Consolidated Financial Statements of

# ENERSOURCE CORPORATION

Years ended December 31, 2010 and 2009

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# Independent Auditors' Report

To the Shareholders of Enersource Corporation

We have audited the accompanying consolidated financial statements of Enersource Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of income and comprehensive income, retained earnings and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enersource Corporation as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
March 8, 2011
Toronto, Ontario

# ENERSOURCE CORPORATION

Consolidated Balance Sheets
(In thousands of dollars)

December 31, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 53,568 | $ 33,761 |
| Accounts receivable (note 14(b)) | 56,441 | 59,405 |
| Unbilled revenue | 67,048 | 50,568 |
| Income taxes receivable | – | 535 |
| Inventory (note 3) | 7,872 | 8,071 |
| Prepaid expenses and deposits | 1,787 | 1,931 |
| Future income tax assets (note 5(b)) | – | 522 |
| | 186,716 | 154,793 |
| Fixed assets (note 2) | 446,494 | 435,895 |
| Intangible assets (note 4) | 15,583 | 14,420 |
| Deposits and prudentials (note 6) | 20,739 | 20,225 |
| Regulatory assets (note 7) | 20,013 | 12,238 |
| Other deferred costs (note 1(h)) | 90 | 4,951 |
| Future income tax assets (note 5(b)) | 32,540 | 33,539 |
| | 535,459 | 521,268 |
| | $ 722,175 | $ 676,061 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 90,888 | $ 96,449 |
| Income taxes payable | 3,418 | – |
| Deferred revenue | 150 | 46 |
| Advance payments | 2,759 | 2,071 |
| Future income tax liabilities (note 5(b)) | 189 | – |
| Regulatory liability for future income tax assets (note 5(c)) | 149 | 252 |
| Regulatory liabilities (note 7) | 39,671 | – |
| Bonds payable (note 8) | 289,811 | – |
| | 427,035 | 98,818 |
| Long-term liabilities: | | |
| Bonds payable (note 8) | – | 289,256 |
| Deposits | 20,739 | 20,225 |
| Employee retirement and post-retirement benefits (note 9) | 4,656 | 4,187 |
| Regulatory liability for future income tax assets (note 5(c)) | 32,495 | 33,491 |
| | 57,890 | 347,159 |
| Shareholders' equity: | | |
| Capital stock (note 10) | 175,691 | 175,691 |
| Retained earnings | 61,559 | 54,393 |
| | 237,250 | 230,084 |
| Contingencies (note 12) | | |
| Commitments (notes 6 and 13) | | |
| | $ 722,175 | $ 676,061 |

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:

"Gerald Beasley" Director "Norman Loberg" Director

# ENERSOURCE CORPORATION

Consolidated Statements of Income and Comprehensive Income
(In thousands of dollars)

Years ended December 31, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Revenue: | | |
| Energy sales | $ 509,505 | $ 444,166 |
| Distribution | 120,076 | 117,766 |
| Recovery (refund) of regulatory accounts | 7,429 | (2,278) |
| Services | 7,849 | 8,141 |
| Other | 11,267 | 9,213 |
| | 656,126 | 577,008 |
| Operating expenses: | | |
| Energy purchases | 509,505 | 444,166 |
| Operations, maintenance and administration | 51,767 | 49,090 |
| Services | 6,669 | 7,290 |
| Amortization of fixed assets | 36,311 | 35,101 |
| Amortization of intangible assets | 1,936 | 1,224 |
| Amortization of regulatory accounts | 7,429 | (2,278) |
| | 613,617 | 534,593 |
| Operating income | 42,509 | 42,415 |
| Non-operating revenue (expense): | | |
| Interest income | 648 | 815 |
| Interest expense | (18,999) | (18,550) |
| Foreign exchange loss | (22) | (383) |
| | (18,373) | (18,118) |
| Income before the undernoted | 24,136 | 24,297 |
| Income tax expense (note 5(a)) | 6,432 | 6,682 |
| Income before non-controlling interest | 17,704 | 17,615 |
| Non-controlling interest | – | (51) |
| Net income and comprehensive income | $ 17,704 | $ 17,564 |

Consolidated Statements of Retained Earnings
(In thousands of dollars)

Years ended December 31, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Retained earnings, beginning of year | $ 54,393 | $ 48,362 |
| Net income and comprehensive income | 17,704 | 17,564 |
| Dividends paid (note 10) | (10,538) | (11,533) |
| Retained earnings, end of year | $ 61,559 | $ 54,393 |

See accompanying notes to consolidated financial statements.

# ENERSOURCE CORPORATION

Consolidated Statements of Cash Flows
(In thousands of dollars)

Years ended December 31, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net income | $ 17,704 | $ 17,564 |
| Items not affecting cash: | | |
| Amortization of debt issue costs | 555 | 523 |
| Amortization of fixed assets | 36,311 | 35,101 |
| Amortization of intangible assets | 1,936 | 1,224 |
| Amortization of regulatory accounts | 7,429 | (2,278) |
| Gain on the disposal of fixed assets | (187) | (170) |
| Employee retirement and post-retirement benefits | 469 | 433 |
| Future income tax expense | 611 | 327 |
| Non-controlling interest | – | 51 |
| | 64,828 | 52,775 |
| Change in non-cash operating working capital (note 11) | 25,097 | (15,462) |
| | 89,925 | 37,313 |
| Financing activities: | | |
| Deposits | 514 | (138) |
| Dividends paid | (10,538) | (11,533) |
| Non-controlling interest | – | (1,186) |
| | (10,024) | (12,857) |
| Investing activities: | | |
| Deposits and prudentials | (514) | 338 |
| Additions to fixed assets | (38,701) | (50,113) |
| Additions to intangible assets | (3,633) | (5,904) |
| Other deferred costs | (2,246) | (2,952) |
| Proceeds on disposal of fixed assets | 204 | 329 |
| Increase in regulatory assets | (15,204) | (8,498) |
| | (60,094) | (66,800) |
| Increase (decrease) in cash and cash equivalents | 19,807 | (42,344) |
| Cash and cash equivalents, beginning of year | 33,761 | 76,105 |
| Cash and cash equivalents, end of year | $ 53,568 | $ 33,761 |
| Supplemental cash flow information: | | |
| Interest received | $ 591 | $ 951 |
| Interest paid | 18,241 | 18,241 |
| Income taxes paid | 1,432 | 11,830 |

See accompanying notes to consolidated financial statements.

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Enersource Corporation (the "Corporation"), incorporated under the Ontario Business Corporations Act, was formed to conduct electricity distribution and non-regulated utility service ventures. The Corporation is owned 90% by the City of Mississauga (the "City") and 10% by BPC Energy Corporation ("Borealis"), a wholly owned subsidiary of the Ontario Municipal Employees Retirement System ("OMERS").

**1. Significant accounting policies:**

(a) Basis of presentation:

The accompanying annual consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of the Corporation's wholly owned subsidiaries: Enersource Hydro Mississauga Inc. ("Enersource Hydro"), Enersource Services Inc., Enersource Telecom Inc. ("Telecom"), Enersource Technologies Inc. and Enersource Hydro Mississauga Services Inc. The consolidated financial statements also include the accounts of First Source Energy Corporation ("First Source"), a subsidiary in which the Corporation held a 57.7% ownership interest. In March 2010, the Corporation received the Articles of Dissolution certificate for First Source. Intercompany balances and transactions have been eliminated.

(b) Nature of operations:

Through its subsidiary, Enersource Hydro, the Corporation provides electricity distribution services to businesses and residences in the service area of Mississauga, Ontario.

Enersource Services Inc. is the parent company for the Corporation's non-regulated businesses, which include Telecom, Enersource Hydro Mississauga Services Inc. and First Source.

(i) Enersource Hydro Mississauga Services Inc. provides utility services, including electricity distribution infrastructure design, construction and operations and streetlight construction and maintenance services to customers in Ontario. Enersource Hydro Mississauga Services Inc. is also the 100% owner of Enersource Technologies Inc.

(ii) First Source provided energy retailing services until May 2003 at which point, its retail customer contracts were sold to Ontario Energy Savings Corporation ("OESC"). In March 2010, the Corporation recieved the Articles of Dissolution certificate for First Source.

**1. Significant accounting policies (continued):**

(c) Rate setting:

Enersource Hydro is regulated by the Ontario Energy Board ("OEB") under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs, revenue, losses or gains in the rates of a specified period, resulting in the change in the timing of accounting recognition from that which would be applied in an unregulated company. Specifically, the following accounting treatments have been applied:

(i) The Corporation capitalizes interest monthly based on an approved OEB allowance for the cost of funds used during construction and development.

(ii) The Corporation records future income tax assets and a corresponding regulatory tax liability for its regulated business activities to the extent that it is expected that the recovery or realization of these amounts will be included in future distribution rates.

(iii) The Corporation has deferred certain cost of power and retail settlement variances in accordance with Article 490 of the OEB's Accounting Procedures Handbook.

(iv) The Corporation has deferred all revenue and associated costs not included in Enersource Hydro's smart meter revenue requirement, as directed by the OEB.

(v) The Corporation has deferred costs related to the implementation of International Financial Reporting Standards ("IFRS") and associated costs relating to compliance with Environment Canada's new polychlorinated biphenyls ("PCB") regulations.

The OEB has the power to establish electricity prices to be charged under a regulated price plan ("RPP"), as summarized in the following chart, to low volume consumers and designated consumers who do not choose an electricity retailer. The OEB may adjust consumption thresholds and electricity commodity prices charged to these RPP consumers every six months as required.

(In thousands of dollars)

## 1. Significant accounting policies (continued):

Regulated Price Plan:

| | November 2010 - December 2010 | May 2010 - October 2010 | November 2009 - April 2010 | May 2009 - October 2009 | January 2009 - April 2009 |
|---|---|---|---|---|---|
| Residential consumption threshold | 1,000 kWh | 600 kWh | 1,000 kWh | 600 kWh | 1,000 kWh |
| Non-residential consumption threshold | 750 kWh | 750 kWh | 750 kWh | 750 kWh | 750 kWh |
| Price below threshold | $.064/kWh | $.065/kWh | $.058/kWh | $.057/kWh | $.056/kWh |
| Price above threshold | $.074/kWh | $.075/kWh | $.067/kWh | $.066/kWh | $.065/kWh |

Enersource Hydro submitted an electricity distribution rate re-basing application to the OEB on August 23, 2007 for the rate period May 1, 2008 through April 30, 2009. A settlement was negotiated with intervenors and was accepted by the OEB on January 4, 2008. The final distribution rates and charges for 2008 based upon the settlement were approved on April 18, 2008.

In November 2008, Enersource Hydro submitted a formula based rate application to the OEB for the rate period May 1, 2009 through April 30, 2010. On March 16, 2009, the OEB released its decision and order on this rate application. Enersource Hydro implemented this distribution rate decision, along with OEB-approved changes to electricity commodity prices May 1, 2009.

On November 27, 2009 Enersource Hydro submitted an application to recover/refund all retail settlement variance account balances as at December 31, 2008, as well as energy variance and Global Adjustment variance account balances as at September 30, 2009. The net refund of $12,800 was approved by the OEB on January 29, 2010.

Enersource Hydro submitted a formula based rate application in July 2009 to the OEB which was approved on March 29, 2010. Enersource Hydro implemented this distribution rate decision, along with OEB-approved changes to electricity commodity prices May 1, 2010.

(d) Cash and cash equivalents:

Cash and cash equivalents are defined as cash and bank term deposits or equivalent financial instruments with original maturities upon issue of less than 90 days.

**1. Significant accounting policies (continued):**

(e) Revenue recognition:

Distribution revenue attributable to the delivery of electricity is based upon OEB-approved distribution rates and charges that is recognized as electricity is delivered to customers, which includes an estimate of unbilled revenue that represents electricity consumed by customers since the date of each customer's last meter reading. Actual electricity usage could differ from estimates.

Service and other revenue are recognized as services are rendered or contract milestones are achieved. Amounts received in advance of these milestones are presented as deferred revenue.

(f) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Accounts receivable is reported based on amounts expected to be recovered less an appropriate allowance for unrecoverable amounts based on prior experience. Unbilled revenue and regulatory assets are reported based on amounts expected to be recovered. Inventory is recorded net of a provision for obsolescence. Amounts recorded for amortization of fixed assets are based on estimates of useful life.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

(g) Inventory:

Inventory consists primarily of parts and supplies acquired for internal construction, consumption or recoverable work. The Corporation accounts for major spare parts and standby equipment as fixed assets.

Inventory is carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

**1. Significant accounting policies (continued):**

(h) Fixed assets:

Fixed assets are recorded at cost and are comprised of labour, materials, contracted services, engineering costs, overheads and an OEB-approved allowance for the cost of funds used during construction when applied. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers.

When assets are retired or otherwise disposed of, their original cost and accumulated amortization are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period. The cost and related accumulated amortization of grouped assets, such as overhead and underground distribution systems, is removed from the accounts at the end of their estimated service lives.

In the event that facts and circumstances indicate that fixed assets may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Amortization of fixed asset values is charged to operations on a straight-line basis over their estimated service lives as follows:

| | |
|---|---|
| Buildings and other fixtures | 20 - 60 years |
| Distribution station equipment | 15 - 40 years |
| Overhead and underground distribution system | 15 - 55 years |
| Meters | 15 - 25 years |
| Equipment and furniture | 10 years |
| Rolling stock | 4 - 8 years |
| Computer hardware | 5 years |

Construction in progress is comprised of assets under construction, that are not currently available for use and are not amortized.

An allowance for the cost of funds used during the construction period has been applied and capitalized as a component of cost of fixed assets where applicable. The prescribed interest rate used during the period equalled the average weighted bond yield of the DEX

(In thousands of dollars)

**1. Significant accounting policies (continued):**

Mid Term Corporate Bond Index as published on the OEB website, updated quarterly. The prescribed interest rate for the construction work in process accounts is as follows:

| | Allowance Rate |
|---|---|
| October 2010 – December 2010 | 4.01% |
| July 2010 – September 2010 | 4.66% |
| January 2010 – June 2010 | 4.34% |
| October 2009 – December 2009 | 4.66% |
| July 2009 – September 2009 | 5.67% |
| January 2009 – June 2009 | 6.61% |

(i) Intangible assets:

Intangible assets are assets that lack physical substance, other than financial assets. Intangible assets are recorded at cost and include expenditures associated with the initial acquisition or development, which are directly attributable to the acquisition, production and preparation of the asset for its intended use.

Indefinite life intangible assets such as easements are held in perpetuity and are not amortized. The amortization of other intangible asset values are charged to operations on a straight-line basis over their estimated service lives as follows:

| | |
|---|---|
| Computer software | 2 - 10 years |

The Corporation evaluates intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. For purposes of such an evaluation, the fair value estimate is compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value.

(j) Deferred debt issue costs:

Deferred debt issue costs represent the cost of the issuance of the bonds. In accordance with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Corporation's deferred debt issuance costs, net of accumulated amortization, is included in the carrying amount of

**1. Significant accounting policies (continued):**

bonds payable. The bonds are accreted back to their face amount using the effective interest rate method over the remaining period to maturity.

(k) Deposits and prudentials:

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits and prudentials, which are reported separately from the Corporation's own cash and cash equivalents. Interest rates paid on customer deposits are based on a variable rate of prime less 2.0%.

Also included in this balance are cash and securities lodged with the Corporation by counterparties under electricity supply agreements.

(l) Pension and other post-employment benefits:

The Corporation accounts for its participation in OMERS, a multi-employer public sector pension fund, as a defined contribution plan and all contributions made to OMERS by the Corporation are expensed in the year.

The Corporation actuarially determines the cost of other employment and post-employment benefits offered to employees using the projected benefit method, prorated on service and based on management's best estimate assumptions. Under this method, the projected post-retirement benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits. Net actuarial gains or losses exceeding 10% of the accrued benefit obligation are amortized into expense on a straight-line basis over the expected average remaining service lifetime.

The Corporation presently offers a retirement and post-retirement benefit plan that consists of life, health and dental benefits to those employees who retire on or after age 55 with at least 10 years of service with a specified cost sharing formula for participation from the time of early retirement to age 65.

(m) Income taxes:

Under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Energy Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing income and

**1. Significant accounting policies (continued):**

taxable capital and other relevant amounts contained in the Income Tax Act (Canada), the Taxation Act, 2007 (Ontario), both as modified by the Electricity Act, 1998, and related regulations. References in these financial statements to income taxes are with respect to PILs.

The Corporation uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and tax bases of the Corporation's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Corporation's income taxes payable in the year or a later period. A valuation allowance is recorded against a future income tax asset to the extent that it is more likely than not that the full asset value will not be realized in the future.

(n) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the consolidated balance sheet dates. Revenue and expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in income.

(o) Financial instruments:

Financial assets, financial liabilities and non-financial derivatives are recorded on the consolidated balance sheets at their fair value or with cost-based measures under different circumstances. Financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are measured on the consolidated balance sheets at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

**1. Significant accounting policies (continued):**

The Corporation designates its cash and cash equivalents and deposits and prudentials as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Advance payments and deposits are classified as held-for-trading, which are measured at fair value. Bonds payable are classified as other financial liabilities and measured at amortized cost. The transaction costs are added to the carrying value of the bonds and amortized over the expected life using the effective interest rate method.

(p) Capital disclosures:

The Corporation's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns to its shareholders.

Effective May 1, 2008, Enersource Hydro was deemed by the OEB for rate setting purposes to have a capital structure that was funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure as a basis of how capital is funded for rate setting purposes only. The actual capital structure for Enersource Hydro may differ from the OEB deemed structure.

(q) Future accounting changes:

Transition to International Financial Reporting Standards:

In October 2010, the Accounting Standards Board (“AcSB”) issued an amendment to the Introduction of Part 1 of the CICA Handbook to permit qualifying entities with rate-regulated activities the option to defer their adoption of IFRS to annual periods beginning on or after January 1, 2012. Entities using the deferral are required to disclose that fact.

Prior to this amendment, the AcSB required publicly accountable enterprises to adopt IFRS for interim and annual reporting periods beginning on or after January 1, 2011, including comparative amounts for the prior year.

(In thousands of dollars)

**1. Significant accounting policies (continued):**

The Corporation will continue to prepare its consolidated financial statements according to Canadian GAAP for 2011 and has elected to adopt IFRS for interim and annual financial statements relating to annual periods beginning on January 1, 2012.

**2. Fixed assets:**

| 2010 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Land | $ 4,071 | $ – | $ 4,071 |
| Buildings and other fixtures | 18,599 | 6,148 | 12,451 |
| Distribution station equipment | 96,906 | 38,706 | 58,200 |
| Overhead and underground distribution system | 656,534 | 339,317 | 317,217 |
| Meters | 57,299 | 24,027 | 33,272 |
| Equipment and furniture | 8,670 | 4,024 | 4,646 |
| Rolling Stock | 16,530 | 10,097 | 6,433 |
| Computer Hardware | 7,154 | 3,546 | 3,608 |
| Construction in progress | 6,596 | – | 6,596 |
| | $ 872,359 | $ 425,865 | $ 446,494 |

| 2009 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Land | $ 4,071 | $ – | $ 4,071 |
| Buildings and other fixtures | 17,112 | 5,743 | 11,369 |
| Distribution station equipment | 92,299 | 35,473 | 56,826 |
| Overhead and underground distribution system | 631,222 | 317,747 | 313,475 |
| Meters | 52,227 | 22,103 | 30,124 |
| Equipment and furniture | 8,629 | 3,395 | 5,234 |
| Rolling Stock | 16,858 | 10,262 | 6,596 |
| Computer Hardware | 6,669 | 2,771 | 3,898 |
| Construction in progress | 4,302 | – | 4,302 |
| | $ 833,389 | $ 397,494 | $ 435,895 |

During the year, $314 (2009 - $1,031), representing an allowance for the cost of funds used during construction, was capitalized to construction in progress.

(In thousands of dollars)

## 3. Inventory:

The amount of inventory consumed by the Corporation and recognized as an expense during 2010 was $2,062 (2009 - $2,202). The amount of inventory that was written down due to obsolescence was $48 (2009 - $18).

## 4. Intangible assets:

| 2010 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Computer software | $ 16,549 | $ 2,806 | $ 13,743 |
| Software in development | 1,804 | – | 1,804 |
| Easements | 36 | – | 36 |
| | $ 18,389 | $ 2,806 | $ 15,583 |

| 2009 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Computer software | $ 16,471 | $ 2,596 | $ 13,875 |
| Software in development | 545 | – | 545 |
| | $ 17,016 | $ 2,596 | $ 14,420 |

## 5. Income taxes:

The provision for income taxes differs from the amount that would have been recorded using the combined federal and Ontario statutory income tax rate. A reconciliation between the statutory and effective tax rates is provided as follows:

(In thousands of dollars)

**5. Income Taxes (continued):**

| | 2010 | 2009 |
|---|---|---|
| Federal and Ontario statutory income tax rate | 31.0% | 33.0% |
| Income before provision for income taxes | $ 24,136 | $ 24,297 |
| Non-controlling interest | – | (51) |
| | $ 24,136 | $ 24,246 |
| Provision for income taxes at statutory rate | $ 7,482 | $ 8,001 |
| Increase (decrease) resulting from: | | |
| Amortization less than capital cost allowance | (638) | (1,554) |
| Tax effect of non-capital losses for which no benefit has been recorded | (203) | 123 |
| Other timing differences between accounting net income and net income for tax purposes | (209) | 112 |
| Provision for income taxes | $ 6,432 | $ 6,682 |
| Effective income tax rate | 26.6% | 27.6% |

Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Corporation's future tax assets, liabilities and expense are as follows:

(a) Components of provision for income taxes:

| | 2010 | 2009 |
|---|---|---|
| Current income tax expense | $ 5,821 | $ 6,355 |
| Future income tax expense | 611 | 327 |
| | $ 6,432 | $ 6,682 |

(In thousands of dollars)

**5. Income Taxes (continued):**

(b) Significant components of future income tax assets and liabilities on the consolidated balance sheet are as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Fixed and intangible assets | $ | 23,450 | $ | 24,560 |
| Regulatory liability for future income taxes | | 8,025 | | 8,236 |
| Regulatory assets and liabilities | | (388) | | 259 |
| Employee retirement and post retirement benefits | | 1,164 | | 1,047 |
| Other temporary differences | | 100 | | (41) |
| | $ | 32,351 | $ | 34,061 |

The future tax asset is presented on the consolidated balance sheet as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Future income tax assets, current | $ | – | $ | 522 |
| Future income tax assets, non-current | | 32,540 | | 33,539 |
| | $ | 32,540 | $ | 34,061 |

The future tax liability is presented on the consolidated balance sheet as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Future income tax liability, current | $ | 189 | $ | – |
| Future income tax liability, non-current | | – | | – |
| | $ | 189 | $ | – |

(c) Management expects that $24,619 (2009 - $25,507) of the future income tax assets will be included in the future rates charged to customers and accordingly has recorded a corresponding regulatory liability. The regulatory liability will itself result in an additional future income tax asset of $8,025 (2009 - $8,236). Accordingly, $32,644 (2009 - $33,743) has been recorded as a regulatory liability for future income taxes.

(In thousands of dollars)

## 5. Income Taxes (continued):

The regulatory liability for future income tax assets is presented on the consolidated balance sheet as follows:

| | 2010 | 2009 |
|---|---|---|
| Regulatory liability for future income taxes, current | $ 149 | $ 252 |
| Regulatory liability for future income taxes, non-current | 32,495 | 33,491 |
| | $ 32,644 | $ 33,743 |

At December 31, 2010, certain other subsidiaries have estimated non-capital loss carryforwards totalling $2,368 (2009 - $6,139) available, which will expire between 2014 and 2029. The potential benefit relating to these amounts has not been recorded given the uncertainty as to their realization.

## 6. Deposits and prudentials:

The following outlines the deposits and prudentials of the Corporation, posted as security. The amounts are comprised of cash and cash equivalents in the form of deposits and letters of credit/letters of guarantee, under which the Corporation is contingently liable.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Cash and cash equivalents | Letters of credit/ letters of guarantee | Cash and cash equivalents | Letters of credit/ letters of guarantee |
| Customer deposits | $ 20,739 | $ – | $ 20,225 | $ – |
| Security with IESO | – | 10,588 | – | 9,344 |
| Security with the City of Brampton | – | 5,026 | – | 4,991 |
| | $ 20,739 | $ 15,614 | $ 20,225 | $ 14,335 |

Security deposits:

(a) Customer deposits:

The Corporation collects cash and cash equivalents as deposits from certain customers to reduce credit risk.

**6. Deposits and prudentials (continued):**

Contingent obligations:

(b) Security with the Independent Electricity System Operator:

Entities that purchase electricity in Ontario through the Independent Electricity System Operator ("IESO") are required to post security to mitigate the risk of their default on their expected activity in the market. The IESO could draw on this security if the Corporation failed to make payment required by a default notice issued by the IESO. The Corporation has posted a letter of credit as security in the amount of $10,588 (2009 - $9,344)

(c) Security with the City of Brampton:

The Corporation has posted letters of credit in the amount of $5,026 (2009 - $4,991) relating to contracts with the City of Brampton to provide routine and emergency maintenance of streetlighting and related services. The City of Brampton could draw on this security by issuing a certificate demonstrating that the Corporation has failed to fulfill its obligations related to these contracts.

**7. Regulatory assets and liabilities:**

Regulatory assets primarily represent costs that have been deferred because they are expected to be recovered in future distribution rates. Similarly, regulatory liabilities can arise from differences in amounts billed to customers under the regulated pricing mechanism and the corresponding wholesale market cost of power incurred by the utility.

Enersource Hydro is also required to record a regulatory liability or asset relating to the amount of future tax assets that are expected to be refunded or recovered through distribution rates.

Regulatory balances are comprised principally as follows:

(i) Retail settlement variances are caused by the difference between the actual price of the electricity commodity throughput and the prices set by the OEB. Specifically, these amounts include variances between the amounts charged by Hydro One and the IESO for the operation of the electricity markets and grid, as well as various wholesale market settlement charges and transmission charges as compared to the amount billed to consumers based on the OEB-approved rates.

(In thousands of dollars)

**7. Regulatory assets and liabilities (continued):**

(ii) Unrecognized revenue and costs associated with the smart meter program, and costs relating to stranded conventional meters have been deferred and will continue to be deferred until directed by the OEB.

The following table demonstrates the impact on 2010 earnings net of income taxes as a result of regulated accounting requirements. Explanatory notes follow the table below.

| | 2010 | 2009 | Estimated remaining settlement period (years) | 2010 impact on earnings net of income taxes ((a)(i)) |
|---|---|---|---|---|
| Regulatory assets (liabilities): | | | | |
| Other regulatory assets ((a)(ii)) | $ 2,590 | $ 1,585 | 2 | $ (1,005) |
| Smart meter revenue/expense ((a)(iii)) | 9,572 | 6,380 | 2 | (3,192) |
| Special Purpose Charge ((a)(iv)) | 1,705 | - | 1 – 2 | (13) |
| Late Payment Penalty ((a)(v)) | 1,006 | - | 1 – 2 | (729) |
| Net regulatory assets approved for recovery ((a)(vi)) | 5,140 | - | 1 – 2 | (68) -- |
| Retail Settlement & Global adjustment variances ((a)(vii)) | - | 4,273 | 1 – 2 | - |
| | $ 20,013 | $ 12,238 | | $ (5,007) |
| Regulatory liabilities (assets): | | | | |
| Retail Settlement & Global Adjustment variances ((a)(vii)) | 39,671 | - - | 1 - 2 | 202 |
| | $ 39,671 | $ - | | $ 202 |
| Regulatory liability for future income tax assets ((a)(viii)) | $ 32,644 | $ 33,743 | – | $ – |

(a) Explanatory notes:

(i) The 2010 impact on earnings net of income taxes represents the effect on the net income as a result of the treatment under rate regulated accounting.

(ii) The OEB has approved deferral accounts to record incremental costs associated with the implementation of IFRS, and any incremental costs needed to comply with Environment Canada's new regulations associated with PCBs. The OEB also requires that Enersource Hydro record and defer the difference between revenue and costs

**7. Regulatory assets and liabilities (continued):**

associated with providing retailers with customer settlement services as retail cost variance account deferrals. The remaining balance reflects PILs differences resulting from legislative or regulatory changes to tax rates or rules as compared to rate-setting.

(iii) On June 13, 2006, the OEB issued an update to the Accounting Procedures Handbook regarding the accounting treatment for smart meter expenditures. On December 8, 2008, the OEB issued its decision approving the recognition of smart meter revenue and costs as at December 31, 2007. On October 1, 2009, the OEB issued a decision approving the on-going accounting recognition of investments in smart meters. Based on this decision, the Enersource Hydro has recognized revenue and costs for smart meter investments to December 31, 2010. The OEB also established guidelines for the accounting treatment for stranded meter costs, which directed distributors to defer stranded meter costs as a regulatory asset. This amount represents the cumulative costs related to stranded conventional meters.

(iv) On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment for the Ministry of Energy conservation and renewable energy program costs and that the SPC would be recoverable through distribution rates. Enersource Hydro was assessed $3,016 for its apportioned share of the total provincial amount of $53,695. This amount represents Enersource Hydro's remaining SPC assessment to be recovered.

(v) On March 2, 2010, the Electricity Distributors Association ("EDA") reached a settlement in principle in a class action suit which claimed that Local Distribution Companies ("LDCs") were charging late payment interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code. The settlement received consent and approval by all LDCs. On July 22, 2010 the Ontario Superior Court of Justice approved the settlement which stipulates that LDCs will collectively pay $17,000 in damages by June 30, 2011 to the Winter Warmth Fund or similar charities, after deducting legal fees. On February 22, 2011 the OEB approved the recovery of the late payment penalty through distribution rates effective May 1, 2011.

(vi) On November 27, 2009, Enersource Hydro submitted an application to the OEB to recover/refund all retail settlement variance account balances as at December 31, 2008, as well as energy variance and global adjustment variance account balances as at September 30, 2009. The net recovery of $12,800 was approved by the OEB on January 29, 2010. During 2010, Enersource Hydro recovered $7,660 and expects to recover the remaining balance from January 1, 2011 to January 31, 2012.

**7. Regulatory assets and liabilities (continued):**

(vii) The OEB requires Enersource Hydro to record and defer the difference between energy charged to its customers and the actual cost of power incurred and paid to the IESO and to Hydro One. The retail settlement variance reflects this difference for all accounts plus interest at an OEB approved rate since January 1, 2008, excluding energy variance account which reflects this difference from October 1, 2009. The Global Adjustment amount is the difference between market prices and rates paid to regulated and contracted generators which are set by the IESO. This adjustment may be positive or negative. The Global Adjustment retail settlement variance captures the unpaid or recoverable amounts due to or recoverable from Enersource Hydro's customers. The global adjustment variance reflects this difference since October 1, 2009 plus interest charged at an OEB approved rate.

(viii) This amount represents the regulatory liability for future income taxes expected to be refunded to customers through future distribution rates.

The Corporation has accrued interest on the deferral account balances for the regulatory assets and liabilities, as directed by the OEB. As at December 31, 2010, this net accrued interest amounted to $104 (2009 - $105).

(b) Financial statement effects of rate regulation:

(i) General information regarding rate regulation and its economic effects:

The operations of the Corporation's subsidiary, Enersource Hydro, are regulated by the OEB. The OEB exercises statutory authority over matters such as distribution asset construction, rates and underlying accounting practices, and rate setting issues with Enersource Hydro's customers.

(ii) Regulatory risk and uncertainties affecting recovery or settlement:

The regulatory assets and liabilities recorded in the consolidated financial statements are based upon an expectation of the future actions of the OEB. To the extent that the OEB's future actions are different from Enersource Hydro's expectations, the timing and amount of recovery or settlement of amounts recorded on the consolidated balance sheets could be significantly different from the timing and amounts that are eventually recovered or settled.

(In thousands of dollars)

## 7. Regulatory assets and liabilities (continued):

(iii) Financial statement effects:

In order to recognize the economic effects of the actions or expected actions of the regulator, the timing of recognition of certain revenue and expenses in these operations may differ from that otherwise expected under GAAP for non rate-regulated entities.

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through the rate setting process. In the absence of rate regulated accounting, GAAP would not permit deferral of regulatory assets and, therefore, the earnings impact would be recorded in the period of recovery.

Regulatory liabilities represent amounts that are expected to be refunded to customers as a result of the rate-setting process. The GAAP treatment of regulatory liabilities and the resulting earnings impact is the same as that under rate regulated accounting because the liabilities represent contractual obligations.

## 8. Bonds payable:

| | 2010 | 2009 |
|---|---|---|
| 6.29% Borealis-Enersource Series Bonds, Tranche 1, due May 3, 2011 | $ 290,000 | $ 290,000 |
| Deferred debt issue costs (net of accumulated amortization of $4,147 (2009 - $3,592)) | (189) | (744) |
| Net bonds payable | $ 289,811 | $ 289,256 |

The Borealis-Enersource Series Bonds are secured by a credit agreement between the Corporation and Borealis Infrastructure Trust. The credit agreement provides for a first ranking charge on collateral comprised of the Corporation's assets. The Borealis-Enersource Series Bonds will mature on May 3, 2011 and are intended to be refinanced at that time. The bonds are classified as a short-term liability. Interest expense for the year ended December 31, 2010 included $18,241 (2009 - $18,241) in respect of interest on this debt and amortization of debt issue costs in the amount of $555 (2009 - $523).

The Corporation has the following material covenants associated with its long-term debt:

(a) The consolidated financial statements must be audited, comply with GAAP and be filed directly on the System for Electronic Document Analysis and Retrieval ("SEDAR").

**8. Bonds Payable (continued):**

(b) The Corporation shall make all payments of principal, interest and, as applicable, premiums in favour of Borealis Infrastructure Trust.

(c) The Corporation shall not issue, incur or become liable for obligations that exceed 75% of the total consolidated capitalization or provide another security interest upon the same assets as the debt.

(d) The Corporation shall not directly or indirectly invest in energy retailing unless at the time and after giving effect to the proposed investment:

(i) No default or event of default shall have occurred and be continuing, or shall occur; and

(ii) The aggregate amount of all such investments made shall not exceed the greater of (a) $20,000 and (b) 5% of consolidated net worth.

The Corporation is in compliance with all credit agreement covenants and limitations associated with its debt.

**9. Employee retirement and post-retirement benefits:**

(a) Pensions:

During fiscal 2010, the Corporation expensed contributions made to OMERS of $2,489 (2009 - $2,322).

(b) Other retirement and post-retirement benefits:

The Corporation measures its accrued benefit obligations for accounting purposes at December 31 each year. The latest actuarial valuation was performed as at December 31, 2009.

(In thousands of dollars)

## 9. Employee retirement and post-retirement benefits (continued):

Retirement and post-retirement life, health and dental benefits plan:

(i) Post-employment benefits obligation:

| | 2010 | 2009 |
|---|---|---|
| Change in benefit obligations: | | |
| Accrued benefit obligation, beginning of year | $ 4,559 | $ 3,797 |
| Current service cost | 178 | 167 |
| Amortization of transition obligation | 167 | 167 |
| Interest cost | 279 | 287 |
| Benefits paid | (155) | (86) |
| Transition obligation | (167) | (167) |
| Amortization of actuarial gain | - | (102) |
| Net actuarial loss | 307 | 496 |
| Post-employment benefits obligation, end of year | $ 5,168 | $ 4,559 |

(ii) Reconciliation of retirement and post-retirement life, health and dental benefits plan:

| | 2010 | 2009 |
|---|---|---|
| Accrued benefit, end of year | $ 5,168 | $ 4,559 |
| Unrecognized transition obligation | (665) | (832) |
| Unrecognized actuarial gain | 153 | 460 |
| Accrued benefit liability | $ 4,656 | $ 4,187 |

(iii) Significant assumptions:

| | 2010 | 2009 |
|---|---|---|
| Discount rate | 6.00% | 7.25% |
| Health care cost increases | 9.00% | 12.00% |
| Dental cost increases | 4.00% | 5.00% |
| Rate of compensation increase | 3.00% | 2.50% |

The total post-employment benefits liability for this plan at December 31, 2010 is $4,656 (2009 - $4,187). The unrecognized transition obligation relating to this plan is being amortized over the expected average remaining service lifetime on the date of transition.

(In thousands of dollars)

## 9. Employee retirement and post-retirement benefits (continued):

The Corporation's net life, health and dental benefit expense relating to this plan is as follows:

| | 2010 | 2009 |
|---|---|---|
| Amortization of transition obligation | $ 167 | $ 167 |
| Current service cost | 178 | 167 |
| Interest cost | 279 | 287 |
| Amortization of actuarial gain | - | (102) |
| | $ 624 | $ 519 |

The December 31, 2010 accounting report assumed health care costs would increase by 9% in 2011, then grading down to 5% per annum after 8 years. Dental costs were assumed to increase by 4% per annum.

A 1% increase (decrease) in the interest assumption would decrease (increase) the expected post-retirement benefit obligation, the interest cost and the service cost by approximately $340.

## 10. Capital stock:

| | 2010 | 2009 |
|---|---|---|
| Authorized: | | |
| Unlimited Class A shares, voting | | |
| 1,000 Class B shares, non-voting | | |
| 100 Class C shares, voting | | |
| Issued: | | |
| 180,555,562 Class A shares | $ 155,628 | $ 155,628 |
| 1,000 Class B shares | 1 | 1 |
| 100 Class C shares | 20,062 | 20,062 |
| | $ 175,691 | $ 175,691 |

Dividends may be declared by the Board of Directors through a resolution.

In 2010, a dividend of $10,538 (2009 - $11,533) was declared and paid to the shareholders of the Corporation.

(In thousands of dollars)

**11. Change in non-cash operating working capital:**

| | 2010 | 2009 |
|---|---|---|
| Accounts receivable | $ 2,964 | $ (831) |
| Unbilled revenue | (16,480) | 3,248 |
| Income taxes receivable | 535 | (535) |
| Inventory | 199 | (841) |
| Prepaid expenses and deposits | 144 | 665 |
| Accounts payable and accrued liabilities | (5,561) | 3,290 |
| Accounts payable and accrued liabilities in assets | (585) | 778 |
| Income taxes payable | 3,418 | (2,149) |
| Deferred revenue | 104 | (19) |
| Advance payments | 688 | (773) |
| Regulatory liabilities | 39,671 | (18,295) |
| | $ 25,097 | $ (15,462) |

Accrued liabilities relating to additions to fixed assets and intangible assets for the year ended December 31, 2010 of $5,614 (2009 - $5,029) have been excluded from the change in non-cash operating working capital and from cash used in investing activities.

**12. Contingencies:**

(a) Insurance claims:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members.

Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of $24,000 per occurrence. The Corporation has also obtained additional general liability insurance of $10,000 per occurrence.

Enersource Hydro has been jointly named as a defendant in several actions. No provision has been made for these potential liabilities as Enersource Hydro expects that these claims are adequately covered by its insurance.

## 12. Contingencies (continued):

(b) Environmental matters:

(i) The Corporation is subject to Canadian federal, provincial and municipal environmental regulations. As part of the Corporation's risk mitigation strategy, environmental assessments and environmental remediation is underway at various sites. The Corporation records a liability for the estimated future expenditures associated with testing and remediation of contaminated lands at various municipal substations and neighbouring properties. Actual future environmental expenditures may vary from these estimates. As at December 31, 2010, the Corporation provided $217 (2009 - $450) for testing and future remediation.

(ii) Environment Canada has issued new regulations governing the management of PCB’s. On December 1, 2008, the OEB approved the Corporation's request to defer any expenses incurred to comply with the new regulations. As at December 31, 2010, the Corporation deferred $974 (2009 - $914) included in regulatory assets, representing costs incurred for compliance with the new regulations.

## 13. Commitments:

Fixed and intangible asset purchase commitments outstanding as at December 31, 2010 total $7,524 (2009 - $7,019).

As at December 31, 2010, the future minimum annual lease payments under property operating leases totalled $121 (2009 - $116).

## 14. Financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, deposits and prudentials, accounts payable and accrued liabilities and advance payments approximate their fair values because of the short term to maturity of these financial instruments.

The bonds, having a principal amount of $290,000 (2009 - $290,000), have a fair value of $294,318 (2009 - $307,168), based on year-end quoted market prices.

Exposure to market risk, credit risk, liquidity risk and interest rate risk arises in the normal course of the Corporation's business.

**14. Financial instruments (continued):**

(a) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow through nature of commodity costs and its foreign exchange risk is not considered material since the Corporation's exposure is limited to U.S. dollar cash and cash equivalents holdings of $103 as at December 31, 2010 (2009 - $681).

Distribution rates and charges are currently based on a revenue requirement less other income, which includes interest income. The difference between actual interest income earned by the Corporation and the interest revenue reduction approved by the OEB may have a negative impact on the results of operations.

(b) Credit risk:

The Corporation manages counterparty credit risk through various techniques including limiting total exposure levels with individual counterparties consistent with the Corporation's policies and monitoring the financial condition of counterparties. Short-term investments held as at December 31, 2010, met the criteria specified under the Corporation's Investment Policy.

Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Corporation's distribution revenue is earned on a broad base of customers principally located in Mississauga. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2010, there were no significant balances of accounts receivable due from any single customer.

Management believes that the credit risk of accounts receivable is limited due to the following reasons:

(i) There is a broad base of customers with no single customer that accounts for revenue or an accounts receivable balance in excess of 10% of the respective balance in either year.

(ii) Enersource Hydro, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or letter of credit from customers to mitigate risk of payment default.

(In thousands of dollars)

**14. Financial instruments (continued):**

(iii) The percentage of accounts receivable that is past due for more than 75 days is approximately 9.0% (2009 - 5.6%) of the total net outstanding balance.

(iv) Enersource Hydro included an amount for accounts receivable write-offs within operations, maintenance and administration expense for rate setting purposes.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31:

| | 2010 | 2009 |
|---|---|---|
| Total accounts receivable | $ 58,977 | $ 60,156 |
| Less allowance for doubtful accounts | (2,536) | (751) |
| Total accounts receivable, net | $ 56,441 | $ 59,405 |
| Of which: | | |
| Not yet due | $ 37,477 | $ 34,602 |
| Past due 1 day but not more than 15 | 8,513 | 16,129 |
| Past due 15 days but not more than 45 | 6,207 | 5,366 |
| Past due 45 days but not more than 75 | 1,721 | 750 |
| Past due 75 days but not more than 105 | 1,354 | 1,022 |
| Past due more than 105 days | 3,705 | 2,287 |
| Less: Allowance for doubtful accounts | (2,536) | (751) |
| Total accounts receivable, net | $ 56,441 | $ 59,405 |

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established $50,000 banking line of credit, if required. Short-term liquidity is expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

(In thousands of dollars)

**14. Financial instruments (continued):**

| | Due within 1 year | Due between 1 and 5 years | Due past 5 years |
|---|---|---|---|
| Financial liabilities: | | | |
| Accounts payable and accrued liabilities | $ 90,888 | $ – | $ – |
| Bond interest and principle payable | 299,121 | – | – |
| | $ 390,009 | $ – | $ – |

The Borealis-Enersource Series Bonds mature in May, 2011 and are expected to be refinanced at that time.

(d) Interest rate risk:

The Corporation minimizes interest rate risk by issuing long-term fixed rate debt.

**15. Related party transactions**

The Corporation's operations include the provision of electricity and services to its principal shareholder, the City. Electricity is billed to the City at the prices and terms established between the City and its electricity retailer. Streetlighting maintenance and construction services are provided at an exchange amount, being that amount agreed to by the parties. A summary of amounts charged by the Corporation to the City is as follows:

| | 2010 | 2009 |
|---|---|---|
| Electrical energy | $ 9,677 | $ 8,250 |
| Streetlighting maintenance and construction | 6,355 | 4,797 |
| Streetlighting energy | 6,098 | 5,245 |

At December 31, 2010, accounts payable and accrued liabilities include $33 (2009 - $38) due to the City and accounts receivable include $3,093 (2009 - $3,236) due from the City.

At December 31, 2010, the Corporation incurred property taxes which are paid to the City in the amount of $814 (2009 - $800).

The Corporation charged Borealis $9 (2009 - $9) for an access agreement. These transactions were recorded at the exchange amount being the amount agreed to by the parties. At December 31, 2010, accounts receivable included $nil (2009 - $1) due from Borealis.

(In thousands of dollars)

## 15. Related party transactions (continued)

Enerpower Corporation is an organization in which the Corporation holds a 10% minority ownership interest. The Corporation was charged $8,530 (2009 - $11,862) by Enerpower Corporation during 2010 for the construction of distribution system infrastructure. At December 31, 2010, accounts payable and accrued liabilities due to Enerpower were $1,651 (2009 - $1,927).

The Corporation received a dividend from Enerpower Corporation during 2010 of $332 (2009 - $392).

## 16. Segmented information:

The Corporation operates primarily in two operating segments, electricity distribution services and other operations. Other operations are primarily comprised of engineering design, construction and maintenance services for utilities and developers and streetlighting design and maintenance services.

The designation of segments is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies.

| 2010 | Electricity distribution services | Other operations | Intersegment eliminations | Total |
|---|---|---|---|---|
| Revenue | $ 648,146 | 8,390 | (410) | 656,126 |
| Operating expenses | (560,629) | (7,722) | 410 | (567,941) |
| Amortization | (45,542) | (134) | – | (45,676) |
| | (606,171) | (7,856) | 410 | (613,617) |
| | 41,975 | 534 | – | 42,509 |
| Interest income | 485 | 163 | – | 648 |
| Interest expense | (18,982) | (17) | – | (18,999) |
| Foreign exchange loss | (22) | – | – | (22) |
| Income before the under noted | 23,456 | 680 | – | 24,136 |
| Income taxes | 6,404 | 28 | – | 6,432 |
| Non-controlling interest | – | – | – | – |
| Net income | $ 17,052 | 652 | – | 17,704 |
| Capital expenditures | $ 42,302 | 32 | – | 42,334 |
| Increase in cash and cash equivalents | 18,260 | 1,547 | – | 19,807 |

(In thousands of dollars)

## 16. Segmented information (continued):

| 2009 | Electricity distribution services | Other operations | Intersegment eliminations | Total |
|---|---|---|---|---|
| Revenue | $ 568,455 | $ 8,827 | $ (274) | $ 577,008 |
| Operating expenses | (491,400) | (9,420) | 274 | (500,546) |
| Amortization | (33,966) | (81) | – | (34,047) |
| | (525,366) | (9,501) | 274 | (534,593) |
| | 43,089 | (674) | – | 42,415 |
| Interest income | 604 | 211 | – | 815 |
| Interest expense | (18,532) | (18) | – | (18,550) |
| Foreign exchange loss | (383) | – | – | (383) |
| Income before the under noted | 24,778 | (481) | – | 24,297 |
| Income taxes | 6,251 | 431 | – | 6,682 |
| Non-controlling interest | – | – | (51) | (51) |
| Net income | $ 18,527 | $ (912) | $ (51) | $ 17,564 |
| Capital expenditures | $ 55,485 | $ 532 | $ – | $ 56,017 |
| Decrease in cash and cash equivalents | (41,196) | (1,148) | – | (42,344) |

Total assets for the Corporation's two operating segments are as follows:

| | 2010 | 2009 |
|---|---|---|
| Electricity distribution services | $ 693,098 | $ 647,657 |
| Other operations | 29,077 | 28,404 |
| Total assets | $ 722,175 | $ 676,061 |

## 17. Energy purchases:

All electricity purchases for standard supply customers are subject to pricing determined by the IESO, a provincial government body.

Included in accounts payable and accrued liabilities as at December 31, 2010 is $63,438 (2009 - $58,705) owed in respect of electricity purchases through the IESO.

## 18. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2010.