

Sioux Lookout Hydro Inc.
Financial Statements
For the year ended December 31, 2001

Sioux Lookout Hydro Inc.
Financial Statements
For the year ended ended December 31, 2001

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Chartered Accountants
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Auditors' Report

**To the Shareholder of
Sioux Lookout Hydro Inc.**

We have audited the balance sheet of Sioux Lookout Hydro Inc. as at December 31, 2001 and the statements of operations and retained earnings 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 the company as at December 31, 2001 and the results of its operations and cash flows for the year then ended in accordance with the accounting principles disclosed in the summary of significant accounting policies.

BDO Dunwoody LLP

Chartered Accountants

Dryden, Ontario
February 28, 2002

Sioux Lookout Hydro Inc. Balance Sheet

December 31	2001	2000
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Assets

Current

Cash and bank	\$ 962,300	\$ 556,862
Temporary investments	-	464,908
Accounts receivable	518,497	409,977
Unbilled revenue	659,633	704,630
Inventory	61,128	95,745
Prepaid expenses	22,329	21,765
	2,223,887	2,253,887

Capital assets (Note 1)

Goodwill

	4,942,890	4,852,098
	300,979	300,979

	\$ 7,467,756	\$ 7,406,964
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Liabilities and Shareholder's Equity

Current

Bank indebtedness (Note 2)	\$ 2,100,000	\$ 2,101,726
Accounts payable and accrued liabilities	1,134,562	1,365,245
Deferred revenue	11,558	11,808
Customer deposits	50,100	51,391
	3,296,220	3,530,170

Shareholder's equity

Share capital (Note 6)	4,016,312	4,016,312
Retained earnings (deficit)	155,224	(139,518)
	4,171,536	3,876,794
	\$ 7,467,756	\$ 7,406,964

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Statement of Operations and Retained Earnings

For the year ended December 31	2001	2000
(with comparative amounts for the three months ended December 31, 2000)		
Revenue		
Sale of energy		
Residential	\$ 2,941,345	\$ 600,661
General	3,797,238	823,134
Street lighting	50,499	5,500
Unbilled revenue adjustment	(44,997)	288,461
	6,744,085	1,717,756
Cost of bulk power purchased	5,617,662	1,718,659
Gross margin on energy sold	1,126,423	(903)
Other operating revenue (Note 3)	230,351	137,835
	1,356,774	136,932
Expenditures		
Administration	273,577	73,029
Amortization	204,824	47,423
Interest and bank charges	184,401	60,930
Operation maintenance	399,230	95,068
	1,062,032	276,450
Excess (deficiency) of revenue over expenditures for the year	294,742	(139,518)
Deficit, beginning of year	(139,518)	-
Retained earnings (deficit), end of year	\$ 155,224	\$ (139,518)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Statement of Cash Flows

For the year ended December 31	2001	2000
(with comparative amounts for the three months ended December 31, 2000)		
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenditures for the year	\$ 294,742	\$ (139,518)
Items not involving cash		
Amortization of capital assets (Note 6)	245,503	57,058
Loss on disposal of capital assets	3,438	-
	<u>543,683</u>	<u>(82,460)</u>
Changes in non-cash working capital balances		
Accounts receivable	(108,520)	(201,067)
Unbilled revenue	44,997	(288,462)
Inventory	34,617	11,101
Prepaid expenses and other current assets	(564)	856
Accounts payable and accrued liabilities	(230,683)	842,164
Deferred revenue	(250)	-
Customer deposits	(1,291)	4,591
	<u>281,989</u>	<u>286,723</u>
Investing activities		
Purchase of capital assets	(339,733)	(129,756)
Financing activities		
Increase (decrease) in bank indebtedness	(1,726)	1,726
(Increase) decrease in temporary investments	464,908	(2,606)
	<u>463,182</u>	<u>(880)</u>
Increase in cash during the year	405,438	156,087
Cash, beginning of year	556,862	400,775
Cash, end of year	\$ 962,300	\$ 556,862

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc.

Summary of Significant Accounting Policies

December 31, 2001

The corporation follows the accounting policies established for the electric utility companies in the Province of Ontario. The significant accounting policies are as follows:

Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight line basis over the assets estimated useful life.

Buildings	- 25	years
Distribution system - overhead	- 25	years
Distribution system - underground	- 25 and 35	years
Distribution transformers	- 25 and 35	years
Distribution meters	- 25 and 35	years
Other equipment - various	- from 4 to 10	years

Temporary Investments

Temporary investments are stated at the lower of cost and market value.

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on the average cost basis.

Financial Instruments

The company's financial instruments consist of cash, accounts receivable, bank indebtedness and accounts payable. 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.

Unbilled Revenue

Unbilled revenue represents energy which has been used by customers but which will not be billed until the subsequent year.

Capital Contributions

Capital contributions are set up as a capital asset contra account, Contributions and Grants. This account is amortized on the same basis as the related capital assets.

Goodwill

Goodwill being the excess of cost over assigned values of net assets acquired, is stated at cost. No amortization is provided for goodwill. The value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment in the value of the goodwill is written off against earnings.

Sioux Lookout Hydro Inc. Summary of Significant Accounting Policies

December 31, 2001

Use of Estimates

The preparation of financial statements in accordance 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 management's best estimates as additional information becomes available in the future.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2001

1. Capital Assets

	2001		2000	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	\$ 87,230	\$ 4,462	\$ 87,230	\$ 872
Distribution system-overhead	2,952,519	144,801	2,669,980	26,700
Distribution system - underground	623,411	30,827	589,084	5,891
Distribution transformers	987,570	49,235	973,193	9,732
Distribution meters	232,489	10,836	217,667	2,177
Other equipment-various	441,770	64,654	400,112	11,968
Contributions and Grants	(80,797)	(3,513)	(28,109)	(281)
	<u>\$ 5,244,192</u>	<u>\$ 301,302</u>	<u>\$ 4,909,157</u>	<u>\$ 57,059</u>
Net book value		<u>\$ 4,942,890</u>		<u>\$ 4,852,098</u>

2. Bank Indebtedness

The bank operating loan is due on demand and bears interest at the bank's prime rate, calculated and payable monthly. It is secured by a general security agreement covering all assets.

3. Other Operating Revenue

	2001	2000
Late payment charges	\$ 56,993	\$ 11,605
Interest income	31,105	12,165
Pole rentals	32,329	1,600
Change in occupancy charges	4,561	1,339
Chargeable work	91,420	107,810
Water heater rental	13,492	3,289
Sundry	451	27
	<u>\$ 230,351</u>	<u>\$ 137,835</u>

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2001

4. Pension Agreement

The Commission makes contributions to the Ontario Municipal Employers Retirement Fund (OMERS), which is a multi-employer plan, on behalf of five members of its staff. The plan is a deferred benefit plan which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rate of pay.

The amount contributed to OMERS for 2001 was \$Nil for current service and is included as an expenditure in the statement of operations. As of July 31, 1999, OMERS announced a contribution holiday extending until July 1, 2002.

5. Amortization of Capital Assets

	2001	2000
Amortization of building and distribution equipment	\$ 204,338	\$ 47,052
Amortization of office equipment	3,719	652
Amortization of Contributions and Grants	(3,232)	(281)
	<u>204,825</u>	<u>47,423</u>
Amortization of other capital assets included in relevant expense categories		
Rolling stock	34,634	8,362
Major tools	6,044	1,273
	<u>\$ 245,503</u>	<u>\$ 57,058</u>

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2001

6. Share Capital

The authorized class A preference share capital of the company is an unlimited number of non-voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at \$1,000 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class B preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$100 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class C preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class D preference share capital of the company is an unlimited number of voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized common share capital of the company is an unlimited number of shares.

The issued share capital is as follows:

	2001	2000
100 Common shares	\$ 4,016,312	\$ 4,016,312

7. Prior Period Adjustment

Effective October 1, 2001, the assets of Sioux Lookout Hydro Inc. were revalued using the discounted cash flow method. When the assets were originally transferred into the company an asset based valuation was used to calculate the fair market value. Since it was determined by management that the discounted cash flow method more accurately reflects the fair market value of Sioux Lookout Hydro Inc., the prior years financial statements had to be adjusted. As a result, both the Goodwill and Share Capital have been reduced by \$ 883,688.

Sioux Lookout Hydro Inc.
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Sioux Lookout Hydro Inc.**

We have audited the balance sheet of Sioux Lookout Hydro Inc. as at December 31, 2002 and the statements of operations and retained earnings 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 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 disclosed in the summary of significant accounting policies.

BDO Dunwoody LLP

Chartered Accountants

Dryden, Ontario
April 25, 2003

Sioux Lookout Hydro Inc. Balance Sheet

December 31	2002	2001
Assets		
Current		
Cash and bank	\$ 342,698	\$ 962,300
Accounts receivable	929,236	518,497
Unbilled revenue	876,774	659,633
Inventory (Note 1)	123,203	89,133
Prepaid expenses	46,895	22,329
Due from related parties (Note 2)	66,816	-
	<u>2,385,622</u>	<u>2,251,892</u>
Regulatory assets (Note 3)	13,065	-
Capital assets (Note 4)	4,900,029	4,914,885
Goodwill	300,979	300,979
	<u>\$ 7,599,695</u>	<u>\$ 7,467,756</u>

Liabilities and Shareholder's Equity

Current		
Bank indebtedness (Note 5)	\$ 2,100,000	\$ 2,100,000
Accounts payable and accrued liabilities	787,725	976,807
Employee benefits payable (Note 6)	90,797	97,548
Customer deposits	42,900	50,100
Deferred revenue	5,338	11,558
Due to related parties (Note 2)	298,461	60,207
	<u>3,325,221</u>	<u>3,296,220</u>
Shareholder's equity		
Share capital (Note 7)	4,016,312	4,016,312
Retained earnings	258,162	155,224
	<u>4,274,474</u>	<u>4,171,536</u>
	<u>\$ 7,599,695</u>	<u>\$ 7,467,756</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Statement of Operations and Retained Earnings

For the year ended December 31	2002	2001
Revenue		
Sale of energy		
Residential	\$ 2,964,111 39.3 %	\$ 2,941,345 43.7 %
General	4,327,418 57.3 %	3,797,238 56.3 %
Street lighting	42,882 0.6 %	50,499 0.7 %
Unbilled revenue adjustment	217,141 2.9 %	(44,997) (0.7)%
	<u>7,551,552 100 %</u>	<u>6,744,085 100 %</u>
Cost of bulk power purchased	<u>6,398,305 84.7 %</u>	<u>5,617,662 83.3 %</u>
Gross margin on energy sold	<u>1,153,247 15.3 %</u>	<u>1,126,423 16.7 %</u>
Other operating revenue (Note 8)	<u>137,921 1.8 %</u>	<u>230,351 3.4 %</u>
	<u>1,291,168 17.1 %</u>	<u>1,356,774 20.1 %</u>
Expenditures		
Administration	325,832 4.3 %	273,577 4.1 %
Amortization	199,657 2.6 %	204,824 3.0 %
Interest and bank charges	147,859 2.0 %	184,401 2.7 %
Operation maintenance	425,322 5.7 %	399,230 5.9 %
	<u>1,098,670 14.6 %</u>	<u>1,062,032 15.7 %</u>
Excess of revenue over expenditures for the year before payment in lieu of taxes	<u>192,498 2.5 %</u>	<u>294,742 4.4 %</u>
Payment in Lieu of Taxes		
Capital taxes	<u>1,201 0.1 %</u>	<u>- - %</u>
Excess of revenue over expenditures for the year	<u>191,297 2.4 %</u>	<u>294,742 4.4 %</u>
Retained earnings (deficit), beginning of year	155,224	(139,518)
Dividends	<u>(88,359)</u>	<u>-</u>
Retained earnings, end of year	<u>\$ 258,162</u>	<u>\$ 155,224</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Statement of Cash Flows

For the year ended December 31	2002	2001
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures for the year	\$ 191,297	\$ 294,742
Items not involving cash		
Amortization of capital assets (Note 10)	244,072	245,503
Loss on disposal of capital assets	2,885	3,438
	<u>438,254</u>	<u>543,683</u>
Changes in non-cash working capital balances		
Accounts receivable	(410,739)	(168,727)
Unbilled revenue	(217,141)	44,997
Due from/to related parties	171,438	60,207
Inventory	(34,065)	34,617
Prepaid expenses	(24,566)	(564)
Regulatory assets	(13,065)	-
Accounts payable and accrued liabilities	(189,082)	(230,683)
Employee benefits payable	(6,751)	-
Deferred revenue	(6,220)	(250)
Customer deposits	(7,200)	(1,291)
	<u>(299,137)</u>	<u>281,989</u>
Investing activities		
Purchase of capital assets	(363,617)	(339,733)
Proceeds on sale of capital assets	159,516	-
	<u>(204,101)</u>	<u>(339,733)</u>
Financing activities		
Decrease in bank indebtedness	-	(1,726)
Increase in temporary investments	-	464,908
Dividends	(88,359)	-
Change in Accounting Policy (Note 1)	(28,005)	-
	<u>(116,364)</u>	<u>463,182</u>
Increase (decrease) in cash during the year	(619,602)	405,438
Cash, beginning of year	962,300	556,862
Cash, end of year	\$ 342,698	\$ 962,300

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc.

Summary of Significant Accounting Policies

December 31, 2002

The corporation follows the accounting policies established for the electric utility companies in the Province of Ontario. The significant accounting policies are as follows:

Inventory	Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on the average cost basis.																		
Capital Assets	<p>Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight line basis over the assets estimated useful life.</p> <table><tr><td>Buildings</td><td>- 25</td><td>years</td></tr><tr><td>Distribution system - overhead</td><td>- 25</td><td>years</td></tr><tr><td>Distribution system - underground</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Distribution transformers</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Distribution meters</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Other equipment - various</td><td>- from 4 to 10</td><td>years</td></tr></table>	Buildings	- 25	years	Distribution system - overhead	- 25	years	Distribution system - underground	- 25 and 35	years	Distribution transformers	- 25 and 35	years	Distribution meters	- 25 and 35	years	Other equipment - various	- from 4 to 10	years
Buildings	- 25	years																	
Distribution system - overhead	- 25	years																	
Distribution system - underground	- 25 and 35	years																	
Distribution transformers	- 25 and 35	years																	
Distribution meters	- 25 and 35	years																	
Other equipment - various	- from 4 to 10	years																	
Goodwill	Goodwill being the excess of cost over assigned values of net assets acquired, is stated at cost. No amortization is provided for goodwill. The value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment in the value of the goodwill is written off against earnings.																		
Unbilled Revenue	Unbilled revenue represents energy which has been used by customers but which will not be billed until the subsequent year.																		
Capital Contributions	Capital contributions are set up as a capital asset contra account, Contributions and Grants. This account is amortized on the same basis as the related capital assets.																		
Income Taxes	The company accounts for income taxes using the tax payable method. Under this method, the company only reports as an expense the cost of current payment in lieu of taxes for the year, determined in accordance with the rules established by the taxation authorities. Future income taxes have not been reported as it is the opinion of management that these taxes will be recovered from customers in the future.																		

Sioux Lookout Hydro Inc.

Summary of Significant Accounting Policies

December 31, 2002

Financial Instruments

The company's financial instruments consist of cash, accounts receivable, amounts due to/from related parties, bank indebtedness and accounts payable. 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 approximate their carrying values, unless otherwise noted.

Use of Estimates

The preparation of financial statements in accordance with accounting policies established for electric utilities in the Province of Ontario 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 management's best estimates as additional information becomes available in the future.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2002

1. Inventory

	<u>2002</u>	<u>2001</u>
Raw materials and supplies	\$ 63,895	\$ 61,128
Work in progress	59,308	28,005
	<u>\$ 123,203</u>	<u>\$ 89,133</u>

During the year, Sioux Lookout Hydro Inc. changed its method of presenting work in progress for financial statement purposes to conform with Ontario Energy Board Handbook. As a result, the prior year capital assets have been decreased by \$28,005 and the work in progress increased by \$28,005. The net effect on income is nil.

2. Due to/from Related Parties

At the end of the year, the amounts due to/from related parties are as follows:

	<u>2002</u>	<u>2001</u>
Due to Shareholder:		
Corporation of the Municipality of Sioux Lookout	\$ 298,461	\$ -
Due from wholly owned subsidiary of shareholder:		
Sioux Hudson Energy Inc.	\$ 66,816	\$ -

These balances are interest-free, payable on demand and have arisen from the transfer of assets, dividends declared and provision of services referred to below.

The Corporation provides billing services to the Municipality of Sioux Lookout for sewer and water. At year end, there uncollected bills from customers of \$ 109,807 and bills collected and not transferred to the Municipality of \$100,294. As well, there was a dividend declared and payable of \$88,358.

The Corporation transferred hot water tanks to Sioux Hudson Energy Inc. at a cost of \$77,951. The Corporation provides billing services to Sioux Hudson Energy Inc. for hot water tank rentals. When collected, amounts billed are forwarded to the Sioux Hudson Energy Inc.

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2002

3. Regulatory Assets

The Ontario government passed Bill 210 which froze the electricity commodity price at 4.3 cents per kwh for low volume consumers and designated consumers until April 30, 2006. As a result, transitional costs and retail settlement variances have been set up on the records as an asset. Management anticipates that these costs will be recovered from their customers after 2006.

4. Capital Assets

	2002		2001	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	\$ 87,230	\$ 7,951	\$ 87,230	\$ 4,462
Distribution system-overhead	2,974,762	263,791	2,924,514	144,801
Distribution system - underground	656,977	57,106	623,411	30,827
Distribution transformers	1,031,178	90,482	987,570	49,235
Distribution meters	268,542	19,822	232,489	10,836
Other equipment-various	544,007	92,887	441,770	64,654
Contributions and Grants	(139,730)	(9,102)	(80,797)	(3,513)
	<u>\$ 5,422,966</u>	<u>\$ 522,937</u>	<u>\$ 5,216,187</u>	<u>\$ 301,302</u>
Net book value		<u>\$ 4,900,029</u>		<u>\$ 4,914,885</u>

5. Bank Indebtedness

The bank operating loan is due on demand and bears interest at the bank's prime rate, calculated and payable monthly. It is secured by a general security agreement covering all assets.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2002

6. Employee Benefits Payable

	2002	2001
Vested sick leave	\$ 75,440	\$ 76,578
Vacation pay	9,788	9,030
Banked overtime	5,569	11,940
	<u>\$ 90,797</u>	<u>\$ 97,548</u>

7. Share Capital

The authorized class A preference share capital of the company is an unlimited number of non-voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at \$1,000 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class B preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$100 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class C preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class D preference share capital of the company is an unlimited number of voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized common share capital of the company is an unlimited number of shares.

The issued share capital is as follows:

	2002	2001
100 Common shares	<u>\$ 4,016,312</u>	<u>\$ 4,016,312</u>

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2002

8. Other Operating Revenue

	2002	2001
Late payment charges	\$ 35,262	\$ 56,993
Interest income	18,681	31,105
Pole rentals	16,995	32,329
Administration fee charged to Sioux Hudson Energy Inc.	3,000	-
Change in occupancy charges	6,254	4,561
Chargeable work	57,135	91,420
Water heater rental	-	13,492
Sundry	594	451
	<u>\$ 137,921</u>	<u>\$ 230,351</u>

9. Pension Agreement

The Commission makes contributions to the Ontario Municipal Employers Retirement Fund (OMERS), which is a multi-employer plan, on behalf of seven members of its staff. The plan is a deferred benefit plan which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rate of pay.

The amount contributed to OMERS for 2002 was \$Nil for current service which is normally included as an expenditure in the statement of operations. As of July 31, 1999, OMERS announced a contribution holiday which was extended to December 31, 2002.

10. Amortization of Capital Assets

	2002	2001
Amortization of building and distribution equipment	\$ 200,748	\$ 204,338
Amortization of office equipment	4,499	3,719
Amortization of Contributions and Grants	(5,589)	(3,232)
	<u>199,658</u>	<u>204,825</u>
Amortization of other capital assets included in relevant expense categories		
Rolling stock	19,081	34,634
Major tools	23,988	6,044
Sentinel Lights	1,345	-
	<u>\$ 244,072</u>	<u>\$ 245,503</u>

Sioux Lookout Hydro Inc.
Notes to Financial Statements

December 31, 2002

11. Comparative Amounts

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.

Sioux Lookout Hydro Inc.
Financial Statements
For the year ended December 31, 2003

Sioux Lookout Hydro Inc.
Financial Statements
For the year ended ended December 31, 2003

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Auditors' Report

**To the Shareholder of
Sioux Lookout Hydro Inc.**

We have audited the balance sheet of Sioux Lookout Hydro Inc. as at December 31, 2003 and the statements of operations, retained earnings 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 the company as at December 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Dryden, Ontario
March 1, 2004

Sioux Lookout Hydro Inc. Balance Sheet

December 31	2003	2002
Assets		
Current		
Cash and bank	\$ 687,576	\$ 342,698
Accounts receivable	690,095	929,236
Unbilled revenue	892,569	876,774
Due from related parties (Note 2)	71,976	66,816
Inventory (Note 1)	129,756	123,203
Prepaid expenses	72,429	46,895
	<u>2,544,401</u>	<u>2,385,622</u>
Regulatory assets (Note 3)	136,897	148,223
Capital assets (Note 4)	4,914,951	4,900,029
Goodwill	<u>300,979</u>	<u>300,979</u>
	<u>\$ 7,897,228</u>	<u>\$ 7,734,853</u>
Liabilities and Shareholder's Equity		
Current		
Bank indebtedness (Note 5)	\$ 2,041,667	\$ 2,100,000
Accounts payable and accrued liabilities	743,605	787,724
Employee benefits payable (Note 6)	90,850	90,797
Taxes payable	151,807	31,029
Customer deposits	64,450	42,900
Deferred revenue	-	5,338
Due to related parties (Note 2)	250,365	298,461
	<u>3,342,744</u>	<u>3,356,249</u>
Shareholder's equity		
Share capital (Note 7)	4,016,312	4,016,312
Retained earnings	<u>538,172</u>	<u>362,292</u>
	<u>4,554,484</u>	<u>4,378,604</u>
	<u>\$ 7,897,228</u>	<u>\$ 7,734,853</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Statement of Retained Earnings

<u>For the year ended December 31</u>	<u>2003</u>	<u>2002</u>
Retained earnings, beginning of year	\$ 258,162	\$ 155,224
Correction of prior period error (Note 8)	<u>104,130</u>	<u>-</u>
	362,292	155,224
Excess of revenue over expenditures for the year	308,418	295,427
Dividends	<u>(132,538)</u>	<u>(88,359)</u>
Retained earnings, end of year	<u>\$ 538,172</u>	<u>\$ 362,292</u>

Sioux Lookout Hydro Inc. Statement of Operations

For the year ended December 31	2003		2002	
Revenue				
Sale of energy				
Residential and general	\$ 7,008,568	99.2 %	\$ 7,142,033	96.5 %
Street lighting	44,241	0.6 %	43,116	0.6 %
Unbilled revenue adjustment	15,795	0.2 %	217,141	2.9 %
	<u>7,068,604</u>	100 %	<u>7,402,290</u>	100 %
Cost of bulk power purchased	5,751,026	81.4 %	6,113,884	82.6 %
Gross margin on energy sold	1,317,578	18.6 %	1,288,406	17.4 %
Other operating revenue (Note 9)	188,505	2.7 %	85,225	1.2 %
	<u>1,506,083</u>	21.3 %	<u>1,373,631</u>	18.6 %
Expenditures				
Administration	402,274	5.6 %	375,137	5.1 %
Amortization	213,759	3.0 %	199,657	2.7 %
Interest and bank charges	121,991	1.7 %	102,994	1.4 %
Operation maintenance	332,923	4.8 %	368,186	5.0 %
	<u>1,070,947</u>	15.1 %	<u>1,045,974</u>	14.2 %
Excess of revenue over expenditures before payment in lieu of taxes	435,136	6.2 %	327,657	4.4 %
Payment in lieu of taxes				
Payment in lieu of taxes	126,718	1.9 %	32,230	(0.4)%
Excess of revenue over expenditures for the year	<u>\$ 308,418</u>	4.3 %	<u>\$ 295,427</u>	4.8 %

Sioux Lookout Hydro Inc. Statement of Cash Flows

For the year ended December 31	2003	2002
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures for the year	\$ 308,418	\$ 295,427
Items not involving cash		
Amortization of capital assets (Note 11)	277,748	244,072
Loss on disposal of capital assets	4,519	2,885
	<u>590,685</u>	<u>542,384</u>
Changes in non-cash working capital balances		
Accounts receivable	239,141	(410,739)
Unbilled revenue	(15,795)	(217,141)
Due from/to related parties	(53,258)	171,438
Inventory	(6,553)	(34,065)
Prepaid expenses	(25,534)	(24,566)
Accounts payable and accrued liabilities	(44,119)	(189,083)
Employee benefits payable	53	(6,751)
Deferred revenue	(5,338)	(6,220)
Taxes payable	120,778	31,029
Customer deposits	21,550	(7,200)
	<u>821,610</u>	<u>(150,914)</u>
Investing activities		
Purchase of capital assets	(322,187)	(363,617)
(Increase) decrease in regulatory assets	11,326	(148,223)
Proceeds on sale of capital assets	25,000	159,516
	<u>(285,861)</u>	<u>(352,324)</u>
Financing activities		
Decrease in bank indebtedness	(58,333)	-
Dividends	(132,538)	(88,359)
Change in accounting policy (Note 1)	-	(28,005)
	<u>(190,871)</u>	<u>(116,364)</u>
Increase (decrease) in cash during the year	344,878	(619,602)
Cash, beginning of year	342,698	962,300
Cash, end of year	\$ 687,576	\$ 342,698

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Summary of Significant Accounting Policies

December 31, 2003

The corporation follows the accounting policies established for the electric utility companies in the Province of Ontario. The significant accounting policies are as follows:

Nature of Business	The company is incorporated under the laws of Ontario and is engaged in the operation of retail electricity.																		
Inventory	Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on the average cost basis.																		
Capital Assets	<p>Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight line basis over the assets estimated useful life.</p> <table><tr><td>Buildings</td><td>- 25</td><td>years</td></tr><tr><td>Distribution system - overhead</td><td>- 25</td><td>years</td></tr><tr><td>Distribution system - underground</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Distribution transformers</td><td>- 25 and 35</td><td>years</td></tr><tr><td>----- Distribution meters -----</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Other equipment - various</td><td>- from 4 to 10</td><td>years</td></tr></table>	Buildings	- 25	years	Distribution system - overhead	- 25	years	Distribution system - underground	- 25 and 35	years	Distribution transformers	- 25 and 35	years	----- Distribution meters -----	- 25 and 35	years	Other equipment - various	- from 4 to 10	years
Buildings	- 25	years																	
Distribution system - overhead	- 25	years																	
Distribution system - underground	- 25 and 35	years																	
Distribution transformers	- 25 and 35	years																	
----- Distribution meters -----	- 25 and 35	years																	
Other equipment - various	- from 4 to 10	years																	
Goodwill	Goodwill being the excess of cost over assigned values of net assets acquired, is stated at cost. No amortization is provided for goodwill. The value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment in the value of the goodwill is written off against earnings.																		
Customer Deposits	Customer deposits are cash collections from customers to guarantee the payment of energy bills.																		
Revenue Recognition	Revenue from the sale of electricity is recorded on a basis of cyclical billings and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed.																		
Capital Contributions	Capital contributions are set up as a capital asset contra account, Contributions and Grants. This account is amortized on the same basis as the related capital assets.																		
Income Taxes	The company accounts for income taxes using the tax payable method. Under this method, the company only reports as an expense the cost of current payment in lieu of taxes for the year, determined in accordance with the rules established by the taxation authorities. Future income taxes have not been reported as it is the opinion of management that these taxes will be recovered from customers in the future.																		

Sioux Lookout Hydro Inc.

Summary of Significant Accounting Policies

December 31, 2003

Financial Instruments

The company's financial instruments consist of cash, accounts receivable, amounts due to/from related parties, bank indebtedness and accounts payable. 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 approximate their carrying values, unless otherwise noted.

Use of Estimates

The preparation of financial statements in accordance with accounting policies established for electric utilities in the Province of Ontario 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 management's best estimates as additional information becomes available in the future.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2003

1. Inventory

	<u>2003</u>	<u>2002</u>
Raw materials and supplies	\$ 59,115	\$ 63,895
Work in progress	<u>70,641</u>	<u>59,308</u>
	<u>\$ 129,756</u>	<u>\$ 123,203</u>

During the prior year, Sioux Lookout Hydro Inc. changed its method of presenting work in progress for financial statement purposes to conform with Ontario Energy Board Handbook. As a result, the prior year capital assets have been decreased by \$28,005 and the work in progress increased by \$28,005. The net effect on income is \$nil.

2. Due to/from Related Parties

At the end of the year, the amounts due to/from related parties are as follows:

	<u>2003</u>	<u>2002</u>
Due to Shareholder:		
Corporation of the Municipality of Sioux Lookout	<u>\$ 250,365</u>	<u>\$ 298,461</u>
Due from wholly owned subsidiary of shareholder:		
Sioux Hudson Energy Inc.	<u>\$ 71,976</u>	<u>\$ 66,816</u>

These balances are interest-free, payable on demand and have arisen from the transfer of assets, dividends declared and provision of services referred to below.

The Corporation provides billing services to the Municipality of Sioux Lookout for sewer and water. At year end, the uncollected bills from customers was \$119,242 and the bills collected and not transferred to the Municipality was \$117,827. As well, there was a dividend declared and payable of \$132,538 and an administration fee of \$3,000.

The Corporation transferred hot water tanks to Sioux Hudson Energy Inc. at a cost of \$77,951. The Corporation provides billing services to Sioux Hudson Energy Inc. for hot water tank rentals. When collected, amounts billed are forwarded to the Sioux Hudson Energy Inc.

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2003

3. Regulatory Assets

Under Bill 210, certain costs and variance account balances are deemed to be "regulatory assets" in accordance with the OEB Accounting Procedures Handbook. These assets are to be reflected on the corporation's balance sheet until the manner and timing of disposition is determined by the OEB.

The corporation continually assesses the likelihood of recovery of regulatory assets. If the recovery through future rates are no longer probable, the amounts will be charged to the results of operations in the period the assessment is made. If a future recovery decision is made by the OEB or the Ministry of Energy to allow recovery of the regulatory assets, the corporation will recognize the revenue in the results of operations in the period such a decision is made.

4. Capital Assets

	2003		2002	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	\$ 91,864	\$ 11,625	\$ 87,230	\$ 7,951
Distribution system-overhead	3,225,175	392,798	2,974,762	263,791
Distribution system				
- underground	701,825	85,179	656,977	57,106
Distribution transformers	1,155,482	136,701	1,031,178	90,482
Distribution meters	283,323	30,871	268,542	19,822
Other equipment-various	514,935	151,690	544,007	92,887
Contributions and Grants	(268,637)	(19,848)	(139,730)	(9,102)
	<u>\$ 5,703,967</u>	<u>\$ 789,016</u>	<u>\$ 5,422,966</u>	<u>\$ 522,937</u>
Net book value		<u>\$ 4,914,951</u>		<u>\$ 4,900,029</u>

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2003

5. Bank Indebtedness

	<u>2003</u>	<u>2002</u>
Bank operating loan, due on demand, interest repayable monthly at prime, secured by a general security agreement covering all assets	\$ -	\$ 2,100,000
Demand instalment loan, repayable at \$11,666 per month plus interest at prime, secured by a general security agreement covering all assets; due 2018	<u>2,041,667</u>	<u>-</u>
	<u>\$ 2,041,667</u>	<u>\$ 2,100,000</u>

The bank operating loan is due on demand and bears interest at the bank's prime rate, calculated and payable monthly. It is secured by a general security agreement covering all assets.

6. Employee Benefits Payable

	<u>2003</u>	<u>2002</u>
Vested sick leave	\$ 7,619	\$ 9,788
Vacation pay	67,082	75,440
Banked overtime	5,269	5,569
Post employment benefits	<u>10,880</u>	<u>-</u>
	<u>\$ 90,850</u>	<u>\$ 90,797</u>

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2003

7. Share Capital

The authorized class A preference share capital of the company is an unlimited number of non-voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at \$1,000 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class B preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$100 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class C preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class D preference share capital of the company is an unlimited number of voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized common share capital of the company is an unlimited number of shares.

The issued share capital is as follows:

	<u>2003</u>	<u>2002</u>
100 Common shares	<u>\$ 4,016,312</u>	<u>\$ 4,016,312</u>

8. Correction of Prior Period Error

In the prior year, the Ontario government passed Bill 210 which resulted in a premarket opening variance and several retail settlement variances. In order to apply for a rate adjustment these variances must be recorded in the books. As a result, the financial statements have been restated. The prior year regulatory assets have been increased by \$135,159, the taxes payable increased by \$31,029, the cost of bulk power purchased decreased by \$330,193, the energy sales decreased by \$195,034 and the payment in lieu of taxes increased by \$31,029. The net effect of these adjustments have increased the opening retained earnings by \$104,130. Management anticipates that these variances will be recovered from their customers through rate adjustments.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2003

9. Other Operating Revenue

	<u>2003</u>	<u>2002</u>
Late payment charges	\$ 34,450	\$ 35,262
Interest income	22,120	18,681
Pole rentals	23,018	16,995
Administration fees	92,852	4,439
Change in occupancy charges	7,497	6,254
Sundry	8,568	3,594
	<u>\$ 188,505</u>	<u>\$ 85,225</u>

10. Pension Agreement

The Commission makes contributions to the Ontario Municipal Employers Retirement Fund (OMERS), which is a multi-employer plan, on behalf of seven members of its staff. The plan is a deferred benefit plan which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rate of pay.

The amount contributed to OMERS for 2003 was \$6,846 (2002 - \$nil) for current service which is normally included as an expenditure in the statement of revenue and expenditures.

11. Amortization of Capital Assets

	<u>2003</u>	<u>2002</u>
Amortization of building and distribution equipment	\$ 218,307	\$ 200,748
Amortization of office equipment	4,620	4,499
Amortization of Contributions and Grants	(10,745)	(5,589)
	<u>212,182</u>	<u>199,658</u>
Amortization of other capital assets included in relevant expense categories		
Rolling stock	39,156	19,081
Operations and maintenance	24,832	23,988
Sentinel lights	1,578	1,345
	<u>\$ 277,748</u>	<u>\$ 244,072</u>

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2003

12. Comparative Amounts

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.

13. Financial Guarantees

Participants in the wholesale market for electricity that is administered by the Independent Electricity Market Operator are required to satisfy prescribed prudential requirements.

During the year the corporation was party to an irrevocable letter of credit with a Canadian Chartered bank. The letter of credit amount was 2003 - \$381,088 (2002 - \$518,999).

Sioux Lookout Hydro Inc.
Financial Statements
For the year ended December 31, 2004

Sioux Lookout Hydro Inc.
Financial Statements
For the year ended ended December 31, 2004

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Auditors' Report

**To the Shareholder of
Sioux Lookout Hydro Inc.**

We have audited the balance sheet of Sioux Lookout Hydro Inc. as at December 31, 2004 and the statements of operations, retained earnings 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 the company as at December 31, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Dryden, Ontario
February 28, 2005

Sioux Lookout Hydro Inc. Balance Sheet

December 31 **2004** **2003**

Assets

Current

Cash and bank	\$ 541,854	\$ 687,576
Accounts receivable	642,291	690,095
Unbilled revenue	1,093,732	892,569
Due from related parties (Note 2)	64,888	71,976
Inventory (Note 1)	118,691	129,756
Prepaid expenses	72,120	72,429
	<u>2,533,576</u>	<u>2,544,401</u>

Regulatory assets (Note 3) 12,956 136,897

Capital assets (Note 4) 4,920,343 4,914,951

Goodwill 300,979 300,979

\$ 7,767,854 **\$ 7,897,228**

Liabilities and Shareholder's Equity

Current

Bank indebtedness (Note 5)	\$ 1,901,667	\$ 2,041,667
Accounts payable and accrued liabilities	893,893	743,604
Employee benefits payable (Note 6)	106,574	90,850
Taxes payable	33,037	151,807
Customer deposits	69,300	64,450
Due to related parties (Note 2)	264,447	250,365
	<u>3,268,918</u>	<u>3,342,743</u>

Shareholder's equity

Share capital (Note 7)	4,016,312	4,016,312
Retained earnings	482,624	538,173

4,498,936 **4,554,485**

\$ 7,767,854 **\$ 7,897,228**

Sioux Lookout Hydro Inc.
Statement of Retained Earnings

<u>For the year ended December 31</u>	<u>2004</u>	<u>2003</u>
Retained earnings, beginning of year	\$ 538,173	\$ 258,162
Correction of prior period error (Note 8)	-	104,130
	<u>538,173</u>	<u>362,292</u>
Excess of revenue over expenditures for the year	76,989	308,419
Dividends	<u>(132,538)</u>	<u>(132,538)</u>
Retained earnings, end of year	<u>\$ 482,624</u>	<u>\$ 538,173</u>

Sioux Lookout Hydro Inc. Statement of Operations

For the year ended December 31	2004		2003	
Revenue				
Sale of energy				
Residential and general	\$ 6,776,827	96.6 %	\$ 7,008,568	99.3 %
Street lighting	39,823	0.6 %	36,509	0.5 %
Unbilled revenue adjustment	201,163	2.8 %	15,795	0.2 %
	<u>7,017,813</u>	<u>100 %</u>	<u>7,060,872</u>	<u>100 %</u>
Cost of bulk power purchased	5,772,596	82.3 %	5,751,026	81.4 %
Gross margin on energy sold	1,245,217	17.7 %	1,309,846	18.6 %
Other operating revenue (Note 9)	131,025	1.9 %	196,238	2.8 %
	<u>1,376,242</u>	<u>19.6 %</u>	<u>1,506,084</u>	<u>21.3 %</u>
Expenditures				
Administration	441,599	6.2 %	402,274	5.7 %
Amortization	224,897	3.2 %	213,759	3.0 %
Interest and bank charges	111,263	1.6 %	121,991	1.7 %
Operation maintenance	487,530	7.0 %	332,923	4.7 %
	<u>1,265,289</u>	<u>18.0 %</u>	<u>1,070,947</u>	<u>15.1 %</u>
Excess of revenue over expenditures before payment in lieu of taxes	110,953	1.6 %	435,137	6.2 %
Payment in lieu of taxes				
Payment in lieu of taxes	33,964	0.6 %	126,718	1.8 %
Excess of revenue over expenditures for the year	<u>\$ 76,989</u>	<u>1.0 %</u>	<u>\$ 308,419</u>	<u>4.4 %</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Statement of Cash Flows

For the year ended December 31	2004	2003
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures for the year	\$ 76,989	\$ 308,419
Items not involving cash		
Amortization of capital assets (Note 11)	292,170	277,748
Loss on disposal of capital assets	3,329	4,519
	<u>372,488</u>	<u>590,686</u>
Changes in non-cash working capital balances		
Accounts receivable	47,804	239,141
Unbilled revenue	(201,163)	(15,795)
Due from/to related parties	21,170	(53,258)
Inventory	11,065	(6,553)
Prepaid expenses	309	(25,534)
Accounts payable and accrued liabilities	150,201	(44,119)
Employee benefits payable	15,724	53
Deferred revenue	-	(5,338)
Taxes payable (recoverable)	(118,770)	120,777
Customer deposits	4,850	21,550
	<u>303,678</u>	<u>821,610</u>
Investing activities		
Purchase of capital assets	(300,802)	(322,187)
Decrease in regulatory assets	123,940	11,326
Proceeds on sale of capital assets	-	25,000
	<u>(176,862)</u>	<u>(285,861)</u>
Financing activities		
Decrease in bank indebtedness	(140,000)	(58,333)
Dividends	(132,538)	(132,538)
	<u>(272,538)</u>	<u>(190,871)</u>
Increase (decrease) in cash during the year	(145,722)	344,878
Cash, beginning of year	687,576	342,698
Cash, end of year	\$ 541,854	\$ 687,576

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Summary of Significant Accounting Policies

December 31, 2004

The corporation follows the accounting policies established for the electric utility companies in the Province of Ontario. The significant accounting policies are as follows:

Nature of Business	The company is incorporated under the laws of Ontario and is engaged in the operation of retail electricity.																		
Inventory	Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on the average cost basis.																		
Capital Assets	<p>Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight line basis over the assets estimated useful life.</p> <table><tr><td>Buildings</td><td>- 25</td><td>years</td></tr><tr><td>Distribution system - overhead</td><td>- 25</td><td>years</td></tr><tr><td>Distribution system - underground</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Distribution transformers</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Distribution meters</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Other equipment - various</td><td>- from 4 to 10</td><td>years</td></tr></table>	Buildings	- 25	years	Distribution system - overhead	- 25	years	Distribution system - underground	- 25 and 35	years	Distribution transformers	- 25 and 35	years	Distribution meters	- 25 and 35	years	Other equipment - various	- from 4 to 10	years
Buildings	- 25	years																	
Distribution system - overhead	- 25	years																	
Distribution system - underground	- 25 and 35	years																	
Distribution transformers	- 25 and 35	years																	
Distribution meters	- 25 and 35	years																	
Other equipment - various	- from 4 to 10	years																	
Goodwill	Goodwill being the excess of cost over assigned values of net assets acquired, is stated at cost. No amortization is provided for goodwill. The value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment in the value of the goodwill is written off against earnings.																		
Customer Deposits	Customer deposits are cash collections from customers to guarantee the payment of energy bills.																		
Revenue Recognition	Revenue from the sale of electricity is recorded on a basis of cyclical billings and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed.																		
Capital Contributions	Capital contributions are set up as a capital asset contra account, Contributions and Grants. This account is amortized on the same basis as the related capital assets.																		

Sioux Lookout Hydro Inc.

Summary of Significant Accounting Policies

December 31, 2004

Payment in Lieu of Taxes

The company accounts for payment in lieu of taxes using the tax payable method. Under this method, the company only reports as an expense the cost of current payment in lieu of taxes for the year, determined in accordance with the rules established by the taxation authorities. Future payment in lieu of taxes have not been reported as it is the opinion of management that these taxes will be recovered from customers in the future.

Financial Instruments

The company's financial instruments consist of cash, accounts receivable, amounts due to/from related parties, bank indebtedness and accounts payable. 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 approximate their carrying values, unless otherwise noted.

Use of Estimates

The preparation of financial statements in accordance with accounting policies established for electric utilities in the Province of Ontario 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 management's best estimates as additional information becomes available in the future.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2004

1. Inventory

	<u>2004</u>	<u>2003</u>
Raw materials and supplies	\$ 68,085	\$ 59,115
Work in progress	<u>50,606</u>	<u>70,641</u>
	<u>\$ 118,691</u>	<u>\$ 129,756</u>

2. Due to/from Related Parties

At the end of the year, the amounts due to/from related parties are as follows:

	<u>2004</u>	<u>2003</u>
Due to Shareholder:		
Corporation of the Municipality of Sioux Lookout	<u>\$ 264,447</u>	<u>\$ 250,365</u>
Due from wholly owned subsidiary of shareholder:		
Sioux Hudson Energy Inc.	<u>\$ 64,888</u>	<u>\$ 71,976</u>

These balances are interest free, payable on demand and have arisen from the transfer of assets, dividends declared and provision of services referred to below.

The Corporation provides billing services to the Municipality of Sioux Lookout for sewer and water. At year end, the uncollected bills from customers was \$131,908. As well, there was a dividend declared and payable of \$132,538.

The Corporation provides billing services to Sioux Hudson Energy Inc. for hot water tank rentals. When collected, amounts billed are forwarded to Sioux Hudson Energy Inc.

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

3. Regulatory Assets

Under Bill 210, certain costs and variance account balances are deemed to be "regulatory assets" in accordance with the OEB Accounting Procedures Handbook. These assets are to be reflected on the Corporation's balance sheet. The OEB has granted the Corporation permission to recover the regulatory assets when establishing its distribution rates.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2004

4. Capital Assets

	2004		2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	\$ 91,864	\$ 15,300	\$ 91,864	\$ 11,625
Distribution system-overhead	3,404,097	528,962	3,225,175	392,798
Distribution system - underground	759,708	115,568	701,825	85,179
Distribution transformers	1,255,583	186,924	1,155,482	136,701
Distribution meters	288,839	41,912	283,323	30,871
Other equipment - various	550,266	223,304	514,935	151,690
Contributions and Grants	(351,970)	(33,926)	(268,637)	(19,848)
	<u>\$ 5,998,387</u>	<u>\$ 1,078,044</u>	<u>\$ 5,703,967</u>	<u>\$ 789,016</u>
Net book value		<u>\$ 4,920,343</u>		<u>\$ 4,914,951</u>

5. Bank Indebtedness

	2004	2003
Demand instalment loan, repayable at \$11,666 per month plus interest at prime, secured by a general security agreement covering all assets; due 2018	<u>\$ 1,901,667</u>	<u>\$ 2,041,667</u>

The bank operating loan is due on demand and bears interest at the bank's prime rate, calculated and payable monthly. It is secured by a general security agreement covering all assets.

6. Employee Benefits Payable

	2004	2003
Vested sick leave	\$ 6,777	\$ 7,619
Vacation pay	74,537	67,082
Banked overtime	3,388	5,269
Post employment benefits	21,872	10,880
	<u>\$ 106,574</u>	<u>\$ 90,850</u>

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2004

7. Share Capital

The authorized class A preference share capital of the company is an unlimited number of non-voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at \$1,000 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class B preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$100 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class C preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class D preference share capital of the company is an unlimited number of voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized common share capital of the company is an unlimited number of shares.

The issued share capital is as follows:

	<u>2004</u>	<u>2003</u>
100 Common shares	<u>\$ 4,016,312</u>	<u>\$ 4,016,312</u>

8. Correction of Prior Period Error

In the prior year, the Ontario government passed Bill 210 which resulted in a premarket opening variance and several retail settlement variances. In order to apply for a rate adjustment these variances must be recorded in the books. As a result, the financial statements have been restated. For the prior year, both regulatory assets and retained earnings have been increased by \$104,130. Management anticipates that these variances will be recovered from their customers through rate adjustments.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2004

9. Other Operating Revenue

	2004	2003
Late payment charges	\$ 50,516	\$ 34,450
Interest income	25,262	22,120
Pole rentals	19,408	23,018
Administration fees	7,272	92,852
Change in occupancy charges	7,119	7,497
Sentinel light rental	7,989	7,733
Sundry	13,459	8,568
	<u>\$ 131,025</u>	<u>\$ 196,238</u>

10. Pension Agreement

The Commission makes contributions to the Ontario Municipal Employers Retirement Fund (OMERS), which is a multi-employer plan, on behalf of seven members of its staff. The plan is a deferred benefit plan which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rate of pay.

The amount contributed to OMERS for 2004 was \$23,093 (2003 - \$6,846) for current service which is normally included as an expenditure in the statement of revenue and expenditures.

11. Amortization of Capital Assets

	2004	2003
Amortization of building and distribution equipment	\$ 232,060	\$ 218,307
Amortization of office equipment	5,169	4,620
Amortization of Contributions and Grants	(14,079)	(10,745)
	<u>223,150</u>	<u>212,182</u>
Amortization of other capital assets included in relevant expense categories		
Rolling stock	41,769	39,156
Operations and maintenance	25,505	24,832
Sentinel lights	1,746	1,578
	<u>\$ 292,170</u>	<u>\$ 277,748</u>

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2004

12. Financial Guarantees

Participants in the wholesale market for electricity that is administered by the Independent Electricity Market Operator are required to satisfy prescribed prudential requirements.

During the year the Corporation was party to an irrevocable letter of credit with a Canadian Chartered bank. The letter of credit amount was 2004 - \$381,088 (2003 - \$381,088).

13. Statement of Cash Flows

	2004	2003
Interest paid	\$ 111,263	\$ 121,991
Income taxes paid	152,734	5,940
	<u>\$ 263,997</u>	<u>\$ 127,931</u>

Sioux Lookout Hydro Inc.
Financial Statements
For the year ended December 31, 2005

Sioux Lookout Hydro Inc.
Financial Statements
For the year ended ended December 31, 2005

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Auditors' Report

**To the Shareholder of
Sioux Lookout Hydro Inc.**

We have audited the balance sheet of Sioux Lookout Hydro Inc. as at December 31, 2005 and the statements of retained earnings, operations 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 the company as at December 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Dryden, Ontario
March 16, 2006

Sioux Lookout Hydro Inc. Balance Sheet

December 31	2005	2004
Assets		
Current		
Cash and bank	\$ 1,310,441	\$ 541,854
Accounts receivable	271,614	642,291
Unbilled revenue	1,070,610	1,093,732
Due from related parties (Note 2)	52,624	64,888
Inventory (Note 1)	54,038	118,691
Prepaid expenses	82,385	72,120
	<u>2,841,712</u>	<u>2,533,576</u>
Regulatory assets (Note 3)	-	12,956
Capital assets (Note 4)	4,889,766	4,920,343
Goodwill	<u>300,979</u>	<u>300,979</u>
	<u>\$ 8,032,457</u>	<u>\$ 7,767,854</u>

Liabilities and Shareholder's Equity

Current		
Bank indebtedness (Note 5)	\$ 1,761,667	\$ 1,901,667
Accounts payable and accrued liabilities	1,155,029	893,893
Employee benefits payable (Note 6)	132,754	106,574
Taxes payable	3,286	33,037
Customer deposits	95,455	69,300
Due to related parties (Note 2)	286,487	264,447
	<u>3,434,678</u>	<u>3,268,918</u>
Regulatory liabilities (Note 3)	<u>172,156</u>	-
	<u>3,606,834</u>	<u>3,268,918</u>
Shareholder's equity		
Share capital (Note 8)	4,016,312	4,016,312
Retained earnings	<u>409,311</u>	<u>482,624</u>
	<u>4,425,623</u>	<u>4,498,936</u>
	<u>\$ 8,032,457</u>	<u>\$ 7,767,854</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Statement of Retained Earnings

For the year ended December 31	2005	2004
Retained earnings, beginning of year	\$ 482,624	\$ 538,173
Excess of revenue over expenditures for the year	<u>59,225</u>	<u>76,989</u>
	541,849	615,162
Dividends	<u>(132,538)</u>	<u>(132,538)</u>
Retained earnings, end of year	<u>\$ 409,311</u>	<u>\$ 482,624</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Statement of Operations

For the year ended December 31	2005		2004	
Revenue				
Sale of energy				
Residential and general	\$ 7,038,193	99.7 %	\$ 6,776,827	96.5 %
Street lighting	44,235	0.6 %	39,823	0.6 %
Unbilled revenue adjustment	(23,122)	(0.3) %	201,163	2.9 %
	<u>7,059,306</u>	<u>100 %</u>	<u>7,017,813</u>	<u>100 %</u>
Cost of bulk power purchased	<u>5,779,463</u>	<u>81.9 %</u>	<u>5,772,596</u>	<u>82.3 %</u>
Gross margin on energy sold	<u>1,279,843</u>	<u>18.1 %</u>	<u>1,245,217</u>	<u>17.7 %</u>
Other operating revenue (Note 10)	<u>169,400</u>	<u>2.4 %</u>	<u>131,025</u>	<u>1.9 %</u>
	<u>1,449,243</u>	<u>20.5 %</u>	<u>1,376,242</u>	<u>19.6 %</u>
Expenditures				
Administration	444,726	6.2 %	441,599	6.3 %
Amortization	234,042	3.3 %	224,897	3.2 %
Interest and bank charges	119,986	1.7 %	111,263	1.6 %
Operation maintenance	563,198	8.1 %	487,530	6.9 %
	<u>1,361,952</u>	<u>19.3 %</u>	<u>1,265,289</u>	<u>18.0 %</u>
Excess of revenue over expenditures before payment in lieu of taxes	<u>87,291</u>	<u>1.2 %</u>	<u>110,953</u>	<u>1.6 %</u>
Payment in lieu of taxes				
Payment in lieu of taxes	<u>28,066</u>	<u>0.5 %</u>	<u>33,964</u>	<u>0.5 %</u>
Excess of revenue over expenditures for the year	<u>\$ 59,225</u>	<u>0.7 %</u>	<u>\$ 76,989</u>	<u>1.1 %</u>

Sioux Lookout Hydro Inc. Statement of Cash Flows

For the year ended December 31	2005	2004
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenditures for the year	\$ 59,225	\$ 76,989
Items not involving cash		
Amortization of capital assets (Note 13)	305,504	292,170
Loss on disposal of capital assets	965	3,329
	<u>365,694</u>	<u>372,488</u>
Changes in non-cash working capital balances		
Accounts receivable	370,677	47,804
Unbilled revenue	23,122	(201,163)
Due to/from related parties	34,302	21,170
Inventory	64,653	11,065
Prepaid expenses	(10,265)	309
Accounts payable and accrued liabilities	261,136	150,201
Employee benefits payable	26,180	15,724
Taxes payable	(29,751)	(118,770)
Customer deposits	26,155	4,850
	<u>1,131,903</u>	<u>303,678</u>
Investing activities		
Purchase of capital assets	(279,586)	(300,802)
Decrease in regulatory assets (liabilities)	185,112	123,940
Proceeds on sale of capital assets	3,696	-
	<u>(90,778)</u>	<u>(176,862)</u>
Financing activities		
Decrease in bank indebtedness	(140,000)	(140,000)
Dividends	(132,538)	(132,538)
	<u>(272,538)</u>	<u>(272,538)</u>
Increase (decrease) in cash during the year	768,587	(145,722)
Cash, beginning of year	541,854	687,576
Cash, end of year	\$ 1,310,441	\$ 541,854

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc.

Summary of Significant Accounting Policies

December 31, 2005

Nature of Business	The company is incorporated under the laws of Ontario and is licenced by the Ontario Energy Board (OEB) as an electricity distributor.																		
Inventory	Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on the average cost basis.																		
Capital Assets	<p>Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight line basis over the assets estimated useful life.</p> <table><tr><td>Buildings</td><td>- 25</td><td>years</td></tr><tr><td>Distribution system - overhead</td><td>- 25</td><td>years</td></tr><tr><td>Distribution system - underground</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Distribution transformers</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Distribution meters</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Other equipment - various</td><td>- from 4 to 10</td><td>years</td></tr></table>	Buildings	- 25	years	Distribution system - overhead	- 25	years	Distribution system - underground	- 25 and 35	years	Distribution transformers	- 25 and 35	years	Distribution meters	- 25 and 35	years	Other equipment - various	- from 4 to 10	years
Buildings	- 25	years																	
Distribution system - overhead	- 25	years																	
Distribution system - underground	- 25 and 35	years																	
Distribution transformers	- 25 and 35	years																	
Distribution meters	- 25 and 35	years																	
Other equipment - various	- from 4 to 10	years																	
Goodwill	Goodwill being the excess of cost over assigned values of net assets acquired, is stated at cost. No amortization is provided for goodwill. The value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment in the value of the goodwill is written off against earnings.																		
Customer Deposits	Customer deposits are cash collections from customers to guarantee the payment of energy bills.																		
Revenue Recognition	Revenue from the sale of electricity is recorded on a basis of cyclical billings and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed.																		
Capital Contributions	Capital contributions are set up as a capital asset contra account, Contributions and Grants. This account is amortized on the same basis as the related capital assets.																		
Payment in Lieu of Taxes	The company accounts for payment in lieu of taxes using the tax payable method. Under this method, the company only reports as an expense the cost of current payment in lieu of taxes for the year, determined in accordance with the rules established by the taxation authorities. Future payment in lieu of taxes have not been reported as it is the opinion of management that these taxes will be recovered from customers in the future.																		

Sioux Lookout Hydro Inc.

Summary of Significant Accounting Policies

December 31, 2005

Financial Instruments

The company's financial instruments consist of cash, accounts receivable, amounts due to/from related parties, bank indebtedness and accounts payable. 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 approximate their carrying values, unless otherwise noted.

Use of Estimates

The preparation of financial statements in accordance with accounting policies established for electric utilities in the Province of Ontario 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 management's best estimates as additional information becomes available in the future.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2005

1. Inventory

	<u>2005</u>	<u>2004</u>
Raw materials and supplies	\$ 45,679	\$ 68,085
Work in progress	8,359	50,606
	<u>\$ 54,038</u>	<u>\$ 118,691</u>

2. Due to/from Related Parties

At the end of the year, the amounts due to/from related parties are as follows:

	<u>2005</u>	<u>2004</u>
Due to Shareholder:		
Corporation of the Municipality of Sioux Lookout	<u>\$ 286,487</u>	<u>\$ 264,447</u>
Due from wholly owned subsidiary of shareholder:		
Sioux Hudson Energy Inc.	<u>\$ 52,624</u>	<u>\$ 64,888</u>

These balances are interest free, payable on demand and have arisen from the transfer of assets, dividends declared and provision of services referred to below.

The Corporation provides billing services to Corporation of the Municipality of Sioux Lookout for sewer and water. At year end, the uncollected bills from customers was \$131,908. As well, there was a dividend declared and payable of \$132,538. During the year, the company billed electricity and services to the shareholder in the amount of \$548,677.

The Corporation provides billing services to Sioux Hudson Energy Inc. for hot water tank rentals. When collected, amounts billed are forwarded to Sioux Hudson Energy Inc.

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2005

3. Regulatory Assets (Liabilities)

Under Bill 210, certain costs and variance account balances are deemed to be "regulatory assets (liabilities)" in accordance with the OEB Accounting Procedures Handbook. These assets are to be reflected on the Corporation's balance sheet. The OEB has granted the Corporation permission to recover the regulatory assets when establishing its distribution rates. The manner and timing of the regulatory liabilities has not been determined by the OEB.

	2005	2004
Retail settlement variances	\$ 7,333	\$ 2,668
Wholesale market service variances	170,486	86,086
Network charges variances	2,209	(6,177)
Connection charges variances	(725,500)	(770,328)
Power charges variances	374,488	449,379
Pre-market opening energy variance	276,745	276,745
Transitional costs	38,185	21,005
Less assets recovered through rates	(316,102)	(46,422)
	\$ (172,156)	\$ 12,956

4. Capital Assets

	2005		2004	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	\$ 91,864	\$ 18,974	\$ 91,864	\$ 15,300
Distribution system-overhead	3,591,695	672,630	3,404,097	528,962
Distribution system - underground	791,541	147,229	759,708	115,568
Distribution transformers	1,281,875	238,199	1,255,583	186,924
Distribution meters	284,580	51,388	288,839	41,912
Other equipment - various	600,964	289,422	550,266	223,304
Contributions and Grants	(384,206)	(49,295)	(351,970)	(33,926)
	\$ 6,258,313	\$ 1,368,547	\$ 5,998,387	\$ 1,078,044
Net book value		\$ 4,889,766		\$ 4,920,343

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2005

5. Bank Indebtedness

	<u>2005</u>	<u>2004</u>
Demand instalment loan, repayable at \$11,666 per month plus interest at prime, secured by a general security agreement covering all assets; due 2018	\$ 1,761,667	\$ 1,901,667

The bank operating loan is due on demand and bears interest at the bank's prime rate, calculated and payable monthly. It is secured by a general security agreement covering all assets.

The company has an unused operating line of credit of \$175,000 with terms of due on demand and bears interest at the bank's prime rate calculated and payable monthly.

6. Employee Benefits Payable

	<u>2005</u>	<u>2004</u>
Vacation pay	\$ 5,457	\$ 6,777
Vested sick leave	88,738	74,537
Banked overtime	5,581	3,388
Post employment benefits	32,978	21,872
	<u>\$ 132,754</u>	<u>\$ 106,574</u>

7. Income Taxes

Future income taxes have not been recorded in the accounts as they are expected to be reflected through future distribution revenues. As at December 31, 2005 a future income tax asset of \$63,358 has not been recorded on the balance sheet. A future income tax recovery of \$7,731 has not been reflected in the income tax provision for the year ended December 31, 2005.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2005

8. Share Capital

The authorized class A preference share capital of the company is an unlimited number of non-voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at \$1,000 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class B preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$100 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class C preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class D preference share capital of the company is an unlimited number of voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized common share capital of the company is an unlimited number of shares.

The issued share capital is as follows:

	<u>2005</u>	<u>2004</u>
100 Common shares	<u>\$ 4,016,312</u>	<u>\$ 4,016,312</u>

9. Financial Guarantees

Participants in the wholesale market for electricity that is administered by the Independent Electricity Market Operator are required to satisfy prescribed prudential requirements.

During the year the Corporation was party to an irrevocable letter of credit with a Canadian Chartered bank. The letter of credit amount was 2005 - \$381,088 (2004 - \$381,088).

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2005

10. Other Operating Revenue

	<u>2005</u>	<u>2004</u>
Late payment charges	\$ 54,863	\$ 50,516
Interest income	20,976	25,262
Pole rentals	37,198	19,408
Administration fees	5,528	7,272
Change in occupancy charges	7,648	7,119
Prior year variance adjustment	20,979	-
Sentinel light rental	9,027	7,989
Sundry	13,181	13,459
	<u>\$ 169,400</u>	<u>\$ 131,025</u>

11. Pension Agreement

The Commission makes contributions to the Ontario Municipal Employers Retirement Fund (OMERS), which is a multi-employer plan, on behalf of seven members of its staff. The plan is a deferred benefit plan which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rate of pay.

The amount contributed to OMERS for 2005 was \$25,120 (2004 - \$23,093) for current service which is normally included as an expenditure in the statement of revenue and expenditures.

12. Supplementary Cash Flow Information

	<u>2005</u>	<u>2004</u>
Interest paid	\$ 119,986	\$ 111,263
Income taxes paid	57,817	152,734
	<u>\$ 177,803</u>	<u>\$ 263,997</u>

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2005

13. Amortization of Capital Assets

	<u>2005</u>	<u>2004</u>
Amortization of building and distribution equipment	\$ 241,937	\$ 232,060
Amortization of office equipment	5,591	5,169
Amortization of Contributions and Grants	<u>(15,368)</u>	<u>(14,079)</u>
	232,160	223,150
Amortization of other capital assets included in relevant expense categories		
Rolling stock	44,665	41,769
Operations and maintenance	26,798	25,505
Sentinel lights	<u>1,881</u>	<u>1,746</u>
	<u>\$ 305,504</u>	<u>\$ 292,170</u>

Sioux Lookout Hydro Inc.
Financial Statements
For the year ended December 31, 2009

Sioux Lookout Hydro Inc.
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Auditors' Report

To the Shareholder of Sioux Lookout Hydro Inc.

We have audited the balance sheet of Sioux Lookout Hydro Inc. as at December 31, 2009 and the statements of retained earnings, operations 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 the company as at December 31, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Dryden, Ontario
March 12, 2010

Sioux Lookout Hydro Inc. Balance Sheet

December 31	2009	2008 (Restated)
Assets		
Current		
Cash and bank	\$ 1,008,668	\$ 729,706
Accounts receivable	536,652	730,010
Unbilled revenue	1,060,301	1,049,432
Inventory (Note 1)	52,707	75,214
Prepaid expenses	35,031	40,922
	<u>2,693,359</u>	<u>2,625,284</u>
Regulatory assets (Note 3)	633,617	170,781
Capital assets (Note 4)	4,575,160	4,635,240
Goodwill	-	300,979
Future income tax assets	113,196	-
	<u>\$ 8,015,332</u>	<u>\$ 7,732,284</u>

Liabilities and Shareholder's Equity

Current		
Bank indebtedness (Note 5)	\$ 3,052,492	\$ 2,502,989
Accounts payable and accrued liabilities	1,359,672	1,728,048
Employee benefits payable (Note 6)	116,634	109,456
Taxes payable	65,898	16,778
Customer deposits	130,667	116,955
Due to related parties (Note 2)	412,092	310,974
	<u>5,137,455</u>	<u>4,785,200</u>
Shareholder's equity		
Share capital (Note 7)	2,789,823	2,789,823
Retained earnings	88,054	157,261
	<u>2,877,877</u>	<u>2,947,084</u>
	<u>\$ 8,015,332</u>	<u>\$ 7,732,284</u>

On behalf of the Board:

Director

Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Statement of Retained Earnings

<u>For the year ended December 31</u>	<u>2009</u>	<u>2008</u> (Restated)
Retained earnings, beginning of year	\$ 78,933	\$ 168,912
Correction of prior period error (Note 18)	<u>78,328</u>	<u>69,148</u>
Retained earnings, beginning of year, as restated	157,261	238,060
Net income for the year	93,107	104,201
Change in accounting policy (Note 17)	76,686	-
Dividends	<u>(239,000)</u>	<u>(185,000)</u>
Retained earnings, end of year	<u>\$ 88,054</u>	<u>\$ 157,261</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Statement of Operations

For the year ended December 31	2009		2008	
			(Restated)	
Revenue				
Sale of energy				
Residential and general	\$ 5,150,127	97.9 %	\$ 6,898,509	97.7 %
Street lighting	102,052	1.9 %	50,671	0.7 %
Unbilled revenue adjustment	10,869	0.2 %	116,353	1.6 %
	<u>5,263,048</u>	<u>100 %</u>	<u>7,065,533</u>	<u>100 %</u>
Cost of bulk power purchased	<u>3,497,911</u>	<u>66.5 %</u>	<u>5,560,389</u>	<u>78.7 %</u>
Gross margin on energy sold	<u>1,765,137</u>	<u>33.5 %</u>	<u>1,505,144</u>	<u>21.3 %</u>
Other operating revenue (Note 9)	<u>138,002</u>	<u>2.7 %</u>	<u>166,717</u>	<u>2.4 %</u>
	<u>1,903,139</u>	<u>36.2 %</u>	<u>1,671,861</u>	<u>23.7 %</u>
Expenditures				
Administration	513,786	9.7 %	492,148	7.0 %
Amortization	269,056	5.1 %	255,118	3.6 %
Interest and bank charges	125,768	2.5 %	196,482	2.8 %
Operation maintenance	564,734	10.8 %	595,799	8.4 %
	<u>1,473,344</u>	<u>28.1 %</u>	<u>1,539,547</u>	<u>21.8 %</u>
Income before other item and payment in lieu of taxes	<u>429,795</u>	<u>8.2 %</u>	<u>132,314</u>	<u>1.9 %</u>
Other item				
Loss on impairment of goodwill (Note 15)	(300,979)	(5.7)%	-	- %
Income before payment in lieu of taxes	<u>128,816</u>	<u>7.5 %</u>	<u>132,314</u>	<u>1.5 %</u>
Payment in lieu of taxes				
Payment in lieu of taxes	72,218	1.4 %	28,113	0.4 %
Future payment in lieu recoverable	(36,509)	(0.7)%	-	- %
	<u>35,709</u>	<u>0.7 %</u>	<u>28,113</u>	<u>0.4 %</u>
Net income for the year	<u>\$ 93,107</u>	<u>1.8 %</u>	<u>\$ 104,201</u>	<u>1.5 %</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc. Statement of Cash Flows

For the year ended December 31	2009	2008 (Restated)
Cash provided by (used in)		
Operating activities		
Net income for the year	\$ 93,107	\$ 104,201
Items not involving cash		
Amortization of capital assets (Note 12)	333,914	325,447
Future income taxes (recovery)	(36,509)	-
Loss on disposal of capital assets	16,347	2,001
Loss on impairment of goodwill	300,979	-
	<u>707,838</u>	<u>431,649</u>
Changes in non-cash working capital balances		
Accounts receivable	193,357	(17,231)
Unbilled revenue	(10,869)	(116,353)
Due to related parties	101,116	69,309
Inventory	22,507	(11,200)
Prepaid expenses	5,896	(15,859)
Accounts payable and accrued liabilities	(368,379)	193,217
Employee benefits payable	7,178	14,205
Taxes receivable	49,120	4,432
Customer deposits	13,712	15,901
	<u>721,476</u>	<u>568,070</u>
Investing activities		
Purchase of capital assets	(290,548)	(312,707)
Increase in regulatory assets (liabilities)	(462,836)	(292,987)
Proceeds on sale of capital assets	367	1,773
	<u>(753,017)</u>	<u>(603,921)</u>
Financing activities		
Increase (decrease) in bank indebtedness	549,503	(186,000)
Dividends	(239,000)	(185,000)
	<u>310,503</u>	<u>(371,000)</u>
Increase (decrease) in cash during the year	278,962	(406,851)
Cash and bank, beginning of year	729,706	1,136,557
Cash and bank, end of year	\$ 1,008,668	\$ 729,706

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Sioux Lookout Hydro Inc.

Summary of Significant Accounting Policies

December 31, 2009

Nature of Business	The company is incorporated under the laws of Ontario and is licenced by the Ontario Energy Board (OEB) as an electricity distributor.																		
Inventory	Inventory is stated at the lower of cost and net realizable value. Cost is generally determined on the average cost basis.																		
Capital Assets	<p>Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight line basis over the assets estimated useful life.</p> <table><tr><td>Buildings</td><td>- 25</td><td>years</td></tr><tr><td>Distribution system - overhead</td><td>- 25</td><td>years</td></tr><tr><td>Distribution system - underground</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Distribution transformers</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Distribution meters</td><td>- 25 and 35</td><td>years</td></tr><tr><td>Other equipment - various</td><td>- from 4 to 10</td><td>years</td></tr></table>	Buildings	- 25	years	Distribution system - overhead	- 25	years	Distribution system - underground	- 25 and 35	years	Distribution transformers	- 25 and 35	years	Distribution meters	- 25 and 35	years	Other equipment - various	- from 4 to 10	years
Buildings	- 25	years																	
Distribution system - overhead	- 25	years																	
Distribution system - underground	- 25 and 35	years																	
Distribution transformers	- 25 and 35	years																	
Distribution meters	- 25 and 35	years																	
Other equipment - various	- from 4 to 10	years																	
Goodwill	Goodwill being the excess of cost over assigned values of net assets acquired, is stated at cost. No amortization is provided for goodwill. The value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment in the value of the goodwill is written off against earnings.																		
Customer Deposits	Customer deposits are cash collections from customers to guarantee the payment of energy bills.																		
Revenue Recognition	<p>Revenue from the sale of electricity is recorded on a basis of cyclical billings and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. All these charges are flowed through to third parties.</p> <p>The amounts billed to customers for distribution services is according to rates, both fixed and by volume of power, as approved by the Ontario Energy Board.</p> <p>Pole rental revenues which is included in other operating revenue is according to rates per pole as established by the Ontario Energy Board.</p> <p>Late payment charges and interest income is recognized as revenue when earned.</p>																		

Sioux Lookout Hydro Inc. Summary of Significant Accounting Policies

December 31, 2009

**Capital Contributions
and Grants**

Capital contributions are set up as a capital asset contra account, contributions and grants. This account is amortized on the same basis as the related capital assets.

Payment in Lieu of Taxes

The company accounts for payment in lieu of taxes using the liability payable method based on taxable income. Future income taxes arise from temporary differences in the accounting and tax basis of assets and liabilities. Future tax assets and liabilities are provided based on substantively enacted tax rates that will be in effect when the differences are expected to reverse.

Use of Estimates

The preparation of financial statements in accordance with accounting policies established for electric utilities in the Province of Ontario 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 management's best estimates as additional information becomes available in the future.

Basis of Accounting

Revenue and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and measurable; expenditures are the cost of goods and services acquired in the period whether or not payment has been made or invoices received.

Sioux Lookout Hydro Inc.

Summary of Significant Accounting Policies

December 31, 2009

Financial Instruments

The company utilizes various financial instruments. 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 the financial instruments approximate their carrying values, unless otherwise noted.

All transactions related to financial instruments are recorded on a trade date basis.

Handbook Section 3862 establishes a fair value hierarchy which includes three levels of inputs that may be used to measure fair value.

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. There were no transfers between Level 1 and 2 in the year. There were no investments classified as Level 2 or 3. The company's accounting policy for each category is as follows:

Held-for-Trading

This category is comprised of cash and bank (classified as Level 1). They are carried in the balance sheet at fair value with changes in fair value recognized in the statement of operations. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

Sioux Lookout Hydro Inc.

Summary of Significant Accounting Policies

December 31, 2009

Financial Instruments (continued) Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates or on demand. They arise principally through the provision of goods and services to customers (accounts receivable and unbilled revenue), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

Other Financial Liabilities

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprise accounts payable and accrued liabilities, due to related parties, and bank borrowings. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

Employee Future Benefits

The company provides a pension plan for its full-time employees through the Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer, contributory, defined benefit pension plan established in 1962 by the Province of Ontario for employees of municipalities, local boards, and school boards in Ontario. Both participating employers and employees are required to make plan contributions based on participating employees contributory earnings. The company recognizes the expense related to this plan as contributions are made.

Employee future benefits other than pension provided by the company include medical, dental and life insurance benefits, and accumulated sick leave credits. These plans provide benefits to employees when they are no longer providing active service. Employee future benefit expenses is recognized over the period from the entitlement date to the employees retirement date.

Sioux Lookout Hydro Inc. Summary of Significant Accounting Policies

December 31, 2009

New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company, are as follows:

a) International Financial Reporting Standards

The AcSB plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the company's financial statements has yet to be determined.

Regulatory Assets and Liabilities In accordance with the Canadian Institute of Chartered Accountants Accounting Guideline 19 "disclosure by Entities Subject to Rate Regulations" ("AcG-19") certain costs and variance accounts balances deemed to be "regulatory assets" or "regulatory liabilities" in the local distribution corporation are reflected separately on the company's balance sheet until the manner and timing of disposition is determined by the OEB .

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2009

1. Inventory

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 75,214	\$ 64,014
Purchases	115,003	46,608
Transfer to capital assets	<u>(137,510)</u>	<u>(35,408)</u>
Balance, end of year	<u>\$ 52,707</u>	<u>\$ 75,214</u>

2. Due to Related Parties

At the end of the year the amounts due to related parties are as follows:

	<u>2009</u>	<u>2008</u>
Due to Shareholder:		
Corporation of the Municipality of Sioux Lookout	<u>\$ 412,092</u>	<u>\$ 310,974</u>

These balances are unsecured, interest free, payable on demand and have arisen from the transfer of assets, dividends declared and provision of services referred to below.

The Corporation provides billing services to Corporation of the Municipality of Sioux Lookout for sewer and water. At year end, the uncollected bills from customers was \$173,092 (2008 - \$125,974). As well there was a dividend declared and payable of \$239,000 (2008 - \$185,000). During the year the company billed electricity and services to the shareholder in the amount of \$680,484 (2008 - \$658,767).

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2009

3. Regulatory Assets (Liabilities)

Under Bill 210, certain costs and variance account balances are deemed to be "regulatory assets (liabilities)" in accordance with the OEB Accounting Procedures Handbook. These assets are to be reflected on the Corporation's balance sheet. The OEB has granted the Corporation permission to recover the regulatory assets when establishing its distribution rates.

	2009	2008
Retail settlement variances	\$ 14,968	\$ 15,973
Wholesale market service variances	(64,150)	(7,798)
Network charges variances	(133,078)	(135,040)
Connection charges variances	(189,817)	(449,692)
Power charges variances	286,695	745,244
Smart meter rate adder funding	(114,435)	5,255
Smart meter deferral	680,116	-
Disposition and recovery of regulatory balances	153,318	(3,161)
	\$ 633,617	\$ 170,781

4. Capital Assets

	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	\$ 91,864	\$ 33,673	\$ 91,864	\$ 29,998
Distribution system-overhead	4,188,807	1,303,488	4,016,093	1,135,936
Distribution system - underground	971,609	291,107	933,687	252,242
Distribution transformers	1,476,743	461,301	1,470,153	402,232
Distribution meters	390,397	94,937	320,348	87,073
Other equipment - various	746,220	545,604	671,770	470,078
Contributions and grants	(704,417)	(141,756)	(608,208)	(113,580)
Construction in progress	2,291	-	3,512	-
	\$ 7,163,514	\$ 2,588,354	\$ 6,899,219	\$ 2,263,979
Net book value		\$ 4,575,160		\$ 4,635,240

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2009

5. Bank Indebtedness

	2009	2008
Demand instalment loan, repayable at \$5,814 including interest at 4.7%, secured by a general security agreement covering all assets; due 2024	\$ 735,502	\$ -
Demand instalment loan, repayable at \$15,500 per month plus interest at prime, secured by a general security agreement covering all assets; due 2022	2,316,990	2,502,989
	<u>\$ 3,052,492</u>	<u>\$ 2,502,989</u>

The demand instalment loans are secured by a general security agreement covering all assets and are guaranteed by Corporation of the Municipality of Sioux Lookout.

The company has an unused operating line of credit of \$175,000 with terms of due on demand and bears interest at the bank's prime rate calculated and payable monthly.

At December 31, 2009 the fair value of the bank indebtedness was \$2,807,585 calculated based on the amount of future cash flows associated with each instrument discounted using an estimate of what the company's current borrowing rate for similar debt instruments of comparable maturity would be.

The agreement governing the demand instalment loan facility contains certain covenants regarding (i) debt servicing ratios, (ii) negative pledge where no lien can be assigned against assets, and (iii) the bank must permit any material change to the company.

The company has violated the debt servicing ratio covenant. Except for the debt servicing covenant, the company was in compliance with all covenants as at December 31, 2009.

6. Employee Benefits Payable

	2009	2008
Vacation pay	\$ 29,045	\$ 22,098
Vested sick leave	41,004	39,811
Banked overtime	4,625	2,900
Post employment benefits	41,960	44,647
	<u>\$ 116,634</u>	<u>\$ 109,456</u>

The post employment benefits is estimated based on the premiums paid to employees from date eligible to retire, until age 65. The estimate assumes an inflation rate of 3.46% and a discount rate of 4%.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2009

7. Share Capital

The authorized class A preference share capital of the company is an unlimited number of non-voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at \$1,000 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class B preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$100 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class C preference share capital of the company is an unlimited number of non-voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized class D preference share capital of the company is an unlimited number of voting shares, redeemable and retractable at \$1 per share, and entitled to a non-cumulative annual dividend of 6%.

The authorized common share capital of the company is an unlimited number of shares.

The issued share capital is as follows:

	<u>2009</u>	<u>2008</u>
100 Common shares	<u>\$ 2,789,823</u>	<u>\$ 2,789,823</u>

8. Financial Income and Expense

	<u>2009</u>	<u>2008</u>
Interest on assets held-for-trading	<u>\$ 17,056</u>	<u>\$ 44,894</u>
Interest expense on financial liabilities measured at amortized cost	65,527	135,717
Interest expense on financial assets measured at fair value	<u>60,241</u>	<u>60,765</u>
	<u>125,768</u>	<u>196,482</u>
Net finance costs	<u>\$ (108,712)</u>	<u>\$ (151,588)</u>

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2009

9. Other Operating Revenue

	2009	2008
Late payment charges	\$ 50,000	\$ 40,428
Interest income	17,056	44,894
Pole rentals	40,023	38,630
Change in occupancy charges	17,070	19,410
Sentinel light rental	9,430	9,691
Sundry	4,423	13,664
	<u>\$ 138,002</u>	<u>\$ 166,717</u>

10. Pension Agreement

The company makes contributions to the Ontario Municipal Employers Retirement Fund (OMERS), which is a multi-employer plan, on behalf of seven members of its staff. The plan is a deferred benefit plan which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rate of pay.

During the year ended December 31, 2009 the Board contributed \$40,779 (2008 - \$36,012) to the plan. As this is a multi-employer pension plan, these contributions are the Board's pension benefit expenses. No pension liability for this type of plan is included in the Board's financial statements.

11. Supplementary Cash Flow Information

	2009	2008
Interest paid	\$ 125,768	\$ 203,763
Payment in lieu of taxes paid	\$ 25,820	\$ 23,681

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2009

12. Amortization of Capital Assets

	2009	2008
Amortization of building and distribution equipment	\$ 286,564	\$ 274,038
Amortization of office equipment	8,159	3,080
Amortization of contributions and grants	(28,176)	(24,328)
	<u>266,547</u>	<u>252,790</u>
Amortization of other capital assets included in relevant expense categories		
Rolling stock	48,130	54,308
Operations and maintenance	16,728	16,021
Sentinel lights	2,509	2,328
	<u>\$ 333,914</u>	<u>\$ 325,447</u>

13. Commitments

The company has entered into an operating lease for certain equipment (Altec Aerial Device). The equipment is leased at \$3,176 per month under a lease expiring in 2013.

The minimum annual lease payments for the next four years are as follows:

2010	\$ 38,112
2011	38,112
2012	38,112
2013	25,408

14. Fair Value of Financial Instruments

The fair values of cash and cash equivalents, accounts receivable, unbilled revenue, and accounts payable and accrued liabilities approximate their carrying amounts because of the short-term maturity of these instruments.

The fair value of the due to related parties amount has not not been determined as disclosed in Note 2.

The fair value of bank indebtedness is disclosed in Note 5.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2009

15. Loss on Impairment of Goodwill

During the year there were numerous pervasive factors in the environment that indicated the goodwill should be written off. Other utility companies in similar markets have conducted valuations, using the discounted cash flow method, and results of their valuations have indicated an impairment of goodwill.

16. Financial Instrument Risk Exposure and Management

The Board has overall responsibility for the determination of the company's risk management objectives and policies while retaining ultimate responsibility for them. It has delegated the authority for designing and operating processes that ensure the effectiveness of the objectives and policies to the company's finance function. The Board receives quarterly financial reports from the manager through which it reviews the effectiveness of the processes put in place and the results of operations.

Credit Risk

The company has a policy it follows to ensure that the accounts receivables are collected on a timely basis. When a customer account goes into arrears Thunder Bay Hydro Inc. calls the customer in an effort to secure payment. In the event that the calls fail, Sioux Lookout Hydro Inc. will follow up with a letter that explains to the customer the ramifications of not paying their account. Once several days pass the services provided to the customer will be cut off. This process is followed unless the Board directs management to exclude certain customers groups from having their services cut off.

If a customer leaves their residence and the above collection process is not successful, Sioux Lookout Hydro Inc. will engage the services of a collection bureau to pursue these customer accounts. When an account is transferred to a collection bureau management sets these accounts up as doubtful accounts. At year end the allowance for doubtful accounts balance was \$61,898 (2008 - \$58,703). When all avenues to collect outstanding receivables have been exhausted management, with Board approval, will write off the receivables. During the year the company wrote off \$42,954 of outstanding receivables (2008 - \$36,991).

Sioux Lookout Hydro Inc. is in the normal course of operations, exposed to credit risk from having bank account balances over the amounts insured by the Canadian Deposit Insurance Corporation.

Liquidity Risk

The company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. Management reconciles its bank on a monthly basis and it funds temporary cash shortages through a line of credit with the bank.

Sioux Lookout Hydro Inc. Notes to Financial Statements

December 31, 2009

16. Financial Instrument Risk Exposure and Management (continued)

The following table illustrates the contractual maturity analysis of the company's financial liabilities. It is prepared on a gross basis and assumes the bank demand loan is repaid according to the instalment schedule and prevailing interest rates (prime).

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>	<u>Total</u>
Non-derivative							
financial instruments	\$ 305,987	\$ 301,802	\$ 297,617	\$ 293,432	\$ 289,247	\$ 2,173,292	\$3,661,377

Market Risk

Market risk arises from the company's floating rate demand loan and fixed rate loan.

The annualized effect of a 1.0% decrease in the interest rate at the balance sheet date on the floating rate demand loan carried at that date would, all other variables held constant; have resulted in an increase in post-tax profit for the year of \$31,500. A 1.0% increase in the interest rate would, on the same basis, have decreased post-tax profit by the same amount.

Capital Disclosures

Sioux Lookout Hydro Inc. manages its capital in a manner consistent with the risk characteristics of the assets it holds. All financing, including equity and debt are analyzed by management and approved by the board of directors.

The company's objectives when managing capital are:

- a) to safeguard the company's ability to continue as a going concern and provide returns for shareholders;
- b) to maintain a safe and reliable electricity distribution system.

The company is meeting its objective of managing capital through its detailed review and preparing short-term and long-term cash flow analysis to ensure an adequate amount of liquidity and monthly review of financial results.

There have been no changes in the company's approach to capital management from the previous years.

Sioux Lookout Hydro Inc.

Notes to Financial Statements

December 31, 2009

17. Change in Accounting Policy

Effective for year ends beginning on or after January 1, 2009, the Canadian Institute of Chartered Accountants ('CICA') amended the CICA Handbook Section 1100, Generally Accepted Accounting Principles, Section 3465, Income Taxes and Accounting Guideline 19 - Disclosures by Entities Subject to Rate-Regulation.

The revision to Section 1100 removed the temporary exemption pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate-regulation. Accounting Guideline 19 amended certain disclosures as a result of the changes to the other Sections. Adoption of these amendments did not affect the company's results of operations and financial position.

The amendments to Section 3465 require rate-regulated enterprises to recognize future income tax liabilities and assets, as well as, a regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or returned to future customers and to present these amounts on a gross basis in the financial statements. Entities in this sector were previously exempted from the requirement to recognize future income taxes. The company adopted this new accounting recommendation without the restatement of prior year's figures by making a cumulative catch-up adjustment of \$76,686 to opening retained earnings in the current year and applying the new accounting policy to events and transactions occurring after the date of the change.

18. Correction of Prior Period Error

During the year an error was found in the calculation of interest on the regulatory assets. The interest was being calculated on the net change in the regulatory assets each month. Instead, the interest should have been calculated based on the monthly accumulated regulatory asset balance. As a result, the prior years financial statements have been retroactively restated by increasing the other operating revenue by \$11,475, increasing the payment in lieu of taxes by \$2,295, increasing the regulatory assets by \$97,828, increasing the taxes payable by \$19,500, and increasing the prior year opening retained earnings by \$69,148. The cumulative effect on the current year retained earnings is an increase to the retained earnings of \$78,328.
