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November 29, 2011

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, Ontario M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

RE: Northern Ontario Wires Inc. - 2012 Distribution Rate Application – **2001 to 2005 Audited Financial Statements re:Deferred PILS**
Board File: EB-2011-0188 (License ED-2003-0018)

Please find attached the Audited Financial Statements for 2001 to 2005 as they relate to the Deferred PILS (1562) component of our 2012 rate application.

If you have any questions or concerns please do not hesitate to contact the undersigned by telephone at 705-272-6669 or via e-mail at monikam@nowinc.ca

Sincerely,

Monika Malherbe, CA
Chief Financial Officer
Northern Ontario Wires Inc.

KAPUSKASING WIRES INC.

FINANCIAL STATEMENT

TO DECEMBER 5, 2001

KAPUSKASING WIRES INC.
INDEX TO FINANCIAL STATEMENT
for the period ended December 5, 2001

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| Statement of Income and Retained Earnings | "2" |
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| Notes to financial statement | "4" |

DORLAND & DORLAND

Chartered Accountants

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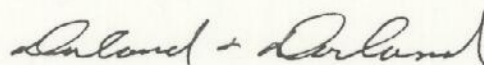
AUDITORS' REPORT

The Shareholders
Northern Ontario Wires Inc.

We have audited the balance sheet of Kapuskasing Wires Inc. as at December 5, 2001 and the statements of income and retained earnings and cash flows for the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Kapuskasing Wires Inc. as at December 5, 2001 and the results of its operations and its cash flows for the period then ended, in accordance with the accounting principles disclosed in Note 2 to the financial statement.



Cochrane, Ontario
October 22, 2002

CHARTERED ACCOUNTANTS

KAPUSKASING WIRES INC.

BALANCE SHEET AS AT DECEMBER 5, 2001

ASSETS

CURRENT

| | |
|-------------------------------|------------------|
| Cash | \$ 425,219 |
| Accounts receivable- Customer | 354,155 |
| - Other | 25,059 |
| Unbilled revenue | 440,665 |
| Due from parent company | 501,379 |
| Inventories | <u>38,739</u> |
| | <u>1,785,216</u> |

CAPITAL (Note 3)

| | |
|--------------------------|------------------|
| Cost | 2,364,019 |
| Accumulated depreciation | <u>(157,790)</u> |
| | <u>2,206,229</u> |

OTHER

| | |
|---------------------------|---------------|
| Deferred transition costs | 63,243 |
| Organization expense | <u>3,349</u> |
| | <u>66,592</u> |

\$ 4,058,037

LIABILITIES

CURRENT

| | |
|--|----------------|
| Due to Town of Kapuskasing | \$ 264,767 |
| Accounts payable and accrued liabilities | 468,072 |
| Due to Cochrane P.U.C. | 169,043 |
| Customers' deposits | <u>32,951</u> |
| | <u>934,833</u> |

EQUITY

CAPITAL STOCK (Note 5)

| | |
|----------------------------|-----------|
| Issued 1,001 Common shares | 3,060,667 |
|----------------------------|-----------|

RETAINED EARNINGS (Statement "2")

62,537
3,123,204
 \$ 4,058,037

Approved on behalf of Board

See accompanying notes.

KAPUSKASING WIRES INC.

STATEMENT OF INCOME AND RETAINED EARNINGS
for the period from January 1 to December 5, 2001

INCOME

SERVICE REVENUE

| | |
|------------------------------|---------------|
| Residential | \$ 1,498,010 |
| General | 1,990,430 |
| Unbilled revenues adjustment | (113,547) |
| Street lighting | <u>58,214</u> |
| | 3,433,107 |

| | |
|-------------|------------------|
| ENERGY COST | <u>2,825,247</u> |
|-------------|------------------|

| | |
|--------------|---------|
| GROSS MARGIN | 607,860 |
|--------------|---------|

| | |
|---------------|---------------|
| OTHER REVENUE | <u>55,090</u> |
|---------------|---------------|

| | |
|--------------|-----------------------|
| TOTAL | <u>662,950</u> |
|--------------|-----------------------|

EXPENSE

| | |
|----------------------------------|----------------|
| System Operation and maintenance | 71,639 |
| Billing and collecting | 107,796 |
| Administration and general | 229,765 |
| Depreciation | <u>132,264</u> |

| | |
|--------------|-----------------------|
| TOTAL | <u>541,464</u> |
|--------------|-----------------------|

| | |
|----------------------------------|-----------------------|
| NET INCOME FOR THE PERIOD | <u>121,486</u> |
|----------------------------------|-----------------------|

| | |
|---|----------|
| ACCUMULATED (DEFICIT) AT BEGINNING OF PERIOD | (58,949) |
|---|----------|

| | |
|--|--------------------------------|
| RETAINED EARNINGS END OF THE PERIOD | \$ <u><u>62,537</u></u> |
|--|--------------------------------|

See accompanying notes.

KAPUSKASING WIRES INC.

STATEMENT OF CASH FLOWS
for the period from January 1 to December 5, 2001**Cash flows - operating activities:**

| | |
|---|------------------|
| Net income for the period | \$ 121,486 |
| Adjusted for: depreciation | 132,264 |
| write down of long term investment | 5,200 |
| Change in non-cash working capital related to operations: | |
| Increase in trade and other receivables | (201,378) |
| Decrease in unbilled revenue | 113,547 |
| Decrease in other current assets | 9,132 |
| Increase in due from parent | (498,220) |
| Decrease in accounts payable and accrued liabilities | (6,041) |
| Increase in amounts due to Town of Kapuskasing | 153,717 |
| Increase in amounts due to Cochrane Public Utilities Commission | (20,817) |
| Decrease in customer deposits | (2,461) |
| Decrease in inventories | <u>18,124</u> |
| | <u>(175,447)</u> |

Cash flows - investing activities:

| | |
|-----------------------------|-----------------|
| Additions to capital assets | <u>(25,133)</u> |
|-----------------------------|-----------------|

Cash flows - other:

| | |
|--|-----------------|
| Organization expense and deferred transition costs | <u>(66,592)</u> |
|--|-----------------|

| | |
|----------------------|-----------|
| Net decrease in cash | (267,172) |
|----------------------|-----------|

| | |
|-----------------------------|----------------|
| Cash at beginning of period | <u>692,391</u> |
|-----------------------------|----------------|

| | |
|-----------------------|-------------------|
| Cash at end of period | \$ <u>425,219</u> |
|-----------------------|-------------------|

See accompanying notes.

KAPUSKASING WIRES INC.**NOTES TO FINANCIAL STATEMENTS**
for the period ended December 5, 2001**1. OPERATIONS AND SUBSEQUENT EVENTS**

Kapuskasing Wires Inc. was incorporated under the laws of Ontario October 25, 2000. Operations began effective November 1st, 2000 on transfer of assets from municipal electrical utility of The Town of Kapuskasing. The company operated as an electrical distribution utility in Kapuskasing, Ontario.

The corporation was amalgamated with its parent, Northern Ontario Wires Inc. effective December 6, 2001. Accordingly, the Statements of Income and Retained Earnings and Cash Flows reflect activities from January 1 to December 5, 2001.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including accounting principles prescribed by the Ontario Energy Board handbook "Accounting Procedures Handbook for Electric Distribution Utilities".

Capital assets and amortization

Capital assets are stated at cost.

Amortization is provided on an annual basis on the various categories of capital assets, except for land over their estimated useful lives.

Revenue recognition

Revenue is recorded on the basis of regular meter readings. Estimates of customer usage since the last reading date to the end of the year are recorded as unbilled revenue.

Corporate income taxes and capital taxes

The current tax-exempt status of the Company and its subsidiaries under the Income Tax Act (Canada) and Corporations Tax Act (Ontario) reflects the fact that the Company is wholly-owned by a municipality.

Commencing October 1, 2001, the Company is required, under the Electricity Act, 1998, to make payments of corporate taxes ("PILs") to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

Stores inventory

Stores inventory is valued at average cost.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

KAPUSKASING WIRES INC.

NOTES TO FINANCIAL STATEMENTS
for the period ended December 5, 2001

3. CAPITAL ASSETS

| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> |
|------------------------|---------------------|-------------------------------------|---------------------------|
| Distribution system | \$ 2,179,576 | 131,783 | 2,047,793 |
| Substation | 132,781 | 12,290 | 120,491 |
| Land and buildings | 4,644 | 2,807 | 1,837 |
| Leasehold improvements | 20,034 | 3,673 | 16,361 |
| Vehicles | 2,502 | 592 | 1,910 |
| Tools and equipment | 4,661 | 1,080 | 3,581 |
| Office equipment | <u>19,821</u> | <u>5,565</u> | <u>14,256</u> |
| | \$ <u>2,364,019</u> | <u>157,790</u> | <u>2,206,229</u> |

4. TRANSFER OF ASSETS (2000)

Effective November 1, 2000, substantially all of the assets related to the electric division of the Kapuskasing Public Utilities Commission were transferred at a value equal to their book value as at October 31, 2000. In consideration for the transfer of net assets, the Town of Kapuskasing received 1000 common shares of Kapuskasing Wires Inc. The shares were subsequently acquired by Northern Ontario Wires Inc.

Net assets brought into the new corporation were as follows:

| | |
|--------------------|---------------------|
| Assets | \$ 3,996,736 |
| Liabilities | <u>936,070</u> |
| Net assets | \$ <u>3,060,666</u> |
| 1000 common shares | \$ <u>3,060,666</u> |

5. SHARE CAPITAL

Authorized – an unlimited number of commons shares

Issued: 1001 common shares - \$3,060,667

The articles of incorporation set out restrictions on the transfer of shares.

On subsequent amalgamation with Northern Ontario Wires Inc. all authorized shares of Kapuskasing Wires Inc. were cancelled.

KAPUSKASING WIRES INC.

NOTES TO FINANCIAL STATEMENTS
for the period ended December 5, 2001

6. REGULATORY AUTHORITIES

Rates charged for power are subject to prior approval by the Ontario Energy Board.

7. RELATED PARTIES

(a) Contractual Obligation

Northern Ontario Wires Inc. entered into an agreement with the Public Utilities Commission of the Town of Cochrane, which is affiliated with the corporation, where-by the Commission provides management and staff services, administration facilities and equipment to Northern Ontario Wires Inc. and its subsidiary Kapuskasing Wires Inc. The total expense for rent and services for Kapuskasing Wires Inc. under this agreement for the period was approximately \$375,000, measured at the exchange amount, which is included in expense functions on the statement of income and retained earnings.

(b) Shared Expenses – administration and management costs

The company shared particular management and administration costs with its parent Northern Ontario Wires Inc., allocated on the basis of management's determination of appropriate amounts.

(c) Amounts owing to/from related parties, including shareholders, bear no interest

8. CONTINGENT LIABILITY

A class action claiming \$500 Million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Electrical Distributors Association is undertaking the defense of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

9. MEASUREMENT UNCERTAINTY

The financial statement does not reflect any possible deferred charges or possible related offsetting reduction in cost of power for Pre Market Opening Energy Variance. The deferred charges attempt to ultimately reflect "energy cost" variance for the period January 1, 2001 to the date of "market readiness" in respect of the opening of the competitive electricity market in Ontario which accrued in May, 2002, with the intention of achieving a flow-through of energy costs by way of the Ontario Energy Board's (O.E.B.) annual rate adjustment process. Accumulation of amounts, as deferred charges, would not imply O.E.B. acceptance. The ultimate future rate adjustment and recovery of deferred charges, if any, to be made are subject to a methodology determined by the O.E.B. It is possible that there could be future recoveries by the successor corporation, of amounts for the period January 1, 2001 to December 31, 2001.

NORTHERN ONTARIO WIRES INC.
CONSOLIDATED FINANCIAL STATEMENT
TO DECEMBER 31, 2001

NORTHERN ONTARIO WIRES INC.

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for the year ended December 31, 2001

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| Notes to financial statement | "4" |

DORLAND & DORLAND

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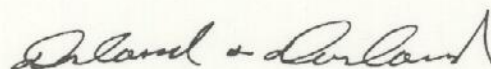
AUDITORS' REPORT

The Shareholders
Northern Ontario Wires Inc.

We have audited the balance sheet of Northern Ontario Wires Inc. as at December 31, 2001 and the consolidated statements of income and accumulated deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Northern Ontario Wires Inc. as at December 31, 2001 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles disclosed in Note 2 to the financial statement.



Cochrane, Ontario
October 22, 2002

CHARTERED ACCOUNTANTS

NORTHERN ONTARIO WIRES INC.

BALANCE SHEET AS AT DECEMBER 31, 2001

ASSETS

CURRENT

| | |
|-------------------------------|------------------|
| Cash | \$ 886,803 |
| Accounts receivable- Customer | 436,911 |
| - Other | 42,670 |
| Unbilled revenue | 1,690,870 |
| Other | 30,170 |
| Inventories | <u>167,269</u> |
| | <u>3,254,693</u> |

CAPITAL (Note 3)

4,634,405

OTHER

| | |
|---------------------------|----------------|
| Organization expense | 37,360 |
| Deferred transition costs | <u>130,869</u> |
| | <u>168,229</u> |

\$ 8,057,327

LIABILITIES

CURRENT

| | |
|--|------------------|
| Due to shareholder | \$ 101,881 |
| Due to Town of Kapuskasing | 88,232 |
| Accounts payable and accrued liabilities | 1,274,011 ✓ |
| Due to Cochrane P.U.C. | 722,735 |
| Customers' deposits | 70,247 |
| Current portion of long-term debt | <u>62,461</u> |
| | <u>2,319,567</u> |

LONG TERM

| | |
|--------------------|------------------|
| Term Loan (Note 4) | <u>2,375,303</u> |
|--------------------|------------------|

EQUITY

CAPITAL STOCK (Notes 5 and 6)

| | |
|----------------------------|-------------|
| Issued 1,000 Common shares | 4,106,593 ✓ |
|----------------------------|-------------|

(DEFICIT) (Statement 2)

(744,136)
3,362,457

\$ 8,057,327

Approved on behalf of Board

See accompanying notes.

DORLAND & DORLAND
 CHARTERED ACCOUNTANTS

NORTHERN ONTARIO WIRES INC.

CONSOLIDATED STATEMENT OF INCOME AND ACCUMULATED DEFICIT
for the year ended December 31, 2001

INCOME

SERVICE REVENUE

| | |
|-----------------------------|----------------|
| Residential | \$ 4,177,687 |
| General | 6,419,318 |
| Unbilled revenue adjustment | 259,287 |
| Street lighting | <u>139,662</u> |
| | 10,995,954 |

| | |
|-------------|------------------|
| ENERGY COST | <u>9,281,694</u> |
|-------------|------------------|

| | |
|--------------|-----------|
| GROSS MARGIN | 1,714,260 |
|--------------|-----------|

| | |
|---------------|----------------|
| OTHER REVENUE | <u>216,061</u> |
|---------------|----------------|

| | |
|--------------|-------------------------|
| TOTAL | <u>1,930,321</u> |
|--------------|-------------------------|

EXPENSE

| | |
|----------------------------------|----------------|
| System Operation and maintenance | 388,256 |
| Billing and collecting | 595,729 |
| Administration and general | 927,793 |
| Depreciation and amortization | 356,852 |
| Interest on long-term debt | <u>179,532</u> |

| | |
|--------------|-------------------------|
| TOTAL | <u>2,448,162</u> |
|--------------|-------------------------|

| | |
|--------------------------------|-------------------------|
| NET (LOSS) FOR THE YEAR | <u>(517,841)</u> |
|--------------------------------|-------------------------|

| | |
|---|-----------|
| ACCUMULATED (DEFICIT) BEGINNING OF YEAR | (226,295) |
|---|-----------|

| | |
|------------------------------|----------------------------|
| ACCUMULATED (DEFICIT) | |
| END OF THE YEAR | \$ <u>(744,136)</u> |

See accompanying notes.

NORTHERN ONTARIO WIRES INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2001

| | |
|---|---------------------------------|
| Cash flows - operating activities: | \$ (517,841) |
| Net (loss) for the year | 403,189 |
| Adjusted for: depreciation and amortization | 12,400 |
| write down of long term investment | |
| Change in non-cash working capital related to operations (Note A) | (28,765) |
| Decrease in trade and other receivables | (259,288) |
| Increase in unbilled revenue | 6,929 |
| Decrease in other current assets | 36,049 |
| Decrease in inventory | 40,337 |
| Increase in accounts payable and accrued liabilities | (22,818) |
| Increase in amounts due to Town of Kapuskasing | 343,122 |
| Increase in amounts due to Cochrane Public Utilities Commission | (2,343) |
| Decrease in customer deposits | (38,716) |
| Decrease in amounts due to shareholder (Town of Iroquois Falls) | <u>(27,745)</u> |
| Cash flows - investing activities: | |
| Additions to capital assets | (134,642) |
| Organization expense and deferred transition costs | <u>(114,121)</u> |
| | <u>(248,763)</u> |
| Cash flows - financing activities: | |
| Reduction in account payable related to acquisition of Kapuskasing Wires Inc. | (157,566) |
| Long-term debt repaid | <u>(21,381)</u> |
| | <u>(215,147)</u> |
| Net increase (decrease) in cash | (491,655) |
| Cash at beginning of year | <u>1,378,458</u> |
| Cash at end of year | \$ <u><u>886,803</u></u> |

Note: Interest expense paid during the year on long term debt totaled \$179,532

NORTHERN ONTARIO WIRES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT
for the year ended December 31, 2001

1. OPERATIONS

Northern Ontario Wires Inc. was incorporated under the laws of Ontario March 23, 1999 and was inactive until November 1st, 2000. Operations began effective November 1st, 2000 on transfer of assets from municipal electrical utilities of Cochrane and Iroquois Falls. The company also acquired effective November 1, 2000 all of the outstanding common shares of Kapuskasing Wires Inc. The companies operate as electrical distribution utilities in Cochrane, Iroquois Falls and Kapuskasing, Ontario. During 2001, Northern Ontario Wires Inc. and Kapuskasing Wires Inc. were amalgamated, continuing as Northern Ontario Wires Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including accounting principles prescribed by the Ontario Energy Board (OEB) handbook "Accounting Procedures Handbook for Electric Distribution Utilities".

The consolidated financial statements include the operations accounts of Northern Ontario Wires Inc., for the full year and its wholly-owned subsidiary, Kapuskasing Wires Inc. up to the date of formal amalgamation with Northern Ontario Wires Inc. (December 6, 2001). All material inter-company transactions have been eliminated.

Organization costs

Organization cost are legal and other professional costs associated with the corporate restructuring and the transfer of assets from the Electric Department of the Cochrane Public Utilities Commission and the Iroquois Falls Hydro Electric Commission. The organization costs are amortized on a straight-line basis over five years.

| | |
|--------------------------|------------------|
| Cost | \$ 46,700 |
| Accumulated amortization | (9,340) |
| | <u>\$ 37,360</u> |

Capital assets and amortization

Capital assets are stated at cost.

Amortization is provided on an annual basis on the various categories of capital assets, except for land, over their estimated useful lives.

Revenue recognition

Revenue is recorded on the basis of regular meter readings. Estimates of customer usage since the last reading date to the end of the year are included in unbilled revenue.

NORTHERN ONTARIO WIRES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT
for the year ended December 31, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Corporate income taxes and capital taxes**

The current tax-exempt status of the Company under the Income Tax Act (Canada) and Corporations Tax Act (Ontario) reflects the fact that the Company is wholly-owned by municipalities. This tax status might be lost in a number of circumstances.

Commencing October 1, 2001, the Company is required, under the Electricity Act, 1998, to make payments of corporate taxes ("PILs") to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

Stores inventory

Stores inventory is valued at average cost.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

3. CAPITAL ASSETS

| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> |
|--|---------------------|-------------------------------------|---------------------------|
| Distribution system | \$ 4,438,289 | 323,446 | 4,114,843 |
| Substation | 254,731 | 42,873 | 211,858 |
| Land, buildings & leasehold improvements | 83,372 | 10,645 | 72,727 |
| Vehicles | 167,277 | 54,418 | 112,859 |
| Tools and equipment | 33,444 | 7,097 | 26,347 |
| Office equipment | <u>115,627</u> | <u>19,856</u> | <u>95,771</u> |
| | \$ <u>5,092,740</u> | <u>458,335</u> | <u>4,634,405</u> |

4. LONG-TERM DEBT

| | |
|---------------------------|---------------------|
| Loan payable | |
| Balance December 31, 2001 | \$ 2,437,764 |
| Less: current portion | <u>62,461</u> |
| | \$ <u>2,375,303</u> |

NORTHERN ONTARIO WIRES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT
for the year ended December 31, 2001

4. LONG-TERM DEBT (continued)

Term loan to be paid in 240 installment of \$19,759 combined principal and interest beginning December 15, 2000. The loan bears interest at 7.25% per annum with the rate to be renewed November 15, 2005. The note is secured by a General Security Agreement registered under the Personal Property Security Act.

Principal payments are acquired over the next five years as follows:

| | |
|------|-------------------|
| 2002 | \$ 62,461 |
| 2003 | 67,100 |
| 2004 | 72,200 |
| 2005 | 77,600 |
| 2006 | <u>83,400</u> |
| | \$ <u>362,761</u> |

5. INCORPORATION (2000)

Effective, November 1, 2000 substantially all of the assets of Iroquois Falls Hydro-Electric Commission and assets related to electric department operations of the Cochrane Public Utilities Commission were transferred to Northern Ontario Wires Inc. at values equal to their book values as at October 31, 2000. In consideration for the transfer of net assets, the Town of Iroquois Falls received 330 common shares and the Town of Cochrane received 670 common shares of Northern Ontario Wires Inc.

Net assets brought into the new corporation are as follows:

| | <u>Total</u> | <u>Iroquois Falls</u> | <u>Cochrane</u> |
|--------------------|---------------------|-----------------------|------------------|
| Assets | \$ 4,811,319 | 1,892,860 | 2,918,459 |
| Liabilities | <u>704,726</u> | <u>286,469</u> | <u>418,257</u> |
| Net assets | \$ <u>4,106,593</u> | <u>1,606,391</u> | <u>2,500,202</u> |
| 1000 common shares | \$ <u>4,106,593</u> | <u>1,606,391</u> | <u>2,500,202</u> |

6. SHARE CAPITAL

Authorized

One class of Common Shares in an unlimited number.

One class of Preferred Shares in an unlimited number. Subject to the Business Corporations Act, directors may fix, before the issue thereof, the numbers of Preferred Shares of each series and the designation, rights, privilege restrictions and conditions attaching to the preferred Shares of each series.

Issued - 1000 Common Shares - \$4,106,593

The Articles of Incorporation and the shareholders' agreement contain restrictions on the transfer of shares.

NORTHERN ONTARIO WIRES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT
for the year ended December 31, 2001

7. REGULATORY AUTHORITIES

Rates charged for power are subject to prior approval by the Ontario Energy Board.

8. ACQUISITION (2000)

Effective November 1, 2000 Northern Ontario Wires Inc. acquired 100 percent of the outstanding common shares of Kapuskasing Wires Inc. The aggregate purchase cost was \$3,446,336.

The following summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition, used in the allocation of purchase price to respective assets and liabilities.

| | As at November 1, 2000 |
|-----------------------|------------------------|
| Current assets | \$ 1,655,453 |
| Capital assets | 2,721,753 |
| Other assets | <u>5,200</u> |
| Total assets acquired | 4,382,406 |
| Liabilities | <u>(936,070)</u> |
| Net assets acquired | \$ <u>3,446,336</u> |

9. RELATED PARTIES

Contractual obligations -

Northern Ontario Wires Inc. entered into an agreement with the Public Utilities Commission of the Town of Cochrane, which is affiliated with the corporation, where-by the Commission provides management and staff services, administration facilities and equipment to Northern Ontario Wires Inc. and its subsidiary Kapuskasing Wires Inc. The total expense for rent and services under this agreement for the year was \$927,628, measured at the exchange amount, which is included in expense functions on the Statement of Income and Accumulated Deficit.

Amounts owing to related parties, including shareholders, bear no interest.

10. CONTINGENT LIABILITY

A class action claiming \$500 Million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Electrical Distributors Association is undertaking the defense of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of the Company.

NORTHERN ONTARIO WIRES INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENT
for the year ended December 31, 2001**

11. MEASUREMENT UNCERTAINTY

The financial statement does not reflect any possible deferred charges or possible related offsetting reduction in cost of power for Pre Market Opening Energy Variance. The deferred charges attempt to ultimately reflect "energy cost" variance for the period January 1, 2001 to the date of "market readiness" in respect of the opening of the competitive electricity market in Ontario which accrued in May, 2002, with the intention of achieving a flow-through of energy costs by way of the Ontario Energy Board's (O.E.B.) annual rate adjustment process. Accumulation of amounts, as deferred charges, would not imply O.E.B. acceptance. The ultimate future rate adjustment and recovery of deferred charges, if any, to be made are subject to a methodology determined by the O.E.B. It is possible that there could be future recoveries of amounts for the period January 1, 2001 to December 31, 2001.

12. SUBSEQUENT EVENTS – Financial guarantees

Particular financial guarantees became necessary in the deregulated market for electricity, after market opening in May 2002, to meet prudential requirements of the Independent Electricity Market Operators, (IMO) in the event of a default of payment to the IMO, which is the supplier of electricity.

These financial guarantees became necessary for the company to carry on as an electrical distribution company.

Financial Guarantees were provided by the shareholders.

NORTHERN ONTARIO WIRES INC.

**AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2002

NORTHERN ONTARIO WIRES INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2002

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Noël G. Cantin C.A.

AUDITORS' REPORT

To the Shareholders of
Northern Ontario Wires Inc.

We have audited the balance sheet of Northern Ontario Wires Inc. as at December 31, 2002 and the statements of loss, accumulated deficit and cash flow for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and the results of its operations and cash flows for the year then ended in accordance with the accounting principles.

Chartered Accountants

April 7, 2003

RM/lm



A member of
Moore's Rowland International
an association of independent
accounting firms throughout
the world

NORTHERN ONTARIO WIRES INC.

STATEMENT OF LOSS

YEAR ENDED DECEMBER 31, 2002

| | 2002 | 2001 |
|-------------------------------------|--------------|--------------|
| SERVICE REVENUE | | |
| Residential sales | \$ 4,412,010 | \$ 4,177,687 |
| General and commercial sales | 7,272,206 | 6,419,318 |
| Street lighting | 99,027 | 139,662 |
| Unbilled revenue adjustment | 155,845 | 259,287 |
| | 11,939,088 | 10,995,954 |
| ENERGY COST | 9,790,341 | 9,281,694 |
| GROSS MARGIN | 2,148,747 | 1,714,260 |
| OTHER REVENUE (note 14) | 190,421 | 216,061 |
| | 2,339,168 | 1,930,321 |
| EXPENSES | | |
| Operating and maintenance (page 12) | 342,453 | 388,256 |
| Billing and collection (page 12) | 454,012 | 595,729 |
| Administration (page 12) | 1,140,746 | 927,793 |
| Amortization | 376,370 | 356,852 |
| Interest on long term debt | 175,686 | 179,532 |
| Other expenses (page 12) | 26,265 | - |
| | 2,515,532 | 2,448,162 |
| NET LOSS | \$ (176,364) | \$ (517,841) |

| | |
|-----------|----------------|
| | 0 - C |
| RSVA only | 176,364.00 - |
| | 139,739.00 - |
| | 316,103.00 - * |

NORTHERN ONTARIO WIRES INC.
STATEMENT OF ACCUMULATED DEFICIT
YEAR ENDED DECEMBER 31, 2002

| | <u>2002</u> | <u>2001</u> |
|----------------------------|---------------------|---------------------|
| BALANCE, BEGINNING OF YEAR | \$ (744,136) | \$ (226,295) |
| NET LOSS | <u>(176,364)</u> | <u>(517,841)</u> |
| BALANCE, END OF YEAR | <u>\$ (920,500)</u> | <u>\$ (744,136)</u> |

NORTHERN ONTARIO WIRES INC.

BALANCE SHEET

DECEMBER 31, 2002

| | 2002 | 2001 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 446,676 | \$ 886,803 |
| Accounts receivable | 961,385 | 479,581 |
| Unbilled revenue | 1,846,715 | 1,690,870 |
| Inventories | 193,265 | 167,269 |
| Prepaid expenses | 27,142 | 30,170 |
| | <u>3,475,183</u> | <u>3,254,693</u> |
| PROPERTY AND EQUIPMENT (note 3) | 4,325,284 | 4,634,405 |
| ORGANIZATION COST - NET | 28,020 | 37,360 |
| OTHER REGULATORY ASSETS (note 4) | <u>654,878</u> | <u>130,869</u> |
| | <u>\$ 8,483,365</u> | <u>\$ 8,057,327</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Bank indebtedness (note 5) | \$ 441,936 | \$ - |
| Accounts payable and accrued liabilities | 1,542,149 | 1,362,243 |
| Customer deposits | 118,801 | 70,247 |
| Due to related parties (note 11) | 711,443 | 722,735 |
| Due to shareholder (note 6) | 106,605 | 101,881 |
| Current portion of long term debt | <u>67,022</u> | <u>62,461</u> |
| | <u>2,987,956</u> | <u>2,319,567</u> |
| LONG TERM DEBT (note 7) | <u>2,309,316</u> | <u>2,375,303</u> |
| | <u>5,297,272</u> | <u>4,694,870</u> |
| EQUITY | | |
| CAPITAL STOCK (note 8) | 4,106,593 | 4,106,593 |
| ACCUMULATED DEFICIT | <u>(920,500)</u> | <u>(744,136)</u> |
| | <u>3,186,093</u> | <u>3,362,457</u> |
| | <u>\$ 8,483,365</u> | <u>\$ 8,057,327</u> |

NORTHERN ONTARIO WIRES INC.

STATEMENT OF CASH FLOW

YEAR ENDED DECEMBER 31, 2002

| | 2002 | 2001 |
|--|--------------|--------------|
| OPERATING ACTIVITIES | | |
| Net loss | \$ (176,364) | \$ (517,841) |
| Items not requiring cash: | | |
| Amortization | 376,370 | 403,189 |
| Write down of long term investment | - | 12,400 |
| | 200,006 | (102,252) |
| Changes in: | | |
| Accounts receivable | (481,804) | (28,765) |
| Unbilled revenue | (155,845) | (259,288) |
| Inventories | (25,996) | 36,049 |
| Prepaid expenses | 3,028 | 6,929 |
| Accounts payable and accrued liabilities | 179,906 | 17,519 |
| Customer deposits | 48,554 | (2,343) |
| Due to related party | (11,292) | 343,122 |
| Due to shareholder | 4,723 | (38,716) |
| | (238,720) | (27,745) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (57,908) | (134,642) |
| Other regulatory assets and deferred charges | (524,009) | (114,121) |
| | (581,917) | (248,763) |
| FINANCING ACTIVITIES | | |
| Reduction in accounts payable related to acquisition of Kapuskasing Wires Inc. | - | (157,566) |
| Repayments of long term debt | (61,426) | (57,581) |
| | (61,426) | (215,147) |
| DECREASE IN CASH POSITION | (882,063) | (491,655) |
| CASH POSITION, BEGINNING OF YEAR | 886,803 | 1,378,458 |
| CASH POSITION, END OF YEAR (note 9) | \$ 4,740 | \$ 886,803 |

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

1. NATURE OF ACTIVITIES

Northern Ontario Wires Inc. was incorporated under the laws of the province of Ontario March 23, 1999. The company operates electrical distribution utilities in Cochrane, Iroquois Falls and Kapuskasing, Ontario. During 2001, Northern Ontario Wires Inc. and Kapuskasing Wires Inc. were amalgamated, continuing as Northern Ontario Wires Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including accounting principles prescribed by the Ontario Energy Board (OEB) handbook "Accounting Procedures Handbook for Electric Distribution Utilities".

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

PROPERTY PLANT AND EQUIPMENT

Amortization of property, plant and equipment is provided on the straight line basis at the following annual rates.

| | |
|---|--------------|
| Distribution system | 25 years |
| Substation | 30 years |
| Land, building and leasehold improvements | 5 - 50 years |
| Vehicles | 5 - 8 years |
| Tools and equipment | 5 - 10 years |
| Office equipment | 5 - 10 years |

REVENUE RECOGNITION

Revenue is recorded on the basis of regular meter readings. Estimates of customer usage since the last reading date to the end of the year are included in unbilled revenue.

AMORTIZATION OF ORGANIZATION COSTS

The organization costs are amortized on a straight line basis over 5 years.

AMORTIZATION OF TRANSITION COSTS

The capital portion of the transition costs are amortized on a straight line basis over 5 years.

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

3. PROPERTY AND EQUIPMENT

| | Cost | Accumulated Amortization | 2002 Net | 2001 Net |
|---|-------------|-----------------------------|--------------|--------------|
| Distribution system | \$4,371,149 | \$ 582,425 | \$ 3,788,724 | \$ 4,114,843 |
| Substation | 367,490 | 81,201 | 286,289 | 211,858 |
| Land, buildings and leasehold improvements | 83,372 | 18,118 | 65,254 | 72,727 |
| Vehicles | 167,278 | 87,961 | 79,317 | 112,859 |
| Tools and equipment | 35,208 | 12,372 | 22,836 | 26,347 |
| Office equipment | 126,151 | 43,287 | 82,864 | 95,771 |
| | \$5,150,648 | \$ 825,364 | \$ 4,325,284 | \$ 4,634,405 |

4. OTHER REGULATORY ASSETS

| | 2002 | 2001 |
|--|------------|------------|
| Transition costs - net of amortization | \$ 260,120 | \$ 130,869 |
| Pre-market opening energy variance | 263,662 | - |
| Retail cost variance accrual | 9,431 | - |
| Retail service variance accrual | 19,196 | - |
| Deferred payments in lieu | 16,687 | - |
| Commodity/non competitive accrual | 73,015 | - |
| Miscellaneous deferred debits | 12,767 | - |
| | \$ 654,878 | \$ 130,869 |

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

5. BANK INDEBTEDNESS

Bank indebtedness includes a line of credit to a maximum of \$ 500,000 and is secured by a general assignment of the company's assets and by guarantees of the shareholders.

6. DUE TO SHAREHOLDER

The due to shareholder is interest free and with no specific terms of repayment.

7. LONG TERM DEBT

| | 2002 | 2001 |
|--|---------------------|---------------------|
| Term loan to be paid in 240 blended monthly installments of \$19,759 beginning December 15, 2000. The loan bears interest at 7.25% per annum with the rate to be renewed November 15, 2005. The note is secured by a General Security Agreement registered under the Personal Property Security Act. | \$ 2,376,338 | \$ 2,437,764 |
| Current portion | <u>67,022</u> | <u>62,461</u> |
| | <u>\$ 2,309,316</u> | <u>\$ 2,375,303</u> |

Principal payments required over the next five years are as follows:

| | |
|------|-------------------|
| 2003 | \$ 67,022 |
| 2004 | 72,045 |
| 2005 | 77,446 |
| 2006 | 83,250 |
| 2007 | <u>89,492</u> |
| | <u>\$ 389,255</u> |

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

8. CAPITAL STOCK

AUTHORIZED

Unlimited number of common shares

Unlimited number of preferred shares

Subject to the Business Corporations Act, directors may fix, before the issue thereof, the numbers of Preferred Shares of each series and the designation, rights, privilege restrictions and conditions attaching to the preferred Shares of each series.

| | 2002 | 2001 |
|---------------------|--------------|--------------|
| <hr/> | | |
| ISSUED | | |
| 1,000 Common Shares | \$ 4,106,593 | \$ 4,106,593 |

9. STATEMENT OF CASH FLOW

Cash position consists of cash on hand and balances with banks and is comprised of the following balance sheet amounts.

| | 2002 | 2001 |
|-------------------|------------|------------|
| <hr/> | | |
| Cash | \$ 446,676 | \$ 886,803 |
| Bank indebtedness | (441,936) | - |
| | <hr/> | <hr/> |
| | \$ 4,740 | \$ 886,803 |

10. REGULATORY AUTHORITIES

Rates charged for power are subject to prior approval by the Ontario Energy Board.

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

11. RELATED PARTIES - CONTRACTUAL OBLIGATIONS

Northern Ontario Wires Inc. entered into an agreement with the Public Utilities Commission of the Town of Cochrane, which is affiliated with the corporation, where-by the Commission provides management and staff services, administration facilities and equipment to Northern Ontario Wires Inc. The total expense for rent and services under this agreement for the year was \$ 1,056,600, measured at the exchange amount, which is included in expense functions on the Statement of Income and Accumulated Deficit.

Amounts owing to related parties, including shareholders, bear no interest.

12. COMMITMENTS

Particular financial guarantees became necessary in the deregulated market for electricity, after market opening in May 2002, to meet prudential requirements of the Independent Electricity Market Operators, (IMO) in the event of a default of payment to the IMO, which is the supplier of electricity.

These financial guarantees became necessary for the company to carry on as an electrical distribution company.

Financial Guarantees were provided by the shareholders.

13. COMPARATIVE FIGURES

The comparative figures for 2001 have been audited by another auditor.

The presentation of certain accounts of the previous year has been changed to conform with the presentation adopted for the current year.

NORTHERN ONTARIO WIRES INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2002**

14. OTHER REVENUE

| | | |
|-------------------------------------|----|----------------|
| Interest earned | \$ | 38,350 |
| Late payment charges | | 39,379 |
| Service transaction request revenue | | 2,043 |
| Hand delivery charges | | 10,820 |
| Damages and injuries | | 7,281 |
| Miscellaneous | | <u>92,548</u> |
| | \$ | <u>190,421</u> |

NORTHERN ONTARIO WIRES INC.**SCHEDULE OF EXPENSES****YEAR ENDED DECEMBER 31, 2002****OPERATING AND MAINTENANCE**

| | | |
|--------------------------------|----|----------------|
| Substation | \$ | 10,871 |
| Distribution system | | 80,782 |
| Distribution transformers | | 25,535 |
| Meters and consumer's premises | | 90,785 |
| Streetlights | | 126 |
| Other | | <u>134,354</u> |
| | \$ | <u>342,453</u> |

BILLING AND COLLECTING

| | | |
|--------------------|----|----------------|
| Salaries and wages | \$ | 298,559 |
| Billing costs | | <u>155,453</u> |
| | \$ | <u>454,012</u> |

ADMINISTRATION

| | | |
|-------------------------------|----|------------------|
| Executive salaries and travel | \$ | 66,382 |
| Management fees | | 211,320 |
| Insurance expense | | 24,570 |
| Office supplies and expenses | | 147,141 |
| Office travel | | 31,240 |
| Outside services | | 189,003 |
| Repairs and maintenance | | 1,775 |
| Salaries and wages | | <u>469,315</u> |
| | \$ | <u>1,140,746</u> |

OTHER EXPENSES

| | | |
|--------------------|----|---------------|
| Extraordinary loss | \$ | 18,000 |
| Financing charges | | 2,000 |
| Capital taxes | | <u>6,265</u> |
| | \$ | <u>26,265</u> |

NORTHERN ONTARIO WIRES INC.

**AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2003

NORTHERN ONTARIO WIRES INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2003

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AUDITORS' REPORT

To the Shareholders of
Northern Ontario Wires Inc.

We have audited the balance sheet of Northern Ontario Wires Inc. as at December 31, 2003 and the statements of income, accumulated deficit and cash flow for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with the Canadian generally accepted accounting principles.

Collins Barrow

Chartered Accountants
May 6, 2004
DB/ch

NORTHERN ONTARIO WIRES INC.**STATEMENT OF INCOME****YEAR ENDED DECEMBER 31, 2003**

| | 2003 | 2002 (Restated - note 3) |
|--|------------------|---|
| DISTRIBUTION REVENUES (page 12) | \$ 2,081,087 | \$ 2,016,686 |
| OTHER REVENUE (note 14) | <u>320,008</u> | <u>183,749</u> |
| | <u>2,401,095</u> | <u>2,200,435</u> |
| EXPENSES | | |
| Operating and maintenance (page 13) | 318,770 | 342,453 |
| Billing and collection (page 13) | 611,220 | 509,012 |
| Administration (page 13) | 885,197 | 1,088,752 |
| Amortization | 371,004 | 376,370 |
| Interest on long term debt | 169,141 | 175,686 |
| Other expenses (page 13) | <u>4,719</u> | <u>24,265</u> |
| | <u>2,360,051</u> | <u>2,516,538</u> |
| NET INCOME (LOSS) | <u>\$ 41,044</u> | <u>\$ (316,103)</u> |

NORTHERN ONTARIO WIRES INC.
STATEMENT OF ACCUMULATED DEFICIT
YEAR ENDED DECEMBER 31, 2003

| | 2003 | 2002 (Restated - note 3) |
|--------------------------------|-----------------------|--------------------------------|
| BALANCE, BEGINNING OF YEAR | | |
| As previously reported | \$ (920,500) | \$ (744,136) |
| Prior year adjustment (note 3) | <u>(139,739)</u> | <u>-</u> |
| As restated | (1,060,239) | (744,136) |
| NET INCOME (LOSS) | <u>41,044</u> | <u>(316,103)</u> |
| BALANCE, END OF YEAR | <u>\$ (1,019,195)</u> | <u>\$ (1,060,239)</u> |

NORTHERN ONTARIO WIRES INC.

BALANCE SHEET

DECEMBER 31, 2003

| | 2003 | 2002 (Restated - note 3) |
|--|--------------|--------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 553,486 | \$ 446,676 |
| Accounts receivable | 1,483,205 | 1,313,644 |
| Unbilled revenue | 1,088,205 | 1,668,715 |
| Inventories | 218,792 | 193,265 |
| Prepaid expenses | 46,200 | 27,142 |
| | 3,389,888 | 3,649,442 |
| PROPERTY AND EQUIPMENT (note 4) | 4,027,006 | 4,325,284 |
| ORGANIZATION COST - NET | 18,684 | 28,020 |
| OTHER REGULATORY ASSETS (note 5) | 452,753 | 519,315 |
| | \$ 7,888,331 | \$ 8,522,061 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Bank indebtedness (note 6) | \$ - | \$ 441,936 |
| Accounts payable and accrued liabilities | 1,449,723 | 1,699,438 |
| Customer deposits | 143,394 | 118,801 |
| Other current liabilities (note 7) | 899,450 | 839,194 |
| Current portion of long term debt | 72,117 | 67,022 |
| | 2,564,684 | 3,166,391 |
| LONG TERM DEBT (note 8) | 2,236,249 | 2,309,316 |
| | 4,800,933 | 5,475,707 |
| EQUITY | | |
| CAPITAL STOCK (note 9) | 4,106,593 | 4,106,593 |
| ACCUMULATED DEFICIT | (1,019,195) | (1,060,239) |
| | 3,087,398 | 3,046,354 |
| | \$ 7,888,331 | \$ 8,522,061 |

NORTHERN ONTARIO WIRES INC.

STATEMENT OF CASH FLOW

YEAR ENDED DECEMBER 31, 2003

| | 2003 | 2002 (Restated - note 3) |
|--|------------|--------------------------------|
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 41,044 | \$ (316,103) |
| Item not requiring cash: | | |
| Amortization | 371,004 | 376,370 |
| | 412,048 | 60,267 |
| Changes in: | | |
| Accounts receivable | (169,561) | (834,063) |
| Unbilled revenue | 580,510 | 22,155 |
| Inventories | (25,527) | (25,996) |
| Prepaid expenses | (19,058) | 3,028 |
| Accounts payable and accrued liabilities | (249,715) | 337,195 |
| Customer deposits | 24,593 | 48,554 |
| Other current liabilities | 60,256 | 14,577 |
| | 613,546 | (374,283) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (63,390) | (57,908) |
| Other regulatory assets and deferred charges | 66,562 | (388,446) |
| | 3,172 | (446,354) |
| FINANCING ACTIVITIES | | |
| Repayments of long term debt | (67,972) | (61,426) |
| INCREASE (DECREASE) IN CASH POSITION | 548,746 | (882,063) |
| CASH POSITION, BEGINNING OF YEAR | 4,740 | 886,803 |
| CASH POSITION, END OF YEAR (note 10) | \$ 553,486 | \$ 4,740 |

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. NATURE OF ACTIVITIES

Northern Ontario Wires Inc. was incorporated under the laws of the province of Ontario on March 23, 1999. The company operates electrical distribution utilities in Cochrane, Iroquois Falls and Kapuskasing, Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including accounting principles prescribed by the Ontario Energy Board (OEB) handbook "Accounting Procedures Handbook for Electric Distribution Utilities".

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

PROPERTY PLANT AND EQUIPMENT

Amortization of property, plant and equipment is provided on the straight line basis at the following annual rates.

| | |
|---|--------------|
| Distribution system | 25 years |
| Substation | 30 years |
| Land, building and leasehold improvements | 5 - 50 years |
| Vehicles | 5 - 8 years |
| Tools and equipment | 5 - 10 years |
| Office equipment | 5 - 10 years |

REVENUE RECOGNITION

Revenue is recorded on the basis of regular meter readings. Estimates of customer usage since the last reading date to the end of the year are included in unbilled revenue. The sale of electricity provides no net revenue to the utility as the cost of electricity is equal to those sales. For this reason, the cost of power is deducted from the power revenues to arrive at distribution revenues. The statement of income presents the distribution revenues of the utility.

AMORTIZATION OF ORGANIZATION COSTS

The organization costs are amortized on a straight line basis over 5 years.

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

AMORTIZATION OF TRANSITION COSTS

The capital portion of the transition costs are amortized on a straight line basis over 5 years.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

3. PRIOR YEAR ADJUSTMENT

This adjustment results from an error in the calculation of the retail services variance accounts. As a result of this correction, the net loss for 2002 has been increased by \$ 139,739, accounts receivable has been increased by \$ 352,259, unbilled revenue has been decreased by \$ 178,000, other regulatory assets (the deferred rate impact amount) has been decreased by \$ 135,563 and accounts payable and accrued liabilities has been increased by \$178,435.

The accumulated deficit at the end of 2002 has increased by \$ 139,739.

4. PROPERTY AND EQUIPMENT

| | Cost | Accumulated Amortization | 2003 Net | 2002 Net |
|---|---------------------|-------------------------------------|---------------------|---------------------|
| Distribution system | \$ 4,428,919 | \$ 841,518 | \$ 3,587,401 | \$ 3,788,724 |
| Substation | 367,490 | 118,391 | 249,099 | 286,289 |
| Land, buildings and leasehold improvements | 83,372 | 25,433 | 57,939 | 65,254 |
| Vehicles | 167,278 | 117,145 | 50,133 | 79,317 |
| Tools and equipment | 37,272 | 16,895 | 20,377 | 22,836 |
| Office equipment | 129,550 | 67,493 | 62,057 | 82,864 |
| | \$ 5,213,881 | \$ 1,186,875 | \$ 4,027,006 | \$ 4,325,284 |

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

5. OTHER REGULATORY ASSETS

| | 2003 | 2002 (Restated - note 3) |
|--|-------------------|--------------------------------|
| Transition costs - net of amortization | \$ 272,994 | \$ 260,120 |
| Pre-market opening energy variance | 263,662 | 263,662 |
| Retail cost variance accrual | 6,589 | 9,431 |
| Retail service variance accrual | 87,559 | 19,196 |
| Deferred payments in lieu | 1,581 | 16,687 |
| Retail services variance accounts | (192,400) | (62,548) |
| Miscellaneous deferred debits | 12,768 | 12,767 |
| | <u>\$ 452,753</u> | <u>\$ 519,315</u> |

The fair value of these assets is not available.

6. BANK INDEBTEDNESS

The corporation has an authorized line of credit of \$ 500,000 bearing interest of prime + 1 % which is secured by a general security agreement.

7. OTHER CURRENT LIABILITIES

| | 2003 | 2002 |
|--------------------------------------|-------------------|-------------------|
| Due to water & sewer system | \$ 220,100 | \$ 207,387 |
| Due to Cochrane utilities department | <u>679,350</u> | <u>631,807</u> |
| | <u>\$ 899,450</u> | <u>\$ 839,194</u> |

The payable to Cochrane Utilities department includes an amount of \$ 585,686 on which interest is charged at prime + 1 % and is unsecured.

NORTHERN ONTARIO WIRES INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2003****8. LONG TERM DEBT**

| | 2003 | 2002 |
|---|---------------------|---------------------|
| Term loan to be paid in 240 blended monthly instalments of \$19,759 beginning December 15, 2000. The loan bears interest at 7.25% per annum with the rate to be renewed November 15, 2005. The note is secured by a General Security Agreement registered under the Personal Property Security Act. | \$ 2,308,366 | \$ 2,376,338 |
| Current portion | <u>72,117</u> | <u>67,022</u> |
| | <u>\$ 2,236,249</u> | <u>\$ 2,309,316</u> |

Principal payments required over the next five years are as follows:

| | |
|------|-------------------|
| 2003 | \$ 72,117 |
| 2004 | 77,522 |
| 2005 | 83,333 |
| 2006 | 89,580 |
| 2007 | <u>96,294</u> |
| | <u>\$ 418,846</u> |

9. CAPITAL STOCK**AUTHORIZED**

Unlimited number of common shares

Unlimited number of preferred shares

Subject to the Business Corporations Act, directors may fix, before the issue thereof, the numbers of Preferred Shares of each series and the designation, rights, privilege restrictions and conditions attaching to the preferred Shares of each series.

| | 2003 | 2002 |
|---------------------|--------------|--------------|
| ISSUED | | |
| 1,000 Common Shares | \$ 4,106,593 | \$ 4,106,593 |

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

10. STATEMENT OF CASH FLOW

Cash position consists of cash on hand and balances with banks and is comprised of the following balance sheet amounts.

| | 2003 | 2002 |
|-------------------|------------|------------|
| Cash | \$ 553,486 | \$ 446,676 |
| Bank indebtedness | - | (441,936) |
| | \$ 553,486 | \$ 4,740 |

11. REGULATORY AUTHORITIES

Rates charged for power are subject to prior approval by the Ontario Energy Board.

12. RELATED PARTIES - CONTRACTUAL OBLIGATIONS

Northern Ontario Wires Inc. has entered into an agreement with the Public Utilities Commission of the Town of Cochrane, which is affiliated with the corporation, where by the Commission provides management and staff services, administration facilities and equipment to Northern Ontario Wires Inc. The total expense for rent and services under this agreement for the year was \$ 1,035,685, measured at the exchange amount, which is included in expense functions on the Statement of Income.

Amounts owing to related parties, including shareholders, bear no interest.

13. COMMITMENTS

Particular financial guarantees became necessary in the deregulated market for electricity, after market opening in May 2002, to meet prudential requirements of the Independent Electricity Market Operators (IMO), in the event of a default of payment to the IMO, which is the supplier of electricity.

These financial guarantees became necessary for the company to carry on as an electrical distribution company.

Financial Guarantees were provided by the shareholders.

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

14. OTHER REVENUE

| | 2003 | 2002 |
|------------------------------|-------------------|-------------------|
| Interest earned | \$ 10,695 | \$ 4,340 |
| Interest improvement revenue | 86,157 | 34,010 |
| Late payment charges | 30,641 | 39,379 |
| Pole rental | 98,732 | - |
| Other services | 93,783 | 106,020 |
| | <u>\$ 320,008</u> | <u>\$ 183,749</u> |

15. FINANCIAL INSTRUMENTS

The company's financial instruments consists of cash, accounts receivable, unbilled revenue, bank indebtedness, accounts payable and accrued liabilities and long-term debt. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximated their carrying values, unless otherwise noted.

16. COMPARATIVE FIGURES

The presentation of certain accounts of the previous year has been changed to conform with the presentation adopted for the current year.

NORTHERN ONTARIO WIRES INC.**SCHEDULE OF DISTRIBUTION REVENUES****YEAR ENDED DECEMBER 31, 2003**

| | 2003 | 2002 (Restated - note 3) |
|------------------------------|---------------------|---|
| SERVICE REVENUE | | |
| Residential sales | \$ 5,424,450 | \$ 4,771,947 |
| General and commercial sales | 6,154,734 | 7,272,206 |
| Street lighting | 124,076 | 99,027 |
| Unbilled revenue adjustment | <u>(580,510)</u> | <u>(22,155)</u> |
| | 11,122,750 | 12,121,025 |
| ENERGY COST | <u>9,041,663</u> | <u>10,104,339</u> |
| | <u>\$ 2,081,087</u> | <u>\$ 2,016,686</u> |

NORTHERN ONTARIO WIRES INC.**SCHEDULE OF EXPENSES****YEAR ENDED DECEMBER 31, 2003**

| | 2003 | 2002 (Restated - note 3) |
|-----------------------------------|-------------------|---|
| OPERATING AND MAINTENANCE | | |
| Salaries and wages | \$ 148,570 | \$ 180,865 |
| Materials and expenses | <u>170,200</u> | <u>161,588</u> |
| | \$ 318,770 | \$ 342,453 |
| BILLING AND COLLECTION | | |
| Salaries and wages | \$ 330,746 | \$ 298,559 |
| Billing costs | 244,161 | 210,453 |
| Rent | <u>36,313</u> | <u>-</u> |
| | \$ 611,220 | \$ 509,012 |
| ADMINISTRATION | | |
| Executive salaries and travel | \$ 44,911 | \$ 66,382 |
| Management fees | 134,502 | 211,320 |
| Insurance expense | 24,397 | 24,570 |
| Interest and late payment charges | 68,577 | 2,000 |
| Office supplies and expenses | 127,952 | 148,147 |
| Office travel | 30,128 | 31,240 |
| Outside services | 136,454 | 134,003 |
| Repairs and maintenance | - | 1,775 |
| Salaries and wages | <u>318,276</u> | <u>469,315</u> |
| | \$ 885,197 | \$ 1,088,752 |
| OTHER EXPENSES | | |
| Extraordinary loss | \$ - | \$ 18,000 |
| Capital taxes | <u>4,719</u> | <u>6,265</u> |
| | \$ 4,719 | \$ 24,265 |

NORTHERN ONTARIO WIRES INC.

**AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2004

NORTHERN ONTARIO WIRES INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2004

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Christiane S. Lapointe C.A.

Noël G. Cantin C.A.

AUDITORS' REPORT

To the Shareholders of
Northern Ontario Wires Inc.

We have audited the balance sheet of Northern Ontario Wires Inc. as at December 31, 2004 and the statements of loss, accumulated deficit and cash flow for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and the results of its operations and cash flows for the year then ended in accordance with the Canadian generally accepted accounting principles.

Chartered Accountants
May 6, 2005
DB/ch

NORTHERN ONTARIO WIRES INC.

STATEMENT OF LOSS

YEAR ENDED DECEMBER 31, 2004

| | 2004 | 2003 |
|--|------------------|------------------|
| DISTRIBUTION REVENUES (page 12) | \$ 1,945,258 | \$ 2,081,087 |
| OTHER REVENUE (note 13) | 256,979 | 320,008 |
| | <u>2,202,237</u> | <u>2,401,095</u> |
| EXPENSES | | |
| Operating and maintenance (page 13) | \$ 344,736 | \$ 318,770 |
| Billing and collection (page 13) | 637,402 | 611,220 |
| Administration (page 13) | 821,247 | 885,197 |
| Amortization | 372,597 | 371,004 |
| Interest on long term debt | 165,000 | 169,141 |
| Payment in lieu of taxes | 7,840 | 4,719 |
| | <u>2,348,822</u> | <u>2,360,051</u> |
| NET INCOME (LOSS) | \$ (146,585) | \$ 41,044 |

NORTHERN ONTARIO WIRES INC.
STATEMENT OF ACCUMULATED DEFICIT
YEAR ENDED DECEMBER 31, 2004

| | 2004 | 2003 |
|----------------------------|-----------------------|-----------------------|
| BALANCE, BEGINNING OF YEAR | \$ (1,019,195) | \$ (1,060,239) |
| NET INCOME (LOSS) | <u>(146,585)</u> | <u>41,044</u> |
| BALANCE, END OF YEAR | <u>\$ (1,165,780)</u> | <u>\$ (1,019,195)</u> |

NORTHERN ONTARIO WIRES INC.

BALANCE SHEET

DECEMBER 31, 2004

| | 2004 | 2003 |
|--------------------------------------|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 687,380 | \$ 553,486 |
| Accounts receivable | 1,251,410 | 1,483,205 |
| Unbilled revenue | 1,152,391 | 1,088,205 |
| Inventories | 246,844 | 218,792 |
| Prepaid expenses | 43,036 | 46,200 |
| | <u>3,381,061</u> | <u>3,389,888</u> |
| PROPERTY AND EQUIPMENT (note 3) | 3,776,924 | 4,027,006 |
| ORGANIZATION COST - NET | 9,348 | 18,684 |
| OTHER REGULATORY ASSETS (note 4) | 414,042 | 452,753 |
| | <u>\$ 7,581,375</u> | <u>\$ 7,888,331</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued charges | \$ 1,717,006 | \$ 1,449,723 |
| Customer deposits | 148,053 | 143,394 |
| Other current liabilities (note 6) | 506,667 | 899,450 |
| Current portion of long term debt | 87,547 | 72,117 |
| | <u>2,459,273</u> | <u>2,564,684</u> |
| LONG TERM DEBT (note 7) | 2,181,289 | 2,236,249 |
| | <u>4,640,562</u> | <u>4,800,933</u> |
| EQUITY | | |
| CAPITAL STOCK (note 8) | 4,106,593 | 4,106,593 |
| ACCUMULATED DEFICIT | (1,165,780) | (1,019,195) |
| | <u>2,940,813</u> | <u>3,087,398</u> |
| | <u>\$ 7,581,375</u> | <u>\$ 7,888,331</u> |

NORTHERN ONTARIO WIRES INC.

STATEMENT OF CASH FLOW

YEAR ENDED DECEMBER 31, 2004

| | 2004 | 2003 |
|--|--------------|------------|
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$ (146,585) | \$ 41,044 |
| Item not requiring cash: | | |
| Amortization | 372,597 | 371,004 |
| Other regulatory assets and deferred charges | 38,711 | 66,562 |
| | 264,723 | 478,610 |
| Changes in: | | |
| Accounts receivable | 231,795 | (169,561) |
| Unbilled revenue | (64,186) | 580,510 |
| Inventories | (28,052) | (25,527) |
| Prepaid expenses | 3,164 | (19,058) |
| Accounts payable and accrued charges | 267,283 | (249,715) |
| Customer deposits | 4,659 | 24,593 |
| Other current liabilities | (392,783) | 60,256 |
| | 286,603 | 680,108 |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (113,179) | (63,390) |
| FINANCING ACTIVITIES | | |
| Proceed of long-term debt | 40,102 | - |
| Repayments of long term debt | (79,632) | (67,972) |
| | (39,530) | - |
| INCREASE IN CASH POSITION | 133,894 | 548,746 |
| CASH POSITION, BEGINNING OF YEAR | 553,486 | 4,740 |
| CASH POSITION, END OF YEAR (note 9) | \$ 687,380 | \$ 553,486 |

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

1. NATURE OF ACTIVITIES

Northern Ontario Wires Inc. was incorporated under the laws of the province of Ontario on March 23, 1999. The company operates electrical distribution utilities in Cochrane, Iroquois Falls and Kapuskasing, Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including accounting principles prescribed by the Ontario Energy Board (OEB) handbook "Accounting Procedures Handbook for Electric Distribution Utilities".

REVENUE RECOGNITION

Revenue is recorded on the basis of regular meter readings. Estimates of customer usage since the last reading date to the end of the year are included in unbilled revenue. The sale of electricity provides no net revenue to the utility as the cost of electricity is equal to those sales. For this reason, the cost of power is deducted from the power revenues to arrive at distribution revenues. The statement of income presents the distribution revenues of the utility.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

PROPERTY PLANT AND EQUIPMENT

Amortization of property, plant and equipment is provided on the straight line basis at the following annual rates.

| | |
|---|--------------|
| Distribution system | 25 years |
| Substation | 30 years |
| Land, building and leasehold improvements | 5 - 50 years |
| Vehicles | 5 - 8 years |
| Tools and equipment | 5 - 10 years |
| Office equipment | 5 - 10 years |

AMORTIZATION OF ORGANIZATION COSTS

The organization costs are amortized on a straight line basis over 5 years.

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

AMORTIZATION OF TRANSITION COSTS

The capital portion of the transition costs are amortized on a straight line basis over 5 years.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

3. PROPERTY AND EQUIPMENT

| | Cost | Accumulated Amortization | 2004 Net | 2003 Net |
|---|---------------------|-----------------------------|---------------------|---------------------|
| Distribution system | \$ 4,480,902 | \$ 1,102,677 | \$ 3,378,225 | \$ 3,587,401 |
| Substation | 367,490 | 155,580 | 211,910 | 249,099 |
| Land, buildings and leasehold improvements | 83,372 | 32,749 | 50,623 | 57,939 |
| Vehicles | 204,942 | 151,037 | 53,905 | 50,133 |
| Tools and equipment | 47,045 | 21,830 | 25,215 | 20,377 |
| Office equipment | 143,310 | 86,264 | 57,046 | 62,057 |
| | <u>\$ 5,327,061</u> | <u>\$ 1,550,137</u> | <u>\$ 3,776,924</u> | <u>\$ 4,027,006</u> |

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

4. OTHER REGULATORY ASSETS

| | 2004 | 2003 |
|--|-------------------|-------------------|
| Transition costs - net of amortization | \$ 270,904 | \$ 272,994 |
| Pre-market opening energy variance | 263,662 | 263,662 |
| Retail cost variance accrual | 9,287 | 6,589 |
| Retail service variance accrual | 71,734 | 87,559 |
| Deferred payments in lieu | - | 1,581 |
| Retail services variance accounts | (123,951) | (192,400) |
| Miscellaneous deferred debits | (77,594) | 12,768 |
| | <u>\$ 414,042</u> | <u>\$ 452,753</u> |

The fair value of these assets is not available.

5. BANK INDEBTEDNESS

The corporation has an authorized line of credit of \$ 500,000 bearing interest at prime + 1 % which is secured by a general security agreement.

6. OTHER CURRENT LIABILITIES

| | 2004 | 2003 |
|--------------------------------------|-------------------|-------------------|
| Due to water & sewer system | \$ 169,761 | \$ 220,100 |
| Due to Cochrane utilities department | <u>336,906</u> | <u>679,350</u> |
| | <u>\$ 506,667</u> | <u>\$ 899,450</u> |

Those notes represent current liabilities and are interest free and unsecure.

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

7. LONG TERM DEBT

| | 2004 | 2003 |
|---|---------------------|---------------------|
| Term loan to be paid in 240 blended monthly instalments of \$19,759 beginning December 15, 2000. The loan bears interest at 7.25% per annum with the rate to be renewed November 15, 2005. The note is secured by a General Security Agreement registered under the Personal Property Security Act. | \$ 2,236,253 | \$ 2,308,366 |
| Chrysler Financing, 0 %, payable in monthly instalments of \$ 835, due in March 2008 | 32,583 | - |
| | 2,268,836 | 2,308,366 |
| Current portion | 87,547 | 72,117 |
| | <u>\$ 2,181,289</u> | <u>\$ 2,236,249</u> |

Principal payments required over the next five years are as follows:

| | |
|------|-----------|
| 2005 | \$ 87,547 |
| 2006 | 93,358 |
| 2007 | 99,605 |
| 2008 | 98,801 |
| 2009 | 103,512 |

8. CAPITAL STOCK

AUTHORIZED

Unlimited number of common shares

Unlimited number of preferred shares

Subject to the Business Corporations Act, the directors may fix, before the issue thereof, the number of Preferred Shares of each series and the designation, rights, privilege restrictions and conditions attaching to the preferred Shares of each series.

| | 2004 | 2003 |
|---------------------|--------------|--------------|
| ISSUED | | |
| 1,000 Common Shares | \$ 4,106,593 | \$ 4,106,593 |

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

9. STATEMENT OF CASH FLOW

INTEREST AND INCOME TAXES

Cash payments were made for the following items:

| | | 2004 | | 2003 |
|--------------------------|----|---------|----|---------|
| Interest | \$ | 165,000 | \$ | 169,141 |
| Payment in lieu of taxes | | 4,639 | | 4,719 |

10. REGULATORY AUTHORITIES

Rates charged for power are subject to prior approval by the Ontario Energy Board.

11. RELATED PARTIES - CONTRACTUAL OBLIGATIONS

Northern Ontario Wires Inc. has entered into an agreement with the Public Utilities Commission of the Town of Cochrane, which is affiliated with the corporation, where by the Commission provides management and staff services, administration facilities and equipment to Northern Ontario Wires Inc. The total expense for rent and services under this agreement for the year was \$ 1,060,277, measured at the exchange amount, which is included in expense functions on the Statement of Income.

Amounts owing to related parties, including shareholders, bear no interest.

12. COMMITMENTS

Particular financial guarantees became necessary in the deregulated market for electricity, after market opening in May 2002, to meet prudential requirements of the Independent Electricity Market Operators (IMO), in the event of a default of payment to the IMO, which is the supplier of electricity.

These financial guarantees became necessary for the company to carry on as an electrical distribution company.

Financial Guarantees were provided by the shareholders.

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

13. OTHER REVENUE

| | 2004 | 2003 |
|------------------------------|-------------------|-------------------|
| Interest earned | \$ 9,387 | \$ 10,695 |
| Interest improvement revenue | 13,307 | 86,157 |
| Late payment charges | 26,628 | 30,641 |
| Pole rental | 62,379 | 98,732 |
| Other services | 63,327 | 64,917 |
| Sundry revenues | 81,951 | 28,866 |
| | <u>\$ 256,979</u> | <u>\$ 320,008</u> |

14. FINANCIAL INSTRUMENTS

The company's financial instruments consists of cash, accounts receivable, unbilled revenue, accounts payable and accrued charges and long-term debt. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximated their carrying values, unless otherwise noted.

NORTHERN ONTARIO WIRES INC.
SCHEDULE OF DISTRIBUTION REVENUES
YEAR ENDED DECEMBER 31, 2004

| | 2004 | 2003 |
|------------------------------|---------------------|---------------------|
| SERVICE REVENUE | | |
| Residential sales | \$ 5,979,541 | \$ 5,424,450 |
| General and commercial sales | 5,031,097 | 6,154,734 |
| Street lighting | 99,613 | 124,076 |
| Unbilled revenue adjustment | <u>64,186</u> | <u>(580,510)</u> |
| | 11,174,437 | 11,122,750 |
| ENERGY COST | <u>9,229,179</u> | <u>9,041,663</u> |
| | <u>\$ 1,945,258</u> | <u>\$ 2,081,087</u> |

NORTHERN ONTARIO WIRES INC.

SCHEDULE OF EXPENSES

YEAR ENDED DECEMBER 31, 2004

| | 2004 | 2003 |
|-----------------------------------|-------------------|-------------------|
| OPERATING AND MAINTENANCE | | |
| Salaries and wages | \$ 153,426 | \$ 148,570 |
| Materials and expenses | 191,310 | 170,200 |
| | <u>\$ 344,736</u> | <u>\$ 318,770</u> |
| BILLING AND COLLECTION | | |
| Salaries and wages | \$ 354,352 | \$ 330,746 |
| Billing costs | 264,894 | 244,161 |
| Rent | 18,156 | 36,313 |
| | <u>\$ 637,402</u> | <u>\$ 611,220</u> |
| ADMINISTRATION | | |
| Executive salaries and travel | \$ 52,490 | \$ 44,911 |
| Management fees | 127,233 | 134,502 |
| Insurance expense | 43,559 | 24,397 |
| Interest and late payment charges | 36,540 | 68,577 |
| Office supplies and expenses | 109,272 | 127,952 |
| Office travel | 15,451 | 30,128 |
| Outside services | 90,625 | 136,454 |
| Repairs and maintenance | 1,571 | - |
| Salaries and wages | 344,506 | 318,276 |
| | <u>\$ 821,247</u> | <u>\$ 885,197</u> |

NORTHERN ONTARIO WIRES INC.

**AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2005

NORTHERN ONTARIO WIRES INC.

FINANCIAL STATEMENTS

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Société Professionnelle Denis Hébert Inc.
Eric G. Gagnon Professional Corporation
Gilles Bisson Professional Corporation
Christiane S. Lapointe C.A.
Noël G. Cantin C.A.

AUDITORS' REPORT

To the Shareholders of
Northern Ontario Wires Inc.

We have audited the balance sheet of Northern Ontario Wires Inc. as at December 31, 2005 and the statements of income, accumulated deficit and cash flow for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with the Canadian generally accepted accounting principles.

Collins Barrow

Chartered Accountants
March 16, 2006
RM/ch

NORTHERN ONTARIO WIRES INC.

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2005

| | 2005 | 2004 |
|--|------------------|---------------------|
| DISTRIBUTION REVENUES (page 12) | \$ 2,078,481 | \$ 1,945,258 |
| OTHER REVENUE (note 14) | 192,743 | 256,979 |
| | <u>2,271,224</u> | <u>2,202,237</u> |
| EXPENSES | | |
| Operating and maintenance (page 13) | 358,324 | 344,736 |
| Billing and collection (page 13) | 539,737 | 637,402 |
| Administration (page 13) | 808,399 | 821,247 |
| Amortization | 363,348 | 372,597 |
| Interest on long term debt | 155,312 | 165,000 |
| Payment in lieu of taxes | 4,715 | 7,840 |
| | <u>2,229,835</u> | <u>2,348,822</u> |
| INCOME (LOSS) BEFORE PAYMENT-IN LIEU OF TAXES | <u>41,389</u> | <u>(146,585)</u> |
| PAYMENT-IN LIEU OF TAXES | | |
| Current | 46,388 | 5,836 |
| Future | <u>(17,659)</u> | <u>(17,075)</u> |
| | <u>28,729</u> | <u>(11,239)</u> |
| NET INCOME (LOSS) | <u>\$ 12,660</u> | <u>\$ (135,346)</u> |

NORTHERN ONTARIO WIRES INC.
STATEMENT OF ACCUMULATED DEFICIT
YEAR ENDED DECEMBER 31, 2005

| | 2005 | 2004 |
|-----------------------------------|-----------------------|-----------------------|
| BALANCE, BEGINNING OF YEAR | | |
| As previously reported | \$ (1,165,780) | \$ (1,019,195) |
| Prior years adjustments (note 16) | <u>(62,303)</u> | <u>(73,542)</u> |
| As restated | (1,228,083) | (1,092,737) |
| NET INCOME (LOSS) | <u>12,660</u> | <u>(135,346)</u> |
| BALANCE, END OF YEAR | <u>\$ (1,215,423)</u> | <u>\$ (1,228,083)</u> |

NORTHERN ONTARIO WIRES INC.

BALANCE SHEET

DECEMBER 31, 2005

| | 2005 | 2004 |
|--------------------------------------|--------------|--------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 1,735,625 | \$ 687,380 |
| Accounts receivable | 947,838 | 1,251,410 |
| Unbilled revenue | 1,195,699 | 1,152,391 |
| Inventories | 239,751 | 246,844 |
| Prepaid expenses | 65,256 | 43,036 |
| | 4,184,169 | 3,381,061 |
| PROPERTY AND EQUIPMENT (note 3) | 3,590,190 | 3,776,924 |
| ORGANIZATION COST - NET | - | 9,348 |
| OTHER REGULATORY ASSETS (note 4) | 52,585 | 414,042 |
| | \$ 7,826,944 | \$ 7,581,375 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued charges | \$ 2,093,815 | \$ 1,722,842 |
| Customer deposits | 142,430 | 148,053 |
| Other current liabilities (note 6) | 480,850 | 506,667 |
| Current portion of long term debt | 111,470 | 87,547 |
| | 2,828,565 | 2,465,109 |
| LONG TERM DEBT (note 8) | 2,068,401 | 2,181,289 |
| FUTURE PAYMENT-IN LIEU OF TAXES | 38,808 | 56,467 |
| | 4,935,774 | 4,702,865 |
| EQUITY | | |
| CAPITAL STOCK (note 9) | 4,106,593 | 4,106,593 |
| ACCUMULATED DEFICIT | (1,215,423) | (1,228,083) |
| | 2,891,170 | 2,878,510 |
| | \$ 7,826,944 | \$ 7,581,375 |

NORTHERN ONTARIO WIRES INC.

STATEMENT OF CASH FLOW

YEAR ENDED DECEMBER 31, 2005

| | 2005 | 2004 |
|--|--------------|--------------|
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 12,660 | \$ (135,346) |
| Items not requiring cash: | | |
| Amortization | 363,348 | 372,597 |
| Other regulatory assets and deferred charges | 361,457 | 38,711 |
| Future payment-in lieu of taxes | (17,659) | (17,075) |
| | 719,806 | 258,887 |
| Changes in: | | |
| Accounts receivable | 303,572 | 231,795 |
| Unbilled revenue | (43,308) | (64,186) |
| Inventories | 7,093 | (28,052) |
| Prepaid expenses | (22,220) | 3,164 |
| Accounts payable and accrued charges | 370,973 | 273,119 |
| Customer deposits | (5,623) | 4,659 |
| Other current liabilities | (25,817) | (392,783) |
| | 1,304,476 | 286,603 |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (167,266) | (113,179) |
| FINANCING ACTIVITIES | | |
| Proceed from long-term debt | - | 40,102 |
| Repayments on long term debt | (88,965) | (79,632) |
| | (88,965) | (39,530) |
| INCREASE IN CASH POSITION | 1,048,245 | 133,894 |
| CASH POSITION, BEGINNING OF YEAR | 687,380 | 553,486 |
| CASH POSITION, END OF YEAR | \$ 1,735,625 | \$ 687,380 |

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

1. NATURE OF ACTIVITIES

Northern Ontario Wires Inc. was incorporated under the laws of the province of Ontario on March 23, 1999. The company operates electrical distribution utilities in Cochrane, Iroquois Falls and Kapuskasing, Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including accounting principles prescribed by the Ontario Energy Board (OEB) handbook "Accounting Procedures Handbook for Electric Distribution Utilities".

REVENUE RECOGNITION

Revenue is recorded on the basis of regular meter readings. Estimates of customer usage since the last reading date to the end of the year are included in unbilled revenue. The sale of electricity provides no net revenue to the utility as the cost of electricity is equal to those sales. For this reason, the cost of power is deducted from the power revenues to arrive at distribution revenues. The statement of income presents the distribution revenues of the utility.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

PROPERTY PLANT AND EQUIPMENT

Amortization of property, plant and equipment is provided on the straight line basis at the following annual rates.

| | |
|---|--------------|
| Distribution system | 25 years |
| Substation | 30 years |
| Land, building and leasehold improvements | 5 - 50 years |
| Vehicles | 5 - 8 years |
| Tools and equipment | 5 - 10 years |
| Office equipment | 5 - 10 years |

AMORTIZATION OF ORGANIZATION COSTS

The organization costs are amortized on a straight line basis over 5 years.

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

AMORTIZATION OF TRANSITION COSTS

The capital portion of the transition costs are amortized on a straight line basis over 5 years.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

FUTURE PAYMENTS IN LIEU OF TAXES

Payment - in lieu of taxes are provided, at current rates, for all items included in the statement of income regardless of the period in which such items are reported for income tax purposes. The principal item which results in timing difference between financial and tax reporting purposes is amortization. Future payment - in lieu of taxes are adjusted for changes in income tax rates.

3. PROPERTY AND EQUIPMENT

| | Cost | Accumulated Amortization | 2005 Net | 2004 Net |
|---|---------------------|-----------------------------|---------------------|---------------------|
| Distribution system | \$ 4,508,501 | \$ 1,361,248 | \$ 3,147,253 | \$ 3,378,225 |
| Substation | 434,296 | 194,513 | 239,783 | 211,910 |
| Land, buildings and leasehold improvements | 83,372 | 40,064 | 43,308 | 50,623 |
| Vehicles | 223,405 | 175,518 | 47,887 | 53,905 |
| Tools and equipment | 63,277 | 26,488 | 36,789 | 25,215 |
| Office equipment | 181,476 | 106,306 | 75,170 | 57,046 |
| | <u>\$ 5,494,327</u> | <u>\$ 1,904,137</u> | <u>\$ 3,590,190</u> | <u>\$ 3,776,924</u> |



NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

4. OTHER REGULATORY ASSETS

| | 2005 | 2004 |
|--|------------------|-------------------|
| Transition costs - net of amortization | \$ 252,015 | \$ 270,904 |
| Pre-market opening energy variance | 263,662 | 263,662 |
| Retail cost variance accrual | 9,650 | 9,287 |
| Retail service variance accounts | (234,056) | (52,217) |
| Others | 74,092 | 24,266 |
| Regulatory asset recovery | (312,778) | (101,860) |
| | <u>\$ 52,585</u> | <u>\$ 414,042</u> |

The fair value of these assets is not available.

5. BANK INDEBTEDNESS

The corporation has an authorized line of credit of \$ 500,000 bearing interest at prime + 1 % which is secured by a general security agreement.

6. OTHER CURRENT LIABILITIES

| | 2005 | 2004 |
|----------------------------------|-------------------|-------------------|
| Due to water & sewer system | \$ 185,548 | \$ 169,761 |
| Due to Cochrane telecom services | 295,302 | 336,906 |
| | <u>\$ 480,850</u> | <u>\$ 506,667</u> |

These notes represent current liabilities and are interest free and unsecured.

7. POST-EMPLOYMENT BENEFITS PAYABLE

The obligation for the post-employment benefits amounts to \$ 186,088 and the payable is accrued through Cochrane telecom services.



NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

8. LONG TERM DEBT

| | 2005 | 2004 |
|--|---------------------|---------------------|
| Term loan to be paid in 240 blended monthly instalments of \$16,899 beginning December 15, 2000. The loan bears interest at 4.8% per annum with the rate to be renewed November 15, 2010. The note is secured by a General Security Agreement registered under the Personal Property Security Act. | \$ 2,157,313 | \$ 2,236,253 |
| Chrysler Financing, 0 %, payable in monthly instalments of \$ 835, due in March 2008 | 22,558 | 32,583 |
| | 2,179,871 | 2,268,836 |
| Current portion | 111,470 | 87,547 |
| | <u>\$ 2,068,401</u> | <u>\$ 2,181,289</u> |

The principal instalments required to be paid over the next five fiscal years are as follows:

| | |
|------|------------|
| 2006 | \$ 111,470 |
| 2007 | 116,447 |
| 2008 | 114,168 |
| 2009 | 117,129 |
| 2010 | 122,877 |

9. CAPITAL STOCK

AUTHORIZED

Unlimited number of common shares

Unlimited number of preferred shares

Subject to the Business Corporations Act, the directors may fix, before the issue thereof, the number of Preferred Shares of each series and the designation, rights, privilege restrictions and conditions attaching to the preferred Shares of each series.

| | 2005 | 2004 |
|---------------------|--------------|--------------|
| ISSUED | | |
| 1,000 Common Shares | \$ 4,106,593 | \$ 4,106,593 |

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

10. STATEMENT OF CASH FLOW

INTEREST AND INCOME TAXES

Cash payments were made for the following items:

| | | 2005 | | 2004 |
|--------------------------|----|---------|----|---------|
| Interest | \$ | 155,312 | \$ | 165,000 |
| Payment in lieu of taxes | | 2,150 | | 4,639 |

11. REGULATORY AUTHORITIES

Rates charged for power are subject to prior approval by the Ontario Energy Board.

12. RELATED PARTIES - CONTRACTUAL OBLIGATIONS

Northern Ontario Wires Inc. has entered into an agreement with the Cochrane Telecom Services of the Corporation of the Town of Cochrane, which is affiliated with the corporation, whereby the company provides management and staff services, administration facilities and equipment to Northern Ontario Wires Inc. The total expense for rent and services under this agreement for the year was \$ 1,036,334, measured at the exchange amount, which is included in expense functions on the Statement of Income.

Amounts owing to related parties, including shareholders, bear no interest.

13. COMMITMENTS

Particular financial guarantees became necessary in the deregulated market for electricity, after the system opening in May 2002, to meet prudential requirements of the Independent Electricity System Operator (IESO), in the event of a default of payment to the (IESO), which is the supplier of electricity.

These financial guarantees became necessary for the company to carry on as an electrical distribution company.

Financial Guarantees were provided by Northern Ontario Wires through an agreement with Caisse Populaire de Cochrane.

NORTHERN ONTARIO WIRES INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

14. OTHER REVENUE

| | 2005 | 2004 |
|------------------------------|-------------------|-------------------|
| Interest earned | \$ 18,467 | \$ 9,387 |
| Interest improvement revenue | 16,641 | 13,307 |
| Late payment charges | 17,306 | 26,628 |
| Pole rental | 84,125 | 62,379 |
| Other services | 25,546 | 63,327 |
| Sundry revenues | 30,658 | 81,951 |
| | <u>\$ 192,743</u> | <u>\$ 256,979</u> |

15. FINANCIAL INSTRUMENTS

The company's financial instruments consists of cash, accounts receivable, unbilled revenue, accounts payable and accrued charges and long-term debt. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximated their carrying values, unless otherwise noted.

16. PRIOR YEARS' ADJUSTMENT

The company has retroactively adopted the deferral method of payment-in lieu of taxes. As a result of this change, future payment-in lieu of taxes of \$ 56,467 are reflected in the balance sheet of December 31, 2004. Of the \$ 56,467, \$ 17,075 is applicable to 2004 and has been charged to income for the year. The remaining \$ 73,542 is applicable to the prior years reducing the balance of retained earnings at January 1, 2004 accordingly.



NORTHERN ONTARIO WIRES INC.**SCHEDULE OF DISTRIBUTION REVENUES****YEAR ENDED DECEMBER 31, 2005**

| | 2005 | 2004 |
|------------------------------|---------------------|---------------------|
| SERVICE REVENUE | | |
| Residential sales | \$ 6,674,641 | \$ 5,979,541 |
| General and commercial sales | 6,053,776 | 5,031,097 |
| Street lighting | 126,862 | 99,613 |
| Unbilled revenue adjustment | <u>43,308</u> | <u>64,186</u> |
| | 12,898,587 | 11,174,437 |
| ENERGY COST | <u>10,820,106</u> | <u>9,229,179</u> |
| | <u>\$ 2,078,481</u> | <u>\$ 1,945,258</u> |

NORTHERN ONTARIO WIRES INC.**SCHEDULE OF EXPENSES****YEAR ENDED DECEMBER 31, 2005**

| | 2005 | 2004 |
|-----------------------------------|-------------------|-------------------|
| OPERATING AND MAINTENANCE | | |
| Wages and benefits | \$ 146,378 | \$ 153,426 |
| Materials and expenses | <u>211,946</u> | <u>191,310</u> |
| | <u>\$ 358,324</u> | <u>\$ 344,736</u> |
| BILLING AND COLLECTION | | |
| Wages and benefits | \$ 338,539 | \$ 354,352 |
| Billing costs | 199,930 | 264,894 |
| Rent | <u>1,268</u> | <u>18,156</u> |
| | <u>\$ 539,737</u> | <u>\$ 637,402</u> |
| ADMINISTRATION | | |
| Management fees | \$ 121,639 | \$ 127,233 |
| Insurance expense | 46,714 | 43,559 |
| Interest and late payment charges | 95,553 | 36,540 |
| Office supplies and expenses | 91,231 | 109,272 |
| Travel | 25,521 | 31,903 |
| Outside services | 67,475 | 90,625 |
| Repairs and maintenance | 3,463 | 1,571 |
| Salaries and benefits | <u>356,803</u> | <u>380,544</u> |
| | <u>\$ 808,399</u> | <u>\$ 821,247</u> |

