amount of any asset or liability or item of revenue or expense is required to be determined, or any consolidation or other computation is required to be made for the purpose of this Agreement, such determination or calculation shall be made in accordance with GAAP applied on a consistent basis, unless otherwise indicated.

1.04 Currency References

All amounts referred to in this Agreement are in Canadian Dollars unless otherwise noted.

1.05 References to Statutes

Whenever in this Agreement reference is made to a statute or regulations made pursuant to a statute, such reference shall be deemed to include all amendments to such statute or regulations from time to time and all statutes or regulations which may come into effect from time to time substantially in replacement for the said statutes or regulations.

1.06 Extended Meanings

Words importing the singular number include the plural and vice-versa. Unless otherwise expressly stated herein, if reference is made to any action or matter which requires the consent of the Lenders, or which is required to be

completed to the satisfaction of the Lenders, the discretion of the Lenders to give such consent or to confirm their satisfaction with such action or matter shall be in the absolute and unfettered discretion of the Lenders.

1.07 Schedules

The Schedules are attached to this Agreement and incorporated herein by reference.

ARTICLE II - PW OPERATING FACILITY

2.01 Establishment of PW Operating Facility

Subject to the terms and conditions of this Agreement, PW hereby establishes an operating credit facility for the Borrower in the maximum principal amount of the PW Operating Facility Limit, whereby PW shall make Advances to the Borrower prior to the PW Operating Facility Maturity Date to be used by the Borrower for general corporate purposes (the "PW Operating Facility").

2.02 PW Operating Facility Limit

PW shall have no obligation to make an Advance under the PW Operating Facility if after making such Advance the Outstanding Advances under the PW Operating Facility would exceed the PW Operating Facility Limit at such time. If at any time the Outstanding Advances under the PW Operating Facility exceed the PW Operating Facility Limit, the Borrower shall immediately pay to PW the principal amount required to reduce the Outstanding Advances under the PW Operating Facility to an amount not greater than the PW Operating Facility Limit.

2.03 Revolving Facility

The PW Operating Facility shall be a revolving credit facility. For greater certainty, if the Borrower repays any Outstanding Advance under the PW Operating Facility in whole or in part, the Borrower shall be entitled to reborrow any such amount.

2.04 Availment Option

Subject to and in accordance with the terms and conditions herein, the Borrower may receive Advances under the PW Operating Facility only by way of Loans in minimum amounts of \$50,000 and multiples of \$50,000.

2.05 Interest and Fees

The Borrower agrees to pay to PW interest on each Loan made under the PW Operating Facility at the PW Interest Rate, payable monthly in arrears on the last day of each and every month.

2.06 Repayment

The Obligations under the PW Operating Facility shall be immediately due and payable on the earliest to occur of: (i) the Acceleration Date; and (ii) the PW Operating Facility Maturity Date. Until such date, no principal payments shall be required to be made by the Borrower in respect of the PW Operating Facility. In the event that the Borrower elects to make any such principal payments, they shall be in minimum amounts of \$50,000 and multiples of \$50,000.

2.07 Voluntary Prepayments

The Borrower may from time to time prepay the Outstanding Advances under the PW Operating Facility in whole or in part without penalty.

ARTICLE III - TERM LOAN

3.01 Establishment of Term Loan

Subject to the terms and conditions of this Agreement, the Lenders hereby jointly establish a term credit facility for the Borrower in the maximum principal amount of the Term Loan Limit, whereby the Lenders shall make Advances to the Borrower prior to the Term Loan Maturity Date to be used by the Borrower solely to (a) repay the Pacific & Western Public Sector Financing Corp. loan in the amount of \$1,705,341.05 (as at November 1, 2006), and (b) to fund construction draws for the Project and to provide long-term financing therefor (the "Term Loan").

3.02 Term Loan Limit

If at any time the Outstanding Advances under the Term Loan exceed the Term Loan Limit, the Borrower shall immediately pay to the Lenders the principal amount required to reduce the Outstanding Advances under the Term Loan to an amount not greater than the Term Loan Limit.

3.03 Non-Revolver

The Term Loan shall be non-revolving. For greater certainty, if the Borrower repays any Outstanding Advance made under the Term Loan in whole or in part, the Borrower shall not be entitled to reborrow any such amount.

3.04 Interest

The Borrower agrees to pay to the Lenders interest on the Term Loan at the Term Loan Interest Rate, payable monthly in arrears on the last Business Day of each month until December 31, 2007. Thereafter, the Borrower shall make monthly blended payments of principal and interest to the Lenders in respect of the Term Loan as more particularly set out in Section 3.05.

3.05 Repayment

The Term Loan shall be immediately due and payable on the earliest to occur of: (a) the Acceleration Date; and (b) the Term Loan Maturity Date. From and after January 1, 2008, the Borrower agrees to make equal blended monthly payments of principal and interest based on the amount of Outstanding Advances as at December 31, 2007 and a fixed rate of interest equal to the blended Term Loan Interest Rates in effect for all Outstanding Advances under the Term Loan as at such time, on the last Business Day of each month until and including the Term Loan Maturity Date to the Lenders in respect of the Term Loan.

3.06 Voluntary Prepayments

The Borrower may from time to time, upon five (5) Business Days' prior written notice to the Lenders, prepay any portion of the Outstanding Advances under the Term Loan in minimum amounts of \$500,000, subject to payment of a breakage fee as provided in section 3.07. Any prepayment made hereunder shall be permanent, may not be reborrowed and shall be applied against the Borrower's obligations to make repayments under the Term Loan in reverse chronological order.

3.07 Breakage Costs

If the Borrower makes a prepayment to the Lenders in respect of the Term Loan, the Borrower agrees to pay to the Lenders at the time of such prepayment, in addition to all other amounts payable by the Borrower to the Lenders hereunder, an amount equal to a breakage fee determined by the Lenders in accordance with their usual practice equal to an amount (if a positive number) being: (a) the present value of the principal and interest payments foregone as a

result of such prepayment (such present value to be determined using a discount rate equal to 25 basis points plus the yield at the time of such prepayment on the Government of Canada Bond maturing closest to the date of the last payment which would have been made if the said prepayment had not been made); less (b) the amount of the said prepayment.

ARTICLE IV - GENERAL CONDITIONS

4.01 Interest Calculations

Unless otherwise indicated, interest on any outstanding principal amount shall be calculated daily and shall be payable monthly or quarterly (as applicable) in arrears on the last day of each and every month or quarter (as applicable). If the last day of any month or quarter is not a Business Day, the interest payment due on such day shall be made on the next Business Day, and interest shall continue to accrue on the said principal amount during such stub period and shall also be paid on such next Business Day. Interest in respect of any principal amount shall accrue from and including the day upon which such principal amount is advanced, and ending on but excluding the day on which such principal amount is repaid. Any changes in the Prime Rate shall cause an immediate adjustment of the interest rate applicable to the PW Operating Facility without the necessity of any notice to the Borrower.

4.02 Notice Periods

The Borrower shall provide written notice to the Lenders in respect of each Draw Request or repayment by not later than noon (Toronto time) on the fifth Business Day prior thereto, except in respect of the initial Advance under this Agreement which requires no such notice.

4.03 Place and Time of Payments

All payments of principal, interest and other amounts to be made by the Borrower to a Lender pursuant to this Agreement shall be made to such Lender's address as set out in this Agreement, or to such other address as such Lender may direct in writing from time to time. All payments received by such Lender on a Business Day before 2:00 p.m. Toronto time shall be treated as having been received on that day; payments made after such time on a Business Day shall be treated as having been received on the next Business Day. Whenever any payment shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day.

4.04 Evidence of Obligations

The records maintained by each Lender as to the amount of the Obligations due to it and the interest and other amounts payable in respect thereof shall be deemed to be prima facie correct. Each Lender may, but shall not be obliged to, request the Borrower to execute and deliver from time to time promissory notes as further evidence of the Borrower's obligations to such Lender under this Agreement.

4.05 Illegality

If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender with any request or directive (whether or not having the force of law) of any such Governmental Authority, central bank or comparable agency shall make it unlawful or impossible for such Lender to make or maintain the Credit Facilities established by it, an Event of Default shall be deemed to have occurred.

4.06 Increased Costs and Reduced Return

If there is a change in or introduction of any law, regulation, order, rule, request or directive (whether or not having the force of law but of a kind which is intended to be generally complied with by banks or financial institutions) or in the interpretation thereof by any Governmental Authority charged with the administration thereof or by any court of competent jurisdiction, and as a result:

- (a) a Lender incurs a cost (which it would not otherwise have incurred) or becomes liable to make a payment (calculated with reference to the amount outstanding or available under any Credit Facility established by it) with respect to continuing to provide or maintain such Credit Facility for the Borrower hereunder (other than a tax such as a capital or franchise tax or a tax imposed on the income of such Lender);
- (b) any reserve, special deposit or similar requirement is imposed or increased with respect to the Outstanding Advances increasing the cost thereof to such Lender; or
- (c) such Lender suffers or will suffer a reduction in the rate of return on its overall capital (other than a reduction by reason of any increase in the taxes referred to in (a) above) as a result of the

amount of the capital that such Lender is required to maintain being increased or of any change in the manner in which such Lender is required to allocate its resources;

then the Borrower shall, upon receipt of written notice from such Lender, pay to such Lender such amount as will compensate such Lender for and will indemnify such Lender against such increases in cost or reductions of rate of return, accruing from and after the date of receipt of such notice. The notice issued by such Lender shall set out the amount and basis for the amount of such additional payment required, and such notice shall be conclusive and binding absent manifest error. The Lender shall be entitled to use averages and estimates in preparing any such notice.

4.07 Withholding Tax

Except as otherwise required by law, each payment by the Borrower to a Lender hereunder shall be made without withholding for or on account of any present or future taxes imposed by or within the jurisdiction in which the Borrower is domiciled, any jurisdiction from which the Borrower makes any payment or any other jurisdiction, or (in each case) any political subdivision or taxing authority thereof or therein. If any such withholding is required by law, the Borrower shall make the withholding, pay the amount withheld to the appropriate governmental authority before penalties attach thereto or interest accrues thereon and forthwith pay to such Lender such additional amount as may be necessary to ensure that the net amount actually received by such Lender (after payment of such taxes including any taxes on such additional amount paid) is equal to the amount which such Lender would have received if no amounts had been withheld.

ARTICLE V - REPRESENTATIONS AND WARRANTIES

5.01 Representations and Warranties

The Borrower hereby represents and warrants to each Lender as follows:

(a) The Borrower has been duly incorporated and organized and is validly subsisting and in good standing under the laws of its jurisdiction of incorporation, has the power to own or lease its property, to carry on its business as now conducted by it; is conducting its business in compliance with all applicable Laws of each jurisdiction in which it carries on business and is duly licensed, registered and qualified to do business and is in good standing in each jurisdiction in which the nature of the business conducted by it or the property owned or leased by it make such qualification necessary; and all such licenses, registrations and qualifications are valid and subsisting and in good standing.

(b) The members of the Borrower are listed in Schedule "D" hereto, and no other person, firm or corporation has any agreement or option or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement, to become a member of the Borrower or for the purchase of any properties or assets of the Borrower out of the ordinary course of business. To the best of the Borrower's knowledge, the members of the Borrower have not entered into any agreement relating to their respective interests in the Borrower.

(c) The Borrower has the capacity, full power, legal right and authority to borrow from the Lenders and to enter into and perform its obligations under the Documents.

(d) On or before the date of the first Advance under the Credit Facilities, the execution and delivery of the Documents by the Borrower, and the performance of its obligations therein, will have been duly authorized and/or ratified by all necessary corporate action.

(e) Each Document when executed and delivered by the Borrower will constitute a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with the terms and conditions thereof.

(f) There are no actions, suits or proceedings pending or threatened against the Borrower in any court or before or by any federal, provincial, municipal or other Governmental Authority, Canadian or foreign.

(g) There are no Liens in respect of the Borrower or the Project Assets, or any agreement or obligation of the Borrower to execute and deliver any such Liens, except for Permitted Encumbrances.

(h) The Borrower owns, possesses and has a good and marketable title to its undertaking, property and assets free and clear of any and all Liens except for Permitted Encumbrances.

X (i) Attached hereto as Schedule "A" is a true, correct and complete copy of the Project Budget. The Project Budget accurately reflects all costs which may be reasonably expected to be incurred in connection with the construction of the Project.

X (j) The Project Schedule accurately reflects the time expected to be spent on each stage of the Project, as more particularly set out therein. The Borrower is not aware of any reasonable grounds to believe that the Project Completion Date for each component of the Project would not occur in accordance within the Project Schedule.

(k) The Borrower Material Agreements listed in Schedule "F" attached hereto are the only contracts which are necessary for construction of that portion of the Project excluding the De Beers Project. The De Beers Material Agreements listed in Schedule "F" attached hereto are, to the Borrower's best knowledge, the only contracts which are necessary for construction of the De Beers Project. Each of the Borrower Material Agreements listed in Schedule "F" and, to the Borrower's best knowledge, the De Beers Project Material Agreements listed in Schedule "F", is in full force and effect, unamended (except for amendments copies of which have been provided to the Lenders) and there exists no default or event of default or event, occurrence, condition or act which, with the giving of notice, the lapse of time or the happening of any other event or condition, would become a default or event of default under any Borrower Material Agreement or, to the best knowledge of the Borrower, under any De Beers Material Agreement. True, correct and complete copies of all Material Agreements (save and except for item #5 thereof) listed in Schedule "F" that have been requested by the Lenders have been delivered to each Lender.

(l) The Borrower Material Permits listed in Schedule "G" attached hereto are the only permits, authorizations and approvals which are necessary to construct that portion of the Project excluding the De Beers Project. The De Beers Material Permits listed in Schedule "G" attached hereto are the only permits, authorizations and approvals which are necessary to construct the De Beers Project. Subject to the last sentence of this Section 5.01(l), each of the Borrower Material Permits, and to the best knowledge of the Borrower, the De Beers Material Permits listed in Schedule "G" is in full force and effect, unamended, and there exists no default or event of default or event, occurrence, condition or act which, with the giving of notice, the lapse of time or the happening of any other event or condition, would become a default or event of default under any such Borrower Material Permit or, to the best knowledge of the Borrower, any such De Beers Material Permit. True, correct and complete copies of all such Material Permits have been delivered to each Lender. No proceeding is pending or threatened to revoke or limit any Borrower Material Permit. To the best knowledge of the Borrower, no proceeding is pending or threatened to revoke or limit any De Beers Material Permit. With respect to any Material Permit which is not permanent, the Borrower is not aware of any reasonable grounds for believing that such Material Permit would not be renewed in the ordinary course without the need for the holder thereof to comply with any special rules or procedures, agree to any materially different terms or conditions or pay any amounts other than routine filing fees. With respect to those Material Permits which have not been obtained to date, the Borrower is not aware of any reasonable grounds for believing that such Material Permits would not be issued in the ordinary course without the need for the

holder thereof to comply with any special rules or procedures, agree to any onerous terms or conditions or pay any amounts other than routine filing fees.

(m) The Project presently complies in all material respects with all Requirements of Environmental Law, and there are no reasonable grounds for believing that the Project would not comply in all material respects with all Requirements of Environmental Law during the period of construction and thereafter until all Obligations hereunder have been paid in full and all obligations of the Lenders hereunder have been terminated. There are presently no Hazardous Materials situated in, on or under the Project Lands and there is no reasonable expectation that any Hazardous Materials will be situated in, on or under the Project Lands during the period of construction and thereafter (except for gasoline, oil and diesel fuel in amounts which are required for construction purposes and which will be handled and stored in compliance with all Requirements of Environmental Law). To the best knowledge of the Borrower, there are no legal or administrative proceedings, investigations or claims now threatened or pending against the Borrower with respect to the presence on or under, or the discharge, emission, spill, radiation or disposal into or upon any Project Lands, the atmosphere, or any watercourse or body of water, of any Hazardous Material; nor are there any matters under discussion with any Governmental Authority relating thereto; and to the best knowledge of the Borrower there is no factual basis for any such proceedings, investigations or claims.

(n) There are no consents required from any First Nation with respect to the granting of the Security by the Borrower to the Lenders and the Borrower is not required to obtain any permits in connection with construction of the Project by section 28 of the *Indian Act* (Canada) until such time as the fibre optic cable assets to be installed between Moosonee and Kashechewan, Ontario are transferred to the Borrower (the "**Asset Transfer**"). With respect to those permits required pursuant to section 28 of the *Indian Act* (Canada) in connection with the Asset Transfer, the Borrower is not aware of any reasonable grounds for believing that such permits would not be issued in the ordinary course without the need for the Borrower to comply with any special rules or procedures, agree to any onerous terms or conditions or pay any amounts other than routine filing fees.

(o) No Event of Default or Potential Event of Default has occurred and is continuing.

(p) The Borrower has duly and timely filed all tax returns required to be filed by it and has paid all taxes which are due and payable and has paid all assessments and re-assessments and all other taxes, charges, penalties and

interest due and payable by it on or before the date hereof; there are no actions, suits, proceedings, investigations or claims now threatened or pending against it in respect of taxes, governmental charges or assessments or any matters under discussion with any Governmental Authority relating to taxes, governmental charges or assessments.

(q) The Borrower has remitted to all appropriate Governmental Authorities having jurisdiction all payments which if not paid when due could result in the creation of a Lien against any of its properties.

(r) Neither the consummation of the transactions contemplated by this Agreement, execution and delivery to the Lenders of the Security, nor compliance with the terms, provisions and conditions of this Agreement or the Security will conflict with, result in a breach of, or constitute a default under the charter documents or by-laws of the Borrower, or any agreement or instrument to which it is a party or is otherwise bound, and does not require the consent or approval of any Person.

(s) There are no provisions in the charter documents or by-laws of the Borrower or in any other agreement affecting it which restrict or limit its powers to borrow money, issue debt obligations, guarantee the payment or performance of the obligations of others, or otherwise encumber all or any of its property, now owned or subsequently acquired, except such as have been complied with.

(t) The Borrower is not obligated under any Guarantees (except for indemnity obligations contained in the Material Agreements).

(u) The financial statements of the Borrower in respect of its most recently completed fiscal year and its most recently completed fiscal quarter, respectively, have been prepared in accordance with GAAP on a basis which is consistent with the previous fiscal period, and present fairly:

- (i) its assets and liabilities (whether accrued, absolute, contingent or otherwise) and financial condition as at the date therein specified;
- (ii) its profits or losses during the period covered thereby; and
- (iii) in the case of the annual financial statements, its changes in financial position;

and since the dates of the said annual financial statements and interim financial statements, as the case may be, no dividends or other Distributions have been declared or paid in respect of the Borrower, no liabilities have been incurred by

the Borrower except in respect of Project Costs, and no Material Adverse Change has occurred.

(v) All financial and other information provided by or in respect of the Borrower to the Lenders was true, correct and complete in all material respects when provided and remains true, correct and complete in all material respects on the date hereof.

(w) Save as set out in Schedule "H" and as may be disclosed by the Borrower to the Lenders from time to time after the date of this Agreement, the Borrower has no Subsidiaries.

(x) The Borrower is not aware of any information or any other matter which, if known to the Lenders might reasonably deter them from establishing and maintaining the Credit Facilities on the terms and conditions contained herein.

5.02 Survival of Representations and Warranties

The Borrower acknowledges that the Lenders are relying upon the foregoing representations and warranties in connection with the establishment and continuation of the Credit Facilities. The said representations and warranties shall survive the execution and delivery of this Agreement, notwithstanding any investigations which may be made by the Lenders.

ARTICLE VI - COVENANTS

6.01 Positive Covenants

The Borrower hereby covenants and agrees with the Lenders that it will:

(a) punctually pay all principal, interest and other amounts due hereunder at the times and in the manner specified herein;

(b) maintain its corporate existence in good standing, preserve its rights, powers, licences, privileges, franchises and goodwill, exercise any rights of renewal or extensions of any leases, licences, concessions, franchises or any other rights whatsoever which are necessary or material to the conduct of its business, and do all things within its control to cause the Project to be constructed in accordance with the Project Budget and the Project Schedule;

(c) observe and perform all of its obligations under each Borrower Material Agreement and use its best efforts to cause De Beers to observe and perform all of its obligations under each De Beers Material Agreement;

(d) (i) observe and perform all of its obligations under each Borrower Material Permit, and in the case of any Borrower Material Permit which requires renewal, cause such Borrower Material Permit to be renewed prior to the expiry thereof, and (ii) use its best efforts to cause De Beers to observe and perform all of its obligations under each De Beers Material Permit, and in the case of any De Beers Material Permit which requires renewal, use its best efforts to cause such De Beers Material Permit to be renewed prior to the expiry thereof;

(e) comply in all material respects with all applicable Laws including, without limitation, all Requirements of Environmental Law; duly observe and comply with all requirements of all Governmental Authorities; and promptly and diligently take all such steps and do all such things as may be necessary to rectify any non-compliance which may at any time exist under any such Laws or to comply with any notice of violation, deficiency notice, order or similar advice or proceeding from or issued by any Governmental Authority relating to or affecting the Borrower or the Project Assets or any part thereof;

(f) pay when due all rents, taxes, rates, levies, assessments and governmental charges, fees and dues lawfully levied, assessed or imposed in respect of its property which are necessary or material to the conduct of its business, and deliver to each Lender receipts evidencing such payments from time to time as such Lender may request, except any such rent, tax, rate, levy, assessment, governmental charge, fee or due which is being contested in good faith and by proper proceedings and in respect of which the Borrower has established adequate reserves in accordance with GAAP or which are Permitted Liens;

(g) maintain adequate books, accounts and records in accordance with GAAP;

(h) keep its property and assets in good repair and working condition;

(i) at any reasonable time or times and upon reasonable notice, permit the Lenders and their respective employees and agents, to visit, inspect and have access to the Project Assets and to examine all books of account, records, reports, documents, papers, and data relating to the Borrower and the Project and to make copies and take extracts thereof, and to discuss its business, affairs, finances and accounts with its appropriate executive officers, senior financial officers, accountants and other financial advisors whether or not any such information may be considered confidential, and, to the extent that the Borrower has authority to grant such permission, to conduct environmental site assessments of the Project Lands, and the Borrower agrees to obtain such additional consents and further assurances from Governmental Authorities and

other Persons as may be reasonably requested by the Lenders in connection with the foregoing;

(j) maintain all of its property, assets and undertaking free of all Liens whatsoever except for Permitted Encumbrances;

(k) obtain from financially responsible insurance companies satisfactory to the Lenders and maintain liability insurance, all-risks property insurance on a replacement cost basis and insurance in respect of such other risks as the Lenders may reasonably require from time to time or self-insure with respect to such risks supported at all times by, subject to section 6.01(l), a minimum of \$4,000,000 in the Insurance Reserve Account; all of which policies of insurance or self-insurance arrangements shall be upon terms and conditions satisfactory to the Lenders; and the interest of the Lenders shall be noted as first mortgagee or loss payee on any such policies (except liability insurance); and the Lenders shall be named as additional insureds under any such liability insurance policies; and the Lenders shall be provided with certificates of insurance and certified copies of any such policies from time to time upon request;

(l) the Lenders acknowledge that the balance in the Insurance Reserve Account as at the Closing Date will be an amount less than \$4,000,000 but greater than \$3,657,000; which balance the Borrower agrees shall increase monthly and reach \$4,000,000 no later than April 1, 2007; and the parties hereto agree that in the event of a casualty event involving any of the Project Assets (which, for greater certainty, does not include regular maintenance and repair) which the Borrower is not able to pay for through its operating budget, the Borrower shall be entitled to withdraw funds from the Insurance Reserve Account to deal with the costs of such casualty event without breaching the requirement to maintain a minimum balance of \$4,000,000 in the Insurance Reserve Account; provided that in any such event, and to the extent the balance in the Insurance Reserve Account is then less than \$4,000,000, the Borrower shall (i) only use such funds to pay the costs associated with such casualty event, (ii) provide the Lenders with copies of invoices supporting such expenditures together with a reconciliation statement with respect to the balance in the Insurance Reserve Account and an explanation of the costs incurred (which the Borrower shall include with its quarterly compliance certificate delivered pursuant to Section 6.04(b)), (iii) thereafter deposit to the Insurance Reserve Account any Net Cash Flow until such time as the balance of \$4,000,000 has been restored, and (iv) until the balance in the Insurance Reserve Account has been restored to \$4,000,000, include with its quarterly compliance certificate delivered to the Lenders pursuant to Section 6.04(b), a reconciliation statement setting out the amount of Net Cash Flow achieved during the fiscal quarter covered by such compliance certificate; and provided further that the Borrower agrees that it shall only be permitted (in

addition to simply leaving funds on deposit in the Insurance Reserve Account) to invest funds in the Insurance Reserve Account in the following instruments:

- (i) in short to medium term investments with a term to maturity not exceeding 90 days, issued by a bank listed on Schedule 1 to the *Bank Act* (Canada) with at least a "R-1 (mid)" short term debt rating by Dominion Bond Rating Services Limited; or
- (ii) in bankers' acceptances having a term to maturity not exceeding 90 days with a bank listed on Schedule 1 to the *Bank Act* (Canada) with at least a "R-1 (mid)" short term debt rating by Dominion Bond Rating Services Limited; or
- (iii) in short or medium term investments with a term to maturity not exceeding 90 days, issued or guaranteed by the Government of Canada or by any Province of Canada with at least a "R-1 (mid)" short term debt rating by Dominion Bond Rating Services Limited.

(m) fulfil all covenants and obligations to be performed by it under this Agreement, the Security and under any other agreement or undertaking now or hereafter made between it and any Lender;

(n) upon becoming aware of any of the following, give prompt notice written to the Lenders of any of the following:

- (i) if any representation or warranty herein becomes incorrect in any material fashion;
- (ii) the occurrence of an Event of Default or Potential Event of Default;
- (iii) the issuance by the OEB of its decision in the rate case to be filed in the fall of 2006 or early 2007;
- (iv) any notice of expropriation or similar action or proceeding in respect of the Borrower, the Project or any Project Assets;
- (v) any material claim, proceeding or litigation in respect of the Borrower or all or any portion of the Project Assets, whether or not any such claim, proceeding or litigation is covered by insurance;
- (vi) any material violation of any Law by the Borrower;

- (vii) the termination of or the occurrence of a material default under a Material Agreement or a Material Permit;
- (viii) any material damage to or destruction of all or any portion of the Project Assets;
- (ix) any material delay or anticipated delay in construction of the Project;
- (x) the existence of any Lien against the Borrower or all or any portion of the Project Assets; and
- (xi) the occurrence of any event or development which could constitute a Material Adverse Change;

(o) provide the Lenders with such further Security and provide the Lenders with such further, information, financial data, documentation and other assurances as they may reasonably require from time to time;

(p) provide the Lenders with updates on any material developments relating to the issue of the relocation of the community of Kashechewan upon becoming aware of any such developments together with an explanation of the likely impact of any such developments on the ability of the Borrower to perform its obligations hereunder; and

(q) ensure, on or before December 31, 2006, that the interest of the Lenders is noted as first mortgagee on all insurance required pursuant to the OPGW Agreement, the Substation Contract and the Fibre Optic Cable Installation Contract.

6.02 Negative Covenants

The Borrower hereby covenants and agrees with the Lenders that it will not, without the prior written consent of the Lenders:

(a) make any expenditures in respect of the Project except in payment of Project Costs incurred prior to the Project Completion Date for each component of the Project not in excess of the Project Budget relating to such component of the Project;

(b) incur any indebtedness or obligations except for (i) indebtedness to the Lenders under this Agreement; (ii) indebtedness secured by Permitted Encumbrances; (iii) secured indebtedness under a credit facility with Bank of Montreal not in excess of \$500,000 for working capital purposes provided such indebtedness ranks *pari passu* with and not in priority to the Security; and (iv)

subject to the prior written approval of the Lenders, not to be unreasonably withheld, any other indebtedness provided that (x) the Borrower is, at the time such indebtedness is incurred, in compliance with the financial covenants set out in section 6.03, and (y) such indebtedness would not cause the Borrower to be in breach of the financial covenants set out in section 6.03;

(c) create or permit to exist a Lien in respect of any of the Project Assets other than the Project Assets relating to the DeBeers Project, except for Permitted Encumbrances; provided, however, that the Borrower shall use its best efforts to ensure that De Beers Canada Inc. does not create or permit to exist a Lien in respect of any of the Project Assets relating to the DeBeers Project, except for Permitted Encumbrances;

(d) directly or indirectly sell or otherwise dispose of any of its assets at any time following the occurrence of an Event of Default which is continuing; provided that prior to the occurrence of an Event of Default, the Borrower may (i) without restriction sell or dispose of any of its assets up to an aggregate amount of \$200,000 in any fiscal year and (ii) without restriction sell or dispose of any of its assets in an aggregate amount greater than \$200,000 in any fiscal year but the proceeds of any such sale or disposition in any fiscal year in excess of \$200,000 shall be at the sole discretion of the Borrower (A) applied to the Term Loan as a voluntary prepayment thereof, or (B) re-invested in the business of the Borrower;

(e) become obligated under Guarantees;

(f) make any loans to or investments in any Person;

(g) make any Distributions, except for the payment of wages and salaries to employees and payments to directors of the Borrower made in accordance with its financial policy, a copy of which is annexed as Schedule "I", but only to the extent that no Event of Default has occurred and is continuing at the time of any such Distribution or would occur as a result of any such Distribution;

(h) liquidate or dissolve or enter into any consolidation, merger, partnership, joint venture, amalgamation or other combination; or enter into any transaction whereby all or substantially all of its undertaking, property and assets would become the property of any other corporation or Person;

(i) permit any change in respect of the membership of the Borrower as set out in Schedule "D";

(j) permit any Material Agreement to be assigned, terminated or to be materially amended unless (i) such assignment, termination or material

amendment is required to be effected as a result of a breach by parties to the Material Agreement other than the Borrower, and (ii) such assignment, termination or material amendment will not adversely affect Project Costs or the Project Schedule;

(k) permit any Material Permit to be terminated or to be materially amended; or

(l) enter into any contract with any Related Person for the sale, purchase, lease or other dealing in any property or services, except at an amount equal to the fair market value of such property or services.

6.03 Financial Covenants

The Borrower agrees to maintain the financial ratios listed below:

(a) the ratio of Debt of the Borrower to Capitalization shall not be greater than 60% as at the end of each fiscal quarter of the Borrower; and

(b) the ratio of EBITDA to Debt Service, determined as at the end of each fiscal quarter in respect of each immediately preceding four (4) fiscal quarter period, shall not be less than 1.2 to 1.0.

With respect to the covenant set out in Section 6.03 (b), the Lenders have agreed to reduce the ratio of EBITDA to Debt Service for the fiscal quarters beginning January 1, 2009 and ending December 31, 2013 (the "Relevant Period") to 1.1 to 1.0 provided that during such period the Borrower maintains a cash balance of at least \$500,000 in a debt service reserve account with a bank listed in Schedule 1 of the *Bank Act* (Canada) under the sole control of the Lenders. For greater certainty, the failure of the Borrower to establish such an account will mean that it must comply with the ratio of EBITDA to Debt Service set out in Section 6.03 (b) during the Relevant Period. In addition, the Borrower may, at any time during the Relevant Period, be entitled to a return of the funds on deposit in the debt service reserve account described above if the Borrower is in compliance with the ratio of EBITDA to Debt Service set out in Section 6.03 (b).

6.04 Reporting Requirements

The Borrower shall deliver to each Lender the following financial and other information:

(a) annual audited financial statements by the 120th day after the end of each fiscal year;

(b) quarterly unaudited financial statements by the 90th day after the end of each fiscal quarter accompanied by a compliance certificate certified by the Treasurer of the Borrower in the form of Schedule "E";

(c) the Borrower's annual business plan including revenue, expense and cashflow projections on a quarterly basis, balance sheet, detailed capital expenditure budget, assumptions and similar matters, prior to each fiscal year end of the Borrower;

(d) quarterly construction progress reports by the 21st day after the end of each fiscal quarter comparing actual expenditures for the Project against Project expenditures outlined in the Project Budget; and

(e) such additional information and documents as the Lenders may reasonably require from time to time.

ARTICLE VII- SECURITY

7.01 Security to be Provided by the Borrower

The Borrower agrees to provide, or cause to be provided, in favour of the Lenders the security listed below in form and substance satisfactory to the Lenders (collectively, the "Security") as continuing security for the payment and performance of all obligations of the Borrower to the Lenders:

(a) a general security agreement;

(b) a hypothecation of the Borrower's insurance reserve fund;

(c) an assignment of all right, title and interest of the Borrower in each Borrower Material Agreement and all benefits thereunder pursuant to an assignment agreement containing terms and conditions satisfactory to the Lenders together with an acknowledgment from each third party to such Material Agreement in form and substance satisfactory to the Lenders; and

(d) such other security as may be reasonably required by the Lenders from time to time.

7.02 Registration of Security

The Security shall be registered where necessary or desirable in the opinion of the Lenders to record and perfect the charges contained therein.

ARTICLE VIII - CONDITIONS FOR ADVANCES

8.01 Conditions Precedent to First Advance

The Lenders shall have no obligation to make the first Advance under any Credit Facility, unless and until the following conditions shall have been performed and satisfied:

(a) all Security shall have been executed and delivered and all registrations necessary or desirable in connection therewith shall have been made;

(b) the Lenders shall have received all officers' certificates and certified copies of directors' authorizing resolutions concerning the due authorization, execution and delivery of the Documents and such related matters as the Lenders may reasonably require;

(c) the Lenders shall have received a certificate of status or similar certificate for the Borrower, issued by its governing jurisdiction;

(d) the Lenders shall have received a favourable opinion of the Borrower's solicitors in connection with the corporate status of the Borrower, the due authorization, execution and delivery of the Documents by the Borrower and the enforceability thereof;

(e) the Lenders shall have received evidence in form and substance satisfactory to the Lenders that the Material Permits constitute the only permits and approvals required in order to complete the Project;

(f) each Lender shall have completed and be satisfied with the results of its due diligence in respect of the Borrower and the Project, specifically including the Project Budget, the Project Schedule, the Borrower's entitlement to use the Project Lands for the construction of the Project (pursuant to an easement agreement or such other form of real property interest as may be satisfactory to the Lenders in their discretion), the potential impact of the rights of First Nations on the Project, environmental matters, compliance with all regulatory requirements, and the results of all searches conducted in respect of the Project Assets and the Borrower;

(g) each Lender shall be satisfied with the terms and conditions of each Material Agreement listed in Schedule "F";

(h) the Lenders shall have received and confirmed their satisfaction with the insurance report from Intech Risk Management;

(i) the Lenders shall have received and confirmed their satisfaction with the Borrower's most recent interim and annual financial statements;

(j) since the date of the said interim financial statements no Material Adverse Change shall have occurred;

(k) the Lenders shall have received such additional evidence, documents or undertakings as it may reasonably require to complete the transactions contemplated hereby in accordance with the terms and conditions contained in this Agreement;

(l) the issuance of completion bonds and labour and materials bonds covering the completion of construction and the payment of all labour and subcontracting costs and containing terms and conditions satisfactory to the Lenders shall have been arranged by (a) the Borrower or the Contractor with respect to the fibre optic cable to be installed between Kashechewan and Attawapiskat, Ontario, in the aggregate amount of not less than one-half of the fixed price under the Fibre Optic Cable Installation Contract (b) Valard Construction Limited with respect to the fibre optic cable to be installed between Moosonee and Kashechewan, Ontario, in the aggregate amount of not less than one-half of the fixed price under the construction contract governing the De Beers Project, and (c) SNC-Lavalin Power Ontario Inc. in connection with the Substation Contract, in the aggregate amount of not less than one-half of the balance payable to SNC-Lavalin Power Ontario Inc. under the Substation Contract; and any interest of the Borrower thereunder shall have been effectively assigned to the Lenders; and

(m) all conditions precedent to the making of Advances shall have been satisfied as set out in section 8.02.

8.02 Conditions for All Advances

The Lenders shall have no obligation to make the first Advance or any subsequent Advance unless at the time of making such Advance the following terms and conditions shall have been satisfied:

(a) all conditions precedent to the first Advance as set out in section 8.01 shall have been satisfied;

(b) the representations and warranties herein shall continue to be true and correct in all material respects as at the date of the requested Advance; except that in the case of the representations and warranties contained in paragraphs 5.01(i) through (o) (inclusive), the Borrower shall provide updated information and the Lenders shall be satisfied with such information;

(c) the Borrower shall have complied with all obligations imposed upon it pursuant to this Agreement, and no event shall have occurred which constitutes an Event of Default or Potential Event of Default, nor shall the making of the Advance result in the occurrence of any such event;

(d) save in respect of the initial Advance hereunder, the Borrower shall have given a Draw Request to the Lenders in accordance with the notice requirements provided herein, together with, in the case of Advances under the Term Loan, a milestone certificate substantially in the form of Certificate attached as Schedule "J" signed by the Borrower confirming the amount of Project Costs incurred as at the date of such Draw Request together with a statement detailing the costs to complete the Project;

(e) all Material Agreements listed in Schedule "F" shall be in full force and effect, and there shall have been no violation of the terms thereof; and no party thereto shall have given notice to any Lender regarding any dispute between the parties thereto;

(f) all Material Permits listed in Schedule "G" shall be in full force and effect, and there shall have been no violation of the terms thereof; and with respect to those Material Permits which have not been obtained to date, the Borrower is not aware of any reasonable grounds for believing that such Material Permits would not be issued in the ordinary course without the need for the holder thereof to comply with any special rules or procedures, agree to any onerous terms or conditions or pay any amounts other than routine filing fees.;

✕ (g) the Lenders shall have received satisfactory evidence that construction of the Project to such date has been completed in accordance with the Project Budget and the Project Schedule and in compliance with all Material Permits and all applicable zoning and building laws and ordinances and applicable plans and specifications; and all of the work, materials and fixtures customarily furnished and installed at the current stage of construction have been furnished and installed and are of acceptable quality;

(h) all subcontractors and all other Persons who have supplied materials and services in connection with the Project shall have received payment in full (except for holdbacks under the *Construction Lien Act* (Ontario)), and no construction lien shall have been claimed or registered against title to any of the Project Lands and no notice of any construction lien shall have been received by any Lender; and

(i) the cost to complete the Project as at such date does not exceed the undrawn principal amount of the Term Loan.

8.03 Timing and Amount of Advances

In the case of an Advance under the Term Loan, the Borrower shall submit a Draw Request to the Lenders not more frequently than once per month. Each Draw Request shall be in the form of Schedule "B". With respect to the Term Loan, the initial Advance to be made on the Closing Date shall be in an amount equal to the sum of the amount required to prepay the Pacific & Western Public Sector Financing Corp. loan in the amount of \$1,705,341.05 (as at November 1, 2006). Subsequent Advances under the Term Loan will be advanced in accordance with the amounts of, and the timing of, disbursements outlined in the Project Budget, as the same may be amended, replaced or restated from time to time.

ARTICLE IX - DEFAULT AND REMEDIES

9.01 Events of Default

The occurrence of any one or more of the following events, after the expiry of any applicable cure period set out below, shall constitute a default (an "Event of Default") under this Agreement:

(a) the Borrower fails to pay any principal, interest or other amount to any Lender when due hereunder and such failure is not remedied within five days written notice thereof by the Lenders;

(b) any representation, warranty or statement made to any Lender by the Borrower herein or in any Draw Request was incorrect in any material respect on the date on which such representation, warranty or statement was made;

(c) the Borrower fails to perform or comply with any of its covenants or obligations contained in this Agreement (other than those set out in paragraphs (a) and (b) above), or the Borrower fails to perform or comply with any of its covenants or obligations in any other agreement made between the Borrower and any Lender (including without limitation, the Security) following receipt of notice of such non-compliance from the Lenders; provided that if such non-compliance is capable of remedy within thirty (30) days, the Borrower diligently attempts to remedy such non-compliance and continuously informs the Lenders of its efforts in this regard, and such non-compliance is remedied within such thirty (30) day period, then such non-compliance shall be deemed not to constitute an Event of Default;

(d) any Material Agreement or Material Permit is cancelled or terminated for any reason whatsoever or expires (unless renewed or replaced prior to such expiry on terms which are not materially different), or if the Borrower is in

default in the payment or performance of, or otherwise in breach of any term, condition, covenant, agreement, representation or warranty contained in any Material Agreement or Material Permit and such default or breach has not been remedied within any applicable period of grace contained therein;

(e) the Borrower ceases, or threatens to cease, to carry on business or makes a general assignment for the benefit of creditors; or any proceeding or filing is instituted or made by the Borrower seeking relief on its behalf as debtor, or to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, arrangement, adjustment or composition of it or its debts under any applicable insolvency legislation or seeking appointment of a receiver, trustee, liquidator, custodian or other similar official for it or for any of the Project Assets; or if the Borrower takes any corporate action to authorize any of the actions set forth in this paragraph;

(f) any proceeding or filing is instituted or made against the Borrower seeking to have an order for relief entered against it as debtor or to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, arrangement, adjustment or composition of it or its debts under any applicable insolvency legislation, or seeking appointment of a receiver, trustee, custodian or other similar official for it or any of the Project Assets, unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed, vacated or permanently stayed within 30 days of institution;

(g) any Person takes possession of any property of the Borrower that is material to its financial condition, business or operations by way of or in contemplation of enforcement of security, or a distress or execution or similar process is levied or enforced against any such property;

(h) any party to a Material Agreement, other than the Borrower, terminates or purports to terminate its obligations under such Material Agreement, disputes the validity or enforceability of such Material Agreement; or is for any reason incapable or unwilling to perform its obligations under such Material Agreement or advises of its intention not to perform such obligations, and such event would (i) have a material adverse effect on the Project Schedule and (ii) the Borrower has not remedied the effects of such event within 15 days written notice thereof by the Lender by replacing the Material Agreement in question to the satisfaction of the Lender, acting reasonably, or otherwise ;

(i) the Borrower ceases to be a Licensed Transmitter;

(j) the OEB decreases the Borrower's revenue requirement after the conclusion of the rate-hearing case of the Borrower before the OEB and the

Borrower cannot demonstrate to the Lenders' satisfaction its ability to continue to comply with the financial covenants contained in section 6.03 hereof;

(k) any insurance required to be maintained by the Borrower hereunder is terminated and is not replaced by the Borrower prior to the effective date of such termination;

(l) one or more judgments for the payment of money in the aggregate amount of \$50,000 or more shall have been obtained or entered against the Borrower and shall not be paid, vacated or stayed within 30 days;

(m) any Lien attaches to any assets or property of the Borrower, except for Permitted Encumbrances, unless the Borrower immediately commences appropriate steps to have such Lien released and such Lien is released within 10 days of attachment;

(n) any Governmental Authority shall take any action to condemn, seize or appropriate the Project or any Project Assets in whole or in part, or any other property of the Borrower that is material to its financial condition, business or operations;

(o) any permit issued pursuant to section 28 of the *Indian Act* (Canada) in connection with the Project is amended or withdrawn; or

(p) an event occurs relating to the Borrower which in the opinion of the Lenders, acting reasonably, constitutes a Material Adverse Change.

9.02 Acceleration upon Event of Default

Upon the occurrence of an Insolvency Default, all obligations of the Borrower to the Lenders shall become immediately due and payable, without the necessity of any demand upon or notice to the Borrower by the Lenders. Upon the occurrence of any Event of Default other than an Insolvency Default, the Lenders may by written notice delivered to the Borrower declare all obligations of the Borrower to the Lenders to be immediately due and payable.

9.03 Combining Accounts; Set-Off

Upon the occurrence of an Event of Default, in addition to and not in limitation of any rights now or hereafter granted under applicable law, each Lender may without notice to the Borrower at any time and from time to time:

(a) combine, consolidate or merge any or all of the deposits or other accounts maintained with such Lender by the Borrower (whether term, notice,

demand or otherwise and whether matured or unmatured) and the Borrower's obligations to such Lender hereunder; and

(b) set off, apply or transfer any or all sums standing to the credit of any such deposits or accounts in or towards the satisfaction of the said obligations.

9.04 Appropriation of Monies

Subject to the terms of this Agreement, each Lender may from time to time after an Event of Default appropriate any Proceeds of Security received by it against such portion of the Obligations due to such Lender by the Borrower in such Lender's discretion, and the Borrower may not require any different appropriation. The taking of a judgment or any other action or dealing whatsoever by the Lenders in respect of the Security shall not operate as a merger of any of the Borrower's obligations hereunder or in any way affect or prejudice the rights, remedies and powers which the Lenders may have, and the foreclosure, surrender, cancellation or any other dealing with any Security or the said obligations shall not release or affect the liability of the Borrower or any other Person in respect of the remaining portion of the said obligations.

9.05 No Further Advances

Upon the occurrence of an Event of Default, the Lenders shall not be obliged to make any further Advances.

9.06 Garnishment Notices

If any Lender receives any garnishment notice or other notice of similar effect in respect of the Borrower pursuant to the *Income Tax Act* (Canada), or any similar notice under any other federal or provincial statute, then for so long as such notice is effective (as determined by the Lenders), the Lenders shall not be obliged to provide any further Advances hereunder, whether or not an Event of Default has occurred.

9.07 Remedies Cumulative

All of the rights and remedies granted to the Lenders in this Agreement, and any other documents or instruments in existence between the parties or contemplated hereby, and any other rights and remedies available to the Lenders at law or in equity, shall be cumulative. The exercise or failure to exercise any of the said remedies shall not constitute a waiver or release thereof or of any other right or remedy, and shall be non-exclusive.

9.08 Insolvency Proceedings

If the Borrower intends to take the benefit of any statute affecting creditors' rights generally, including without limitation making an assignment for the general benefit of creditors, making a proposal or filing a notice of intention to make a proposal under the *Bankruptcy and Insolvency Act* (Canada) or bringing proceedings under the *Companies Creditors Arrangement Act* (Canada), the Borrower covenants and agrees to provide the Lenders with five Business Days' prior written notice before any of the aforementioned proceedings are commenced. As soon as possible prior to the commencement of any such proceedings, the Borrower shall provide to the Lenders copies of all relevant filing materials, including, without limitation, copies of draft court orders, plans of compromise, proposals and notices of intention. During this notice period the Lenders may, in its sole discretion, elect to exercise any and all rights and remedies as set out in this Agreement.

ARTICLE X - INTERCREDITOR PROVISIONS

10.01 Dealing with the Lenders

Except to the extent otherwise directed by the Lenders or as otherwise provided in this Agreement, the Borrower shall deal with PW in respect of all payments required to be made by the Borrower to the Lenders under the Credit Facilities. With respect to all matters other than payments required to be made under the Credit Facilities, including the reporting of financial and other information, the Borrower shall deal with both Lenders.

10.02 Decision-Making

Any action to be taken or decision or determination to be made by the Lenders in respect of the Security or the administration of the Credit Facilities (such as the granting of any approval or consent or the provision of any waiver in respect of a breach of any covenant) shall be made or taken by the Lenders (and their respective successors and permitted assigns) acting unanimously.

10.03 Lenders' Obligations Several; No Partnership

The obligations of each Lender under this Agreement are several. The failure of a Lender to carry out its obligations hereunder shall not relieve the other Lender of any of its obligations hereunder other than as specifically provided for in this Agreement. Neither Lender shall be responsible for the obligations of the other Lender hereunder. Neither the entering into of this Agreement nor the completion of any transactions contemplated herein shall constitute the Lenders a partnership.

10.04 Sharing of Information

The Lenders may share among themselves any information they may have from time to time concerning the Borrower, whether or not such information is confidential, but shall have no obligation to do so except that each Lender shall promptly inform the other if it becomes aware of any other matter concerning the Security which it considers to be material.

10.05 Acknowledgment by Borrower

The Borrower hereby acknowledges notice of the terms of the provisions of this Article X and agrees to be bound hereby to the extent of its obligations hereunder, and further agrees not make any payments, take any action or omit to take any action which could result in the non-compliance by any Lender with its obligations hereunder.

10.06 Amendments to Article X

The Borrower hereby consents to the Lenders entering into any agreement among themselves which has the effect of amending the rights and obligations of the Lenders under this Article X, provided that the substantive rights of the Borrower are not materially adversely affected thereby.

ARTICLE XI - GENERAL

11.01 Waiver

The failure or delay by the Lenders in exercising any right or privilege with respect to the non-compliance with any provisions of this Agreement by the Borrower and any course of action on the part of the Lenders, shall not operate as a waiver of any rights of the Lenders unless made in writing by the Lenders. Any such waiver shall be effective only in the specific instance and for the purpose for which it is given and shall not constitute a waiver of any other rights and remedies of the Lenders with respect to any other or future non-compliance.

11.02 Governing Law

This Agreement shall be interpreted in accordance with the laws of the Province of Ontario. Without prejudice to the right of the Lenders to commence any proceedings with respect to this Agreement in any other proper jurisdiction, the parties hereby attorn and submit to the jurisdiction of the courts of the Province of Ontario.

11.03 Reimbursement of Expenses

Whether or not the transactions contemplated by this Agreement are completed or Advances are made, the Borrower agrees to pay all reasonable expenses incurred by each Lender, including reasonable legal expenses on a solicitor and his own client basis, in connection with due diligence conducted by the Lenders, the preparation of this Agreement, the Security and all documents contemplated hereby, the administration or interpretation of such documents, the protection and enforcement of the rights of the Lenders provided for thereby, the enforcement of the Security, and the preparation of any waivers, partial discharges and similar matters which may be required; together with interest after demand at the highest rate then applicable to the Credit Facilities. If the Borrower has not paid any such expenses incurred by a Lender within 30 days after receipt of a written request, the Borrower hereby authorizes the Lenders to make an Advance payable to the Lenders in the amount of such expenses in order to pay any such expenses.

11.04 General Indemnity

In addition to any other liability of the Borrower hereunder, the Borrower agrees to indemnify and save harmless the Lenders from and against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Lenders which relate or arise out of or result from any failure by the Borrower to satisfy its obligations to the Lenders when due or fulfil any of its other obligations to the Lenders hereunder including, without limitation, any costs or expenses incurred by reason of the liquidation or re-employment in whole or in part of deposits or other funds required by the Lenders to fund or maintain the Credit Facilities or as a result of the Borrower's failure to take any action on the date required hereunder or specified by it in any notice given hereunder; except to the extent that any of the foregoing liabilities, losses, damages, penalties and expenses were caused by the gross negligence or wilful misconduct of the Lenders or their said agents.

11.05 Environmental Indemnity

In addition to any other liability of the Borrower hereunder, the Borrower agrees to indemnify and save harmless the Lenders and their successors and assignees, any agent of the Lenders or such successors or assignees and the respective officers, directors and employees of the foregoing (collectively, the "Indemnitees") from and against:

(a) any losses suffered by the Indemnitees for, in connection with, or as a direct or indirect result of, the failure of the Borrower to comply with all Requirements of Environmental Law;

(b) any losses suffered by the Indemnitees for, in connection with, or as a direct or indirect result of, the presence of any Hazardous Material situated in, on or under the Project Lands or any other property owned by the Borrower or upon which it carries on business, specifically including without limiting the generality of the foregoing, any diminution in value of the business, property and assets of such Person; and

(c) any and all liabilities, losses, damages, penalties, expenses (including reasonable legal fees on a solicitor and his own client basis) and claims which may be paid, incurred or asserted against the Indemnitees for, in connection with, or as a direct or indirect result of, any legal or administrative proceedings with respect to the presence of any Hazardous Material on or under the Project Lands or any other property owned by the Borrower or upon which it carries on business, or the discharge, emission, spill, radiation or disposal by any of them of any Hazardous Material into or upon any land, the atmosphere, or any watercourse or body of water; including, without limitation the costs of defending and/or counterclaiming or claiming over against third parties in respect of any action or matter and any cost, liability or damage arising out of a settlement entered into by the Indemnitees of any such action or matter;

except to the extent that any of the foregoing liabilities, losses, damages, penalties and expenses were caused by the gross negligence or wilful misconduct of the Lenders or their said agents.

11.06 Interest on Unpaid Costs and Expenses

If the Borrower fails to pay when due any amount in respect of fees, costs, expenses or any other amount required to be paid by it hereunder (other than principal or interest on Advances), it shall pay interest on such unpaid amount from the time such amount is due until paid at the rate equal to the highest rate of interest then applicable to the Credit Facilities, with interest on overdue interest calculated and compounded monthly in arrears on the last day of each and every month.

11.07 Notice

Without prejudice to any other method of giving notice, all communications provided for or permitted hereunder shall be in writing and delivered to the addressee by prepaid private courier or sent by telecopy or other

direct written electronic means, to the applicable address and to the attention of the officer of the addressee as follows:

to the Borrower:

Five Nations Energy Inc.
R.R. #3
19 Colborne Street North
Goderich, Ontario N7A 3X9

Attention: Ed Chilton
telecopier no. (519) 529-1103

with a copy to:

Five Nations Energy Inc.
Suite 421, 70-C Mountjoy Street North
Timmings, Ontario
P4N 4V7

Attention: Rod Reimer
telecopier no. (705) 268-0071

with a further copy to:

Ogilvy Renault LLP
Suite 3800, Royal Bank Plaza, South Tower
200 Bay Street
P.O. Box 84
Toronto, Ontario
M5J 2Z4

Attention: Valerie Helbronner
telecopier no. (416) 216-3930

to PW:

Pacific & Western Bank of Canada
Suite 2002, Talbot Centre
140 Fullarton Street,
London, Ontario
N6A 5P2

Attention: Vice-President
telecopier no. (519) 645-2060

to MANULIFE:

The Manufacturers Life Insurance Company
200 Bloor Street East, NT-4
Toronto, Ontario
M4W 1E5

Attention: Director
telecopier no. (416) 852-6333

Any such communication shall be deemed to have been validly and effectively given on the day on which it is delivered or transmitted, as the case may be, if delivered or transmitted on a Business Day on or before 5:00 p.m. (local time of the intended recipient), and otherwise on the next following Business Day. Any party may change its address for service by notice given in the foregoing manner.

11.08 Severability

Any provision of this Agreement which is illegal, prohibited or unenforceable in any jurisdiction, in whole or in part, shall not invalidate the remaining provisions hereof; and any such illegality, prohibition or unenforceability in any such jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11.09 Further Assurances

The Borrower shall, at its expense, promptly execute and deliver or cause to be executed and delivered to the Lenders upon request from time to time all such other and further documents, agreements, opinions, certificates and instruments in compliance with this Agreement, or if necessary or desirable to more fully record or evidence the obligations intended to be entered into herein, or to make any recording, file any notice or obtain any consent.

11.10 Time of the Essence

Time shall be of the essence of this Agreement.

11.11 Assignment and Participation

Neither the benefits nor the obligations of this Agreement may be assigned by any party without the prior written consent of each other party, except as follows:

(a) A Lender may assign all or any portion of its rights under this Agreement from time to time to other financial institutions prior to the occurrence of an Event of Default with the prior written consent of both the Borrower and the other Lender and after the occurrence of an Event of Default without obtaining the prior written consent of the Borrower, but subject to obtaining the prior written consent of each other Lender. A Lender may assign all or any portion of its rights under this Agreement from time to time to any of its Affiliates without obtaining the prior written consent of the Borrower or the other Lender. Any Lender which assigns all or any portion of its rights under this Agreement shall give written notice of such assignment to the Borrower prior to or promptly after such assignment.

(b) A Lender may grant a participation in all or any portion of its rights under this Agreement from time to time to other financial institutions without notice to or obtaining the prior written consent of the Borrower or any other Lender.

The Borrower acknowledges that each Lender is entitled to charge fees to any such assignees or participants as may be agreed between such Lender and such assignees or participants. The Borrower agrees to co-operate fully with such Lender in connection with any assignment or participation, and agrees to execute and deliver from time to time in favour of such Lender and any such assignees or participants such documents and assurances as may be reasonably required to effect the foregoing, provided that such assignee or participant shall reimburse the Borrower for its reasonable legal expenses (if any) incurred in connection with the provision of such documents and assurances.

11.12 Announcements

Except as required by law or by the rules and regulations of any securities commission, stock exchange or other regulatory authority having jurisdiction over a party, no party will make any announcement, press release or public statement relating in any manner to this Agreement without first furnishing the proposed text thereof to the other parties. The other parties will have two Business Days after receipt of the proposed text to provide comments, failing which a party will be deemed to have consented to such disclosure.

11.13 Entire Agreement

This Agreement, the Security and any other documents or instruments contemplated hereby shall constitute the entire agreement and understanding between the Borrower and the Lenders relating to the subject-matter hereof. No provision of this Agreement, or any other document or instrument in existence among the parties may be modified, waived or terminated except by an instrument in writing executed by the party against whom such modification, waiver or termination is sought to be enforced.

11.14 Paramountcy

If there is any conflict between the provisions contained in this Agreement and the provisions contained in any other Document, the provisions of this Agreement shall govern and shall override the provisions contained in such other Document.

11.15 Execution by Fax and Counterparts

This Agreement may be executed in several counterparts, each of which, when so executed, shall be deemed to be an original and which counterparts together shall constitute one and the same Agreement. This Agreement may be executed by facsimile, and any signature contained hereon by facsimile shall be deemed to be equivalent to an original signature for all purposes.

11.16 Binding Effect

This Agreement shall be binding upon and shall enure to the benefit of the parties and their respective successors and permitted assigns; "successors" includes any corporation resulting from the amalgamation of any party with any other corporation.

IN WITNESS WHEREOF this Agreement has been executed and delivered by the parties hereto under the hands of their proper officers duly authorized in that behalf.

FIVE NATIONS ENERGY INC.

by: Mike Metatawabin President

by: Ed Chilton - Secretary/Treasurer

**THE MANUFACTURERS LIFE
INSURANCE COMPANY**

by: _____

by: _____

**PACIFIC & WESTERN BANK OF
CANADA**

by: _____

by: _____

IN WITNESS WHEREOF this Agreement has been executed and delivered by the parties hereto under the hands of their proper officers duly authorized in that behalf.

FIVE NATIONS ENERGY INC.

by: _____


by: _____

**THE MANUFACTURERS LIFE
INSURANCE COMPANY**

by: _____

by: _____

**PACIFIC & WESTERN BANK OF
CANADA**

by:  _____ **Greg Thompson
Assistant Vice President
Eastern Canada Lending**

by:  _____

**Nick Kristo
Vice President
Credit Risk & Administration**

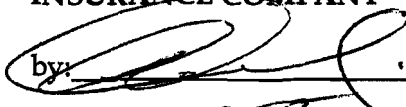
IN WITNESS WHEREOF this Agreement has been executed and delivered by the parties hereto under the hands of their proper officers duly authorized in that behalf.

FIVE NATIONS ENERGY INC.

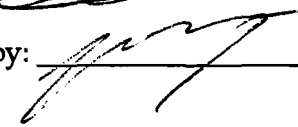
by: _____

by: _____

**THE MANUFACTURERS LIFE
INSURANCE COMPANY**

by:  _____

Laurie Harding
VP, CDN Private Placement

by:  _____

Patrick Yuk
Director, CDN Private Placement

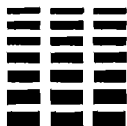
**PACIFIC & WESTERN BANK OF
CANADA**

by: _____

by: _____

SCHEDULE A
PROJECT BUDGET

FIVE NATIONS ENERGY INC.
CASHFLOW FORECAST
YEARS ENDED DECEMBER 31, 2006 TO 2012



Ross, Pope & Company

Chartered Accountants

101 Cedar Street South
Timmins, Ontario
P4N 2G7



Partners with Aboriginals

Telephone: (705) 264-9484

Fax: (705) 264-0788

inform@rosspope.com

www.rosspope.com

NOTICE TO READER ON THE COMPILATION OF A FINANCIAL FORECAST

We have compiled the financial forecast of Five Nations Energy Inc., consisting of balance sheets as at each month end during the six months ended December 31, 2006 and the twelve months ended December 31, 2007 and as at December 31, 2008, 2009, 2010, 2011 and 2012 and statements of income and cash flows for the periods then ending using assumptions with an effective date of November 17, 2006, and other information provided by management. Our engagement was performed in accordance with the applicable guidance on compilation of a financial forecast issued by the Canadian Institute of Chartered Accountants.

A compilation is limited to presenting, in the form of a financial forecast, information provided by management and does not include evaluating the support for the assumptions or other information underlying the forecast. Accordingly, we do not express an opinion or any other form of assurance on the financial forecast or assumptions. Further, since this financial forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. We have no responsibility to update this communication for events and circumstances occurring after the date of this communication.

Timmins, Ontario
November 17, 2006

ROSS, POPE & COMPANY
CHARTERED ACCOUNTANTS

Five Nations Energy Inc.
December 31, 2006
Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Pro-forma Balance Sheets

	Actual Dec-05	Actual Jun-06	Forecast Jul-06	Forecast Aug-06	Forecast Sep-06	Forecast Oct-06	Forecast Nov-06	Forecast Dec-06
ASSETS								
Cash and equivalents	2,592,273	1,919,074	1,783,277	1,486,530	1,202,548	933,936	591,942	484,440
Accounts receivable (see schedule)	958,127	1,003,920	918,884	916,295	885,745	842,250	869,175	899,725
Prepaid expenses	124,171	396,067	365,136	334,205	303,274	272,343	241,412	210,481
	3,674,571	3,319,061	3,067,297	2,747,030	2,391,567	2,048,529	1,702,529	1,594,646
Cash - Restricted for insurance reserve	2,939,500	3,370,000	3,441,750	3,513,500	3,585,250	3,657,000	3,728,750	3,800,500
Capital assets (see schedule)	9,784,743	10,737,266	11,130,957	11,523,162	11,917,612	11,895,580	12,412,206	12,557,154
	16,398,814	17,426,327	17,640,004	17,783,692	17,894,429	17,601,109	17,843,485	17,952,300
LIABILITIES								
Bank overdraft	-	-	-	-	-	-	-	-
Accounts payable	380,913	274,183	339,203	339,331	339,275	224,502	351,824	297,058
Current portion of long-term debt	523,432	523,432	488,628	488,628	488,628	488,628	488,628	488,628
	904,345	797,615	827,831	827,959	827,903	713,130	840,452	785,686
Long-term debt (see schedule)	6,521,334	6,284,899	6,279,363	6,239,151	6,198,698	5,912,657	5,893,152	5,893,152
	7,425,679	7,082,514	7,107,194	7,067,110	7,026,601	6,625,787	6,733,604	6,678,838
UTILITY EQUITY (DEFICIT)								
Equity in Operating & Capital Funds	6,033,635	6,973,813	7,091,060	7,203,082	7,282,578	7,318,322	7,381,131	7,472,962
Equity in Insurance Reserve	2,939,500	3,370,000	3,441,750	3,513,500	3,585,250	3,657,000	3,728,750	3,800,500
	8,973,135	10,343,813	10,532,810	10,716,582	10,867,828	10,975,322	11,109,881	11,273,462
	16,398,814	17,426,327	17,640,004	17,783,692	17,894,429	17,601,109	17,843,485	17,952,300

Pro-forma Balance Sheets
Supporting Schedules

Accounts Receivable

IESO	510,441	495,112	471,198	468,609	438,059	394,564	421,489	452,039
Other (net of allowances)	447,686	508,808	447,686	447,686	447,686	447,686	447,686	447,686
	958,127	1,003,920	918,884	916,295	885,745	842,250	869,175	899,725

Long-term debt

New Financing	-	-	-	-	-	-	1,726,780	1,726,780
Pacific & Western	2,144,766	1,908,331	1,867,991	1,827,779	1,787,326	1,746,285	-	-
Northern Ontario Heritage Fund	4,900,000	4,900,000	4,900,000	4,900,000	4,900,000	4,655,000	4,655,000	4,655,000
	7,044,766	6,808,331	6,767,991	6,727,779	6,687,326	6,401,285	6,381,780	6,381,780
Less: Current portion	523,432	523,432	488,628	488,628	488,628	488,628	488,628	488,628
	6,521,334	6,284,899	6,279,363	6,239,151	6,198,698	5,912,657	5,893,152	5,893,152

Interest on Long-term Debt

	Rate							
New Financing	5.490%	-	-	-	-	-	7,900	7,900
Overdraft interest	7.700%	-	-	-	-	-	-	-
Pacific & Western	7.145%	70,128	11,051	11,179	10,938	10,350	-	-
Northern Ontario Heritage Fund	0.000%	-	-	-	-	-	-	-
		70,128	11,051	11,179	10,938	10,350	7,900	7,900

Five Nations Energy Inc.
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Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Pro-forma Balance Sheets
Supporting Schedules - Continued

Capital assets - Summary (See below)

	Actual Dec-05	Actual Jun-06	Forecast Jul-06	Forecast Aug-06	Forecast Sep-06	Forecast Oct-06	Forecast Nov-06	Forecast Dec-06
Cost								
Beginning balance	11,666,989	11,666,989	12,863,046	13,300,046	13,737,046	14,177,791	14,202,158	14,766,837
Additions		1,196,057	437,000	437,000	440,745	24,367	564,679	193,626
Ending balance	11,666,989	12,863,046	13,300,046	13,737,046	14,177,791	14,202,158	14,766,837	14,960,463
Accumulated amortization								
Beginning balance	1,882,246	1,882,246	2,125,780	2,169,089	2,213,884	2,260,179	2,306,578	2,354,631
Amortization		243,534	43,309	44,795	46,295	46,399	48,053	48,678
Ending balance	1,882,246	2,125,780	2,169,089	2,213,884	2,260,179	2,306,578	2,354,631	2,403,309
Net book value	9,784,743	10,737,266	11,130,957	11,523,162	11,917,612	11,895,580	12,412,206	12,557,154

Capital Assets

Station Equipment

Account

1715

Cost - Beginning	12,613,569	13,675,872	13,903,872	14,131,872	14,360,241	14,360,241	14,619,785
Additions	1,062,303	228,000	228,000	228,369	-	259,544	150,000
Cost - Ending	13,675,872	13,903,872	14,131,872	14,360,241	14,360,241	14,619,785	14,769,785
Accumulated amortization - Beginning	1,149,295	1,315,522	1,344,488	1,373,929	1,403,846	1,433,763	1,464,221
Amortization @ 2.5%/annum	166,227	28,966	29,441	29,917	29,917	30,458	30,770
Accumulated amortization - Ending	1,315,522	1,344,488	1,373,929	1,403,846	1,433,763	1,464,221	1,494,991
NBV	12,360,350	12,559,384	12,757,943	12,956,395	12,926,478	13,155,564	13,274,794

Poles and Fixtures

1725

Cost - Beginning	24,752,318	24,778,043	24,862,043	24,946,043	25,030,492	25,052,359	25,213,402
Additions	25,724	84,000	84,000	84,449	21,867	161,043	-
Cost - Ending	24,778,043	24,862,043	24,946,043	25,030,492	25,052,359	25,213,402	25,213,402
Accumulated amortization - Beginning	3,466,664	3,962,089	4,044,962	4,128,115	4,211,550	4,295,058	4,379,103
Amortization @ 4%/annum	495,425	82,873	83,153	83,435	83,508	84,045	84,045
Accumulated amortization - Ending	3,962,089	4,044,962	4,128,115	4,211,550	4,295,058	4,379,103	4,463,148
NBV	20,815,954	20,817,081	20,817,928	20,818,942	20,757,301	20,834,299	20,750,254

Overhead Conductors

1730

Cost - Beginning	8,122,291	8,177,686	8,267,686	8,357,686	8,450,592	8,450,592	8,584,092
Additions	55,395	90,000	90,000	92,906	-	133,500	25,000
Cost - Ending	8,177,686	8,267,686	8,357,686	8,450,592	8,450,592	8,584,092	8,609,092
Accumulated amortization - Beginning	1,161,813	1,324,257	1,351,816	1,379,675	1,407,844	1,436,013	1,464,627
Amortization @ 4%/annum	162,444	27,559	27,859	28,189	28,169	28,614	28,697
Accumulated amortization - Ending	1,324,257	1,351,816	1,379,675	1,407,844	1,436,013	1,464,627	1,493,324
NBV	6,853,429	6,915,870	6,978,011	7,042,748	7,014,579	7,119,465	7,115,768

Other Capital assets

Various

Cost - Beginning	464,270	516,905	551,905	586,905	621,926	624,426	635,018
Additions	52,635	35,000	35,000	35,021	2,500	10,592	18,626
Cost - Ending	516,905	551,905	586,905	621,926	624,426	635,018	653,644
Accumulated amortization - Beginning	115,829	152,638	159,445	166,683	174,353	182,054	189,886
Amortization @ 14.8%/annum average	36,809	6,807	7,238	7,670	7,701	7,832	8,062
Accumulated amortization - Ending	152,638	159,445	166,683	174,353	182,054	189,886	197,948
NBV	364,267	392,460	420,222	447,573	442,372	445,132	455,696
	40,394,000	40,684,795	40,974,104	41,265,658	41,140,730	41,554,460	41,596,512

Contribution In Aid of Construction

1917

Cost - Beginning	34,285,460	34,285,460	34,285,460	34,285,460	34,285,460	34,285,460	34,285,460
Additions	-	-	-	-	-	-	-
Cost - Ending	34,285,460	34,285,460	34,285,460	34,285,460	34,285,460	34,285,460	34,285,460
Accumulated amortization - Beginning	4,011,355	4,628,726	4,731,622	4,834,518	4,937,414	5,040,310	5,143,206
Amortization @ 3.6%/annum average	617,371	102,896	102,896	102,896	102,896	102,896	102,896
Accumulated amortization - Ending	4,628,726	4,731,622	4,834,518	4,937,414	5,040,310	5,143,206	5,246,102
NBV	29,656,734	29,553,838	29,450,942	29,348,046	29,245,150	29,142,254	29,039,358
	10,737,266	11,130,957	11,523,162	11,917,612	11,895,580	12,412,206	12,557,154

See notes to Financial Forecast

Five Nations Energy Inc.
December 31, 2006
Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Pro-forma Income Statements

	Six Mth Actual <u>Jun-06</u>	Forecast <u>Jul-06</u>	Forecast <u>Aug-06</u>	Forecast <u>Sep-06</u>	Forecast <u>Oct-06</u>	Forecast <u>Nov-06</u>	Forecast <u>Dec-06</u>	Forecast <u>Total</u>
Monthly transmission services weighting	48.90%	9.10%	9.05%	8.46%	7.62%	8.14%	8.73%	100.00%
Transmission services revenue	2,725,136	471,198	468,609	438,059	394,564	421,489	452,039	5,371,094
Miscellaneous services revenue	11,649	1,250	1,250	1,250	1,250	1,250	1,250	19,149
Interest income (P-2%, 4% assumed)	98,767	18,439	17,417	16,700	15,959	15,303	14,402	196,987
	<u>2,835,552</u>	<u>490,887</u>	<u>487,276</u>	<u>456,009</u>	<u>411,773</u>	<u>438,042</u>	<u>467,691</u>	<u>5,587,230</u>
Expenses								
Amortization	243,536	43,309	44,795	46,295	46,399	48,053	48,678	521,065
Bad debt expense (recovery)	9,570	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,163)	(15,428)
Board of Directors	60,695	15,833	15,833	15,833	15,833	15,833	15,837	155,697
Insurance	185,585	33,378	33,378	33,378	33,378	33,378	33,374	385,849
Interest on I-t debt	70,128	11,051	11,179	10,938	10,350	7,900	7,900	129,446
Maintenance	286,914	63,035	63,035	63,035	63,035	63,035	63,032	665,121
Office and other	148,007	20,715	20,715	20,715	20,715	20,715	20,719	272,301
Outside services	315,173	82,167	82,167	82,167	82,167	82,167	82,163	808,171
Salaries and benefits	81,239	20,027	20,027	20,027	20,027	20,027	20,032	201,406
Travel	64,027	16,542	16,542	16,542	16,542	16,542	16,538	163,275
	<u>1,464,874</u>	<u>301,890</u>	<u>303,504</u>	<u>304,763</u>	<u>304,279</u>	<u>303,483</u>	<u>304,110</u>	<u>3,286,903</u>
Net income before undemoted	1,370,678	188,997	183,772	151,248	107,494	134,559	163,581	2,300,327
Appropriation to insurance reserve fund	430,500	71,750	71,750	71,750	71,750	71,750	71,750	861,000
Net income	<u>940,178</u>	<u>117,247</u>	<u>112,022</u>	<u>79,496</u>	<u>35,744</u>	<u>62,809</u>	<u>91,831</u>	<u>1,439,327</u>
Debt service ratio (Monthly)	4.09	3.34	3.27	2.66	0.31	4.33	18.79	3.76
Debt service ratio (Three Month)	N/A	N/A	N/A	3.09	1.00	0.93	1.08	N/A
Debt to total capitalization ratio	0.40	0.39	0.39	0.38	0.37	0.36	0.36	
Debt to total capitalization ratio (adjusted)	0.26	0.26	0.26	0.25	0.24	0.24	0.24	

Pro-forma Statement of Cashflow

	Six Mth Actual <u>Jun-06</u>	Forecast <u>Jul-06</u>	Forecast <u>Aug-06</u>	Forecast <u>Sep-06</u>	Forecast <u>Oct-06</u>	Forecast <u>Nov-06</u>	Forecast <u>Dec-06</u>	Forecast <u>Total</u>
Net income	940,178	117,247	112,022	79,496	35,744	62,809	91,831	499,149
Non-cash expenses:								
Amortization	243,536	43,309	44,795	46,295	46,399	48,053	48,678	277,529
Change in:								
Accounts receivable	(45,793)	85,036	2,589	30,550	43,495	(26,925)	(30,550)	104,195
Prepaid expenses	(271,896)	30,931	30,931	30,931	30,931	30,931	30,931	185,586
Acquisition of capital assets	(1,196,057)	(437,000)	(437,000)	(440,745)	(24,367)	(564,679)	(193,626)	(2,097,417)
Accounts payable	(108,732)	65,020	128	(56)	(114,773)	127,322	(54,766)	22,875
Repayment of long-term debt	(236,435)	(40,340)	(40,212)	(40,453)	(286,041)	(19,505)	-	(426,551)
Proceeds of long-term debt	-	-	-	-	-	-	-	-
Increase (Decrease) in cash	(673,199)	(135,797)	(286,747)	(293,982)	(268,612)	(341,894)	(107,502)	(1,434,634)
Opening unrestricted cash	2,592,273	1,919,074	1,783,277	1,496,530	1,202,548	933,936	591,942	1,919,074
Closing unrestricted cash	<u>1,919,074</u>	<u>1,783,277</u>	<u>1,496,530</u>	<u>1,202,548</u>	<u>933,936</u>	<u>591,942</u>	<u>484,440</u>	<u>484,440</u>

See notes to Financial Forecast

Five Nations Energy Inc.
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Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Pro-forma Balance Sheets

	<u>Dec-06</u>	<u>Jan-07</u>	<u>Feb-07</u>	<u>Mar-07</u>	<u>Apr-07</u>	<u>May-07</u>	<u>Jun-07</u>
ASSETS							
Cash and equivalents	484,440	1,352,551	46,768	2,719,815	577,326	908,102	305,932
Accounts receivable (see schedule)	899,725	909,046	871,764	868,140	823,609	822,055	923,544
Prepaid expenses	210,481	179,550	148,619	128,105	107,591	87,077	312,731
	<u>1,594,646</u>	<u>2,441,147</u>	<u>1,067,151</u>	<u>3,716,060</u>	<u>1,508,526</u>	<u>1,817,234</u>	<u>1,542,207</u>
Cash - Restricted for insurance reserve	3,800,500	3,872,250	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Capital assets (see schedule)	12,557,154	14,955,506	15,281,298	15,892,104	19,816,947	20,362,529	20,634,377
	<u>17,952,300</u>	<u>21,268,903</u>	<u>20,348,449</u>	<u>23,608,164</u>	<u>25,325,473</u>	<u>26,179,763</u>	<u>26,176,584</u>
LIABILITIES							
Bank overdraft	-	-	-	-	-	-	-
Accounts payable	297,058	1,463,108	427,406	584,544	2,248,228	571,045	434,555
Current portion of long-term debt	488,628	512,445	536,262	560,079	583,896	607,713	631,530
	<u>785,686</u>	<u>1,975,553</u>	<u>963,668</u>	<u>1,144,623</u>	<u>2,832,124</u>	<u>1,178,758</u>	<u>1,066,085</u>
Long-term debt (see schedule)	5,893,152	7,869,335	7,845,518	10,821,701	10,797,884	13,274,067	13,250,250
	<u>6,678,838</u>	<u>8,844,888</u>	<u>8,809,186</u>	<u>11,966,324</u>	<u>13,630,008</u>	<u>14,452,825</u>	<u>14,316,335</u>
UTILITY EQUITY (DEFICIT)							
Equity in Operating & Capital Funds	7,472,962	7,551,765	7,539,263	7,641,840	7,695,465	7,726,938	7,860,249
Equity in Insurance Reserve	3,800,500	3,872,250	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
	<u>11,273,462</u>	<u>11,424,015</u>	<u>11,539,263</u>	<u>11,641,840</u>	<u>11,695,465</u>	<u>11,726,938</u>	<u>11,860,249</u>
	<u>17,952,300</u>	<u>21,268,903</u>	<u>20,348,449</u>	<u>23,608,164</u>	<u>25,325,473</u>	<u>26,179,763</u>	<u>26,176,584</u>

Pro-forma Balance Sheets
Supporting Schedules

	<u>Dec-06</u>	<u>Jan-07</u>	<u>Feb-07</u>	<u>Mar-07</u>	<u>Apr-07</u>	<u>May-07</u>	<u>Jun-07</u>
Accounts Receivable							
IESO	452,039	461,360	424,078	420,454	375,923	374,369	475,858
Other (net of allowances)	447,686	447,686	447,686	447,686	447,686	447,686	447,686
	<u>899,725</u>	<u>909,046</u>	<u>871,764</u>	<u>868,140</u>	<u>823,609</u>	<u>822,055</u>	<u>923,544</u>
Long-term debt							
New Financing	1,726,780	3,726,780	3,726,780	6,726,780	6,726,780	9,226,780	9,226,780
Pacific & Western	-	-	-	-	-	-	-
Northern Ontario Heritage Fund	4,655,000	4,655,000	4,655,000	4,655,000	4,655,000	4,655,000	4,655,000
	<u>6,381,780</u>	<u>8,381,780</u>	<u>8,381,780</u>	<u>11,381,780</u>	<u>11,381,780</u>	<u>13,881,780</u>	<u>13,881,780</u>
Less: Current portion	488,628	512,445	536,262	560,079	583,896	607,713	631,530
	<u>5,893,152</u>	<u>7,869,335</u>	<u>7,845,518</u>	<u>10,821,701</u>	<u>10,797,884</u>	<u>13,274,067</u>	<u>13,250,250</u>
Interest on Long-term Debt							
	<u>Rate</u>						
New Financing	5.490%	17,050	17,050	30,775	30,775	42,213	42,213
Bank overdraft	7.700%	-	-	-	-	-	-
Pacific & Western	7.145%	-	-	-	-	-	-
Northern Ontario Heritage Fund	0.000%	-	-	-	-	-	-
		<u>17,050</u>	<u>17,050</u>	<u>30,775</u>	<u>30,775</u>	<u>42,213</u>	<u>42,213</u>

See notes to Financial Forecast

Five Nations Energy Inc.
December 31, 2007
Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Pro-forma Balance Sheets
Supporting Schedules - Continued

	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
Capital assets - Summary (See below)							
Cost							
Beginning balance	14,960,463	14,960,463	17,415,541	17,799,215	18,469,715	22,467,583	23,088,209
Additions (see schedule below)		2,455,078	383,674	670,500	3,997,868	620,626	347,645
Ending balance	14,960,463	17,415,541	17,799,215	18,469,715	22,467,583	23,088,209	23,435,854
Accumulated amortization							
Beginning balance	2,403,309	2,403,309	2,460,035	2,517,917	2,577,611	2,650,636	2,725,680
Amortization		56,726	57,882	59,694	73,025	75,044	75,797
Ending balance	2,403,309	2,460,035	2,517,917	2,577,611	2,650,636	2,725,680	2,801,477
Net book value	12,557,154	14,955,506	15,281,298	15,892,104	19,816,947	20,362,529	20,634,377
Capital Assets							
Station Equipment	Account 1715	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
Cost - Beginning		14,769,785	14,905,285	15,148,841	15,486,841	15,518,716	15,558,151
Additions		135,500	243,556	338,000	31,875	39,435	324,496
Cost - Ending		14,905,285	15,148,841	15,486,841	15,518,716	15,558,151	15,882,647
Accumulated amortization - Beginning		1,494,991	1,526,044	1,557,604	1,589,868	1,622,199	1,654,612
Amortization @ 2.5%/annum		31,053	31,560	32,264	32,331	32,413	33,089
Accumulated amortization - Ending		1,526,044	1,557,604	1,589,868	1,622,199	1,654,612	1,687,701
NBV		13,379,241	13,591,237	13,896,973	13,896,517	13,903,539	14,194,946
Poles and Fixtures							
	1725						
Cost - Beginning		25,213,402	25,827,402	25,906,670	25,906,670	27,635,670	27,827,943
Additions		614,000	79,268	-	1,729,000	192,273	23,149
Cost - Ending		25,827,402	25,906,670	25,906,670	27,635,670	27,827,943	27,851,092
Accumulated amortization - Beginning		4,463,148	4,549,239	4,635,595	4,721,951	4,814,070	4,906,830
Amortization @ 4%/annum		86,091	86,356	86,356	92,119	92,760	92,837
Accumulated amortization - Ending		4,549,239	4,635,595	4,721,951	4,814,070	4,906,830	4,999,667
NBV		21,278,163	21,271,075	21,184,719	22,821,600	22,921,113	22,851,425
Overhead Conductors							
	1730						
Cost - Beginning		8,609,092	10,310,829	10,351,679	10,684,179	12,916,172	13,305,090
Additions		1,701,737	40,850	332,500	2,231,993	388,918	-
Cost - Ending		10,310,829	10,351,679	10,684,179	12,916,172	13,305,090	13,305,090
Accumulated amortization - Beginning		1,493,324	1,527,693	1,562,199	1,597,813	1,640,867	1,685,217
Amortization @ 4%/annum		34,369	34,506	35,614	43,054	44,350	44,350
Accumulated amortization - Ending		1,527,693	1,562,199	1,597,813	1,640,867	1,685,217	1,729,567
NBV		8,783,136	8,789,480	9,086,366	11,275,305	11,619,873	11,575,523
Other Capital assets							
	Various						
Cost - Beginning		653,644	657,485	677,485	677,485	682,485	682,485
Additions		3,841	20,000	-	5,000	-	-
Cost - Ending		657,485	677,485	677,485	682,485	682,485	682,485
Accumulated amortization - Beginning		197,948	206,057	214,413	222,769	231,186	239,603
Amortization @ 14.8%/annum average		8,109	8,356	8,356	8,417	8,417	8,417
Accumulated amortization - Ending		206,057	214,413	222,769	231,186	239,603	248,020
NBV		451,428	463,072	454,716	451,299	442,882	434,465
		43,891,968	44,114,864	44,622,774	48,444,721	48,887,407	49,056,359
Contribution in Aid of Construction							
	1917						
Cost - Beginning		34,285,460	34,285,460	34,285,460	34,285,460	34,285,460	34,285,460
Additions		-	-	-	-	-	-
Cost - Ending		34,285,460	34,285,460	34,285,460	34,285,460	34,285,460	34,285,460
Accumulated amortization - Beginning		5,246,102	5,348,998	5,451,894	5,554,790	5,657,686	5,760,582
Amortization @ 3.6%-3.65%/annum average		102,896	102,896	102,896	102,896	102,896	102,896
Accumulated amortization - Ending		5,348,998	5,451,894	5,554,790	5,657,686	5,760,582	5,863,478
NBV		28,936,462	28,833,566	28,730,670	28,627,774	28,524,878	28,421,982
		14,955,506	15,281,298	15,892,104	19,816,947	20,362,529	20,634,377

Five Nations Energy Inc.
December 31, 2007
Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Pro-forma Income Statements

	<u>Jan-07</u>	<u>Feb-07</u>	<u>Mar-07</u>	<u>Apr-07</u>	<u>May-07</u>	<u>Jun-07</u>
Monthly transmission services weighting	8.91%	8.19%	8.12%	7.26%	7.23%	9.19%
Transmission services revenue	461,360	424,078	420,454	375,923	374,369	475,858
Miscellaneous services revenue	1,250	1,250	1,250	1,250	1,250	1,250
Interest income (P-2%, 4% assumed)	14,283	17,416	13,489	22,399	15,258	16,360
	<u>476,893</u>	<u>442,744</u>	<u>435,193</u>	<u>399,572</u>	<u>390,877</u>	<u>493,468</u>
Expenses						
Amortization	56,726	57,882	59,694	73,025	75,044	75,797
Bad debt expense (recovery)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)
Board of Directors	16,150	16,150	16,150	16,150	16,150	16,150
Insurance	34,045	34,045	23,628	23,628	23,628	23,628
Interest on l-t debt	17,050	17,050	30,775	30,775	42,213	42,213
Maintenance	64,295	64,295	64,295	64,295	64,295	64,295
Office and other	21,130	21,130	21,130	21,130	21,130	21,130
Outside services	83,810	83,810	83,810	83,810	83,810	83,810
Salaries and benefits	20,428	20,428	20,428	20,428	20,428	20,428
Travel	16,873	16,873	16,873	16,873	16,873	16,873
	<u>326,340</u>	<u>327,496</u>	<u>332,616</u>	<u>345,947</u>	<u>359,404</u>	<u>360,157</u>
Net Income before undemoted	150,553	115,248	102,577	53,625	31,473	133,311
Appropriation to Insurance reserve fund	71,750	127,750	-	-	-	-
Net Income	<u>78,803</u>	<u>(12,502)</u>	<u>102,577</u>	<u>53,625</u>	<u>31,473</u>	<u>133,311</u>
Debt service ratio (Monthly)	8.95	3.66	6.27	5.12	3.52	5.95
Debt service ratio (Three Month)	8.02	8.65	6.29	5.25	4.81	4.84
Debt to total capitalization ratio	0.42	0.42	0.49	0.49	0.54	0.54
Debt to total capitalization ratio (adjusted)	0.29	0.29	0.36	0.36	0.41	0.41

Pro-forma Statement of Cashflow

	<u>Jan-07</u>	<u>Feb-07</u>	<u>Mar-07</u>	<u>Apr-07</u>	<u>May-07</u>	<u>Jun-07</u>
Net Income	78,803	(12,502)	102,577	53,625	31,473	133,311
Non-cash expenses:						
Amortization	56,726	57,882	59,694	73,025	75,044	75,797
Change In:						
Accounts receivable	(9,321)	37,282	3,624	44,531	1,554	(101,489)
Prepaid expenses	30,931	30,931	20,514	20,514	20,514	(225,654)
Acquisition of capital assets	(2,455,078)	(383,674)	(670,500)	(3,997,868)	(620,626)	(347,645)
Accounts payable	1,166,050	(1,035,702)	157,138	1,663,684	(1,677,183)	(136,490)
Repayment of long-term debt	-	-	-	-	-	-
Proceeds of long-term debt	2,000,000	-	3,000,000	-	2,500,000	-
Increase (Decrease) in cash	868,111	(1,305,783)	2,673,047	(2,142,489)	330,776	(602,170)
Opening unrestricted cash	484,440	1,352,551	46,768	2,719,815	577,326	908,102
Closing unrestricted cash	<u>1,352,551</u>	<u>46,768</u>	<u>2,719,815</u>	<u>577,326</u>	<u>908,102</u>	<u>305,932</u>

Five Nations Energy Inc.
December 31, 2007
Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Annual Inflation factor = 2%

Pro-forma Balance Sheets

	<u>Jul-07</u>	<u>Aug-07</u>	<u>Sep-07</u>	<u>Oct-07</u>	<u>Nov-07</u>	<u>Dec-07</u>
ASSETS						
Cash and equivalents	280,224	-	1,285,078	1,072,230	946,118	996,917
Accounts receivable (see schedule)	918,884	916,295	885,745	842,250	869,175	899,725
Prepaid expenses	292,217	271,703	251,189	230,675	210,161	189,647
	1,491,325	1,187,998	2,422,012	2,145,155	2,025,454	2,086,289
Cash - Restricted for Insurance reserve	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Capital assets (see schedule)	20,721,911	21,777,144	21,705,790	21,931,392	22,088,620	22,012,917
	26,213,236	26,965,142	28,127,802	28,076,547	28,114,074	28,099,206
LIABILITIES						
Bank overdraft	-	141,197	-	-	-	-
Accounts payable	340,232	825,523	271,250	419,254	385,310	268,843
Current portion of long-term debt	655,347	679,164	702,981	726,798	750,615	774,432
	995,579	1,645,884	974,231	1,146,052	1,135,925	1,043,275
Long-term debt (see schedule)	13,226,433	13,202,616	14,952,019	14,683,202	14,659,385	14,635,568
	14,222,012	14,848,500	15,926,250	15,829,254	15,795,310	15,678,843
UTILITY EQUITY (DEFICIT)						
Equity in Operating & Capital Funds	7,991,224	8,116,642	8,201,552	8,247,293	8,318,764	8,420,363
Equity in Insurance Reserve	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
	11,991,224	12,116,642	12,201,552	12,247,293	12,318,764	12,420,363
	26,213,236	26,965,142	28,127,802	28,076,547	28,114,074	28,099,206

Pro-forma Balance Sheets**Supporting Schedules**

	<u>Jul-07</u>	<u>Aug-07</u>	<u>Sep-07</u>	<u>Oct-07</u>	<u>Nov-07</u>	<u>Dec-07</u>
Accounts Receivable						
IESO	471,198	468,609	438,059	394,564	421,489	452,039
Other (net of allowances)	447,686	447,686	447,686	447,686	447,686	447,686
	918,884	916,295	885,745	842,250	869,175	899,725
Long-term debt						
New Financing	9,226,780	9,226,780	11,000,000	11,000,000	11,000,000	11,000,000
Pacific & Western	-	-	-	-	-	-
Northern Ontario Heritage Fund	4,655,000	4,655,000	4,655,000	4,410,000	4,410,000	4,410,000
	13,881,780	13,881,780	15,655,000	15,410,000	15,410,000	15,410,000
Less: Current portion	655,347	679,164	702,981	726,798	750,615	774,432
	13,226,433	13,202,616	14,952,019	14,683,202	14,659,385	14,635,568
Interest on Long-term Debt						
New Financing	42,213	42,213	50,325	50,325	50,325	50,325
Bank overdraft	-	-	906	-	-	-
Pacific & Western	-	-	-	-	-	-
Northern Ontario Heritage Fund	-	-	-	-	-	-
	42,213	42,213	51,231	50,325	50,325	50,325

See notes to Financial Forecast

Five Nations Energy Inc.
December 31, 2007
Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Annual inflation factor = 2%

Pro-forma Balance Sheets
Supporting Schedules - Continued

Capital assets - Summary (See below)

Cost	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Beginning balance	23,435,854	23,594,854	24,724,435	24,727,435	25,028,255	25,261,186
Additions (see schedule below)	159,000	1,129,581	3,000	300,820	232,931	-
Ending balance	23,594,854	24,724,435	24,727,435	25,028,255	25,261,186	25,261,186
Accumulated amortization						
Beginning balance	2,801,477	2,872,943	2,947,291	3,021,645	3,096,863	3,172,566
Amortization	71,466	74,348	74,354	75,218	75,703	75,703
Ending balance	2,872,943	2,947,291	3,021,645	3,096,863	3,172,566	3,248,269
Net book value	20,721,911	21,777,144	21,705,790	21,931,392	22,088,620	22,012,917

Capital Assets

Station Equipment

	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Cost - Beginning	15,882,647	27,348,672	28,132,668	28,135,668	28,281,488	28,514,419
Additions	11,466,025	783,996	3,000	145,820	232,931	-
Cost - Ending	27,348,672	28,132,668	28,135,668	28,281,488	28,514,419	28,514,419
Accumulated amortization - Beginning	1,687,701	1,744,677	1,803,287	1,861,903	1,920,823	1,980,228
Amortization @ 2.5%/annum	56,976	58,610	58,616	58,920	59,405	59,405
Accumulated amortization - Ending	1,744,677	1,803,287	1,861,903	1,920,823	1,980,228	2,039,633
NBV	25,603,995	26,329,381	26,273,765	26,360,665	26,534,191	26,474,786

Poles and Fixtures

Cost - Beginning	27,851,092	47,312,406	47,312,406	47,312,406	47,337,406	47,337,406
Additions	19,461,314	-	-	25,000	-	-
Cost - Ending	47,312,406	47,312,406	47,312,406	47,337,406	47,337,406	47,337,406
Accumulated amortization - Beginning	4,999,667	5,157,375	5,315,083	5,472,791	5,630,582	5,788,373
Amortization @ 4%/annum	157,708	157,708	157,708	157,791	157,791	157,791
Accumulated amortization - Ending	5,157,375	5,315,083	5,472,791	5,630,582	5,788,373	5,946,164
NBV	42,155,031	41,997,323	41,839,615	41,706,824	41,549,033	41,391,242

Overhead Conductors

Cost - Beginning	13,305,090	19,792,196	20,127,196	20,127,196	20,252,196	20,252,196
Additions	6,487,106	335,000	-	125,000	-	-
Cost - Ending	19,792,196	20,127,196	20,127,196	20,252,196	20,252,196	20,252,196
Accumulated amortization - Beginning	1,729,567	1,795,541	1,862,632	1,929,723	1,997,230	2,064,737
Amortization @ 4%/annum	65,974	67,091	67,091	67,507	67,507	67,507
Accumulated amortization - Ending	1,795,541	1,862,632	1,929,723	1,997,230	2,064,737	2,132,244
NBV	17,996,655	18,264,564	18,197,473	18,254,966	18,187,459	18,119,952

Other Capital assets

Cost - Beginning	682,485	687,485	698,070	698,070	703,070	703,070
Additions	5,000	10,585	-	5,000	-	-
Cost - Ending	687,485	698,070	698,070	703,070	703,070	703,070
Accumulated amortization - Beginning	248,020	256,499	265,109	273,719	282,390	291,061
Amortization @ 14.8%/annum average	8,479	8,610	8,610	8,671	8,671	8,671
Accumulated amortization - Ending	256,499	265,109	273,719	282,390	291,061	299,732
NBV	430,986	432,961	424,351	420,680	412,009	403,338
	86,186,667	87,024,229	86,735,204	86,743,135	86,682,692	86,389,318

Contribution In Aid of Construction

Cost - Beginning	34,285,460	71,545,905	71,545,905	71,545,905	71,545,905	71,545,905
Additions	37,260,445	-	-	-	-	-
Cost - Ending	71,545,905	71,545,905	71,545,905	71,545,905	71,545,905	71,545,905
Accumulated amortization - Beginning	5,863,478	6,081,149	6,298,820	6,516,491	6,734,162	6,951,833
Amortization @ 3.6%-3.65%/annum average	217,671	217,671	217,671	217,671	217,671	217,671
Accumulated amortization - Ending	6,081,149	6,298,820	6,516,491	6,734,162	6,951,833	7,169,504
NBV	65,464,756	65,247,085	65,029,414	64,811,743	64,594,072	64,376,401
	20,721,911	21,777,144	21,705,790	21,931,392	22,088,620	22,012,917

See notes to Financial Forecast

Five Nations Energy Inc.
December 31, 2007
Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Annual inflation factor = 2%

Pro-forma Income Statements

	<u>Jul-07</u>	<u>Aug-07</u>	<u>Sep-07</u>	<u>Oct-07</u>	<u>Nov-07</u>	<u>Dec-07</u>	<u>Total</u>
Monthly transmission services weighting	9.10%	9.05%	8.46%	7.62%	8.14%	8.73%	100.00%
Transmission services revenue	471,198	468,609	438,059	394,564	421,489	452,039	5,178,000
Miscellaneous services revenue	1,250	1,250	1,250	1,250	1,250	1,250	15,000
Interest income (P-2%, 4% assumed)	14,353	14,267	13,333	17,817	16,907	16,487	192,169
	<u>486,801</u>	<u>484,126</u>	<u>452,642</u>	<u>413,431</u>	<u>439,646</u>	<u>469,776</u>	<u>5,385,169</u>
Expenses							
Amortization	71,466	74,348	74,354	75,218	75,703	75,703	844,960
Bad debt expense (recovery)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,163)	(50,000)
Board of Directors	16,150	16,150	16,150	16,150	16,150	16,150	193,800
Insurance	23,628	23,628	23,628	23,628	23,628	23,631	304,373
Interest on l-t debt	42,213	42,213	51,231	50,325	50,325	50,325	466,708
Maintenance	64,295	64,295	64,295	64,295	64,295	64,300	771,545
Office and other	21,130	21,130	21,130	21,130	21,130	21,126	253,556
Outside services	83,810	83,810	83,810	83,810	83,810	83,810	1,005,720
Salaries and benefits	20,428	20,428	20,428	20,428	20,428	20,428	245,136
Travel	16,873	16,873	16,873	16,873	16,873	16,867	202,470
	<u>355,826</u>	<u>358,708</u>	<u>367,732</u>	<u>367,690</u>	<u>368,175</u>	<u>368,177</u>	<u>4,238,268</u>
Net Income before undernoted	130,975	125,418	84,910	45,741	71,471	101,599	1,146,901
Appropriation to insurance reserve fund	-	-	-	-	-	-	199,500
Net Income	<u>130,975</u>	<u>125,418</u>	<u>84,910</u>	<u>45,741</u>	<u>71,471</u>	<u>101,599</u>	<u>947,401</u>
Debt service ratio (Monthly)	5.80	5.73	4.11	0.58	3.92	4.52	3.17
Debt service ratio (Three Month)	5.08	5.83	5.14	1.60	1.46	1.51	N/A
Debt to total capitalization ratio	0.54	0.54	0.56	0.56	0.56	0.55	
Debt to total capitalization ratio (adjusted)	0.31	0.31	0.33	0.33	0.33	0.33	

Pro-forma Statement of Cashflow

	<u>Jul-07</u>	<u>Aug-07</u>	<u>Sep-07</u>	<u>Oct-07</u>	<u>Nov-07</u>	<u>Dec-07</u>	<u>Total</u>
Net Income	130,975	125,418	84,910	45,741	71,471	101,599	947,401
Non-cash expenses:							
Amortization	71,466	74,348	74,354	75,218	75,703	75,703	844,960
Change in:							
Accounts receivable	4,660	2,589	30,550	43,495	(26,925)	(30,550)	-
Prepaid expenses	20,514	20,514	20,514	20,514	20,514	20,514	20,834
Acquisition of capital assets	(159,000)	(1,129,581)	(3,000)	(300,820)	(232,931)	-	(10,300,723)
Accounts payable	(94,323)	485,291	(554,273)	148,004	(33,944)	(116,467)	(28,215)
Repayment of long-term debt	-	-	-	(245,000)	-	-	(245,000)
Proceeds of long-term debt	-	-	1,773,220	-	-	-	9,273,220
Increase (Decrease) in cash	(25,708)	(421,421)	1,426,275	(212,848)	(126,112)	50,799	512,477
Opening unrestricted cash	305,932	280,224	(141,197)	1,285,078	1,072,230	946,118	484,440
Closing unrestricted cash	<u>280,224</u>	<u>(141,197)</u>	<u>1,285,078</u>	<u>1,072,230</u>	<u>946,118</u>	<u>996,917</u>	<u>996,917</u>

Five Nations Energy Inc.
December 31, 2008 to 2012
Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Annual Inflation factor = 2%

Pro-forma Balance Sheets

	2007	2008	2009	2010	2011	2012
ASSETS						
Cash and equivalents	986,917	1,931,279	2,133,326	2,276,540	2,332,897	2,319,296
Accounts receivable (see schedule)	899,725	899,725	899,725	899,725	899,725	899,725
Prepaid expenses	189,647	172,190	175,634	179,147	182,730	186,385
	<u>2,086,289</u>	<u>3,003,194</u>	<u>3,208,685</u>	<u>3,355,412</u>	<u>3,415,352</u>	<u>3,405,406</u>
Cash - Restricted for insurance reserve	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Capital assets (see schedule)	<u>22,012,917</u>	<u>21,482,167</u>	<u>20,929,117</u>	<u>20,353,767</u>	<u>19,756,117</u>	<u>19,136,167</u>
	<u>28,099,206</u>	<u>28,485,361</u>	<u>28,137,802</u>	<u>27,709,179</u>	<u>27,171,469</u>	<u>26,541,573</u>
LIABILITIES						
Bank overdraft	-	-	-	-	-	-
Accounts payable	268,843	305,422	308,512	312,989	321,329	321,517
Current portion of long-term debt	<u>774,432</u>	<u>1,203,732</u>	<u>1,143,001</u>	<u>1,204,091</u>	<u>1,260,692</u>	<u>1,005,044</u>
	<u>1,043,275</u>	<u>1,509,154</u>	<u>1,451,513</u>	<u>1,517,080</u>	<u>1,582,021</u>	<u>1,326,561</u>
Long-term debt (see schedule)	<u>14,635,568</u>	<u>13,647,986</u>	<u>12,478,000</u>	<u>11,177,592</u>	<u>9,891,385</u>	<u>8,861,836</u>
	<u>15,678,843</u>	<u>15,157,140</u>	<u>13,929,513</u>	<u>12,694,672</u>	<u>11,473,406</u>	<u>10,188,397</u>
UTILITY EQUITY (DEFICIT)						
Equity in Operating & Capital Funds	8,420,363	9,328,221	10,208,289	11,014,507	11,698,063	12,353,178
Equity in Insurance Reserve	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
	<u>12,420,363</u>	<u>13,328,221</u>	<u>14,208,289</u>	<u>15,014,507</u>	<u>15,698,063</u>	<u>16,353,178</u>
	<u>28,099,206</u>	<u>28,485,361</u>	<u>28,137,802</u>	<u>27,709,179</u>	<u>27,171,469</u>	<u>26,541,573</u>

Pro-forma Balance Sheets
Supporting Schedules

	2007	2008	2009	2010	2011	2012
Accounts Receivable						
IESO	452,039	452,039	452,039	452,039	452,039	452,039
Other (net of allowances)	<u>447,686</u>	<u>447,686</u>	<u>447,686</u>	<u>447,686</u>	<u>447,686</u>	<u>447,686</u>
	<u>899,725</u>	<u>899,725</u>	<u>899,725</u>	<u>899,725</u>	<u>899,725</u>	<u>899,725</u>
Long-term debt						
New Financing	11,000,000	10,686,718	10,356,001	10,006,879	9,638,327	9,249,265
Pacific & Western	-	-	-	-	-	-
Northern Ontario Heritage Fund	<u>4,410,000</u>	<u>4,165,000</u>	<u>3,265,000</u>	<u>2,374,804</u>	<u>1,513,750</u>	<u>617,615</u>
	<u>15,410,000</u>	<u>14,851,718</u>	<u>13,621,001</u>	<u>12,381,683</u>	<u>11,152,077</u>	<u>9,866,880</u>
Less: Current portion	<u>774,432</u>	<u>1,203,732</u>	<u>1,143,001</u>	<u>1,204,091</u>	<u>1,260,692</u>	<u>1,005,044</u>
	<u>14,635,568</u>	<u>13,647,986</u>	<u>12,478,000</u>	<u>11,177,592</u>	<u>9,891,385</u>	<u>8,861,836</u>
Interest on Long-term Debt						
Rate						
Proposed Financing	5.490%	589,388	571,953	553,548	534,118	513,608
Bank overdraft	7.700%	-	-	-	-	-
Pacific & Western	7.145%	-	-	-	-	-
Northern Ontario Heritage Fund	4.000%	-	-	16,533	79,320	44,239
		<u>589,388</u>	<u>571,953</u>	<u>570,081</u>	<u>613,438</u>	<u>557,847</u>

See notes to Financial Forecast

Five Nations Energy Inc.
December 31, 2008 to 2012
Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Annual Inflation factor = 2%

Pro-forma Balance Sheets
Supporting Schedules - Continued

	2007	2008	2009	2010	2011	2012
Capital assets - Summary (See below)						
Cost						
Beginning balance	25,261,186	25,261,186	25,661,186	26,061,186	26,461,186	26,861,186
Additions		400,000	400,000	400,000	400,000	400,000
Ending balance	25,261,186	25,661,186	26,061,186	26,461,186	26,861,186	27,261,186
Accumulated amortization						
Beginning balance	3,248,269	3,248,269	4,179,019	5,132,069	6,107,419	7,105,069
Amortization		930,750	953,050	975,350	997,650	1,019,950
Ending balance	3,248,269	4,179,019	5,132,069	6,107,419	7,105,069	8,125,019
Net book value	22,012,917	21,482,167	20,929,117	20,353,767	19,756,117	19,136,167
Capital Assets						
Station Equipment	Account	2008	2009	2010	2011	2012
	1715					
Cost - Beginning		28,514,419	28,814,419	29,114,419	29,414,419	29,714,419
Additions		300,000	300,000	300,000	300,000	300,000
Cost - Ending		28,814,419	29,114,419	29,414,419	29,714,419	30,014,419
Accumulated amortization - Beginning		2,039,633	2,759,993	3,487,853	4,223,213	4,966,073
Amortization @ 2.5%/annum		720,360	727,860	735,360	742,860	750,360
Accumulated amortization - Ending		2,759,993	3,487,853	4,223,213	4,966,073	5,716,433
NBV		26,054,426	25,626,566	25,191,206	24,748,346	24,297,986
Poles and Fixtures						
	1725					
Cost - Beginning		47,337,406	47,337,406	47,337,406	47,337,406	47,337,406
Additions		-	-	-	-	-
Cost - Ending		47,337,406	47,337,406	47,337,406	47,337,406	47,337,406
Accumulated amortization - Beginning		5,946,164	7,839,660	9,733,156	11,626,652	13,520,148
Amortization @ 4%/annum		1,893,496	1,893,496	1,893,496	1,893,496	1,893,496
Accumulated amortization - Ending		7,839,660	9,733,156	11,626,652	13,520,148	15,413,644
NBV		39,497,746	37,604,250	35,710,754	33,817,258	31,923,762
Overhead Conductors						
	1730					
Cost - Beginning		20,252,196	20,252,196	20,252,196	20,252,196	20,252,196
Additions		-	-	-	-	-
Cost - Ending		20,252,196	20,252,196	20,252,196	20,252,196	20,252,196
Accumulated amortization - Beginning		2,132,244	2,942,332	3,752,420	4,562,508	5,372,596
Amortization @ 4%/annum		810,088	810,088	810,088	810,088	810,088
Accumulated amortization - Ending		2,942,332	3,752,420	4,562,508	5,372,596	6,182,684
NBV		17,309,864	16,499,776	15,689,688	14,879,600	14,069,512
Other Capital assets						
	Various					
Cost - Beginning		703,070	803,070	903,070	1,003,070	1,103,070
Additions		100,000	100,000	100,000	100,000	100,000
Cost - Ending		803,070	903,070	1,003,070	1,103,070	1,203,070
Accumulated amortization - Beginning		299,732	418,586	552,240	700,694	863,948
Amortization @ 14.6%/annum average		118,854	133,654	148,454	163,254	178,054
Accumulated amortization - Ending		418,586	552,240	700,694	863,948	1,042,002
NBV		384,484	350,830	302,376	239,122	161,068
		83,246,520	80,081,422	76,894,024	73,684,326	70,452,328
Contribution in Aid of Construction						
	1917					
Cost - Beginning		71,545,905	71,545,905	71,545,905	71,545,905	71,545,905
Additions		-	-	-	-	-
Cost - Ending		71,545,905	71,545,905	71,545,905	71,545,905	71,545,905
Accumulated amortization - Beginning		7,169,504	9,781,552	12,393,600	15,005,648	17,617,696
Amortization @ 3.65%/annum average		2,612,048	2,612,048	2,612,048	2,612,048	2,612,048
Accumulated amortization - Ending		9,781,552	12,393,600	15,005,648	17,617,696	20,229,744
NBV		61,764,353	59,152,305	56,540,257	53,928,209	51,316,161
		21,482,167	20,929,117	20,353,767	19,756,117	19,136,167

See notes to Financial Forecast

Five Nations Energy Inc.
December 31, 2008 to 2012
Pro-forma Financial Statements
(Unaudited - See Notice to Reader)

Annual Inflation factor = 2%

Pro-forma Income Statements

	2008	2009	2010	2011	2012
Monthly transmission services weighting					
Transmission services revenue	5,178,000	5,178,000	5,178,000	5,178,000	5,178,000
Miscellaneous services revenue	15,000	15,000	15,000	15,000	15,000
Interest income (P-2%, 4% assumed)	199,877	237,251	245,333	251,062	253,316
	5,392,877	5,430,251	5,438,333	5,444,062	5,446,316
Expenses					
Amortization	930,750	953,050	975,350	997,650	1,019,850
Bad debt expense (recovery)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Board of Directors	197,676	201,630	205,663	209,776	213,972
Insurance	289,210	294,994	300,894	306,912	313,050
Interest on I-t debt	589,388	571,953	570,081	613,438	557,847
Maintenance	786,976	802,716	818,770	835,145	851,848
Office and other	258,627	263,800	269,076	274,458	279,947
Outside services	1,025,834	1,046,351	1,067,278	1,088,624	1,110,396
Salaries and benefits	250,039	255,040	260,141	265,344	270,651
Travel	206,519	210,649	214,862	219,159	223,542
	4,485,019	4,550,183	4,632,115	4,760,506	4,791,203
Net Income before undernoted	907,858	880,068	806,218	683,556	655,113
Appropriation to insurance reserve fund	-	-	-	-	-
Net Income	907,858	880,068	806,218	683,556	655,113
Debt service ratio (Annual)					
	2.12	1.33	1.30	1.25	1.21
Debt to total capitalization ratio					
	0.53	0.49	0.45	0.42	0.38
Debt to total capitalization ratio (adjusted)					
	0.32	0.30	0.28	0.26	0.24

Pro-forma Statement of Cashflow

	2008	2009	2010	2011	2012
Net Income	907,858	880,068	806,218	683,556	655,113
Non-cash expenses:					
Amortization	930,750	953,050	975,350	997,650	1,019,850
Change In:					
Accounts receivable	-	-	-	-	-
Prepaid expenses	17,457	(3,444)	(3,513)	(3,583)	(3,655)
Acquisition of capital assets	(400,000)	(400,000)	(400,000)	(400,000)	(400,000)
Accounts payable	36,579	3,090	4,477	8,340	188
Repayment of long-term debt	(558,282)	(1,230,717)	(1,239,318)	(1,229,606)	(1,285,197)
Proceeds of long-term debt	-	-	-	-	-
Increase (Decrease) in cash	934,362	202,047	143,214	56,357	(13,601)
Opening unrestricted cash	996,917	1,931,279	2,133,326	2,276,540	2,332,897
Closing unrestricted cash	1,931,279	2,133,326	2,276,540	2,332,897	2,319,296

See notes to Financial Forecast

FIVE NATIONS ENERGY INC.

NOTES TO THE FINANCIAL FORECAST

YEARS ENDED DECEMBER 31, 2006 TO 2012

(UNAUDITED - SEE NOTICE TO READER)

SIGNIFICANT FORECAST ASSUMPTIONS

The reader is cautioned that some of the assumptions used in the preparation of this financial forecast, although considered reasonable and representing plausible circumstances, will change as the industry and company develop under the rates system. The assumptions are, for the most part, based on comparative information from prior years and internal budgets prepared by management.

The reader is further cautioned that the actual results achieved during the forecast period will vary from the forecasted results. It is the reader's responsibility to change this example to reflect the unique application being considered.

Summarized preliminary internal financial results for the third quarter of 2006 versus forecasted results for the period were as follows:

	Actual	Forecast	Variance
Revenues	\$ 1,536,814	\$ 1,434,172	\$ 102,642
Expenses	<u>726,058</u>	<u>910,157</u>	<u>(184,099)</u>
Net income before appropriations	810,756	524,015	286,741
Appropriation to insurance reserve	<u>215,250</u>	<u>215,250</u>	<u>-</u>
Net income	<u>\$ 595,506</u>	<u>\$ 308,765</u>	<u>\$ 286,741</u>

CORPORATE STRUCTURE

The company is a not-for-profit corporation, incorporated without share capital under the Canada Corporations Act.

INCOME TAXES

The company as a not-for-profit corporation is not subject to income tax.

ACCOUNTS RECEIVABLE

Accounts receivable is assumed to be the IESO revenue for the current month plus other receivables. Other receivables consist of non-IESO accounts receivable as at June 30, 2006.

CAPITAL ASSETS

All capital assets are recorded at cost. Amortization is charged to operations over the estimated service life of the assets on a straight-line basis using annual rates as follows:

Station equipment	2.5%
Poles and fixtures	4.0%
Overhead conductors	4.0%
Other	4.0% to 20.0% (14.8% average)
Contributions in aid of construction	2.5% to 4.0% (3.6% average)

It is assumed that assets will be ready for use, and therefore amortized, in the month which expenditures occur.

Transmission assets from De Beers Canada Inc. are assumed to be transferred in July 2007. Thereafter, contributions in aid of construction amortization will average 3.65% per annum. The assets are recorded as follows:

Poles and fixtures	\$ 19,461,314
Overhead conductors	6,487,106
Station equipment	<u>11,312,025</u>
Total credited to contribution in aid of construction	<u>\$ 37,260,445</u>

FIVE NATIONS ENERGY INC.

NOTES TO THE FINANCIAL FORECAST (CONT'D)

YEARS ENDED DECEMBER 31, 2006 TO 2012

(UNAUDITED - SEE NOTICE TO READER)

ACCOUNTS PAYABLE

Accounts payable is assumed to be expenses for the current month less amortization and insurance plus 50% of capital expenditures net of contributed assets.

LONG-TERM DEBT

The company has obtained new financing from Pacific & Western Public Sector Financing Corp. (P&W) and Manulife Financial Corp. (MFC) totaling \$11,000,000 including the payout in November 2006 of the existing P&W loan payable. The new financing is to be advanced as follows:

November 2006 (P&W payout - Estimate)	\$1,726,780
January 2007	2,000,000
March 2007	3,000,000
May 2007	2,500,000
September 2007 (Balance of loan - Estimate)	1,773,220
Total	\$11,000,000

Repayment will commence January 2008 in blended monthly payments of \$75,222 until maturity in December 2027. The interest rate is estimated at 5.49% compounded semi-annually based upon the November 2, 2006 Government of Canada long-term bond yield plus 140 basis points. The actual interest rate will be fixed upon closing based on similar terms.

The existing P&W loan payable, bearing interest at 7.15%, secured by a general security agreement, repayable in blended monthly payments of \$51,391, is estimated to have a balance of \$1,726,780 at the time of payout in November 2006 and breakage fees are assume to be nil.

As per the amended agreement dated June 1, 2006, the Northern Ontario Heritage Fund Corporation (NOHFC) loan payable is secured by a promissory note, is non-interest bearing until October 2010 at which time interest will commence at 4% per annum, matures August 15, 2013 and is repayable as follows:

Annual principal only installments on October 15, 2006, 2007 & 2008	\$245,000
Monthly principal only installments from January 15, 2009 to October 15, 2010	\$75,000
Monthly blended installments from November 15, 2010 to August 15, 2013	\$78,365

REVENUES

Transmission services revenues are based on rates approved by the Ontario Energy Board on April 24, 2002. For the purposes of this forecast, it is assumed that no rate changes will occur during the period being forecast. Monthly transmission services revenue weightings for 2006 and 2007 are based on the actual monthly transmission services revenues for the years 2004 and 2005.

Interest income is based on the cash and equivalents and Cash - Restricted for insurance reserve balances for the prior period using a rate of 3.25% per annum.

EXPENSES

All expenses for the year 2006 other than amortization and interest on long term debt are based on the Five Nations Energy Inc. budget prepared by management and revised at February 21, 2006.

Commencing in 2007, an annual inflation factor of 2% has been applied to all expenses except amortization and interest on long-term debt.

FIVE NATIONS ENERGY INC.

NOTES TO THE FINANCIAL FORECAST (CONT'D)

YEARS ENDED DECEMBER 31, 2006 TO 2012

(UNAUDITED - SEE NOTICE TO READER)

EXPENSES (CONT'D)

Appropriation to insurance reserve will be \$71,750 per month until January 2007. In February 2007, a final payment of \$127,750 will be made to top up the insurance reserve balance to \$4,000,000. Thereafter, the Hydro-One backstop agreement will be terminated and the \$125,000 annual backstop fee will be eliminated.

RATIOS

Debt service ratio - Calculated as the sum of repayment of long-term debt and interest on long-term debt divided by the sum of net income, amortization and interest on long-term debt.

Debt to total capitalization - Calculated as the sum of long-term debt, current portion of long-term debt and bank overdraft divided by the sum of long-term debt, current portion of long-term debt, bank overdraft and utility equity. Utility equity includes 30% of the net book value of contribution in aid of construction for the adjusted version of the ratio.

SCHEDULE B

FORM OF DRAW REQUEST

TO: The Manufacturers Life Insurance Company and Pacific & Western Bank of Canada

RE: Credit agreement dated as of November 15, 2006 (the "**Credit Agreement**") among The Manufacturers Life Insurance Company, Pacific & Western Bank of Canada and Five Nations Energy Inc. (the "**Borrower**")

Pursuant to the terms of the Credit Agreement, the undersigned hereby irrevocably notifies you that it wishes to draw down [amount] under the [identify appropriate Credit Facility] on [proposed date of drawdown].

[The undersigned hereby irrevocably authorizes and directs you to pay the proceeds of this drawdown to _____ at _____.]

The undersigned hereby confirms that no Event of Default or Potential Event of Default has occurred and is continuing as at the date hereof or would arise immediately after giving effect to or as a result of such drawdown.

All capitalized terms defined in the Credit Agreement and used herein shall have the meanings ascribed thereto in the Credit Agreement.

DATED the day of , .

FIVE NATIONS ENERGY INC.

By: _____

By: _____

SCHEDULE C

PERMITTED ENCUMBRANCES

1. Security in favour of Pacific & Western Public Sector Financing Corp., as Agent, which security is covered by reference file number 865950498 in the registry system maintained under the *Personal Property Security Act* (Ontario).
2. Security in favour of Bank of Montreal relating to a line of credit made available to the Borrower by Bank of Montreal.

SCHEDULE D

BORROWER INFORMATION

Attawapiskat Power Corporation
Fort Albany Power Corporation
Kashechewan Power Corporation

SCHEDULE E

COMPLIANCE CERTIFICATE

TO: The Manufacturers Life Insurance Company and Pacific & Western Bank of Canada

RE: Credit agreement dated as of November 15, 2006 (the "Credit Agreement") among The Manufacturers Life Insurance Company, Pacific & Western Bank of Canada and Five Nations Energy Inc. (the "Borrower")

I, ■, the ■ of the Borrower, hereby certify, in that capacity and not personally, as follows:

1. Capitalized terms used in this certificate and not otherwise defined herein shall have the meaning ascribed thereto in the Credit Agreement, whether directly or by reference.
2. I have furnished this certificate with the intent that it may be relied on by each addressee hereof and any assignee of each such addressee.
3. I have read and I am familiar with the terms and conditions of the Credit Agreement. I have made or caused to be made such examinations or investigations as are, in my opinion, necessary to make the statements in this certificate.
4. The representations and warranties contained in Article 5 of the Credit Agreement are true on and as of the date hereof with the same effect as if such representations and warranties had been made on the date hereof.
5. On the date hereof, there exists no Potential Event of Default or Event of Default.
6. As of the last day of or for the fiscal quarter ending _____, the amounts and financial ratios referred to in Sections 6.03(a) and (b) of the Credit Agreement are as follows:

	Actual Amount	Covenant
(a) Ratio of Debt to Capitalization	_____%	Maximum 60%
(b) EBITDA to Debt Service Ratio	_____:1	Minimum 1.2:1

Attached are detailed quarterly calculations of each of the foregoing ratios and amounts.

DATED: _____, 200■

Name:

Title:

SCHEDULE F

MATERIAL AGREEMENTS

1. Fibre Optic Cable Installation Contract
2. OPGW Agreement
3. Substation Contract
4. CCRA
5. Construction contract between De Beers Canada Inc. and Valard Construction Limited in connection with the De Beers Project

SCHEDULE G

MATERIAL PERMITS

- Completion of Class EA for Minor Transmission Facilities
- Comprehensive Study under *Canadian Environmental Assessment Act*
- Leave to Construct Transmission Facilities from Ontario Energy Board
- Electrical Safety Authority approval re: 4 shelters at Moosonee, Fort Albany, Kashechewan, and Attawapiskat
- Section 28(2) permit pursuant to the *Indian Act* for the operation phase for OPGW Project - to be held by Borrower
- Land Use Permit from Ministry of Natural Resources for Moosonee shelter
- Land Use Permit from Ministry of Natural Resources for new transmission line for operation phase for OPGW Project to be held by Borrower
- Letter of Authority from Ministry of Natural Resources for Fibre Optic Project
- Land Use Permit issued by the Ministry of Natural Resources for the operation phase for Fibre Optic Project to be held by Borrower
- Navigable Waters Protection Permit issued by Transport Canada in connection with water crossings of the new pole line between Kashechewan and Attawapiskat
- Connection Assessment and Approval from Independent Electricity System Operator (IESO) for Substation Project
- IESO Facility Registration for Substation Project

De Beers Material Permits

- Section 28(2) permit pursuant to the *Indian Act* for construction phase for OPGW Project - to be held by De Beers Canada Inc.
- Letter of Authority from Ministry of Natural Resources for construction phase for OPGW Project issued to De Beers Canada Inc.

- Work Permit from Ministry of Natural Resources for construction phase for OPGW Project issued to De Beers Canada Inc.
- Land Use Permit from Ministry of Natural Resources for new transmission line for construction phase for OPGW Project to be held by De Beers Canada Inc.

SCHEDULE H

SUBSIDIARIES

Nil

SCHEDULE I
FINANCIAL POLICY

(see attached)



Five Nations Energy Inc. Financial Policies and Procedures

Approved December 2005

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Five Nations Energy Inc.
Financial Policies and Procedures-Approved December 2005

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1 Authority

1.1 Ontario Energy Board

- 1.1.1 Five Nations Energy Inc. (FNEI) is a licensed transmitter in the Province of Ontario. It is licensed by the Ontario Energy Board, and must comply with the terms and conditions of its license, Ontario's Transmission System Code, a Connection Agreement with the Independent Electricity System Operator and the Affiliates Relationship Code.
- 1.1.2 Five Nations Energy Inc.'s transmission rates are approved by the Ontario Energy Board, and form the basis of FNEI's budgets.

1.2 Board of Directors

- 1.2.1 The Board of Directors of Five Nations Energy Inc. is appointed by the members of Five Nations Energy Inc., (which are the Attawapiskat Power Corporation, the Kashcochewani Power Corporation and the Fort Albany Power Corporation), at the Annual Members Meeting as set out in Bylaw #1 of the corporation.
- 1.2.2 The responsibilities of the Board of Directors of Five Nations Energy Inc. with respect to the administration of Five Nations Energy Inc. include:
 - 1.2.2.1 Planning, estimating, and budgeting for the funds and resources required for the operations of the company.
 - 1.2.2.2 Ensuring sound financial management including accountability to lenders.
 - 1.2.2.3 Initiating or conducting investigations and taking the required disciplinary action that may be required where an employee does not comply with these conditions or other applicable regulations
 - 1.2.2.4 Permitting access to community members at reasonable times, the minutes of all meetings of the Board of Directors, bylaws, and resolutions of the Corporation.
 - 1.2.2.5 Ensuring the appointment of a person or persons who will:
 - a. Record all resolutions, decisions and other proceedings of the Board of Directors in a prescribed manner,
 - b. Keep the books, records and accounts of the Corporation in accordance with established procedures,
 - c. Maintain a filing system in which is kept with all minutes of the Board of Directors, all bylaws, and copies of vouchers, bank statements, canceled cheques and correspondence relating to the business of the Corporation.

- d. Receive, record and deposit all monies received by the Corporation and pay those monies in accordance with established procedures,
- e. Prepare monthly statements to be presented at the regular meetings of the Board of Directors or in any event, at least once a month showing:
 - i. income and expenditure statements
 - ii. comparison of budgeted and actual operating results
 - iii. other information as required by the Corporation

1.3 FNEI Finance and Human Resources Committee

The Committee shall be made up of the President, Secretary, and the Treasurer as well as two other members appointed by the Board of Directors.

The Committee will meet quarterly, unless more frequent meetings are necessary. The remuneration of Committee members is as per director's honorarium set from time to time plus allowable travel costs to attend committee meetings.

The Committee shall be responsible for reviewing the financial transactions and financial statements of Five Nations Energy Inc. before they are approved by the Board of Directors. The committee will provide assistance to the Board of Directors in fulfilling its financial reporting and control responsibilities to the members of Five Nations Energy Inc.

The Committee shall review personnel policies and procedures, recommend on issues of salaries and benefits, assist as needed with hiring and retention issues and protect the organization by ensuring compliance with all laws related to personnel issues.

The Committee shall conduct an annual review of these Terms of Reference and recommend any proposed changes to the Board for approval.

Selection of the Committee Members:

The Committee members will be selected as required at the meeting of the Board of Directors following the annual general meeting of the members. Suggested term for members is two years, and members of the committee can be reappointed.

Qualifications of the members of the Committee:

All members shall, to the satisfaction of the Board of Directors, be financially literate (i.e. will have the ability to read and understand a balance sheet, an income statement, a cash flow statement and the notes attached thereto).

Duties and Responsibilities:

The Finance and Human Resources Committee's duties and responsibilities for financial matters are to:

- i. Monitor financial reporting processes and internal control systems. This will involve reviewing the detailed financial transactions listings (i.e. summaries of all disbursements made, a summary of the budget to actual listings and any other relevant documents) on a monthly basis to ensure compliance with Five Nations Energy Inc.'s financial policies and procedures;
- ii. Assist in the preparation of annual budgets;
- iii. Oversee the integrity of Five Nations Energy Inc.'s financial statements;
- iv. Ensure Five Nations Energy Inc.'s compliance with legal and regulatory requirements;
- v. Review and appraise the audit activities of Five Nations Energy Inc. for financial reporting and control matters.
- vi. Reviewing with the independent auditors and management, the adequacy and effectiveness of the financial and accounting controls of Five Nations Energy Inc.
- vii. Making recommendations to the Board of Directors regarding the selection, the appointment, evaluation, fees and, if necessary, the replacement of the independent auditors.
- viii. Establishing procedures for receiving, handling and retaining of complaints received by Five Nations Energy Inc. regarding accounting, internal controls, or auditing matters,
- ix. Establishing procedures for employees to submit confidential anonymous concerns regarding questionable accounting or auditing matters.
- x. Reviewing with the independent auditors any audit problems or difficulties and management's response and resolving disagreements between management and the auditors.
- xi. Making inquiries of Management and the independent auditors to identify significant business and financial risks and exposures and assess the steps Management has taken to minimize such risk to Five Nations Energy Inc.
- xii. Reviewing with management and the independent auditors' interim financial information for the purpose of recommending approval by the Board of Directors prior to its release.

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- xiii. Subject to the Board of Director's approval, engaging independent counsel and other advisors if the Committee determines such advisors are necessary to assist the Committee in carrying out its duties.
- xiv. Annual review of the Five Nations Energy Inc.'s financial policies and the confirmation of compliance with Five Nations Energy Inc.' policies on internal controls.
- xv. Making recommendations to the Board of Directors regarding the financial transactions and reports of Five Nations Energy Inc.
- xvi. Making recommendations to the Board of Directors regarding the remuneration of the Board of Directors and Officers as required
- xvii. The Committee shall review compensation, including benefits, of the Board of Directors and shall make recommendations to the Board of Directors regarding said compensation and benefits.

The Finance and Human Resources Committee's duties and responsibilities for personnel matters are:

- i. The Committee approves and develops the job descriptions for all Five Nations Energy Inc. employees.
- ii. The Committee shall review and approve employees' compensation, including incentive compensation programs and shall make recommendations to the Board of Directors on such.
- iii. The Committee will provide ongoing support and advice to the Board of Directors regarding all personnel issues and makes recommendations on hiring practices.
- iv. The Committee shall review all proposed employment contracts, and/or severance agreements, and make recommendations to the Board of Directors on such agreements.
- v. The Committee shall review all candidates for employment with the Corporation and shall make recommendations to the Board of Directors regarding such candidates.
- vi. Ensure Five Nations Energy Inc.'s compliance with legal and regulatory requirements with respect to personnel issues,
- vii. Establishing procedures for receiving, handling and retaining of complaints received by Five Nations Energy Inc. regarding personnel matters,
- viii. Subject to the Board of Director's approval, engaging independent counsel and other advisors if the Committee determines such advisors are necessary to assist the Committee in carrying out its duties.

1.4 Management

- 1.4.1 The General Manager and the Treasurer have spending authority up to the budgeted amounts. In the case of an emergency the General Manager, Treasurer, and President, in consensus, have the authority to spend funds as required. A report will be prepared for the next Board of Directors Meeting.
- 1.4.2 The Board of Directors may authorize up to three officers or Directors to be named by resolution to sign cheques on its accounts. All cheques are to be signed by at least two of these authorized persons, one of whom is the Treasurer or the General Manager. Other specific signing officers for special accounts will be named by resolution.
- 1.4.3 The authorized Bank Signing authorities will be deemed to have the authority to bind the corporation up to budgeted amounts. The Board of Directors will need to approve and authorize all other agreements that bind the corporation.
- 1.4.4 All efforts will be made to collect amounts owing to Five Nations Energy Inc. The approval of designating accounts as uncollectible will require a Board motion.
- 1.4.5 The expenditure of costs not directly related to the operations and maintenance of the transmission system will require Board Approval.

2 Reporting

2.1 Audit

- 2.1.1 Detailed financial statements are to be prepared annually. The audit should normally be completed before June 30th for the fiscal year ending the preceding Dec. 31st.
- 2.1.2 Board of Directors shall appoint an auditor to audit the financial records and inventories of the Corporation at least once each year.
- 2.1.3 The Terms of Reference for the Auditor are as follows:
 - 2.1.3.1 The examination must be in accordance with generally accepted auditing practices, and it so include a general review of accounting procedures, and such tests of accounting records as the auditor considers necessary in the circumstances.
 - 2.1.3.2 The auditor will have the right to access at all reasonable hours the accounting records, supporting vouchers and documents including minutes of Corporation meetings.

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2.1.3.3 Financial statements should be prepared on an accrual basis. They are to report on all of the Corporation's financial activities, and consist of:

- i. A balance sheet,
- ii. A statement of revenue and expenditures for each program including details of surpluses or deficits
- iii. A consolidated balance sheet and statement of revenue and expenditures.
- iv. Statement of cash flow

2.1.4 The auditor is to express an opinion as to the accuracy of the financial statements as a reflection of the financial position of the Corporation in accordance with generally accepted accounting principles. The auditor should also state recommendations, which the corporation should follow.

2.1.5 The audited financial statement will be signed by the President and Treasurer upon acceptance by a quorum of the Board of Directors, and will be included in the records of the corporation.

2.2 *Ontario Energy Board*

2.2.1 Quarterly regulatory reports to the Ontario Energy Board will be filed electronically on a quarterly basis as required.

2.2.2 A copy of Five Nations Energy Inc.'s annual audit will be forwarded to the Ontario Energy Board.

2.3 *Lending Institutions*

2.3.1 Quarterly financial reviews completed by the auditor will be sent to the lenders as required.

2.3.2 A copy of Five Nations Energy Inc.'s annual audit will be forwarded to the lenders.

2.4 *Board of Directors*

2.4.1 The General Manager will provide a written report regarding the operations and maintenance of the corporation to the Board of Directors on a quarterly basis.

2.4.2 A copy of the Corporation's income statement, statement of cash flows and a consolidated balance sheet will be provided to the Board of Directors on a quarterly basis.

2.4.3 A comparison of the Corporation's budget to actual expenditures for operations will be provided to the Board of Directors on a quarterly basis.

2.4.4 A comparison of the Corporation's budget to actual expenditures for capital

expenditures will be provided to the Board of Directors on a quarterly basis.

2.5 FNEI Finance and Human Resources Committee

- 2.5.1 A copy of the Corporation's income statement and a consolidated balance sheet will be provided to the Management of the Corporation and the Finance and Human Resources Committee on a monthly basis.
- 2.5.2 A comparison of the Corporation's budget to actual expenditures for operations will be provided to the Management of the Corporation and the Finance and Human Resources Committee on a monthly basis.
- 2.5.3 A report on budget to actual expenditures for Projects and any other capital expenditures will be provided to the Management of the Corporation and the Finance and Human Resources Committee on a monthly basis.
- 2.5.4 Management will inform the Finance and Human Resources Committee once it is anticipated that a certain project will exceed the original approved budget.
- 2.5.5 When a project's budget variance exceeds 20%, permission is required from the Board of Directors for the project to proceed further.
- 2.5.6 A detailed listing of accounts payable, including an aging report of the accounts will be provided to the Management of the Corporation and the Finance and Human Resources Committee on a monthly basis.
- 2.5.7 A detailed listing of accounts receivable, including an aging report of the accounts will be provided to the Management of the Corporation and the Finance and Human Resources Committee on a monthly basis.

2.6 FNEI Other Stakeholders

- 2.6.1 The Finance and Human Resources Committee shall designate from time to time other stakeholders that shall be reported to.

3 Accounting Principles

3.1 Generally Accepted Accounting Principles

- 3.1.1 Five Nations Energy Inc. will follow Canadian GAAP (generally accepted accounting principles), as set out for electricity transmission utilities.

3.2 OEB Uniform System of Accounts

- 3.2.1 Five Nations Energy Inc. will follow the Ontario Energy Board's Uniform System of Accounts for the tracking of expenditures.

3.3 Fiscal Period

3.3.1 Five Nations Energy Inc.'s fiscal year will end December 31 of each year.

3.4 Internal Cash Controls

3.4.1 There must be a separation of duties between the person receiving cash and the person responsible for maintaining the accounting records.

3.4.2 Cash receipt activity should be reconciled weekly. The reconciliation should be reviewed by someone independent of the cash handling or recording functions.

3.4.3 The following responsibilities should be distributed among personnel so one person is not responsible for all aspects:

- Opening mail
- Endorsing checks
- Preparing deposits
- Reconciling to budget statements
- Billing and collection duties should be distributed among personnel

3.4.4 All forms of cash (currency, checks, money orders, negotiable instruments and charge card transactions) should be physically protected through the use of vaults, locked cash drawers, locked metal boxes, etc.

3.4.5 It is the responsibility of the General Manager to make whatever provisions are necessary to properly safeguard the cash receipts. Cash should not be retained in desk drawers or standard file cabinets since they are easily accessed with minimal forcing or readily available keys.

3.4.6 Money should be deposited promptly and intact to the bank. Cashing checks from FNEI deposits, borrowing cash for personal use, lapping receipts to cover shortages in cash receipts, withholding checks for deposit in order to float checks, commingling of personal and FNEI funds, and modification of cash records are all serious offenses and may result in immediate discharge from employment and/or prosecution.

3.4.7 The person performing the bank reconciliations should not have bank signing authority.

3.5 Accounting Software

3.5.1 A computerized double entry bookkeeping system is to be maintained to record all financial transactions.

3.5.2 This system is to include the facility to record:

- 3.5.2.1 all receipts and disbursements
- 3.5.2.2 all accounts receivable and other assets
- 3.5.2.3 all commitments for services or benefits received, but not immediately paid for
- 3.5.2.4 details of employees earnings and payroll deductions.
- 3.5.3 The general ledger is to be maintained and updated monthly to facilitate a continual accounting of revenue received, expenses incurred, and changes to assets, liabilities and operating funds.
- 3.5.4 Bank reconciliations are to be prepared upon receipt of bank statements and canceled cheques.
- 3.5.5 Monthly listings of accounts receivable and accounts payable are to be prepared and balanced to the general ledger control account where applicable.

4 Banking

4.1 Operating Bank

- 4.1.1 All funds received must be deposited intact, without undue delay at a branch of a Canadian Chartered Bank.
- 4.1.2 Funds held in trust by the Corporation will be deposited in a separate trust account designated for that purpose.
- 4.1.3 A change of the corporation's banking institutions can only be done at a Members Meeting.

4.2 Process for Borrowing Money or Obtaining a Line of Credit

- 4.2.1 Funds can only be borrowed with a resolution of a quorum of the Board of Directors as per the corporation's Bylaw #2.

5 Budgets

5.1 Operations Budget

- 5.1.1 Five Nations Energy Inc.'s operations budget shall be based upon the rates application approved by the Ontario Energy Board.
- 5.1.2 The operations budget shall be reviewed and revised on an annual basis.

5.2 Capital Budget

- 5.2.1 The budget for capital expenditures shall be approved by the Board of Directors

on an annual basis.

- 5.2.2 The budget for specific capital projects shall be approved by the Board of Directors.

6 Reserve Funds

6.1 Operating Reserve

- 6.1.1 The amount(s) set aside into an operating reserve shall be approved by the Board of Directors based on recommendations from the Finance and Human Resources Committee.
- 6.1.2 The maximum amount in the operating reserve shall be reviewed annually with the amount be recommended by the Finance and Human Resources Committee and approved by the Board of Directors

6.2 Self-Insurance

- 6.2.1 The amount(s) set aside into the corporation's self insurance reserve shall be approved by the Board of Directors based on recommendations from the Finance and Human Resources Committee. The minimum amounts to be set aside annually are detailed in the corporation's Insurance Backstop Agreement with Hydro One Networks Inc.
- 6.2.2 Withdrawals from the self insurance reserve will only be permitted by a resolution of the Board of Directors.
- 6.2.3 FNEI will strive to set additional funds aside to reach the maximum amount of self insurance reserve funds as soon as possible.
- 6.2.4 The maximum amount in the insurance reserve shall be reviewed annually with the amount be recommended by the Finance and Human Resources Committee and approved by the Board of Directors.

6.3 Capital Replacement

- 6.3.1 The amount(s) set aside into a capital reserve shall be approved by the Board of Directors based upon recommendations from the Finance and Human Resources Committee.

- 6.3.2** The maximum amount in the capital reserve shall be reviewed annually with the amount be recommended by the Finance and Human Resources Committee and approved by the Board of Directors

7 Purchasing

7.1 Purchase Orders

- 7.1.1** Regular purchases for day to day operational supplies and services require the use of a purchase order. It is recommended that accounts be set up with regular suppliers.
- 7.1.2** Purchases can be approved by the General Manager or Treasurer provided that:
- 7.1.2.1** the necessary funds are identified in the budget
 - 7.1.2.2** they are required by the Corporation
 - 7.1.2.3** they are made in accordance with the established regulations and procedures of the Corporation
- 7.1.3** Purchase Order forms will be completed in triplicate using Pre-numbered forms. A Purchase Order log will be maintained to account for each Purchase Order in numerical order.
- 7.1.3.1** The original copy of the purchase order is to be forwarded to the supplier, and two copies retained at the Five Nations Energy Inc. office.
 - 7.1.3.2** The duplicate copy of the purchase order should be attached to the invoice being processed for payment after the receipt or delivery has been certified as well as the quality, quantity, price and total charges.
 - 7.1.3.3** The third copy of the purchase order should be filed in numerical order to facilitate accounting for all purchase order numbers.
- 7.1.4** The Purchase Order must list the item(s) on the requisition form with quotations, supplier's name, mode of delivery, correct amount including any taxes and delivery charges and account code.
- 7.1.5** The Purchase Order must be authorized by the General Manager or Treasurer, who must verify that funds for the purchases are available within the budget allocations prior to release/issuance of purchase order.
- 7.1.6** Any capital purchases in excess of \$15,000 must be approved by the Board of Directors.
- 7.1.7** At no time will a staff member make orders before purchase orders are approved.

- 7.1.8 Purchase orders must be kept in safekeeping. Outstanding purchase orders will expire within six months of the date of issue if no goods or services have been provided.
- 7.1.9 All outstanding Purchase Orders will be reviewed at Five Nations Energy Inc.'s fiscal year end. A report listing each outstanding purchase order detailing the amount of goods and or services to be provided will be prepared for the Finance and Human Resources Committee for their review and information.

7.2 *Threshold for requiring Competitive Quotes*

- 7.2.1 Competitive quotes will be required for all purchases unless it can be clearly demonstrated that a competitive quote is not required.

7.3 *Credit Card Purchasing*

- 7.3.1 A credit card will be used to purchase goods and services only from those vendors that do not allow a purchase on account.

8 Cost Recovery

8.1 *Administration Overhead*

- 8.1.1 FNEI's normal administration overhead is 15%. This rate may be reduced or waived upon the Finance and Human Resources Committee's recommendation to the Board of Directors.

8.2 *Invoicing Procedures*

- 8.2.1 Local Distribution Companies-An invoice will be prepared on a quarterly or as required basis with backup supporting documentation. Administration overhead will not be charged.
- 8.2.2 Other Customers- An invoice will be prepared on a quarterly or as required basis with backup supporting documentation. Administration overhead will normally be charged however it may be waived at the discretion of the Finance and Human Resources Committee..

8.3 *Collection Procedures*

- 8.3.1 FNEI reserves the right to send delinquent accounts to a collection agency for collection or to *Small Claims Court*.

9 Contracting

9.1 Tendering Guidelines

- 9.1.1 As the annual capital budget is being determined the Finance and Human Resources Committee will determine which projects will require a tender process.

9.2 Sole Source Contracting Principles

- 9.2.1 If it can be demonstrated that a sole source contract would provide best value to Five Nations Energy Inc. then a contract may be sole sourced.

9.3 Required clauses in each contract

- 9.3.1 Each contract entered into on behalf of Five Nations Energy Inc. must include terms and conditions including rates, insurance requirements, confidentiality provisions, and identification of potential liability, termination clauses, and the dates for which the contract is in effect.

10 Disbursements & Payments

- 10.1.1 All accounts should be paid for on or before the due date, and any discount in payments should be taken advantage of.
- 10.1.2 All invoices are only paid when supported by a purchase order, and if applicable, a signed packing slip that the goods have been received.
- 10.1.3 Disbursements or payments are to be made by a pre-numbered cheque on the basis of certified supporting documentation, such as the invoice, the packing slip, and the purchase order. All cheques are to be accounted for. Void cheques are to be retained for audit purposes.
- 10.1.4 The Board of Directors may authorize up to three (3) officers or Directors to be named by resolution to sign cheques drawn on its accounts. All cheques are to be signed by at least two of these authorized persons, one of whom is the Treasurer or the General Manager. Other specific signing officers for special accounts will be named by resolution.
- 10.1.5 Corporation cheques are not to be post dated, and must not be signed blank.
- 10.1.6 Where a cheque is reported as lost, destroyed, stolen or has been presented for payment longer than six months from the date of issue, it will be canceled, and a stop payment notice sent to the bank. A duplicate cheque may then be issued, but the payee must indemnify the Corporation against further loss.
- 10.1.7 Regular invoices (i.e. phone bills, hydro bills, equipment lease payments, employee payroll deductions and benefits etc.) will be verified by the Administrative Assistant prior to being paid.

10.2 Petty Cash

- 10.2.1 Petty cash can be used for miscellaneous cash purchases where it is not practical to issue a purchase order.
- 10.2.2 Petty cash should be reconciled as required. The person issuing the cheque for petty cash should not do the petty cash reconciliation.

10.3 Ordinary Capital Expenditures

- 10.3.1 Prior to undertaking capital projects, a project plan including a budget must be developed and approved by the Finance and Human Resources Committee.
- 10.3.2 For capital projects with a total cost of over \$50,000, a Project Manager must be identified. The Project Manager will be accountable for ensuring the project is carried out according to the Project Plan and Budget.
- 10.3.3 Project costs will be assigned an accounting code, so that expenditures relating to the project can be tracked.
- 10.3.4 The Project Manager will inform the Finance and Human Resources Committee once it is anticipated that a certain project will exceed the original approved budget or if the project will be late in its completion.
- 10.3.5 When a project's budget variance exceeds 20%, permission is required from the Board of Directors for the project to proceed further.

11 Travel Policy

11.1 Overview

- 11.1.1 The corporation will reimburse employees for reasonable out of pocket expenses. Any money owing to the corporation will be repaid in cash, or by a deduction from the employees next pay cheque.

11.2 Approved Travel Rates

- 11.2.1 Corporate or government rates for accommodations (if available) should be requested. The maximum allowed accommodation rate is \$250.00, unless there is no other accommodation available.
- 11.2.2 When hotel reservations are canceled, it is the responsibility of each employee or director to advise the hotel prior to the deadline time so that the Corporation is not charged for unused rooms. If charges are processed and paid for by the Corporation, this amount will be deducted from the next travel disbursement or honoraria entitlement.

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11.2.3 The rate for private accommodation (without receipts) is \$50.00.

11.2.4 Daily meal allowances shall be those established from time to time by the corporation.

As of November 3, 2005, these rates are as follows:

Breakfast	\$15.00
Lunch	20.00
Supper	40.00
	\$75.00

Receipts are required for approved business meals that are above the maximum allowed.

11.2.5 Incidental payments are allowed for every day that the Employee, Director or Officer travels away from home. The maximum payment for incidentals is \$10.00 per day.

11.2.6 All car and truck rentals must be approved by the General Manager or Treasurer. The most economical car rental rate should be utilized, and full insurance must be taken. The corporation will not be responsible for any accidents, traffic violations or parking tickets.

11.2.7 When employees are requested by the corporation to use a private vehicle, they will be reimbursed at current rates, which as of November 3, 2005 is \$0.55/km.

11.3 Procedures for Travel Expenses for FNEI Staff and Management

11.3.1 All travel arrangements for which reimbursement of expenses is to be made shall be approved in advance by the Treasurer or General Manager. Rates of travel reimbursements will follow corporate approved standard rates set out in Section 11.2.

11.3.2 At the end of each trip, the employee is required to complete a travel expense claim within a week of his or her return. Original receipts must be included for all expenses, including prepaid expenses. In lieu of missing receipts a signed declaration must be included with travel claims.

11.3.3 All travel claims must be approved by the Treasurer or General Manager before being paid.

11.3.4 No further travel advances will be issued until previous travel advances are accounted for. The maximum travel claims outstanding are not to exceed two (2).

11.3.5 When travel arrangements are changed, it is the responsibility of each employee to advise the designated travel agency that originally made the arrangements. All unused tickets must be returned.

- 11.3.6 If it is necessary for the General Manager to draw on a cash advance for travel, the maximum amount of all outstanding travel advances is to be \$1,000.00

11.4 Procedures for Travel Expenses for the FNEI Board of Directors

- 11.4.1 All travel arrangements for which reimbursement of expenses is to be made shall be approved in advance by the Treasurer or General Manager. Rates of travel reimbursements will follow corporate approved standard rates.
- 11.4.2 A travel advance will be completed by the Administrative Assistant based upon the standard approved travel rates. Directors are not required to complete a travel claim after a trip.
- 11.4.3 When travel arrangements are changed, it is the responsibility of each Director to advise the designated travel agency that originally made the arrangements. All unused tickets must be returned.
- 11.4.4 Attendance at Board meetings will be verified. Any outstanding advances that have been paid for meetings that were not attended by the Director will be recovered from the travel disbursement or honoraria paid for the next Board of Directors meeting.

11.5 Procedure for Consultants

- 11.5.1 All travel arrangements for which reimbursement of expenses is to be made shall be approved in advance by the Treasurer or General Manager.
- 11.5.2 Rates of travel reimbursements will follow corporate approved standard travel rates, as per section 11.2.
- 11.5.3 A Five Nations Energy Inc. Purchase Order to a designated travel agency should be utilized for Air Travel unless it can be shown that it was beneficial to FNEI to purchase a ticket by other means (a credit card, either FNEI's or the Consultant's).
- 11.5.4 Other costs that are invoiced shall be based on actual costs.

11.6 Procedure for Local Distribution Company Staff

- 11.6.1 All travel arrangements for which reimbursement of expenses is to be made shall be approved in advance by the Treasurer or General Manager. Rates of travel reimbursements will follow corporate approved standard travel rates as set out in Section 11.2.
- 11.6.2 A travel advance will be provided by the Local Distribution Company based upon estimates developed using the standard approved travel rates as set out in Section 11.2.

11.6.3 When travel arrangements are changed, it is the responsibility of each Local Distribution Company Employee to advise the designated travel agency that originally made the arrangements. All unused tickets must be returned.

11.6.4 Five Nations Energy Inc. will reimburse the Local Distribution Company for travel costs upon presentation of an invoice for the actual costs of travel.

11.7 Officers and Director's Remuneration and Reimbursement

11.7.1 The Directors of Five Nations Energy Inc. shall be entitled to such remuneration for their services as may be determined by the Board of Directors. Currently this has been determined to be \$3000 per year and \$500 per meeting plus reasonable expenses.

11.7.2 The Officers of Five Nations Energy Inc. shall be entitled to such remuneration for their services as may be determined by the Board of Directors. Currently this has been determined to be \$4000 per year, and \$600 per meeting for the Secretary, Treasurer and Vice President plus reasonable expenses. The rate of remuneration for the President of Five Nations Energy is currently set at \$5000 per year and \$750 per meeting plus reasonable expenses.

11.7.3 Remuneration will be paid to the Directors and Officers of the corporation for the following:

- i. Meetings of the Board of Directors
- ii. Committee Meetings
- iii. Meetings where the presence of the Directors and/or Officers are required
- iv. Additional work required by the Corporation

11.7.4 No payment will be made to the Directors and Officers of Five Nations Energy Inc. in lieu of lost wages.

11.7.5 No payments will be made to the Board of Directors or Officers of Five Nations Energy Inc. in excess of the regular honoraria as set out in section 11.7.1 and 11.7.2.

12 Risk Management

12.1 Insurance Requirements

12.1.1 The Board of Directors of the Corporation will obtain adequate insurance coverage to protect the corporation's assets.

12.1.2 This will include, at a minimum, the following kinds of insurance:

11.6.3 When travel arrangements are changed, it is the responsibility of each Local Distribution Company Employee to advise the designated travel agency that originally made the arrangements. All unused tickets must be returned.

11.6.4 Five Nations Energy Inc. will reimburse the Local Distribution Company for travel costs upon presentation of an invoice for the actual costs of travel.

11.7 Officers and Director's Remuneration and Reimbursement

11.7.1 The Directors of Five Nations Energy Inc. shall be entitled to such remuneration for their services as may be determined by the Board of Directors. Currently this has been determined to be \$3000 per year and \$500 per meeting plus reasonable expenses.

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11.7.3 Remuneration will be paid to the Directors and Officers of the corporation for the following:

- i.Meetings of the Board of Directors
- ii.Committee Meetings
- iii.Meetings where the presence of the Directors and/or Officers are required
- iv.Additional work required by the Corporation

11.7.4 No payment will be made to the Directors and Officers of Five Nations Energy Inc. in lieu of lost wages.

11.7.5 No payments will be made to the Board of Directors or Officers of Five Nations Energy Inc. in excess of the regular honoraria as set out in section 11.7.1 and 11.7.2.

12 Risk Management

12.1 Insurance Requirements

12.1.1 The Board of Directors of the Corporation will obtain adequate insurance coverage to protect the corporation's assets.

12.1.2 This will include, at a minimum, the following kinds of insurance:

- i. Property
- ii. Boiler & Machinery
- iii. Non-owned aircraft
- iv. General Liability Insurance
- v. Umbrella Liability
- vi. Directors and Officers Liability Insurance
- vii. Vehicle Insurance
- viii. Accident Insurance

12.1.3 An annual review of the insurance requirements will be undertaken to ensure that adequate coverage is in place.

13 Inventories

13.1.1 Inventories are to be maintained for all equipment, buildings, vehicles and other real assets.

13.1.2 A physical count should be completed annually at the following locations and counts made available to the auditor:

- Attawapiskat
- Kashechewan
- Fort Albany
- Moosonee
- Timmins

13.1.3 The responsibility of carrying out the annual inventory is the General Manager's. If necessary, he/she may request assistance from outside Five Nations Energy Inc.

13.1.4 In order to ensure an accurate count, a cut-off date is necessary. This means that for a three to five day period prior to inventory no items are to be purchased.

13.1.5 The count is to be done by two persons (one counter and one verifier). The counter is given an inventory list (without quantity on hand) for an area to count. As he/she counts, the quantity is entered in the appropriate column on the inventory list. The verifier is also handed an inventory list, (again without the quantity on hand) to re-count the area that the counter has already counted.

13.1.6 The two lists are compared and any discrepancies in the counts reconciled. After a correct count is indicated, the count is compared to the quantity on hand indicated in the computer. Any discrepancies are compiled and a list is sent to the auditor, who will make the necessary corrections to the dollar value of the corrected inventory.

13.1.7 Any items that were ordered for inventory, which come in during the time that the physical inventory is in progress, are held until after the Auditor has completed his audit and the computer has been reset for the next Fiscal Year. The items are then added to the inventory.

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- 13.1.8 All disposals of assets whose acquisition cost exceeded \$1,000 will require Board Approval. Such actions will be recorded in the minutes.

13.2 Property Security Policy

- 13.2.1 All property, equipment, and supplies acquired by Five Nations Energy Inc. remain the responsibility of FNEI until disposed of in an authorized manner.
- 13.2.2 Management of FNEI may dispose of FNEI property (equipment and supplies) as follows:
- 13.2.2.1 Trade the item in on new acquisitions through Purchasing with prior Board of Directors approval.
- 13.2.2.2 Sell the item with prior Board of Directors approval.
- 13.2.2.3 Salvage the item for parts, only after the Board of Directors has approved disposal in this manner.
- 13.2.2.4 Return the item to the owner if loaned or leased to FNEI.
- 13.2.3 The loss of any piece of equipment with an original purchase price of \$5000 or more and a life expectancy of more than one year, which is not consumed in the normal course of business, must be reported immediately to the Police, and the General Manager for insurance claim purposes.
- 13.2.4 Damage or destruction of property should be reported promptly to the General Manager.
- 13.2.5 Damage or destruction of property by a criminal act should be reported promptly to the Police or local police as well.

13.3 Security of Electronic Data

- 13.3.1 Access to data residing in administrative systems of Five Nations Energy Inc. is to be granted only to those individuals who must, in the course of exercising their responsibilities, use the specific information.
- 13.3.2 It is the responsibility of the General Manager to ensure adequate physical security over Five Nations Energy Inc.'s computer equipment, restrict equipment access to authorized personnel only, and adequately assure that output containing confidential information is properly safeguarded. Responsibilities also include maintenance of operating system-level security specific to the computing equipment.

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- 13.3.3 Operating Systems used for Five Nations Energy Inc.'s information technology systems must have, at a minimum, the following security features:**
- 13.3.3.1 Discretionary access controls, where individual users can be included/excluded from accessing files and other objects or from achieving certain forms of access**
 - 13.3.3.2 Notification to the data owner/computer operator/data security officer of security breaches (unauthorized attempts to access certain files or the system).**
 - 13.3.3.3 Maintenance of an audit record of security events, as well as authorized or unauthorized file access.**
 - 13.3.3.4 Ability to audit changes to user id files.**
 - 13.3.3.5 Ability for idle terminals logged into applications to be disconnected after a 15-minute period.**
 - 13.3.3.6 An encryption system to provide a high level of security for sensitive data transmission files.**
 - 13.3.3.7 Login features such as automatic disconnection on multiple login failures**
 - 13.3.3.8 Break-in detection and disabling user ids for a period of time after detection**
 - 13.3.3.9 Automatic id expiration - Access restrictions based on user id, time of day and day of week**
 - 13.3.3.10 Control over dial-up or network access to restricted data and systems**
 - 13.3.3.11 Backup and recovery procedures must be developed and maintained for all computing systems and data.**
- 13.3.4 The following requirements must be met:**
- 13.3.4.1 Provision for regular backup of data residing on the system.**
 - 13.3.4.2 Storage of backup media at a location remote from the FNEI office.**
 - 13.3.4.3 An approved Disaster Recovery Plan written and implemented to cover situations in which hardware and/or software cannot run in its normal environment.**
- 13.3.5 The General Manager should periodically review backup and recovery procedures to ensure their continued applicability.**
- 13.3.6 Passwords are a critical component to any computer security program. To properly control passwords and maintain their integrity, the guidelines below will be followed:**

- 13.3.6.1 Passwords will automatically expire every 90 days, or more frequently in cases of user ids with access to very sensitive data.
- 13.3.6.2 Users must never give out their personal password to anyone; sharing of passwords is a violation of this policy.
- 13.3.6.3 As part of the educational process, the General Manager will provide users with guidelines for selecting and changing their passwords.
- 13.3.6.4 Generic user ids should not exist, except as the source for the production, maintenance, and development of application systems. In cases where many people log in under a single user id, audit trails and system statistics become ineffective in assigning responsibility.
- 13.3.7 When an employee terminates employment with Five Nations Energy Inc., the following guidelines should be followed:
 - 13.3.7.1 Immediately change or remove the passwords for those user ids to which an employee leaving FNEI has had access or update capabilities. This standard practice serves to protect the employee in the event of any problems and the Five Nations Energy Inc. systems against possible tampering.
 - 13.3.7.2 Monitoring such user ids is the responsibility of the General Manager.
- 13.3.8 In the course of accessing data or information, a FNEI employee might access restricted information. It is the responsibility of the Data Owner to ensure that all individuals with access to restricted data are aware of the confidential nature of the information and the limitations, in terms of disclosure, that apply.
- 13.3.9 When accessing restricted information, the FNEI employee is responsible for maintaining its confidentiality. The granting of a user id and password assumes that you will maintain confidentiality over appropriate information without exception.
- 13.3.10 The release of restricted data without the express approval of the General Manager or outside the guidelines established for such data will not be tolerated.
- 13.3.11 Unauthorized release of restricted information will result in appropriate disciplinary action, including possible dismissal. All matters involving FNEI employees will be reviewed by the Board of Directors. Matters involving individuals not affiliated with Five Nations Energy Inc. will be reviewed with the corporation's attorney.

14 Conflict of Interest Policy

- 14.1.1 Members of the Board of Directors of Five Nations Energy Inc. must avoid any conflict of interest with respect to their responsibility to Five Nations Energy Inc.

- 14.1.2 When they are nominated to the Board, Directors understand and accept that they are expected to put the interests of Five Nations Energy Inc., its' customers and the communities that FNEI serves before all of their own interests and over the interests of a group or organization to which the Board member belongs or by which he or she is employed.
- 14.1.3 A conflict of interest occurs when a Board Member participates in discussions or decision making about a matter which may financially benefit that Board member, directly or indirectly, regardless of the size of the benefit.
- 14.1.4 Board members must not use their positions to obtain employment within the corporation for themselves, family members or close associates.
- 14.1.5 There should be no self dealing or any conduct of private business between any Board member and the corporation except as procedurally controlled to assure openness, competitive opportunities and equal access to "inside" information.
- 14.1.6 Upon election, a new Board member must sign a Memorandum of Understanding regarding FNET's Conflict of Interest policy and must disclose any recognized immediate or potential conflict of interest.
- 14.1.7 All Board Members will inform the Board when they become aware that a current or future conflict of interest situation may arise.
- 14.1.8 Before meetings of the Board of Directors, an agenda will be circulated to each member, with agenda items specified with sufficient detail in order to permit the Board member to identify possible conflicts of interest.
- 14.1.9 Prior to the commencement of any discussions at the Board meeting, the Chair shall provide an opportunity for the members to declare any conflict of interest regarding any specific agenda items.
- 14.1.10 Conflicts should be declared whether or not the Board Member attends the meeting. The details of any such disclosure should be noted in the minutes of the meeting.
- 14.1.11 If a Board member has disclosed a conflict of interest regarding an agenda item, that member will leave the meeting room when the Board reaches that agenda item. The departure of the Board member should be noted in the minutes and there should be no discussion of the agenda item until the member has left the meeting room. When the discussion of the agenda item is completed, the member may return to the meeting and the return should be noted in the minutes.

- 14.1.12 It would be considered unethical for any other member of the Board to discuss the subject with the member who has declared the conflict until all discussion and related voting has taken place, even if this process spans several different meetings.
- 14.1.13 If a Board member wishes to be considered for employment with the corporation, he or she must withdraw from Board deliberations, voting and access to applicable Board information.
- 14.1.14 Any current member of the Board interested in applying for a paid position with the organization must submit his/her letter of resignation from the Board prior to submitting his/her application for the position.
- 14.1.15 The Board may decide to delay accepting the resignation until after it is determined whether or not the member is the successful candidate; or the Board, if it wishes, having accepted the resignation may decide to reappoint that person to the Board should he/she not be hired.
- 14.1.16 A member's resignation in these circumstances must declare that, as a staff person, he/she will not disclose or in any way use any confidential information obtained as a Board member. All hiring of staff shall follow the stated policies of Five Nations Energy Inc.

15 Support of Community Events

15.1 Donation Policy

- 15.1.1 "The objects of Five Nations Energy Inc. are to promote the social, economic and civic welfare and development of Attawapiskat, Fort Albany and Kashechewan First Nations by:
- 15.1.1.1 Promoting, acquiring, developing and establishing works and facilities of any manner or nature for the provision acquisition, transmission, distribution and supply of electricity and other utilities to the communities of the Attawapiskat, Fort Albany and Kashechewan First Nations and elsewhere;
- 15.1.1.2 Constructing, operating, maintaining and managing such works and facilities for the general benefit and for the purpose of providing electrical power and other utilities to the communities of the Attawapiskat, Fort Albany and Kashechewan First Nations and elsewhere; and
- 15.1.1.3 Through the accomplishment of the objects described in paragraphs 1 and 2, encouraging and promoting self-sufficiency, skills training, employment and economic development opportunities, community cooperation, measures to improve the protection of the natural environment and such other measures that are socially beneficial for the community as may accrue from the Corporation's

objects and undertakings, in the, communities of the Attawapiskat, Fort Albany and Kashechewan First Nations and elsewhere."

- 15.1.2 The Five Nations Energy Inc. annual budgeted expenditure for donations shall be approved by motion of the Board, as identified in the Ontario Energy Board approved revenue allocation.
- 15.1.3 In order to adhere to the objects of the Corporation, the Board of Directors will review the goals and objectives of the donation policy on an annual basis and set guidelines for the following year's discretionary support. The Board of Directors will also review their long term commitments and reaffirm their support for them.
- 15.1.4 The senior management of Five Nations Energy Inc. will administer the donation policy as per guidelines set by the Five Nations Energy Inc. Board of Directors.
- 15.1.5 FNEI will contribute a maximum of \$1 500.00 per instance for projects that meet the guidelines provided there are funds remaining within the approved budget.
- 15.1.6 The request for funding must reflect the direction as set by the Board of Five Nations for discretionary support, and will identify monies available for donation and will also identify what funds are remaining in the communication budget.
- 15.1.7 Any organization that receives sponsorship must be willing to sign contract that stipulates that FNEI is indemnified against any proceedings that may happen against the organization.
- 15.1.8 Organizations must publicly acknowledge that they have received support from FNEI.
- 15.1.9 The organization must prepare and submit a report to Five Nations Energy Inc. on the event or activity that was sponsored.
- 15.1.10 Apart from the annual FNEI Scholarship, FNEI will not provide donations to individuals, only groups or organizations. FNEI will attempt to support both male and female activities and events equally.
- 15.1.11 Applications for funding must originate and be of benefit to organizations and or groups from the following communities:
 - i. Attawapiskat
 - ii. Kashechewan
 - iii. Fort Albany
 - iv. Moose Cree
 - v. Taykwa Tagamou First Nation.
- 15.1.12 Any other provision at the relevant time that FNEI thinks should be included that would protect FNEI's interests, recognize FNEI's contribution, and/or otherwise

ensure the furtherance of FNEI's objectives.

15.2 Scholarship Fund

15.2.1 FNEI will provide a scholarship of two thousand dollars (\$2,000) to a student nominated by the following entities:

- i. Attawapiskat Education Authority,
- ii. Hishkoonikun Education Authority,
- iii. Mundo Peetabeck Education Authority,
- iv. Northern Lights Secondary School,
- v. Moose Cree Education Authority and
- vi. Taykwa Tagamou Nation.

15.2.2 In order to be considered for the FNEI scholarship interested students should:

15.2.2.1 Make an application to their respective Education Authority

15.2.2.2 Have achieved a 75% average or greater in the previous semester

15.2.2.3 Plan to pursue a post-secondary education in a technical field.

15.2.3 In order for a potential scholarship recipient to be considered by Five Nations Energy Inc., the Education Authorities must submit their recommendations by May 31st of each year.

15.2.4 The General Manager and the Treasurer will evaluate the applications and will make the decision as to who is awarded the FNEI Scholarship from each community.

15.2.5 Scholarships will be paid out in September, once proof of enrollment in a technical field is provided to Five Nations Energy Inc.

15.3 CreeFest Annual Contribution

15.3.1 An annual contribution of \$10,000 will be donated to the Omushkego Creefest, as per the resolution passed by the Board of Directors at their June 24 2003 meeting as follows:

"A motion to donate \$10 000 annually to the Omushkego Cree Fest was moved by Chief Hall, seconded by William Sutherland. All were in favour and the motion was carried."

16 Affiliates Relationship Code (Ontario Energy Board)

16.1.1 The purpose of the Affiliate Relationships Code is to set out the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies.

Five Nations Energy Inc.

Financial Policies and Procedures-Approved December 2005

16.1.2 FNEI will comply with the Affiliates Relationship Code in its dealings with the three local distribution companies and any other potential affiliates.

SCHEDULE I

FORM OF MILESTONE CERTIFICATE

INVOICE: ■

Five Nations Energy Inc (the "Borrower")
Suite 421, 70-C Mountjoy Street North
Timmins, Ontario
P4N 4V7

Re: Credit Agreement dated as of November 15, 2006 (the "Credit Agreement")

Total Cost of Project	\$■
Amount previously advanced by Lenders	\$■
Amount covered by this Invoice	\$■
Amount available under Term Loan	\$■
Remaining cost to complete the Project	<hr/> \$■

The Borrower hereby certifies as follows:

1. The Borrower hereby requisitions the sum of \$■, which sum is required for work completed for the Borrower in connection with the Project up to and including ■.
2. To the best of our knowledge, information and belief after reasonable inquiry, the representations and warranties contained in the Credit Agreement are true and accurate in all respects as of the date hereof, and no event or condition has occurred and is continuing or would result from this advance which constitutes a Potential Event of Default or an Event of Default under the Credit Agreement.

3. Construction of the Project to the date hereof has been completed in accordance with the Project Budget and the Project Schedule and in compliance with all Material Permits and all applicable zoning and building laws and ordinances and applicable plans and specifications; and all of the work, materials and fixtures customarily furnished and installed at the current stage of construction have been furnished and installed and are of acceptable quality.
4. All of the statements contained in this Milestone Certificate are true, complete and accurate in all respects to the date hereof.

DATED this ■ day of ■, 200■.

FIVE NATIONS ENERGY INC.

Per: _____
Name: ■
Title: ■

SCHEDULE K

PROJECT SCHEDULE

Fibre Optic Cable Installation Contract	
Description	Proposed Timing
Estimated date of project completion	April 30, 2007
Outside date for project completion	April 30, 2008

OPGW Agreement	
Description	Proposed Timing
Successful testing of installation	April 30, 2007
Transfer of ownership and holdback release	May 30, 2007

Substation Contract	
Description	Proposed Timing
Estimated date of energization and completion at Attawapiskat	December 15, 2006
Fort Albany site work commences	February 28, 2007
Estimated date of energization and completion at Fort Albany	November 30, 2007



November 13, 2009

Five Nations Energy Inc.
70-C Mountjoy Street N.
Suite 421
Timmins, Ontario
P4N 4V7

Attention: Mr Joe Gaboury, CEO, VIA EMAIL

Dear Sir:

RE: EXTENSION OF PW OPERATING FACILITY DATE

This is amendment No. 1 to the Credit Agreement dated November 15, 2006 between Five Nations Energy Inc., The Manufacturers Life Insurance Company, and Pacific & Western Bank of Canada (the "Lender"). This amendment addresses primarily changes made to Article II of the Credit Agreement, the PW Operating Facility. The existing Credit Agreement and all of its terms and provisions shall remain in full force and effect, unless modified by this amendment.

We confirm the following amendments to Article II of the Credit Agreement:

1. **DELETE** - "PW Operating Facility Limit" means Cdn \$2,000,000.

ADD - "PW Operating Facility" means Cdn \$500,000.
2. **DELETE** - "PW Interest Rate" means a rate per annum equal to the Prime Rate less one quarter of one percent (0.25%). Currently the all in rate is 2.00%.

ADD - "PW Interest Rate" means a rate per annum equal to the Prime Rate plus two and one half percent (2.50%). Currently the all in rate is 4.75%.
3. **DELETE** - "PW Operating Facility Maturity Date" means November 15, 2009.

ADD - "PW Operating Facility Maturity Date" means May 15, 2010.
4. Borrowing resolutions from Five Nations Energy Inc. confirming new signing authorities and their ability to extend the PW Operating Facility as defined in the Credit Agreement.

CONDITIONS PRECEDENT

Satisfactory review and approval by the Lender and its solicitor of the following would be required prior to these amendments taking effect:

1. Receipt and satisfactory review of Five Nations Energy Inc.'s accountant prepared third quarter financial statements confirming all financial covenants agreed to in the Credit Agreement are onside.

LEGISLATIVE COMPLIANCE:

The availability of this facility is at all times subject to the necessity of compliance by the Lender, in such manner as the Lender thinks fit, with any and all restrictions, rules and regulations of the applicable regulatory authority from time to time in force.

We trust you will find the above satisfactory. If the foregoing terms and conditions are acceptable to you, please indicate your agreement by signing and returning the enclosed copy of this letter before the close of business on November 16, 2009. If not accepted by that time, the loan commitment shall be considered null and void. 11/9/

Yours truly,

PACIFIC & WESTERN BANK OF CANADA



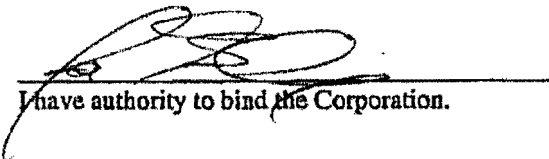
David Thoms
Assistant Vice-President, Lending



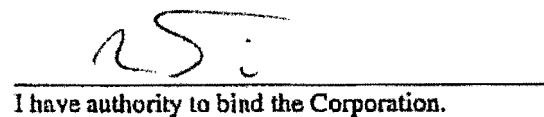
Nick Kristo
Senior Vice-President

We hereby accept the terms and conditions of financing outlined above.

FIVE NATIONS ENERGY INC.


I have authority to bind the Corporation.

Dated: Nov 17, 2009


I have authority to bind the Corporation.

Dated: Nov. 17/09

PARI PASSU PRIORITY AGREEMENT

THIS AGREEMENT made as of the 29th day of June, 2007.

BETWEEN:

THE MANUFACTURERS LIFE INSURANCE COMPANY, a
life insurance company established under the laws of Canada

("Manulife")

- and -

PACIFIC & WESTERN BANK OF CANADA, a chartered bank
established under the laws of Canada

("P&W")

- and -

BANK OF MONTREAL, a chartered bank established under the
laws of Canada

("BMO")

- and -

FIVE NATIONS ENERGY INC., a corporation incorporated
under the laws of Canada

(the "Debtor")

WHEREAS:

1. Pursuant to separate general security agreements (collectively the "**Security Agreements**") and individually a "**Security Agreement**") between (a) the Debtor, Manulife and P&W (Manulife and P&W being collectively referred to herein as the "**Project Finance Group**"), and (b) the Debtor and BMO (the Project Finance Group and BMO being collectively referred to herein as the "**Secured Parties**"), the Debtor has granted to each such Secured Party security in all of the personal property of the Debtor (such Security Agreements and any other security so given in addition to or in substitution for the whole or any part of such Security Agreements being collectively referred to as the "**Security**");

2. The Project Finance Group has agreed to share the Security *pari passu* with Bank of Montreal with respect to indebtedness of the Debtor to Bank of Montreal in an amount not to exceed Cdn.\$500,000;

3. The parties consider that it is desirable to establish and agree as to the equal ranking of the Security and, subject to the immediately preceding proviso, the respective indebtedness secured thereby;

NOW THEREFORE THIS AGREEMENT WITNESSES that, in consideration of the premises and the sum of \$1.00 of lawful money of Canada and other good and valuable consideration now paid by each of the parties hereto to the other (the receipt and sufficiency of which are hereby acknowledged by each such party), it is hereby declared and agreed by the parties hereto as follows:

1. The Secured Parties hereby agree with each other and hereby declare that, subject to the provisions hereof, the Security and all indebtedness secured thereby or by any portion thereof shall, in all respects, rank *pari passu*, equally and ratably among the Secured Parties, to the effect that all funds received by any Secured Party from the Debtor and all proceeds of realization of any of the Security shall be distributed between the Secured Parties on a *pro rata* basis, based upon the respective amounts owing to them by the Debtor; provided, however, that to the extent that the Debtor's indebtedness to Bank of Montreal at any time exceeds Cdn.\$500,000, the Security in favour of the Project Finance Group shall rank in priority to the Security in favour of Bank of Montreal for any indebtedness of the Debtor to Bank of Montreal in excess of such amount.

2. The equal ranking of the Security and all indebtedness secured thereby set out in section 1 and all other rights established, altered or specified herein shall:

(a) subject always to section 3, be applicable irrespective of:

- (i) the time or order of the grant, creation, execution, delivery, attachment or perfection of, the method of perfecting, the time or order of registration of filing financing statements or taking possession, records of mortgages or other instruments, assignments or agreements;
- (ii) the giving of or failure to give notice of the acquiring of any charge, lien or security interest or the date or dates of any loan or advance or advances by a Secured Party to the Debtor; and
- (iii) the date or dates of any default by the Debtor under the Security or the date of crystallization of any floating charge referred to therein or the taking of any enforcement proceedings including possession with respect to such security; and

(b) extend to all proceeds in any form derived, arising or resulting from any realization of the Security, including all proceeds of insurance policies covering assets of the Debtor subject to the Security.

3. Nothing herein contained shall be construed as entitling any of the Secured Parties to receive any proceeds of realization of any of the property or assets of the Debtor in respect of which it does not have any security, or in respect of which its security is invalid, unperfected, subordinate or unenforceable as against third parties. If any person, other than a Secured Party,

shall have a claim (an "Intervening Claim") to all or any portion of the collateral subject to the Security, or to any proceeds of such collateral, in priority to or on a parity with one or more of the Secured Parties (collectively, the "Junior Secured Parties") but not in priority to or on a parity with the other Secured Parties (collectively, the "Senior Secured Parties"), then this agreement shall not apply so as to diminish the rights (as such rights would have been but for the Intervening Claim) of the Senior Secured Parties to such collateral or such proceeds of realization. In particular, the provisions of section 1 shall be applied to require payment hereunder by the Senior Secured Parties out of any proceeds of realization received by them to the Junior Secured Parties only to the extent that such payment would have been required to be made pursuant to section 1 in the event that there had been no Intervening Claim and that the amount of such Intervening Claim (or such portion thereof as the Junior Secured Parties collectively would have, in the absence of such Intervening Claim, been collectively entitled to receive) was received by the Junior Secured Parties, as proceeds of realization of the Security, *pro rata* in proportion to their respective indebtedness. Nothing contained in this agreement shall be construed as conferring any rights upon the Debtor, or upon any person not a party to this agreement.

4. Nothing herein shall prevent the Debtor from making any payments of principal or interest to any Secured Party with respect to the indebtedness secured by the Security until:

- (a) the bankruptcy, liquidation or winding-up of the Debtor or other distribution of its property and assets for the purpose of winding up its affairs; or
- (b) a Secured Party shall have commenced to enforce any of the Security.

5. Each of the Secured Parties agrees to co-operate fully with the other Secured Parties in connection with any enforcement or realization of the Security.

6. The Debtor agrees with the provisions hereof and further agrees with the Secured Parties and each of them that so long as the Security is outstanding and secures the indebtedness and other obligations of the Debtor to any of the Secured Parties the Debtor will stand possessed of its assets thereby mortgaged, charged or assigned for the parties hereto in accordance with the terms herein set out.

7. Any demand, notice or other communication in connection with this agreement shall be in writing and shall be personally delivered to an officer or other responsible employee of the addressee, mailed by registered mail or sent by telex, telefacsimile or other direct written electronic means, charges prepaid, at or to the address, telex number or telefacsimile number of the party set out opposite its name below or to such other address or addresses, telex or telefacsimile number or numbers as either party may from time to time designate to the other party in such manner.

Ogilvy Renault LLP
Suite 3800, Royal Bank Plaza, South Tower
200 Bay Street
P.O. Box 84
Toronto, Ontario
M5J 2Z4

Attention: Valerie Helbronner
telecopier no. (416) 216-3930

Any communication which is personally delivered as aforesaid shall be deemed to have been validly and effectively given on the date of such delivery if such date is a business day and such delivery was made during normal business hours of the recipient; otherwise, it shall be deemed to have been validly and effectively given on the business day next following such date of delivery. Any communication which is mailed as aforesaid shall be deemed to have been validly and effectively given on the fifth business day following the date of mailing, provided that, in the event of an interruption in postal service before such fifth business day, such communication shall be given by one of the other means. Any communication which is transmitted by telex, telefacsimile or other direct written electronic means as aforesaid shall be deemed to have been validly and effectively given on the date of transmission if such date is a business day and such transmission was made during normal business hours of the recipient; otherwise, it shall be deemed to have been validly and effectively given on the business day next following such date of transmission.

8. From time to time each of the parties hereto, at the request of any other, shall execute and deliver such additional documents and other assurances as may be reasonably required effectually to carry out the intent of this agreement.

9. In the event that any provision or any part of any provision hereof is deemed to be invalid by reason of the operation of any law or by reason of the interpretation placed thereon by a court, this agreement shall be construed as not containing such provision or such part of such provision and the invalidity of such provision or such part shall not affect the validity of any other provision or the remainder of such provision hereof, and all other provisions hereof which are otherwise lawful and valid shall remain in full force and effect.

10. This agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original.

11. This agreement and all documents delivered pursuant thereto shall be governed by and construed in accordance with the laws of the Province of Ontario.

12. This agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and assigns. A Secured Party shall not assign or transfer any of its rights in or under the Security held by such Secured Party or the indebtedness secured thereby, except to a transferee who has previously agreed with the Secured Party in writing to be bound by the provisions of this agreement.

IN WITNESS WHEREOF this agreement has been executed by the parties hereto as of the date first above written.

BANK OF MONTREAL

By: JDC **Janna D. F. Cook**
Branch Manager
By: _____

THE MANUFACTURERS LIFE INSURANCE COMPANY

By: _____

By: _____

PACIFIC & WESTERN BANK OF CANADA

By: _____

By: _____

FIVE NATIONS ENERGY INC.

By: _____

IN WITNESS WHEREOF this agreement has been executed by the parties hereto as of the date first above written.

BANK OF MONTREAL

By: _____

By: _____

THE MANUFACTURERS LIFE INSURANCE COMPANY

By: _____

Laurie Harding
VP, CDN Private Placements

By: _____

Patrick Yuk
Director, CDN Private Placements

PACIFIC & WESTERN BANK OF CANADA

By: _____

By: _____

FIVE NATIONS ENERGY INC.

By: _____

IN WITNESS WHEREOF this agreement has been executed by the parties hereto as of the date first above written.

BANK OF MONTREAL

By: _____

By: _____

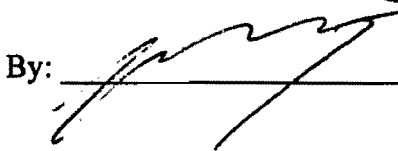
THE MANUFACTURERS LIFE INSURANCE COMPANY

By: _____



Laurie Harding
VP, CDN Private Placements

By: _____



Patrick Yuk
Director, CDN Private Placements

PACIFIC & WESTERN BANK OF CANADA

By: _____

By: _____

FIVE NATIONS ENERGY INC.

By: _____

IN WITNESS WHEREOF this agreement has been executed by the parties hereto as of the date first above written.

BANK OF MONTREAL

By: _____

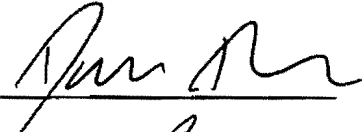
By: _____

THE MANUFACTURERS LIFE INSURANCE COMPANY

By: _____

By: _____

PACIFIC & WESTERN BANK OF CANADA

By:  _____ **David Thoms**
Account Manager

By:  _____ **John Asma**
Senior Vice President & Treasurer

FIVE NATIONS ENERGY INC.

By: _____

IN WITNESS WHEREOF this agreement has been executed by the parties hereto as of the date first above written.

BANK OF MONTREAL

By: _____

By: _____

THE MANUFACTURERS LIFE INSURANCE COMPANY

By: _____

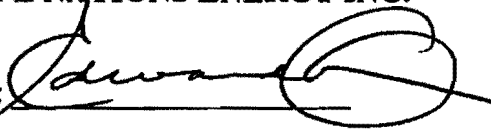
By: _____

PACIFIC & WESTERN BANK OF CANADA

By: _____

By: _____

FIVE NATIONS ENERGY INC.

By:  _____

IN WITNESS WHEREOF this agreement has been executed by the parties hereto as of the date first above written.

BANK OF MONTREAL

By: _____

By: _____

THE MANUFACTURERS LIFE INSURANCE COMPANY

By: _____


By: _____

PACIFIC & WESTERN BANK OF CANADA

By: _____

By: _____

FIVE NATIONS ENERGY INC.

By: 
Mike Metatawabin

THIS AGREEMENT is made as of the 15th day of October, 1999.

B E T W E E N:

**NORTHERN ONTARIO HERITAGE FUND
CORPORATION**, a corporation established under
the *Northern Ontario Heritage Fund Act, R.S.O.
1990, C.N.5*
(herein called "NOHFC")

OF THE FIRST PART

- and -

FIVE NATIONS ENERGY INC.,
a corporation incorporated under the laws of Canada,
(herein called the "Borrower")

OF THE SECOND PART

BACKGROUND RECITALS:

1. The Borrower is a federally incorporated non-share capital corporation formed by a consortium of First Nations on James Bay in Ontario.
2. The Borrower has undertaken a \$56.4 Million project for the construction of a hydroelectric transmission line to extend the provincial electrical grid into the communities of Fort Albany, Kaschechewan and Attawapiskat (the "Project").
3. The Borrower has requested from NOHFC financial support to cover the interest and related financing costs of bridge financing during the construction phase of the Project.
4. NOHFC has agreed to provide a repayable term loan to the Borrower on the terms more particularly described in this Agreement in order to assist the Borrower with the financing of the Project.

ARTICLE 1
INTERPRETATION OF AGREEMENT

1.1 Definitions. The following terms shall have the meanings ascribed to them below unless there is something in the context inconsistent therewith:

"Act" means *Freedom of Information and Protection of Privacy Act, R.S.O. 1990*, as amended, modified or re-enacted from time to time.

"Advance" means any advance of funds by NOHFC on account of the Loan.

"Agreement" means this agreement, including all of the Schedules hereto, and all amendments made hereto in accordance with the provisions hereof.

"Business Day" means any day on which chartered banks generally are open for business in the Province of Ontario.

"Contractor" means SNC Lavalin Inc.

"Control" (including with correlative meanings the terms "Controlled by" and "under common Control with") means the power to direct or cause the direction of the management and policies of any Person, whether through the ownership of voting shares or otherwise.

"Eligible Project Expenditures" means bridge financing interest costs and related costs and expenses and professional fees directly related to obtaining the financing, up to a maximum amount of \$4,900,000.00.

"Event of Default" means any of the events specified in Section 10.1 of this Agreement, provided that any requirement or condition of such event has been satisfied for the giving of notice, the lapse of time, and/or the happening of any further conditions, events or acts.

"Financial Statements" means the audited annual financial statements of the Borrower signed by a director of the Borrower consisting of a balance sheet and statement of income, retained earnings and changes in financial condition for a Fiscal Year, together with the notes thereto, all prepared in accordance with Generally Accepted Accounting Principles consistently applied, together with a report of the Borrower's auditors thereon.

"Fiscal Year" means the accounting year of the Borrower which currently ends on March 31

"Generally Accepted Accounting Principles" means Canadian generally accepted accounting principles as adopted by the Canadian Institute of Chartered Accountants, or any successor institute, applicable as at the date on which such calculation is made or required to be made in accordance with generally accepted accounting principles.

"Grid Note" means the note to be delivered by the Borrower to NOHFC in the form of Schedule "C".

"INAC" means Indian and Northern Affairs Canada.

"Inter-Creditor Agreement" means an agreement between NOHFC, the Borrower and the Borrower's other lenders pursuant to which NOHFC will agree to postpone and subordinate its interests to that of the Borrower's other lenders, except INAC.

"Loan" means the loan in the principal amount of up to \$4,900,000.00 to be advanced by and repaid to NOHFC in the manner provided in this Agreement.

"OHNC" means Ontario Hydro Networks Company Inc.

"Person" means any individual, company, corporation, partnership, firm, trust, sole proprietorship, governmental agency or authority or other entity howsoever designated or constituted, or any group of the foregoing, acting in concert;

"Plans and Specifications" means the plans and specifications relating to the construction of the Project, as the same may be amended from time to time.

"Prime Rate" means at any time the prime lending rate of interest expressed as a rate per annum which the Bank of Montreal establishes at its head office in Toronto Ontario as the reference rate of interest it will charge at such time for demand loans in Canadian dollars to Canadian customers and which it refers to as its "Prime Rate".

"Project" means the construction of a hydro electric transmission line to extend the provincial electrical grid from the Town of Moosonee into the communities of Fort Albany, Kashechewan and Attawapiskat.

"Project Financing" means the financing for the Project as more particularly set out in Article 2.2 of this Agreement.

"Term" means the period commencing on the date of this Agreement and ending on the twelfth anniversary of the date of the first Advance if repayment in full of principal and interest outstanding in respect of the Loan has been made.

1.2 The division of this Agreement into articles, sections, clauses, paragraphs and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement.

1.3 The words "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, section, paragraph or other subdivision of this Agreement.

1.4 Any reference to currency is to Canadian currency and any amount advanced, paid or calculated is to be advanced, paid or calculated in Canadian currency.

1.5 Any reference to a statute is to such statute and to the regulations made pursuant to such statute as such statute and regulations may at any time be amended or modified and in effect and to any statute or regulations that may be passed that have the effect of supplementing or superseding such statute or regulations.

1.6 Persons are not dealing "at arm's length" with one another if they would not be dealing at arm's length with one another for purposes of the Income Tax Act (Canada).

1.7 Words importing the masculine gender include the feminine or neuter gender and words in the singular include the plural, and vice versa.

1.8 All references to Schedules refer to Schedules of this Agreement which are part of and form an integral part of this Agreement.

The Schedules of this Agreement are:

Schedule "A" :	Officer's Certificate
Schedule "B" :	Certificate of Expenditure
Schedule "C" :	Form of Grid Note

ARTICLE 2 PROJECT

2.1 Project. The Borrower shall complete the Project substantially in accordance with the estimated budget categories and in the dollar amounts as set out below, which may be amended or modified from time to time with NOHFC approval:

Construction	
Turnkey Contract	\$48,100,000.00
Bridge Financing	
Interest Costs	\$ 5,300,000.00
Other Costs - engineering, Soil samples	\$ 4,800,000.00
	<hr/>
Total	\$58,200,000.00
	<hr/>

2.2 Project Financing. The Borrower agrees that financing for completion of the Project has been arranged as follows:

Chartered Bank Financing	\$ 26,600,000.00 (based on INAC commitment)
SNC Lavalin Inc. or a Bank	
Loan guaranteed by SNC Lavalin Inc.	\$ 2,500,000.00
NOHFC Loan	\$ 4,900,000.00
OHNC (by purchasing or paying for a part of the Project)	\$ 10,900,000.00

INAC	\$ 13,300,000.00 (based on advances and payments during construction)
Total	<u>\$ 58,200,000.00</u>

2.3 If the Borrower obtains or receives any additional funding for the Project from a government source (other than the contributions referred to in subparagraph 2.2 above), NOHFC may in its sole and absolute discretion reduce the amount of the loan accordingly, and any calculation, determination or decision made by the NOHFC in this regard will be final and binding upon the Borrower. This subparagraph is intended to ensure that there is no duplication in funding and that the expenditures proposed in the budget for the Project are adhered to and are not augmented with additional public funding.

ARTICLE 3 CONCESSIONAL LOAN

3.1 Concessional Loan. Subject to the terms of this Agreement, NOHFC shall lend to the Borrower the principal amount of up to Four Million, Nine hundred Thousand dollars (\$4,900,000.00) which principal, except as hereinafter provided, shall bear interest at the rate per annum equal to the Prime Rate in effect on the date of the advance plus 2%.

3.2 Interest. Interest shall be calculated daily and shall become due and payable in annual installments commencing on the first anniversary of the first Advance of the Loan until payment in full, both before and after default and judgement, with interest on overdue interest.

Provided however, unless and until default under this Agreement has occurred interest at the aforesaid rate shall not accrue or be payable by the Borrower on the Loan.

3.3 Repayment of Principal. Payments on account of principal in the following amounts shall be due and be paid in five annual installments as follows:

October 15, 2006	\$245,000.00
October 15, 2007	\$245,000.00
October 15, 2008	\$245,000.00
October 15, 2009	\$245,000.00
October 15, 2010	\$3,920,000.00

TOTAL	\$4,900,000.00
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The remaining outstanding principal of the Loan and accrued interest (if any) and all other monies shall be due and payable on October 15, 2010.

3.4 Advances. The Borrower may request and receive Advances in accordance with Article 5.

3.5 Prepayment. Subject to the terms of this Agreement, the Borrower may, at any time and from time to time prepay, without penalty, the Loan, provided that such prepayment may only be for the full amount of the Loan, together with all accrued and unpaid interest thereon, if any, to the date of such prepayment.

ARTICLE 4 SECURITY

4.1 Grid Note. The Borrower shall, prior to the first Advance, deliver to NOHFC a Grid Note substantially in the form of Schedule "C".

ARTICLE 5 DISBURSEMENT OF LOAN

5.1 Conditions of First Advance. The obligation of NOHFC to make the first Advance is conditional upon prior compliance with each of the following conditions precedent to the satisfaction of NOHFC, which conditions precedent are for the exclusive benefit of NOHFC and may only be waived by NOHFC in writing, and are as follows:

- (a) Insurance. The Borrower shall have delivered certified copies of policies or a certificate of insurance satisfactory to NOHFC evidencing insurance coverage which the Borrower or the party constructing the Project is required to maintain pursuant to Section 8.7 of this Agreement.
- (b) Opinion of Counsel for the Borrower. NOHFC shall have received a favourable legal opinion from counsel for the Borrower in a form satisfactory to NOHFC, confirming:
 - (i) the corporate status of the Borrower and its power and authority to enter into this Agreement;
 - (ii) the authorization, delivery, enforceability and binding nature of this Agreement upon the Borrower; and,
 - (iii) such other matters as NOHFC may stipulate.
- (c) Officer's Certificate. The Borrower shall provide an officer's certificate in the form of Schedule "A" attached hereto.
- (d) Plans, Specifications. The Borrower shall furnish to NOHFC, plans, specifications and proposed contracts for the construction of the Project which are satisfactory to NOHFC.

- (e) Priority of Repayment. The Borrower shall have provided evidence satisfactory to NOHFC from INAC that repayment to NOHFC of the Loan herein shall be made prior to any repayment to INAC of any of its loans made to the Borrower in connection with INAC's financing of the Project.
- (f) Project Financing. The Borrower shall have provided evidence satisfactory to NOHFC acting reasonably that the Borrower has obtained binding commitments for Project Financing accepted by the Borrower.
- (g) Undertaking. The Borrower shall deliver a formal undertaking which will be binding on all its successors and assigns to support Ontario Energy Board approval of an electricity transmission and distribution rate structure that will result in all provincially funded organizations, agencies, boards and commissions paying the same rate as the rate charged to federal departments, agencies and organizations having regard to their respective financial contributions to the Project.

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5.2 Conditions to All Advances. On or before any Advance, the following conditions shall be met or complied with to the satisfaction of NOHFC:

- (a) Officer's Certificate. The Borrower shall provide an officer's certificate in the form of Schedule "A" attached hereto.
- (b) Accounting Evidence. The Borrower shall have provided satisfactory evidence to NOHFC that the Borrower has incurred and paid expenses on account of the Eligible Project Expenditures in the cumulative amount of 100% of the requested Advances, which evidence shall include the following:
 - (i) a certificate of the Borrower setting out in detail all incurred and paid Eligible Project Expenditures in the form of the attached Schedule "B"; and
 - (ii) in the event that the Borrower submits a request for Advance in respect of Eligible Project Expenditures incurred and paid to non arm's length suppliers, the Borrower shall provide the certificate of the Borrower described in s.5.2 (b) (i) above together with a certificate of the external auditor of the Borrower confirming the fair market value of the Eligible Project Costs paid to Persons with whom the Borrower does not deal at arm's length; and
 - (iii) at NOHFC's option, invoices may also be required.
- (c) No Event of Default. No Event of Default shall have occurred and be continuing, nor shall the Advance result in the occurrence of any Event of Default.
- (d) No Material Adverse Change. NOHFC reserves the right to withhold disbursements if a material adverse change has occurred in the business or affairs of the Borrower

which impairs the ability of the Borrower to perform the terms and conditions of this Agreement.

- (e) Overruns. If the Borrower has incurred a cost overrun for the Project, the Borrower shall have provided evidence satisfactory to NOHFC acting reasonably that it has arranged additional financing to pay for any such cost.

5.3 Disbursement of Loan.

- (a) It is the intention of the parties that the Loan shall be disbursed by NOHEC to the Borrower after the Borrower has incurred and paid Eligible Project Expenditures, and each dollar of Eligible Project Expenditures incurred and paid by the Borrower, shall entitle it to receive a dollar of the Loan;
- (b) At any time, and from time to time, after the execution of this Agreement, the Borrower may by notice in writing to NOHFC request that an Advance be made; provided, that a request for an Advance shall be made no more frequently than monthly. NOHFC reserves the right to cancel any portion of the maximum Loan amount not disbursed by December 31, 2002.

ARTICLE 6 REPORTING

6.1 Project Certificate. When the project is completed and in any event no later than December 31, 2002, the Borrower will provide NOHFC with a final report on the Project, in a form satisfactory to NOHFC and containing at least:

- (a) a description of the work carried out and the results achieved;
- (b) a certificate from the Contractor attesting that the Project has been completed in a good and workmanlike manner and that the costs incurred are fair and accurate;
- (c) a financial statement detailing the Eligible Project Expenditures incurred and paid by the Borrower during the course of the Project and how the loan and money from other funding sources was used, certified to be true and accurate by the Borrower's Chief Executive Officer;
- (d) a description of actual and potential economic benefits to Northern Ontario resulting from the Project, including the number of jobs created or planned in connection with the operation of the Project; and
- (e) any other information reasonably required by NOHFC.

6.2 Financial Reports. The Borrower shall furnish to NOHFC within 120 days after the end of each Fiscal Year, commencing with the Fiscal Year ending after the date of the first Advance audited Financial Statements for the Fiscal Year then ended.

6.3 Auditor's Certificate. The Borrower shall furnish to NOHFC on or before March 31, 2003, a certificate of an independent accountant certifying that the costs and expenses claimed by the Borrower and paid from the Loan funds are proper Eligible Project Expenditures pursuant to this Agreement and were paid by the Borrower.

ARTICLE 7 REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to and in favour of NOHFC as of the date of this Agreement, as follows:

7.1 Information. The information supplied by the Borrower in connection with its application for the Loan is true, complete and accurate, and the Borrower recognizes that NOHFC has relied upon the truth, authenticity, completeness and accuracy of the information in entering into this Agreement.

7.2 Litigation. There are no criminal or civil charges outstanding against the Borrower. There are no actions, suits or proceedings pending or, to the knowledge of the Borrower, threatened, which affect the Project or may impair the ability of the Borrower to perform its obligations under this Agreement.

7.3 Corporate Status. The Borrower is a corporation incorporated under the laws of Canada, and has the corporate power and authority to carry on its business as presently carried on, to hold property, and to enter into this Agreement. The execution, delivery and performance of this Agreement have been or will be duly and validly authorized by all necessary corporate action of the Borrower, and when executed and delivered will constitute legal, valid and binding obligations of the Borrower enforceable in accordance with their respective terms subject to applicable bankruptcy, insolvency, moratorium, reorganization, personal property security, and other laws of general application affecting the rights of creditors, to general principles of equity, and to the fact that specific performance is an equitable remedy available only in the discretion of the court.

7.4 Use of Proceeds. The proceeds of the Project Financing will be used by the Borrower exclusively to pay the costs of the Project. The proceeds of the Loan shall be used by the Borrower exclusively to reimburse itself for the Eligible Project Expenditures or the reduction of debt incurred therefor.

7.5 Environment Compliance.

- (i) The Borrower is in compliance with all applicable Canadian, provincial (including but not limited to the Environmental Protection Act (Ontario) and the Ontario Water

Resources Act) and local laws, rules, orders and regulations governing any hazardous substance, gas or liquid or any other substance, gas or liquid which is prohibited, controlled or regulated under such laws, rules, orders or regulations; and

(ii) the Project is free

(A) from contamination by, and there has not been thereon a release, discharge or emission or threat of a release, discharge or emission of, any hazardous substance, gas or liquid or any other substance, gas or liquid which is prohibited, controlled or regulated under such laws, rules, orders or regulations or which poses a threat or nuisance to safety, health or the environment; and

(B) of underground storage tanks, land fills, land disposals and dumps.

7.6 Full Disclosure. There is no fact which the Borrower has not disclosed in writing to NOHFC which materially adversely affects or, so far as the Borrower can now reasonably foresee, will materially adversely affect the Project or the ability of the Borrower to perform its obligations under this Agreement.

ARTICLE 8 BORROWER'S COVENANTS

8.1 Payment. Subject to the provisions of this Agreement, the Borrower shall punctually pay the principal of, and interest (if any) on, the Loan, and all other sums falling due hereunder on the dates and in the manner specified herein.

8.2 Completion. The Borrower shall cause the Project to be completed in a good and workmanlike manner, in accordance with good construction and engineering practices and in accordance with all governmental laws, regulations and authorizations with respect to the Project, on or before December 31, 2002. The Borrower immediately shall notify NOHFC of any material interruption of construction of the Project. The Borrower shall immediately notify NOHFC of any increase in the cost of the Project, if the total cost of the Project is increased so that the cost of the Project exceeds the total of the Project Financing.

8.3 Application of Proceeds. Immediately upon receipt thereof, the Borrower shall apply the Project Financing to the Project or to the reduction of debt incurred therefor. The Borrower shall apply all Advances of the Loan to reimburse itself for the Eligible Project Expenditures or the reduction of debt incurred therefor.

8.4 Access to Information.

(a) The Borrower shall provide NOHFC with any information it requires for the monitoring of the Project and shall allow NOHFC and its authorized representatives and agents access to the Project and to such of its financial records and employment records as are relevant to confirm the Borrower's performance of its obligations

under this Agreement. Any inspection of the Project or access for inspection of records shall be during the Borrower's normal office hours. Access will be provided to NOHFC as often as it may reasonably request.

- (b) Subject to the Act all information pertaining to the Loan and the Borrower's obligations under this Agreement, is public information and may be released to third parties upon request.
- (c) Notwithstanding any copyright or other intellectual property rights of the Borrower, the Borrower consents to the use of all reports and other information provided to NOHFC under this Agreement as follows:
 - (i) NOHFC may provide copies of the information to other government institutions and in particular the Ministry of Northern Development and Mines;
 - (ii) NOHFC or other government institutions may make the information available to the public either directly or through third parties by publication and sale for a reasonable fee;
 - (iii) the technical information contained in the reports shall be in the public domain and may be used for profit or otherwise by NOHFC, other government institutions, and members of the public including businesses.

8.5 Environment.

- (i) The Borrower shall be at all times in compliance with all applicable Canadian, provincial (including but not limited to the Environmental Protection Act (Ontario) and the Ontario Water Resources Act) and local laws, rules, orders and regulations governing any hazardous substance, gas or liquid or any other substance, gas or liquid which is prohibited, controlled or regulated under such laws, rules, orders or regulations; and
- (ii) the Borrower shall ensure that the Project is free
 - (A) from contamination by a release, discharge or emission of any hazardous substance, gas or liquid which is prohibited, controlled or regulated under such laws, rules, orders or regulations or which poses a threat or nuisance to safety, health or the environment; and
 - (B) of underground storage tanks, land fills, land disposals and dumps.

8.6 Compliance with Laws, etc. The Borrower shall comply with all applicable laws, regulations and orders and duly observe all requirements of governmental authorities, and all statutes and regulations which could affect the Project, or its business or assets or credit or employees or public.

8.7 Insurance.

- (a) The Borrower shall ensure that any professionals or other contractors retained to carry out the Project or any part of the Project shall have in place adequate insurance that is appropriate to the Project risks, including professional liability insurance for any professional services that may be involved.
- (b) The Borrower shall arrange for and keep current, or during construction of the Project have the Contractor arrange for and keep current, the following insurance coverages:
 - (i) All Risk Builders Risk (Course of Construction) subject to the full value at risk which shall include NOHFC as a Loss Payee as its interest may appear;
 - (ii) Wrap-up Liability insurance on a per occurrence basis covering the Borrower, all the contractors/sub-contractors and everyone on the Project, subject to limits of no less than ten million dollars (\$10,000,000) per loss that:
 - (A) names as additional insureds, NOHFC, its officers, agents and employees as its interest may appear;
 - (B) includes a cross liability clause endorsement; and
 - (C) includes a contractual liability endorsement;
 - (iii) comprehensive general liability insurance, subject to limits not less than ten million dollars (\$10,000,000) per occurrence, that:
 - (A) protects the Borrower from all claims, demands, actions, causes of action that may be taken or made against it or any of them for any loss of or damage or injury to property, any bodily injury including personal injury, for any death, of any nature or kind whatsoever, including completed operations or products that may arise through any act or omission or both of the Borrower in respect of the performance of this Agreement;
 - (B) names as additional insureds, NOHFC, its officers, agents and employees as its interest may appear;
 - (C) includes a cross liability clause endorsement; and
 - (D) includes a contractual liability endorsement.

8.8 Licences, Contracts, etc. The Borrower shall observe and perform all of its obligations and all matters and things necessary or expedient to be done, observed or

performed under or by virtue of any lease, operating agreement, licence, concession or any contract necessary for operation of the Project.

8.9 Litigation. The Borrower shall give to NOHFC notice of any criminal or civil charges filed against the Borrower together with notice, including reasonable particulars, of each action, suit or proceeding against the Borrower pending, or to the knowledge of the Borrower, threatened before any court or before any governmental department, commission or agency.

8.10 Performance of Covenants by NOHFC. If, from time to time, the Borrower shall fail to perform any of the covenants on its part contained herein, or in any security document delivered pursuant hereto, NOHFC may itself perform such covenant on behalf of the Borrower if it is capable of being performed by it (other than payment of the principal of, or the interest on the Loan) or, at its option, may expend such monies towards the performance of such covenants on behalf of the Borrower as it may deem expedient in the circumstances, but NOHFC shall be under no obligation to do so. No such performance, expenditure or advance by NOHFC shall be deemed to relieve the Borrower of any default hereunder.

ARTICLE 9 NEGATIVE COVENANTS

9.1 The Borrower covenants and agrees that it shall not, without the prior written approval of NOHFC:

- (a) Disposition of Assets. Subject to the provisions of this Agreement, the Borrower shall not sell, assign, transfer, lease, remove or otherwise dispose of any of its properties and assets comprising the Project out of the ordinary course of business, provided however that the Borrower shall be entitled to sell the Moosonee substation and the transmission lines from Moosonee to Fort Albany.
- (b) Not to Consolidate. The Borrower shall not consolidate, amalgamate or merge with any Person.

ARTICLE 10 DEFAULT AND ENFORCEMENT

10.1 Events of Default. Each and every one of the following events is an "Event of Default":

- (a) if default is made in the payment of any amount of principal or interest on the Loan when the same becomes due;
- (b) if default is made in the performance of or compliance with any term, or covenant contained in this Agreement to be performed or complied with by the Borrower;

- (c) if any representation or warranty made by the Borrower in this Agreement or any certificate delivered to NOHFC pursuant hereto shall be materially untrue in any respect;
- (d) if an order shall be made or an effective resolution passed for the winding up, or liquidation or dissolution of the Borrower or the Borrower is otherwise dissolved or ceases to carry on its operation;
- (e) if the Borrower becomes insolvent, bankrupt or a receiver or manager, court appointed or otherwise, is appointed for its assets;
- (f) if an encumbrancer shall take possession of the Project or any part thereof, which, in the opinion of NOHFC, is a substantial part thereof, or if a distress or execution or any similar process be levied or enforced against the Project and such distress or execution is not satisfied within thirty (30) days;
- (g) if the Borrower defaults in any payment of the principal of, or interest on, any Project Financing beyond any period of grace provided with respect thereto, and the effect of such default is to permit the holder of such obligation (or a trustee for such holder) to cause a material obligation to become due prior to its stated maturity;
- (h) if Project Financing, or any part thereof, becomes unavailable to the Borrower for any reason whatsoever and is not replaced within a reasonable period of time by other Project Financing provided to the Borrower on similar terms and conditions;
- (i) if a material adverse change occurs such that the viability of the Borrower as a going concern is threatened in the opinion of NOHFC, acting reasonably.

10.2 NOHFC May Waive. NOHFC may, at any time, waive any default or Event of Default which may have occurred provided that no such waiver shall extend to, or be taken in any manner whatsoever to affect, any subsequent default or Event of Default or the right to remedies resulting therefrom, and that no such waiver shall be, or shall be deemed to constitute, a waiver of such default unless such waiver is in writing from NOHFC.

10.3 Remedies. Notwithstanding any other rights which NOHFC may have under this Agreement and subject to the terms and conditions of the Inter-Creditor Agreement, if any Event of Default shall occur and be continuing, NOHFC shall have the following remedies provided that it has first given written notice of the Event of Default to the Borrower and the Borrower has failed to correct the Event of Default within 10 Business Days or such longer period of time as NOHFC may consent to in writing:

- (a) NOHFC may at its option immediately and without further notice to the Borrower declare its commitment to make the Loan terminated and all amounts of principal and interest (if any) then accrued on the Loan shall become immediately due and payable;

- (b) NOHFC shall have no further obligation to make an Advance; and
- (c) the Borrower shall have no right to earn any further interest incentives referred to in Article 3 of this Agreement.

10.4 Other Remedies. In addition to the remedies described in Section 10.3 and subject to the terms and conditions of the Inter-Creditor Agreement, NOHFC may commence such legal action or proceedings as it, in its sole discretion, may deem expedient, without any additional notice under this Agreement. The rights and remedies of NOHFC hereunder are cumulative and in addition to, and not in substitution for, all other rights or remedies otherwise available to NOHFC.

10.5 Costs of Collection. All reasonable costs and expenses of collection of all amounts owing hereunder shall be for the account of the Borrower and shall be added to the principal amount of the Loan.

10.6 Interest After Default. The Borrower expressly acknowledges that the interest rate for the Loan described herein shall continue to apply to any and all overdue amounts after an Event of Default until payment in full, during the course of any and all proceedings to collect such amounts, and such interest rate shall apply to and be exigible as additional damages in any award of damages made by a court of competent jurisdiction pursuant to any such action, all without the necessity of any further act or agreement or notification to the Borrower.

ARTICLE 11 MISCELLANEOUS

11.1 Entire Agreement. This Agreement, including all Schedules hereto and all documents contemplated hereby, constitutes the entire agreement between the parties with respect to the subject matter and supersedes all prior negotiations, undertakings, representations and understandings, including, without limitation, any term sheets. No agreement purporting to amend or modify this Agreement or any document or paper relating thereto or connected herewith is valid and binding unless it is in writing and signed and accepted in writing by NOHFC (or any successor thereof) or the Ministry of Northern Development and Mines.

11.2 Agent. The parties agree that the Ministry of Northern Development and Mines may act as agent for NOHFC for the purpose of making Advances, determining compliance with the terms of the Agreement and amending the Agreement.

11.3 Assignment. This Agreement, and all instruments delivered to NOHFC pursuant thereto, shall enure to the benefit of NOHFC and the Borrower, their respective successors and assigns, but except as specifically provided herein none of the foregoing nor the benefit thereof may be assigned by the Borrower.

11.4 Waiver. No failure or delay on the part of either party in exercising any right or privilege hereunder and no waiver as to any default or Event of Default shall operate as waiver

thereof unless made in writing and signed by the party affected. Any written waiver by either party will not preclude the further or other exercise by either party of any right, power or privilege hereunder or extend or apply to any further default.

11.5 Indemnity. The Borrower agrees that NOHFC shall not be liable for any injury or damage (including death) to the person or property of any officer, or employee or agent of the Project, or for any claim, demand, action or cause of action by any third party arising out of or in any way related to the Project or the operation of the Project, or in any way related to this Agreement, and the Borrower agrees to indemnify and save NOHFC harmless therefrom.

11.6 Non-Agent. The Borrower and NOHFC agree and declare that nothing in this Agreement shall be construed as creating a partnership, joint venture, or agency relationship between the Borrower and NOHFC.

11.7 Time of Essence. In the performance and observance of the terms and conditions of this Agreement, time shall be of the essence.

11.8 Effective Period. Unless otherwise agreed in writing, or specifically herein provided otherwise, this Agreement shall remain in full force and effect during the Term or until such time as the Borrower shall have fully performed its obligations to NOHFC hereunder.

11.9 Severability. Each provision of this Agreement is intended to be severable. If any provision hereof is illegal or invalid, such illegality or invalidity shall not affect the validity of the remainder hereof.

11.10 Conflict. In the event of a conflict, discrepancy, difference or ambiguity in or between the provisions of this Agreement and the provisions of any of the documents constituting the Security, except as otherwise provided herein, the provisions of this Agreement shall expressly prevail and take precedence with respect to the subject matter herein.

11.11 Further Assurances. Each party will at any time and from time to time, upon the request of the other party, execute and deliver such further documents and do such further acts and things as the other party may reasonably request in order to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Agreement.

11.12 Survival of Representations and Warranties. All representations and warranties of the Borrower contained herein or in any certificate or other writing delivered in connection herewith will survive the transactions contemplated hereby and are material and have been or will be relied upon by NOHFC notwithstanding any investigation made by or on behalf of NOHFC. For the purpose of the foregoing, all statements contained in any certificate or other writing delivered by or on behalf of the Borrower pursuant hereto or in connection with the transactions contemplated hereby shall be deemed to be representations and warranties of the Borrower contained herein.

11.13 Information and Acknowledgement.

- (a) The Loan shall be acknowledged by the Borrower on all reports, press releases, public statements, and publications pertaining to the Project. Such statements shall not imply endorsement by NOHFC of any product or processes. The Borrower shall include in the said communications materials NOHFC's visual identifiers, such as its name and logo, if it is reasonably practical to do so and if NOHFC co-operates with the preparation of the said communications materials by providing its visual identifiers in camera ready format and providing any other assistance that may be reasonably necessary.
- (b) The Borrower shall at its own expense install a Project sign and a Project plaque in a conspicuous and visually unobstructed location within the Project area. The installation of the Project sign and the Project plaque shall be carried out at such time and in such form, and according to such specifications, as may be prescribed by NOHFC. The Borrower shall maintain the Project sign and the Project plaque in good condition at the required location during the Term.

11.14 Counterparts. This Agreement may be executed in one or more counterparts each of which when so executed shall be deemed to be an original and such counterparts together shall constitute but one and the same instrument.

11.15 Communications. Any demand, notice or communication to be made or given hereunder shall be in writing and may be made or given by personal delivery or mailed by first class registered mail, postage prepaid or by transmittal by facsimile, telecopy or other electronic means of communication addressed to the respective parties as follows:

TO NOHFC:

Northern Ontario Heritage Fund Corporation
Roberta Bondar Place
70 Foster Drive, Suite 200
Sault Ste. Marie, ON P6A 6V8
Attention: General Manager
Facsimile No.:

TO THE BORROWER:

Five Nations Energy Inc.
P. O. Box 370
Moose Factory, ON P0L 1W0
Attention: Ed Chilton, Project Coordinator
Facsimile No.: (705) 658-4250

With copies to:

Power Budd
Suite 7210, First Canadian Place
P.O.Box 148

Toronto, ON, M5X 1C7

Attention: Brenda Lehmann

Facsimile No. (416) - 640-2777

-and-

Bennett Jones

Suite 3400, First Canadian Place

P.O.Box 130

Toronto, ON

Attention: David McIntyre

Facsimile No. (416) - 863-1716

or to such other address or facsimile number or telecopy number as either party may from time to time notify the other in accordance with this Section 11.15. Any demand, notice or communication made or given by personal delivery shall be conclusively deemed to have been given on the day of actual delivery thereof. Any demand, notice or communication made or given by facsimile or other electronic means of communication, if made or given at a time when it would be received by the recipient during its normal business hours on a Business Day, shall be deemed to be received at the time it is sent; otherwise, such electronic communication shall be deemed to be received on the first Business Day following the transmittal thereof. Any demand, notice or communication mailed by registered mail shall be deemed to have been received on the third Business Day following the day on which it was mailed.

11.16 Governing Law. This Agreement and the rights of the parties hereto shall be governed in all respects by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and each party irrevocably attorns to the jurisdiction of the courts of the Province of Ontario.

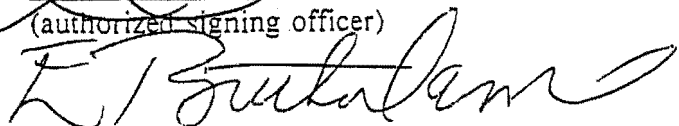
The parties hereby execute this Agreement as of the date first set out above.

NORTHERN ONTARIO HERITAGE FUND
CORPORATION

By: _____ c/s
(authorized signing officer)

FIVE NATIONS ENERGY INC.

By:  _____
(authorized signing officer)



OFFICER'S CERTIFICATE

TO: Northern Ontario Heritage Fund Corporation
Roberta Bondar Place
70 Foster Drive
Suite 200
Sault Ste. Marie, Ontario
P6A 6V8
Attention: General Manager

FROM: Five Nations Energy Inc. ("Borrower")

RE: Agreement between NOHFC and Five Nations Energy Inc.
dated the 15th day of October, 1999 (the "Agreement")

Except as otherwise defined herein, all capitalized terms shall have the meanings given to them in the Agreement.

I, _____, Chief Executive Officer of Five Nations Energy Inc. of Moose Factory, referred to as the "Borrower" in the Agreement having made such enquiries as I have deemed necessary for this certificate and hereby certify that to the best of my knowledge, information and belief:

1. On and as of the date hereof, the Borrower has all licences and permits necessary to permit construction and operation of the Project.
2. On and as of the date hereof, the Project is not destroyed or damaged in any material way which would prevent the Borrower from performing its obligations under the Agreement.
3. On and as of the date hereof, all representations and warranties contained in Article 7 of the Agreement are true and correct.
4. On and as of the date hereof, no Event of Default has occurred and is continuing.
5. On and as of the date hereof, the Borrower has not incurred a cost overrun for the Project.

SCHEDULE "A" (Page 2 of 2)

6. On and as of the date hereof, no control orders have been issued against the Borrower or the Project and are outstanding by the Ministry of the Environment or any other governmental authorities with respect to pollution control and other potential environment problems.
7. On and as of the date hereof, no Ministry of Labour work orders have been issued and are outstanding against the Project, and the Borrower is in compliance with the Occupational Health and Safety Act, and regulations thereunder.
8. On and as of the date hereof, the Borrower has complied with all provisions of the Construction Lien Act and no person is entitled to claim a lien under that Act.
9. On and as of the date hereof, no material adverse change has occurred such that the viability of the Borrower as a going concern has been threatened.
10. I certify that the Advance will be used in accordance with the Agreement.
11. I certify that the information provided herein is accurate and is being relied upon to advance funds in respect of the Loan.
12. The Borrower hereby requests an Advance in the amount of \$.

IN WITNESS WHEREOF the undersigned has hereunto set his hand and seal, this
• day of •, •.

Per: _____ c/s
President

SCHEDULE "B"

CERTIFICATE OF EXPENDITURE
ADVANCE NUMBER

TO: Northern Ontario Heritage Fund Corporation
Roberta Bondar Place
70 Foster Drive
Suite 200
Sault Ste. Marie, Ontario
P6A 6V8
Attention: General Manager

FROM: Five Nations Energy Inc. ("Borrower")

RE: Agreement between NOHFC and Five Nations Energy Inc.
dated the 15th day of October, 1999 (the "Agreement")

Except as otherwise defined herein, all capitalized terms shall have the meanings given to them in the Agreement.

1. CALCULATION OF ADVANCE: _____ agrees that this certificate and attached summaries refer to expenditures in respect of Eligible Project Expenditures defined in the Agreement.

ONTARIO ADVANCES
(100% OF INVOICES)

Description* of Eligible Project Expenditures	Prior Advances	Advance for this Period	Total Advances to Date	Remaining Budget
---	-------------------	-------------------------------	------------------------------	---------------------

*Attach Bank Statement, Construction Contract, Architect or Engineer's Certificate as appropriate.

2. _____ certifies the statements herein set out and in the attached summaries and invoices are true and accurate and relate to Eligible Project Expenditures which were incurred and paid to Persons with whom the Borrower is dealing at arm's length during the period commencing _____ and ending _____, and hereby requests from NOHFC an Advance upon the Loan as follows:

AMOUNT OF THIS ADVANCE \$-----

Per -----
President

Per -----

GRID NOTE

\$4,900,000.00 (Canadian)
February _____, 2000.

FOR VALUE RECEIVED the undersigned promises to pay to or to the order of
NORTHERN ONTARIO HERITAGE FUND CORPORATION, as agent for Her Majesty the
Queen in Right of the Province of Ontario, ("Ontario") the lessor of:

- (i) the principal sum of FOUR MILLION, NINE HUNDRED THOUSAND
DOLLARS (\$4,900,000.00) in lawful money of Canada on October 15, 2010; and
- (ii) the unpaid principal balance of all advances made by Ontario to the undersigned
as recorded by Ontario on the grid on the reverse hereof.

In addition, the undersigned promises to pay interest thereon from the date hereof,
both before and after maturity, default and judgment and until actual payment, at the rate per
annum equal to the Prime Rate in effect on the date of the first advance plus 2% calculated semi-
annually in arrears. Provided, however, unless and until default under the loan agreement dated
October 15, 1999 (the "Loan Agreement") has occurred, interest at the aforesaid rate shall not
accrue or be payable.

This note evidences indebtedness incurred pursuant to, and is subject to the terms
and provisions of the Loan Agreement and all amendments to the Loan Agreement.

FIVE NATIONS ENERGY INC.

By: _____

Name: _____

Title: _____

c/s

By: _____

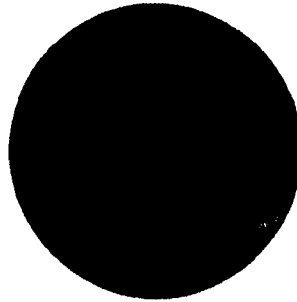
Name: _____

Title: _____

FIVE NATIONS ENERGY INC.

Head Office:

P. O. Box 370
Moose Factory, ON
P0L 1W0
Phone: (705) 658-4222
Fax: (705) 658-4250
www.fivenations.ca

**Mailing Address:**

70-c Mountjoy Street North
Suite 421
Timmins, ON P4N 4V7
Phone: (705) 268-0056
Fax: (705) 268-0071

April 8, 2010

Mr. Aime J. Dimatteo, Executive Director
Northern Ontario Heritage Fund Corporation
Suite 200, Roberta Bondar Place
70 Foster Drive
Sault Ste. Marie, ON P6A 6V8

RE: Project Term Loan # 14141 between Northern Ontario Heritage Fund Corporation (NOHFC) and Five Nations Energy Inc. (FNEI)

Dear Mr. Dimatteo:

This is in reference to FNEI's project term loan # 14141 with NOHFC; and FNEI's discussions with you beginning in September of 2009 to temporarily suspend our monthly loan payments beginning October 2009 up to and including the payment for December 2010.

Our request to temporarily suspend payments for a fifteen (15) month period from October 2009 to December 2010, is as a result of reduced cash flows due to the following factors:

- Increased operating expenditures as well as an increase in scope in certain capital projects completed in 2009.
- An overall reduction in revenue due to an unanticipated lower electricity consumption in the province of Ontario due to cooler summer temperatures and a downturn in economic activity.
- A significant reduction in interest revenue on our insurance reserve and operating bank accounts.

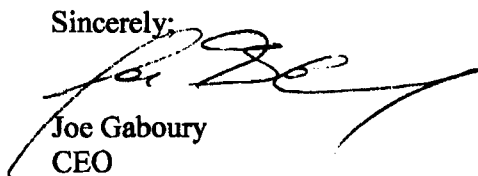
In response to our increased revenue requirement we have filed a rate application with the Ontario Energy Board requesting an increase in our revenues. This requested increase will meet our operating costs as well as allow us to meet our obligations to our senior lenders and our revised obligation to the NOHFC.

Our proposed amended repayment plan of the NOHFC loan is detailed in the attached revised repayment schedule and is based on these principles:

1. As per your correspondence of June 1, 2006 a nominal annual rate of interest of 4% will begin accruing monthly not in advance beginning October 15, 2010.
2. We are suggesting monthly blended payments of \$79,327.12 commencing January 15, 2011 continuing until November 15, 2014 with a final payment of \$79,326.89 on December 14, 2014.

We thank you for your consideration of our request and want to reiterate our appreciation for your support of this transmission line project.

Sincerely,



Joe Gaboury
CEO

FNEI**NOHFC Loan Repayment Schedule**

Original Terms:			Balance
			4,900,000
1	Oct-06	245,000	4,655,000
2	Oct-07	245,000	4,410,000
3	Oct-08	245,000	4,165,000
4	Oct-09	245,000	3,920,000
5	Oct-10	3,920,000	-

FNEI Amended Terms June 2006

			4,900,000
1	Oct-06	245,000	4,655,000
2	Oct-07	245,000	4,410,000
3	Oct-08	245,000	4,165,000
1	Jan-09	75,000	4,090,000
2	Feb-09	75,000	4,015,000
3	Mar-09	75,000	3,940,000
4	Apr-09	75,000	3,865,000
5	May-09	75,000	3,790,000
6	Jun-09	75,000	3,715,000
7	Jul-09	75,000	3,640,000
8	Aug-09	75,000	3,565,000
9	Sep-09	75,000	3,490,000
10	Oct-09	75,000	3,415,000

Payments 11 to 55 of \$78,364.50 (4%Interest) plus final payment of \$40,000 in August of 2013.

FNEI Requested Terms October 2009**Suspension of Payments October 2009 up to and including December 2010**

				4,900,000
1	Oct-06	245,000		4,655,000
2	Oct-07	245,000		4,410,000
3	Oct-08	245,000		4,165,000
1	Jan-09	75,000		4,090,000
2	Feb-09	75,000		4,015,000
3	Mar-09	75,000		3,940,000
4	Apr-09	75,000		3,865,000
5	May-09	75,000		3,790,000
6	Jun-09	75,000		3,715,000
7	Jul-09	75,000		3,640,000
8	Aug-09	75,000		3,565,000
9	Sep-09	75,000		3,490,000
10	Oct-09	-	Interest	3,490,000
23	Nov-10	-	11,633.33	3,501,633.33
24	Dec-10	-	11,672.11	3,513,305.44
25	Jan-11	79,327.12	11,711.02	3,445,689.34
26	Feb-11	79,327.12	11,485.63	3,377,847.85
27	Mar-11	79,327.12	11,259.49	3,309,780.23
28	Apr-11	79,327.12	11,032.60	3,241,485.71
29	May-11	79,327.12	10,804.95	3,172,963.54

30	Jun-11	79,327.12	10,576.55	3,104,212.96
31	Jul-11	79,327.12	10,347.38	3,035,233.22
32	Aug-11	79,327.12	10,117.44	2,966,023.55
33	Sep-11	79,327.12	9,886.75	2,896,583.17
34	Oct-11	79,327.12	9,655.28	2,826,911.33
35	Nov-11	79,327.12	9,423.04	2,757,007.25
36	Dec-11	79,327.12	9,190.02	2,686,870.15
37	Jan-12	79,327.12	8,956.23	2,616,499.26
38	Feb-12	79,327.12	8,721.66	2,545,893.81
39	Mar-12	79,327.12	8,486.31	2,475,053.00
40	Apr-12	79,327.12	8,250.18	2,403,976.06
41	May-12	79,327.12	8,013.25	2,332,662.19
42	Jun-12	79,327.12	7,775.54	2,261,110.61
43	Jul-12	79,327.12	7,537.04	2,189,320.53
44	Aug-12	79,327.12	7,297.74	2,117,291.14
45	Sep-12	79,327.12	7,057.64	2,045,021.66
46	Oct-12	79,327.12	6,816.74	1,972,511.28
47	Nov-12	79,327.12	6,575.04	1,899,759.20
48	Dec-12	79,327.12	6,332.53	1,826,764.61
49	Jan-13	79,327.12	6,089.22	1,753,526.70
50	Feb-13	79,327.12	5,845.09	1,680,044.67
51	Mar-13	79,327.12	5,600.15	1,606,317.70
52	Apr-13	79,327.12	5,354.39	1,532,344.97
53	May-13	79,327.12	5,107.82	1,458,125.67
54	Jun-13	79,327.12	4,860.42	1,383,658.97
55	Jul-13	79,327.12	4,612.20	1,308,944.04
56	Aug-13	79,327.12	4,363.15	1,233,980.07
57	Sep-13	79,327.12	4,113.27	1,158,766.22
58	Oct-13	79,327.12	3,862.55	1,083,301.65
59	Nov-13	79,327.12	3,611.01	1,007,585.54
60	Dec-13	79,327.12	3,358.62	931,617.04
61	Jan-14	79,327.12	3,105.39	855,395.31
62	Feb-14	79,327.12	2,851.32	778,919.50
63	Mar-14	79,327.12	2,596.40	702,188.78
64	Apr-14	79,327.12	2,340.63	625,202.29
65	May-14	79,327.12	2,084.01	547,959.18
66	Jun-14	79,327.12	1,826.53	470,458.59
67	Jul-14	79,327.12	1,568.20	392,699.66
68	Aug-14	79,327.12	1,309.00	314,681.54
69	Sep-14	79,327.12	1,048.94	236,403.36
70	Oct-14	79,327.12	788.01	157,864.25
71	Nov-14	79,327.12	526.21	79,063.35
72	Dec-14	79,326.89	263.54	(0.00)

Interest calculated as per NOHFC letter June 1, 2006, 4% monthly not in advance.

King, Richard

From: Joe Gaboury [joe.gaboury@fivenations.ca]
Sent: May 31, 2010 3:08 PM
To: Beauchamp, John
Subject: FW: Confirmation of payment deferral

FYI

From: Murray, Mike (MNDMF) [mailto:Mike.Murray@ontario.ca]
Sent: Monday, April 19, 2010 4:41 PM
To: joe.gaboury@fivenations.ca
Cc: adminassistant@fivenations.ca
Subject: Confirmation of payment deferral

Hi Joe:

Further to our previous discussions, this e-mail confirms the decision of the Audit Committee concerning Five Nations Energy's request to defer payments on its loan with the Northern Ontario Heritage Fund Corporation.

It was the decision of the Committee that payments will be suspended until January 2011 at which time they will recommence under a new schedule. Interest will accrue on the loan during the deferral period.

We will be confirming this in writing and will propose the new payment schedule at that time. We expect that to be within the next week.

Michael Murray, CA
Manager, Financial Services
Northern Ontario Heritage Fund Corporation
Telephone: 705 945-5911

31/05/2010

60. Ref: Ex 5/T1/S1/p.1; Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors (the "2006 Cost of Capital Report"), dated December 20, 2006, Section 4.1 – Debt to Equity Split; staged implementation options

Preamble: Based on a reading of the evidence, it appears that FNEI is moving from a 50/50 deemed debt/equity split in 2009, to a 60/40 deemed equity split in 2010. The Board's 2006 Cost of Capital Report indicated that a utility had the option to transition to the new required capital structure over distinct periods, depending on the utilities' existing capital structure. Board staff is aware the report names "distributors" but not transmitters. The passage as it relates to FNEI is on page 43 of the 2006 Cost of Capital Report:

"For distributors starting at equity of 50%, the equity component will move in equal increments over 3 years until it reached 40%."

Questions/Requests:

- (a) With respect to Preamble (1), was FNEI aware of the ability to phase in a change in its debt/equity structure?**
- (b) Has FNEI considered the effect of this change in its debt/equity structure on its operating costs?**
- (c) Does FNEI have sufficient debt financing to pay operating costs under a 60/40 debt-to-equity split?**
- (d) Has FNEI ever experienced a shortage in operating funds necessary for day-to-day operations?**

RESPONSE

(a) Yes, FNEI was aware of the ability to phase in a change in its debt/equity structure. However, the quote noted above needs to be read in the context of the 2006 Cost of Capital Report. In particular, the Report states that an adjustment to rates in 2008, 2009 and 2010 would be used to transition distributors from their existing capital structures to the single deemed capital structure (40% equity, 56% long-term debt, 4% short-term debt). In particular, for those distributors with a 50% debt and 50% equity capital structure, the equity component would decrease to 46.7% in 2008, 43.3% in 2009 and 40.0% in 2010.

FNEI was not before the Board to set rates for either 2008 or 2010. As a result the current proceeding is the first opportunity to adjust the capital structure to the deemed level as set out in the 2006 Cost of Capital Report. FNEI has used the 2010 deemed capital structure from the Report.

(b) FNEI notes that the deemed return on the short term and long term debt shown on page 3 of Exhibit 5, Tab 1, Schedule 2 for 2010 exceed the actual short term and long term debt costs shown in the same schedule by approximately \$167. As a result there is no adverse impact on the operating costs (i.e. actual interest expense) of the company.

Further, as shown in Exhibit 5, Tab 1, Schedule 2, page 3, the weighted average cost of capital for the 2010 test year based on the proposed deemed capital structure is 6.60%. If FNEI had proposed to phase-in the reduction in the equity component of the capital structure to reflect the transition shown in the 2006 Cost of Capital Report, but used the 2008 ratios for the 2010 test year, the weighted average cost of capital would be as follows:

Component	Capital Structure	Indicated Rate of Return	Return Component
Short Term Debt	4.00%	4.75%	0.19%
Long Term Debt	49.30%	4.41%	2.17%
Equity	46.7%	9.85%	4.60%
Total	100.00%		6.96%

Based on the increase in the weighted average cost of capital from 6.60% to 6.96%, applied to the forecasted rate base of \$28,688.1, the phase-in approach would increase the revenue requirement by approximately \$103.3. This would be in addition to the \$167 in deemed return on debt in excess of the actual cost of debt.

(c) Yes.

(d) No.

61. Ref: Ex 1/T1/S1; Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, (the "2009 Cost of Capital Report") issued December 11, 2009 – Cost of Capital

Preamble:

(1) The 2009 Cost of Capital Report established updated requirements and methodologies for determining the cost of capital in rate-setting for rate-regulated entities, including electricity transmitters. The Board's new guidelines are established for setting rates beginning in 2010.

(2) It should be noted that the capital structure used for rate-setting purposes and a firm's actual capital structure may differ. The amount of working capital and the use of a deemed capital structure are two reasons for such differences.

Questions:

(a) Does FNEI accept that the Board should apply the updated guidelines and methodologies documented in the 2009 Cost of Capital Report? In particular, is FNEI still proposing a deemed short term debt rate of 4.75%, and a long term debt rate of 4.41%? Or is FNEI planning to amend its Application to adopt the short and long term deemed debt rates to be calculated in accordance with the methodology documented in Appendix B of the Board's Cost of Capital Report?

(b) If FNEI is proposing that its cost of capital be determined in accordance with the Board's Cost of Capital Report, please provide updates to Exhibit 5, where and to the extent possible, that reflect the Board's 2009 Cost of Capital Report.

(c) If and where FNEI does not believe that the guidelines in the 2009 Cost of Capital Report should apply to it, please identify where FNEI is proposing to deviate from the Board's Cost of Capital Report. Please explain and support any requested deviation(s).

RESPONSE

(a) Yes, FNEI accepts that the Board should apply the updated guidelines and methodologies documented in the 2009 Cost of Capital Report, with one provision noted below.

First, with respect to the long term debt rate of 4.41%, FNEI notes that all of its long term debt instruments are with third parties at fixed rates, all of which are below the Board's deemed long-term debt rate of 5.87%. As a result the deemed long term debt rate would have no impact on the calculated cost of long term debt.

With respect to the short term debt rate, FNEI has used a rate of 4.75% on an amount of \$500,000 which it forecasts to pay in the 2010 test year. FNEI believes this rate and this amount should be used in the calculation of the cost rate for short term debt. As shown in Exhibit 5, tab 1, Schedule 2, page 3, the deemed amount of short term debt is \$1,147,500. Taking into account

the forecasted amount of actual short term debt of \$500,000, there is amount of \$647,500 in unfunded short term debt. If the Board determines that the deemed short term debt rate of 2.07% should be used, then FNEI believes it should be applied to the unfunded short term debt amount. This would result in a weighted average short term debt rate of 3.24%. However, as noted in the response to Board Staff # 62, FNEI believes the forecasted short term debt rate of 4.75% should be applied to all of the short term debt.

(b) Assuming the Board determined that a weighted average short term debt rate should be used in place of the deemed short term debt rate to reflect the forecasted rate and amount of actual short term debt, then the following table would replace the 2010 deemed calculations shown in Exhibit 5, Tab 1, Schedule 2, page 3. The only change is the result of the reduction in short term debt rate from 4.75% to 3.24% to reflect the weighted average cost based on for the forecasted short term debt facility of \$500,000 at a rate of 4.75% and the deemed rate of 2.07% on the unfunded debt amount of \$647,500.

<u>2010 - Deemed</u>	<u>Structure</u> <u>Principal</u> (\$000's)	<u>Capital</u> <u>Component</u> (%)	<u>Indicated</u> <u>Cost Rate</u> (%)	<u>Return</u> <u>Component</u> (%)	<u>Return</u> <u>Component</u> (\$000's)
Short Term Debt	1,147.5	4.00%	3.24%	0.13%	37.2
Long Term Debt	16,065.4	56.00%	4.41%	2.47%	707.8
Common Equity	<u>11,475.3</u>	<u>40.00%</u>	9.85%	<u>3.94%</u>	<u>1,130.3</u>
Total	28,688.1	100.00%		6.54%	1,875.2

The reduction in the total weighted cost of capital would be from 6.60% to 6.54%. This difference, when applied to the forecasted rate base of \$28,688.1 would reduce the revenue requirement by approximately \$17.2.

(c) As noted above, FNEI is proposing that the Board take into account the forecasted rate of 4.75% associated with its short term debt facility in calculating the short term debt rate.

62. Ref: Ex 5/T1/S1 - Capital structure and Short-term Debt

Preamble: In its rate regulation of Ontario's natural gas distributors, short-term debt is used to reconcile actual and deemed long-term debt capitalization. The Board's 2009 Cost of Capital Report states the following:

"For rate regulated natural gas distributors, short-term debt is used for an unfunded portion to true-up the deemed capitalization to the utility's actual capitalization. As the variance between actual and deemed capital structures is generally small, the unfunded portion is typically a small fraction of total capitalization for rate-setting purposes.

In a Cost of Service application, the applicant natural gas distributor forecasts the cost of short-term debt for the test year, and this is subject to review. The Board notes that no participant questioned the Board's policy and practice for natural gas distributors, and has determined that it is appropriate to continue with this approach. With the development of a new deemed short-term debt rate for use in the electricity transmission and distribution sector, the Board notes that it and other participants may take into consideration the deemed short-term debt rate, as discussed below and documented in Appendix D." [pp. 55-56, emphasis in original]

Please provide FNEI's views, in detail, as to the appropriateness of the approach outlined above for determining its Cost of Capital for rate setting purposes.

RESPONSE

As noted above, FNEI believes the Board should take into account the forecasted short term debt rate of 4.75% and the amount of funded short-term debt. This is consistent with the process whereby the natural gas distributors forecast the cost of short term debt for the test year and is subject to review.