

Financial statements of

PowerStream Inc.

December 31, 2010

PowerStream Inc.

December 31, 2010

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Independent Auditor's Report

To the Shareholders of PowerStream Inc.

We have audited the accompanying financial statements of PowerStream Inc., which comprise the balance sheet as at December 31, 2010, and the statements of earnings and comprehensive income and retained earnings and of cash flows for the year the ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement to the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PowerStream Inc. as at December 31, 2010, and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
April 27, 2011

PowerStream Inc.

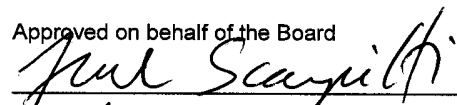
Balance sheet

as at December 31, 2010

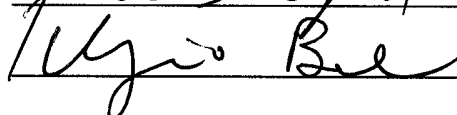
(In thousands of dollars)

	2010	2009
	\$	\$
Assets		
Current assets		
Cash	8,568	42,612
Accounts receivable, net of allowance for doubtful accounts (Note 18(c))	69,366	73,633
Unbilled revenue	92,207	88,160
Income taxes recoverable	-	1,525
Inventories (Note 4)	3,050	3,869
Prepays and other	2,718	2,581
	175,909	212,380
Property, plant and equipment, net (Note 5)	642,059	601,764
Regulatory assets (Note 7(a))	31,961	26,433
Deferred charges, net of amortization of \$63 (2009 - \$31)	612	644
Intangibles, net (Note 6)	4,180	3,614
Future income tax assets (Note 20(b))	53,313	61,665
Goodwill	42,543	42,543
	950,577	949,043
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	105,339	110,405
Current portion of customers' deposits	1,478	1,000
Income taxes payable	6,622	5,034
Due to related parties (Note 9)	12,214	12,049
Short-term debt (Note 10(a))	40,000	40,000
Infrastructure Ontario Financing (Note 10(b))	827	-
Current portion of liability for subdivision development	4,138	3,375
Current portion of capital lease obligation (Note 16)	259	-
	170,877	171,863
Long-term liabilities		
Bank term loan (Note 11(a))	50,000	50,000
Debentures payable (Note 11(b))	123,765	123,091
Notes payable (Note 11(c))	182,430	182,430
Regulatory liabilities (Note 7(b))	68,314	91,140
Customers' deposits	12,071	16,726
Employee future benefits (Note 12)	14,007	12,036
Liability for subdivision development	1,232	4,917
Construction deposits	23,364	23,172
Capital lease obligation (Note 16)	17,679	-
Future Income tax liabilities (Note 20(c))	61	-
Other liabilities	160	5,421
	493,083	508,933
Shareholders' equity		
Share capital (Note 14)	249,618	247,183
Retained earnings	36,999	21,064
	286,617	268,247
	950,577	949,043

Approved on behalf of the Board



Director



Director

PowerStream Inc.

Statement of earnings and comprehensive income and retained earnings year ended December 31, 2010

(In thousands of dollars)

	2010	2009
	\$	\$
Revenue		
Sale of energy	691,318	621,719
Distribution revenue	155,841	146,076
Other revenue	9,229	9,889
Total revenue	856,388	777,684
Cost of power purchased	691,318	621,719
Operating expenses	59,746	62,601
Earnings before amortization, interest and income taxes	105,324	93,364
Depreciation of property, plant and equipment and intangibles (net of \$2,803 (2009 - \$2,582) charged to other accounts)	46,255	42,125
Net interest expense (Note 22)	22,014	21,614
Income before income taxes	37,055	29,625
Income tax expense (Note 20(a))	10,588	8,561
Net earnings and comprehensive income for the year	26,467	21,064
Retained earnings, beginning of year	21,064	-
Dividends (Note 14)	(10,532)	-
Retained earnings, end of year	36,999	21,064

PowerStream Inc.

Statement of cash flows year ended December 31, 2010

(In thousands of dollars)

	2010	2009
	\$	\$
Operating activities		
Net earnings for the year	26,467	21,064
Adjustments to determine cash provided by operating activities		
Depreciation of property, plant and equipment	46,675	42,006
Accretion of debentures payable	674	629
Amortization of intangibles	2,383	2,701
Amortization of deferred charges	32	31
Employee future benefits	1,971	923
Future income taxes	8,413	6,759
Decrease in regulatory assets/liabilities	(28,354)	(23,280)
Loss (gain) on disposal of property, plant and equipment	533	(218)
Net change in non-cash operating working capital (Note 21)	(2,714)	(23,328)
	56,080	27,287
Financing activities		
Decrease in liability for subdivisions development	(2,922)	(3,164)
(Decrease) increase in long-term customers' deposits	(4,655)	1,223
Decrease in other liabilities	(5,261)	(47)
Obligations to predecessor shareholders (Note 14)	-	(31,082)
Dividends paid (Note 14)	(10,532)	-
Increase in short-term debt	-	15,000
Increase in construction deposits	192	23,172
Decrease in principal on capital lease obligation	(342)	-
Increase in Infrastructure Ontario Financing	827	-
	(22,693)	5,102
Investing activities		
Proceeds on disposal of property, plant and equipment	140	248
Purchase of intangibles	(2,949)	(6,314)
Purchase of property, plant and equipment, net of contribution of capital construction	(67,057)	(67,419)
Proceeds from the issuance of Class A common shares	2,435	-
	(67,431)	(73,485)
Decrease in cash during the year	(34,044)	(41,096)
Cash, beginning of year	42,612	83,708
Cash, end of year	8,568	42,612
Supplementary cash flow information		
Cash paid during the year for:		
Interest	22,619	21,298
Payments in lieu of corporate income taxes	9,247	10,026
Acquisition of property, plant and equipment financed by capital lease	18,280	-

See accompanying notes to the financial statements.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

1. Description of the business

PowerStream Inc. (the "Corporation") was amalgamated on January 1, 2009, under the Business Corporations Act (Ontario) and is owned by the Corporation of the City of Vaughan (the "City of Vaughan"), through its wholly owned subsidiary, Vaughan Holdings Inc.; the Corporation of the Town of Markham (the "Town of Markham"), through its wholly owned subsidiary, Markham Enterprises Corporation; and the Corporation of the City of Barrie (the "City of Barrie"), through its wholly owned subsidiary, Barrie Hydro Holdings Inc.

The principal activity of the Corporation is to distribute electricity in the service area of Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan in the Province of Ontario, under licenses issued by the Ontario Energy Board ("OEB"). The Corporation is regulated under the OEB and adjustments to the distribution rates require OEB approval.

Under the Green Energy and Green Economy Act, 2009, the Corporation and other Ontario electricity distributors have new opportunities and responsibilities for enabling renewable generation. The Corporation has commenced operations of a solar generation business, in 2010, as permitted by these changes.

2. Significant accounting policies

The Corporation's financial statements are the representations of management prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP") and accounting policies provided by its regulator, the OEB, as contained in the Accounting Procedures Handbook for Electric Distribution Utilities, issued under the authority of the Ontario Energy Board Act, 1998.

The financial statements reflect the following significant accounting policies:

(a) Rate setting

The Ontario Energy Board Act, 1998 gave the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity customers and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may prescribe license requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, and filing process requirements for rate-setting purposes.

As the Corporation is regulated by the OEB, the timing of recognition and measurement of assets and liabilities arising from rate regulation in these financial statements may differ from what is otherwise expected under CGAAP for non-rate regulated enterprises. The Corporation has determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under CGAAP and this recognition is consistent with the U.S. Statement of Financial Accounting Standards No. 71 - "Accounting for the Effects of Certain Types of Regulation".

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

2. Significant accounting policies (continued)

(b) Revenue recognition

(i) Electricity distribution and sale

Revenue from the sale and distribution of electricity is recorded on the basis of cyclical billings based on electricity usage and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is generally comprised of the following:

- Electricity Price and Related Rebates. The electricity price and related rebates represent a pass through of the commodity cost of electricity.
- Distribution Rate. The distribution rate is designed to recover the costs incurred by the Corporation in delivering electricity to customers, as well as earn the OEB allowed rate of return. Distribution charges are regulated by the OEB and typically comprise a fixed charge and a usage-based (consumption) charge.
- Retail Transmission Rate. The retail transmission rate represents a pass through of costs charged to the Corporation for the transmission of electricity from generating stations to the Corporation's service area. Retail transmission rates are regulated by the OEB.
- Wholesale Market Service Charge. The wholesale market service charge represents a pass through of various wholesale market support costs charged by the Independent Electricity System Operator ("IESO").

(ii) Other revenue

Other revenue related to the sale of other services is recognized as services are rendered. Contract revenue is accounted for using the percentage of completion method, whereby revenue is recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

(c) Financial instruments

The Corporation has made the following balance sheet classifications in connection with its financial assets and financial liabilities:

- (i) Cash is classified as financial assets "Held-for-Trading" and is measured at fair value.
- (ii) Accounts receivable are classified as "Loans and Receivables" and are measured at amortized cost using the effective interest method.
- (iii) Accounts payable, accrued liabilities, amounts due to related parties, short-term debt, Infrastructure Ontario financing, bank term loan, debentures payable, notes payable and customers' deposits are classified as "Other Financial Liabilities" and are measured at amortized cost using the effective interest method.

Financial assets and liabilities are initially recorded at fair value. The fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Transaction costs are netted against the proceeds of financial instruments classified as "Other Financial Liabilities" and are considered when determining the effective interest rate for the discounted cash flows. Subsequent measurement depends on how each financial instrument is classified on the balance sheet.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

The Corporation has classified fair value measurements using a fair value hierarchy that reflects three levels of inputs used in making the fair value measurements. The fair value hierarchy has the following levels:

- (i) Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- (ii) Level 2: Observable inputs other than quoted prices included in Level 1, such as derived prices for similar assets and liabilities; or quoted prices in inactive markets; and
- (iii) Level 3: Unobservable inputs for the assets or liabilities that are not based on observable market data.

(d) Inventories

Inventories, which consist of parts and supplies acquired for internal construction or consumption, is stated at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis. Any impairment losses taken on inventories are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of property, plant and equipment and depreciated once they are put into use.

(e) Property, plant and equipment and depreciation

Property, plant and equipment ("PP&E") is recorded at cost and includes contracted services, materials, labour, engineering costs, interest and overheads. Certain PP&E assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. Such contributions, whether in cash or in-kind, are offset against the related PP&E asset cost. Contributions in-kind are valued at their fair value at the date of their contribution.

When identifiable assets, such as buildings, distribution station equipment, equipment and furniture are retired or otherwise disposed of, their original cost and related accumulated depreciation are removed from the accounts and the related gain or loss is included in the operating results for the related fiscal period.

Depreciation of PP&E is provided for on a straight-line basis over the estimated service life of the assets. Depreciation of contributions from developers or customers is depreciated at the rates corresponding with the useful lives of the related PP&E. The estimated service lives of the various assets used in calculating depreciation are summarized below:

Buildings	10 to 50 years
Transformer stations	40 years
Transformers and meters	25 to 40 years
Plant and equipment	10 to 30 years
Other	3 to 8 years

Construction in progress comprises PP&E under construction; not yet placed into service; and pre-construction activities related to specific projects expected to be constructed. An allowance for the outlay of funds employed during the construction period has been applied to the related PP&E as allowed by the OEB.

(f) Impairment of long-lived assets

The Corporation reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the long-lived assets is not recoverable. Any resulting impairment loss is recorded in the period in which the impairment occurs.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

2. Significant accounting policies (continued)

(g) Intangibles

Intangibles include computer software and land rights. Computer software is stated at cost and amortized on a straight-line basis over three years while land rights are stated at cost, are not amortized and as they have an indefinite useful life.

(h) Rate regulated assets and liabilities

Regulatory assets/liabilities represent costs/revenue that have been deferred and that are expected to be disposed of through future rates. Retail Settlement Variance Amounts ("RSVA") are required to be recorded by the OEB and arise from differences in amounts billed to customers and retailers and the cost to the Corporation, for electricity, wholesale market services and transmission services. The Corporation accrues interest on regulatory assets and liabilities as permitted by the OEB.

As at December 31, 2010, regulatory assets and liabilities are comprised principally of deferred Smart Meter costs, future income taxes and RSVA's. The Corporation has provided a provision against certain regulatory assets and liabilities, and continues to assess the likelihood of recovery of these regulatory assets and liabilities. The Corporation believes that it is probable that its regulatory assets and liability balances will be factored into the setting of future rates.

(i) Goodwill

Goodwill represents the excess of the purchase price over the fair value assigned to the Corporation's interest of the net identifiable assets acquired on the acquisition, by predecessor corporations of the former Richmond Hill Hydro Inc., Penetanguishene Hydro, Essa Hydro, New Tecumseth Hydro and Bradford Hydro. Goodwill is not amortized but is tested for impairment annually or more frequently if events or circumstances change that indicate that the asset may be impaired. When the carrying amount of goodwill exceeds the implied fair value an impairment loss is recognized in an amount equal to the excess.

(j) Pension and other post-employment benefits

(i) Pension

The Corporation provides a pension plan to its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer defined benefit pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The pension plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund. The Corporation accounts for its participation in OMERS, a multi-employer public sector pension fund, as a defined contribution plan. The Corporation recognizes the expense related to this plan as contributions are made.

(ii) Other post-employment benefits

The Corporation provides certain health, dental and life insurance benefits. This benefit plan provides benefits to employees when they retire from the Corporation.

The Corporation actuarially determines the cost of 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-employment benefit is deemed to be earned on a pro-rata basis over the years of service in the attribution period commencing at the date of hire, and ending at the earliest age the employee could retire and qualify for benefits. Compensated absences and termination benefits that do not vest or accumulate are recognized as an expense when the event occurs. This accounting policy for post-employment benefits was applied on the prospective basis. The transitional obligation resulting from this treatment is being amortized over the average remaining service period of employees.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

2. Significant accounting policies (continued)

(k) Customer deposits

Customer deposits are collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as a current liability. Interest is paid on customers' deposits.

(l) Payment in lieu of corporate income taxes ("PILs")

The Corporation follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the substantively enacted income tax rates for the years in which the differences are expected to reverse.

Where the Corporation expects the future income taxes to be recovered from or refunded to the customers as part of the rate setting process, the future income tax assets and liabilities result in an offsetting regulatory liability or asset account, otherwise the future income tax assets and liabilities result in a future provision that is charged to the statement of earnings and comprehensive income and retained earnings.

(m) Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent assets and liabilities at the financial statement date. Accounts receivable, unbilled revenue, inventories, regulatory assets and liabilities, goodwill, employee future benefits and income taxes payable are reported based on amounts expected to be recovered/refunded and an appropriate allowance has been provided based on managements' best estimate of unrecoverable amounts. Due to the inherent uncertainty involved in making such estimates, actual results could differ from amounts recorded in these financial statements, including changes as a result of future decisions made by the OEB, the Minister of Energy and Infrastructure and the Minister of Finance.

3. Changes in accounting policies

Future accounting changes

International Financial Reporting Standards ("IFRS")

In September 2010, the Accounting Standards Board of Canada ("AcSB") approved an optional one year deferral for qualifying entities with rate-regulated activities. The Corporation has elected to take the one year deferral; accordingly the adoption of IFRS will occur on January 1, 2012. Thus, the Corporation will continue to prepare its financial statements in accordance with Canadian GAAP for 2011.

The adoption of IFRS will require the restatement, for comparative purposes, of the amounts reported by the Corporation for its December 31, 2011 year end, and the opening balance sheet as at January 1, 2011. The Corporation has an internal initiative to govern the conversion process to IFRS and is continuing to evaluate the impact of IFRS on its financial statements which is not yet determinable. The Corporation does, however expect an increase in the amount of disclosure requirements resulting from IFRS.

The Corporation will continue to monitor the progress made by the International Accounting Standards Board ("IASB") on the rate-regulated activities in consultation with other local distribution companies ("LDCs") and its professional advisor.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

4. Inventories

During fiscal 2010, an amount of \$nil (2009 - \$31) was recorded as an expense for the write-down of obsolete or damaged inventory.

5. Property, plant and equipment

			2010	2009
	Cost	Accumulated depreciation	Net book value	Net book value
	\$	\$	\$	\$
Land	10,875	-	10,875	8,923
Buildings	53,225	7,689	45,536	55,132
Transformer stations	155,935	46,876	109,059	73,687
Transformers and meters	306,909	144,961	161,948	148,337
Plant and equipment	899,980	435,094	464,886	437,587
Other	43,048	30,664	12,384	12,707
Assets under capital lease	18,280	731	17,549	-
Construction in progress	26,786	-	26,786	59,227
Major spare parts	8,404	-	8,404	8,843
	1,523,442	666,015	857,427	804,443
Capital contributions	277,010	61,642	215,368	202,679
	1,246,432	604,373	642,059	601,764

Included in PP&E costs is an amount of \$7,196 (2009 - \$5,683) related to an "allowance for the outlay of funds" employed during the construction period as allowed by the OEB. In the absence of rate regulation, interest expense in the current year would have been higher by \$1,513 (2009 - \$1,433).

Major spare parts amounting to \$nil (2009 - \$1,061) were considered to be impaired, as they had not been utilized for several years and were no longer in compliance with current standards. The fair value was determined to be \$nil, as the assets could only be sold as scrap with nominal proceeds. The 2009 impairment loss was recorded in the operating expense line of the statement of earnings and comprehensive income.

6. Intangibles

Intangible assets consist of the following:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	
Land rights	730	-	730	729
Computer software	18,528	15,078	3,450	2,885
	19,258	15,078	4,180	3,614

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

7. Regulatory assets and liabilities

In its 2009 rate application, the Corporation received approval to repay net regulatory liabilities accrued from January 1, 2005 to December 31, 2007 plus interest thereon to April 30, 2009 over the period September 1, 2009 to April 30, 2011, for the former PowerStream Inc. rate zone. In its 2010 rate application, relating to the former Barrie Hydro Distribution Inc. rate zone, the Corporation has received approval to repay net regulatory liabilities accrued from January 1, 2005 to December 31, 2008 plus interest thereon to April 30, 2010 over the period May 1, 2010 to April 30, 2011.

Regulatory assets and liabilities arise as a result of the rate-making process and consist of the following:

	2010	2009
	\$	\$
Regulatory assets		
Deferred smart meter costs	29,191	25,713
Other regulatory assets	2,770	720
Regulatory assets	31,961	26,433
Regulatory liabilities		
Retail settlement variance accounts	(1,157)	(1,010)
Future income taxes	(53,313)	(61,665)
Regulatory assets recovery account	(8,193)	(22,915)
PILs variance	(4,109)	(4,008)
Provision for regulatory assets and liabilities	(1,542)	(1,542)
Regulatory liabilities, including the provision	(68,314)	(91,140)

(a) Regulatory assets

(i) Deferred smart meter costs

As part of the Ontario Government's initiative, the Corporation had installed 297,000 smart meters as at December 31, 2010 (2009 - 225,000). The Corporation has recorded the capital spending and incremental expenses incurred in connection with smart meters less amount capitalized to PP&E when smart meter rate applications are approved by the OEB along with related funding collected from the customer in the deferral accounts established by the OEB.

In 2010, the Corporation submitted an application and received approval from the OEB for the recovery of costs associated with smart meters installed in the former PowerStream Inc. rate zone in 2008 and 2009. This resulted in new rate riders effective January 1, 2011. The rate riders allow the smart meter revenue requirement to be reflected in the Corporation's rates. In addition the approval also resulted in the recognition of the following amounts that were recorded in the smart meter deferral accounts: smart meter funding amounts previously collected in the amount of \$6,481 as distribution revenue, operating costs of \$2,960, PP&E of \$18,285 and depreciation of \$1,227.

In the absence of this regulatory treatment, PP&E would have increased by \$21,031 (2009 - \$19,883) with related depreciation expense of \$877 (2009 - \$878). Operating expenses would have increased by \$1,828 (2009 - \$814). Other revenue would have increased by \$5,898 (2009 - \$4,093) and interest revenue would have been lower by \$167 (2009 - \$164).

This regulatory asset balance also includes the net book value less proceeds of stranded mechanical meters, which have been replaced by smart meters, in the amount of \$13,497 (2009 - \$10,184). In the absence of this regulatory treatment, current year replaced meters with a net book value of \$4,360 (2009 - \$3,747) would have been recorded as a loss on disposal of PP&E.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

7. Regulatory assets and liabilities (continued)

(a) Regulatory assets (continued)

(ii) Other regulatory assets

Other regulatory accounts consist of accrued deferred costs which are listed in the table below:

	2010	2009
	\$	\$
Other regulatory assets		
Late payment class action suit settlement - (a)	1,024	-
Ministry of Energy and Infrastructure special purpose charge - (b)	1,103	-
IFRS transition costs	232	615
Other	411	105
Other regulatory assets	2,770	720

(a) Late Payment Penalty ("LPP") Class Action Suit Settlement

On July 22, 2010, the Ontario Superior Court of Justice approved a settlement of the LPP Class Action. As its share of this settlement, the Corporation is required to pay \$1,024 on June 30, 2011 to the United Way to assist low income electricity users. In February 2011 the Corporation received approval from the OEB to recover this amount from ratepayers. The Corporation has accrued this liability and recorded a corresponding regulatory asset. Under non regulated reporting, current year expenses would have been \$1,024 higher.

(b) Ministry of Energy and Infrastructure ("MEI") Special Purpose Charge

On March 16, 2010 Ontario Regulations 66/10 and 67/10 were filed for the purpose of creating a means for the Province of Ontario to recover \$53,695 from electricity distributors and the IESO relating to the period from April 1, 2009 to March 31, 2010 in order to partially fund conservation programs. The Corporation is allowed to recover this apportioned amount from customers through a uniform provincial kWh charge of 0.03725 cents/kWh on electricity used for the period May 1, 2010 to April 30, 2011. Both amounts collected from the customer and the amount paid are recorded in a new variance account as directed by the OEB.

Under non-regulated reporting this charge would be classified as a receivable on the balance sheet.

(b) Regulatory liabilities

(i) Retail settlement variance accounts

RSVA are variances that have occurred since May 1, 2002 when the competitive electricity market was declared open, to December 31, 2010, and have accumulated pursuant to direction from the OEB. Current balances represent variances:

- from January 1, 2008 to December 31, 2009 for the former PowerStream Inc. rate zone;
- from January 1, 2009 to December 31, 2009 for the former Barrie Hydro Distribution Inc. rate zone; and
- from January 1, 2010 to December 31, 2010 for the Corporation's combined service area.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

7. Regulatory assets and liabilities (continued)

(b) Regulatory liabilities (continued)

(i) Retail settlement variance accounts (continued)

Balances up to December 31, 2007 were approved for settlement with customers in 2009 rates for the former PowerStream Inc. rate zone and up to December 31, 2008 in 2010 rates for the former Barrie Hydro Distribution Inc. rate zone. Specifically, these amounts include:

- a) Variances between the amounts charged by the IESO for:
 - the operation of the markets and grid;
 - the purchase of imported power by the IESO to augment Ontario's power supply and charged by the IESO as an uplift charge that is part of the wholesale market service charges; and
 - various wholesale market settlement charges and transmission charges, as compared to the amount billed to consumers based on the OEB-approved wholesale market service rate and transmission rates.
- b) Differences between the amounts charged by the IESO and billed to consumers for energy costs.

Energy charges by the IESO consist of the hourly price of electricity, global adjustment charges related to the Ontario Power Authority's long term contracted supply of electricity including renewables, and adjustments for electricity billed to customers at regulated price plan rates.

Under non regulated reporting, the current year cost of power would have been \$6,041 lower (2009 - \$4,484 higher) and interest expense would have been lower by \$15 (2009 - \$360).

(ii) Future income taxes

The recovery from, or refund to, customers of future income taxes by the corporation in future electricity rates is required by Section 3465 of the CICA Handbook to be recognized as an asset or liability. Accordingly the corporation has recorded a future income tax asset related to the regulated business of \$53,313 and a corresponding regulatory liability of \$53,313. Under non regulated reporting, income tax expense would have been \$6,291 (2009- \$5,135) higher.

(iii) Regulatory assets recovery account ("RARA")

The RARA is comprised of the cumulative balances of regulatory assets and regulatory liabilities approved for disposition by the OEB, reduced by amounts settled with customers through billing of approved disposition rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and rates.

As at December 31, 2010, the balances include the following:

a) Former Barrie Hydro Distribution Inc. rate zone

On May 1, 2008, the Corporation began recovery of regulatory asset balances in the amount of \$910 over a period of 36 months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2006 and carrying interest charges accrued to April 30, 2008. In 2008 the approved amounts were netted with the recoveries account in accordance with OEB direction.

On May 1, 2010, the Corporation began refunding net regulatory liabilities in the amount of \$6,469 over a period of 12 months through rate riders. The approved amounts were netted with the recoveries account in accordance with OEB direction.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

7. Regulatory assets and liabilities (continued)

(b) Regulatory liabilities (continued)

(iii) Regulatory assets recovery account ("RARA") (continued)

b) Former PowerStream Inc. rate zone

On September 1, 2009, the Corporation began refunding net regulatory liabilities in the amount of \$28,089 over a period of 20 months through rate riders. These recoveries are based on final balances approved by the OEB reflecting costs to December 31, 2007 and carrying interest charges accrued to April 30, 2009. In 2009 the approved amounts were netted with the recoveries account in accordance with OEB direction.

Under non regulated reporting, current year revenues would have been decreased by \$20,749 (2009 - \$5,036) and interest expense in 2010 would have been decreased by \$119 (2009 - \$573).

(iv) PILs variance

For the period of October 1, 2001 to April 30, 2006, PILs were recorded based on the OEB PILs methodology of PILs billed amount versus PILs proxy amount variances and an annual Spreadsheet Implementation Model for PILs ("SIMPILs") filing with specified true-ups.

The OEB has undertaken a combined proceeding (EB-2008-0381) to review the balances set up in this account, for a group of utilities (the former Barrie Hydro Distribution Inc., ENWIN Utilities Ltd. and Halton Hills Hydro Inc.) and to determine the amounts to be recovered from or repaid to customers.

As an outcome of this proceeding, the OEB will provide clarification of the existing rules and interpretations as to how these rules should have been applied. It is the OEB's stated intention that these clarifications and interpretations will be used as a reference in determining the amounts for disposition by other utilities.

This proceeding is in progress and the outcome is indeterminable at this time. Any adjustments will be recorded when known.

Under non regulated reporting, current year revenues would have been \$68 (2009 - \$241) higher and interest expense would have been \$33 (2009 - \$51) lower.

(v) Provision for regulatory assets and liabilities

The Corporation has determined that there is uncertainty concerning the future recovery/settlement of certain regulatory assets and liabilities. Based on this uncertainty, a net regulatory liability provision in the amount of \$1,542 (2009 - \$1,542) has been recorded, of which \$126 (2009 - \$126) relates to regulatory assets and \$1,416 (2009 - \$1,416) relates to regulatory liabilities.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

8. Accounts payable and accrued liabilities

	2010	2009
	\$	\$
Accounts payable - energy purchases	59,689	57,581
Payroll payable	5,120	5,173
Debt retirement charge payable	4,340	4,463
Interest payable	3,089	2,484
Commodity taxes payable	1,967	290
Current portion of construction deposits	-	129
Customer receivables in credit balances	8,263	7,732
Other accounts payable and accrued liabilities	22,871	32,553
	105,339	110,405

9. Related party balances and transactions

The amount due to related parties is comprised of amounts payable to the City of Vaughan, the Town of Markham and the City of Barrie and their wholly-owned subsidiaries. The below information includes transaction and balances not already disclosed in Note 11(c) and Note 14.

Components of the amounts due to related parties are as follows:

	2010	2009
	\$	\$
City of Vaughan	5,420	5,523
Town of Markham	5,073	4,951
City of Barrie	1,721	1,575
	12,214	12,049

Other significant related party transactions not otherwise disclosed separately in the financial statements, are summarized below:

	2010			2009		
	City of Vaughan	Town of Markham	City of Barrie	City of Vaughan	Town of Markham	City of Barrie
	\$	\$	\$	\$	\$	\$
Revenue						
Energy and distribution	4,594	4,367	5,509	4,094	3,903	3,726
Shared services	1,953	2,468	1,000	1,916	1,401	1,620
Expenses						
Facilities rental	284	-	-	732	120	-
Realty taxes	567	174	299	530	158	303
Operations	381	-	-	482	95	-

These transactions are in the normal course of operations and are recorded at the exchange amount.

During the year the Corporation entered into operating leases with the City of Vaughan, Town of Markham and City of Barrie to lease rooftops on a number of buildings for which solar panels will be installed. There has been no financial impact of these leases for the year ended December 31, 2010.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

10. Short-term debt

(a) Credit facilities

On December 17, 2008 the Corporation executed an unsecured credit facility with a Canadian chartered bank. The credit facility is renewable annually. The credit facility agreement provides an extendible 364-day committed revolving credit facility of \$75,000, an uncommitted demand facility of \$25,000 for a specific purpose, and an uncommitted Letter of Guarantee facility of \$15,000.

As at December 31, 2010, the Corporation had utilized \$12,484 (2009 - \$12,000) of the uncommitted Letter of Guarantee facility for a letter of credit that was provided to the IESO to mitigate the risk of default on energy payments. With the opening of Ontario's electricity market to wholesale and retail competition on May 1, 2002 ("Open Access"), the IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the letter of credit if the Corporation defaults on its payment. Further, as at December 31, 2010, an additional \$444 (2009 - \$46) of the uncommitted Letter of Guarantee facility was utilized as security for operation projects.

The 364-day committed revolving credit facility can be drawn upon by direct advances, bearing interest at prime plus 0.15% or Bankers' Acceptance of a stamping fee plus 110 basis points (1.10% per annum). The uncommitted demand facility bears an interest rate of prime minus 0.10% or Bankers' Acceptance of a stamping fee plus 90 basis points (0.90% per annum). The Letter of Guarantee facility bears a charge of 50 basis points (0.50%) per annum.

The amount of short-term debt drawn on the credit facilities consists of:

	2010	2009
	\$	\$
Uncommitted demand facility	25,000	25,000
364-day committed revolving credit facility	15,000	15,000
	40,000	40,000

(b) Ontario Infrastructure Projects Corporation ("Infrastructure Ontario") financing

On October 15, 2010 the Corporation secured financing with Infrastructure Ontario for its Solar business. The funding is available for up to 5 years from the date that the agreement was signed.

As at December 31, 2010, the Corporation has utilized \$827 of the \$90,000 financing facility. Each advance shall bear interest at a floating rate per annum as determined by Infrastructure Ontario. The advance interest rate at December 31, 2010 was 1.74% and interest expense for the year was \$0.670.

The Corporation will pay Infrastructure Ontario a stand-by fee calculated at a rate of 25 basis points (0.25%) on the unadvanced balance of the committed amount should the Corporation fail to draw any funds pursuant to the agreement from Infrastructure Ontario during any period of 12 consecutive months commencing initially from October 15, 2010 and subsequently from the date of the draw of any such funds until the earlier of the facility termination date October 15, 2015 or the full advance of the committed amount. The financial covenants require a debt service coverage ratio of 1 to 1 or higher, a debt to capital ratio of 70% or lower, and a current ratio of 1:1 or higher.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

11. Long-term debt

(a) Bank term loan

The bank term loan of \$50,000 is a 5 year fixed rate term loan with a Canadian Chartered Bank which bears interest at an annual rate of 5.08%. It is a non-amortizing loan with repayment at the end of the contracted term, February 26, 2013. The financial covenants require a total debt to capitalization ratio of no greater than 0.60:1, and to maintain an interest coverage ratio of no less than 1.25:1.

Interest expense relating to the bank term loan for the year ended December 31, 2010 was \$2,540 (2009 - \$2,540).

(b) Debentures payable

	2010	2009
	\$	\$
6.45% unsecured debentures due August 15, 2012, interest payable in arrears semi-annually on August 15 and February 15	123,765	123,091

In August 2002, the four predecessor corporations (Hydro Vaughan Distribution Inc., Markham Hydro Distribution Inc., Richmond Hill Hydro Inc. and Barrie Hydro Distribution Inc.) raised gross proceeds of \$125,000 through a private placement offering. These predecessor corporations were four of five LDCs that participated in the Electricity Distributors Finance Corporation ("EDFIN") 10 Year Debenture Issue (Series 2002-1) that was offered on a private placement. EDFIN is a specific purpose corporation managed by MEARIE Management Inc., for the purpose of providing the LDCs with efficient access to the debt capital markets. Each LDC has executed a debenture which is a direct and unsecured obligation of the LDC. The LDC's obligations are several and not joint, and each LDC is liable for its own obligation and not that of any other LDC.

The debentures are recorded at amortized cost, using the effective interest method. Interest expense relating to the debentures payable was \$8,737 (2009 - \$8,691) which included \$674 (2009 - \$629) of accretion.

The debentures are subject to a financial covenant. This covenant requires that the consolidated funded obligation does not exceed 75% of the total consolidated capitalization of the Corporation.

(c) Notes payable

	2010	2009
	\$	\$
Promissory note issued to the City of Vaughan	78,236	78,236
Deferred interest on promissory note issued to the City of Vaughan	8,743	8,743
Promissory note issued to the Town of Markham	67,866	67,866
Deferred interest on promissory note issued to the Town of Markham	7,585	7,585
Promissory note issued to the City of Barrie	20,000	20,000
	182,430	182,430

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

11. Long-term debt (continued)

(c) Notes payable (continued)

On June 1, 2004 an unsecured 20 year term promissory note was issued to the City of Vaughan in the amount of \$78,236. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On June 1, 2004 an unsecured 20 year term promissory note was issued to the Town of Markham in the amount of \$67,866. Interest thereon commenced on June 1, 2004 at an annual rate of 5.58%.

On December 31, 2008, an unsecured 16 year term promissory note was issued to the City of Barrie in the sum of \$20,000. Interest for fiscal 2010 is at an annual rate of 5.58%.

The three promissory notes are repayable 90 days following demand by the City of Vaughan, the Town of Markham, and the City of Barrie, with subordination and conditions. These notes have been classified as long-term as it is not the intent of the City of Vaughan, the Town of Markham, or the City of Barrie to demand repayment within the next year.

At the request of the City of Vaughan and the Town of Markham, eight quarters of interest have been deferred commencing October 1, 2006. This deferred interest will be repayable in full on October 31, 2013 and is subject to the same interest rate and conditions as the original note.

Interest of \$4,853 (2009 - \$4,853) on the note payable to the City of Vaughan, \$4,210 (2009 - \$4,210) on the note payable to the Town of Markham and interest of \$1,116 (2009 - \$1,300) to the City of Barrie was charged to interest expense during the year. This includes interest on the related deferred interest balance for the City of Vaughan and the Town of Markham.

12. Employee future benefits

The Corporation measures its accrued benefit obligation for accounting purposes every three years. The latest actuarial valuation was performed as at December 31, 2009.

On June 30, 2010, the Corporation signed a new three year collective agreement with the Power Workers Union. As a result of the new agreement, limited employee post-employment benefits were extended to all union employees and any union employees hired during the term of the collective bargaining agreement. An actuarial review was undertaken only for the additional employees added to the post-employment benefit plan. This was for the period July 1, 2010 to December 31, 2010.

In December 2010 the Corporation approved extending the post-employment benefit plan to all management employees effective February 2011 on the same basis as noted above for the union employees. As a result, the accrued benefit liability was increased by \$627 for the additional management employees.

A reconciliation of the Corporation's accrued benefit obligation to the amounts recorded in the financial statements is as follows:

	2010	2009
	\$	\$
Accrued benefit obligation	20,297	16,490
Unamortized transitional obligation	(417)	(482)
Unamortized net actuarial losses	(5,285)	(3,972)
Unamortized past service costs	(588)	-
Accrued benefit liability December 31, 2010	<u>14,007</u>	<u>12,036</u>

PowerStream Inc.

Notes to the financial statements

December 31, 2010

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12. Employee future benefits (continued)

Details of the accrued benefit obligation are as follows:

	2010	2009
	\$	\$
Accrued benefit obligation, beginning of the year	16,490	13,441
Current service cost	418	260
Interest cost on obligation	951	878
Unamortized past service costs	1,261	-
Benefit payments	(428)	(393)
Actuarial losses	1,605	2,304
Accrued benefit obligation, end of the year	20,297	16,490

The plan expense for the year is determined as follows:

	2010	2009
	\$	\$
Current service cost	418	260
Interest cost on obligation	951	878
Amortization of transitional obligation	72	70
Amortization of past service costs	38	-
Amortization of net actuarial losses	292	108
Plan expense	1,771	1,316

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are as follows:

	%
Discount rate	5.00 - 5.50
Rate of compensation increase	3.50
Medical benefits costs escalation - hospitalization	5.00 - 8.30
Medical benefits costs escalation - extended health care	5.00 - 8.30
Dental benefits costs escalation	5.00

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2010:

	Increase	Decrease
	\$	\$
Total service and interest cost	270	(147)
Accrued benefit obligation	3,078	(2,456)
	3,348	(2,603)

PowerStream Inc.

Notes to the financial statements

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(In thousands of dollars)

13. Pension

The Corporation provides a pension plan to its full time employees through OMERS, a multi-employer plan. The Corporation incurred \$3,150 (2009 - \$2,536) of contribution expense during the year ended December 31, 2010.

14. Share capital

The Corporation's authorized share capital is made up of an unlimited number of common shares, and an unlimited number of Class A common shares. The issued share capital is as follows:

	2010	2009
	\$	\$
100,000 Common shares	247,183	247,183
4,056 Class A common shares, non-voting	2,435	-
	249,618	247,183

Of the total 100,000 common shares issued 45,315 common shares are registered under Vaughan Holdings Inc. (wholly owned the City of Vaughan), 34,185 common shares are registered under Markham Enterprises Corporation (wholly owned by the Town of Markham) and 20,500 common shares are registered under Barrie Hydro Holdings Inc. (wholly owned by the City of Barrie).

On November 23, 2010 a Subscription Agreement was signed between the Corporation and its Shareholders for new Class A common shares for the purposes of the Shareholders providing equity for the Corporation's solar business. The articles of incorporation and shareholders agreement were amended in order to proceed with the subscription agreement. The maximum amount of Class A common shares that are available under the subscription agreement is 100,000.

Of the total 4,056 Class A common shares issued 1,838 Class A common shares are registered under Vaughan Holdings Inc. (wholly owned the City of Vaughan), 1,387 Class A common shares are registered under Markham Enterprises Corporation (wholly owned by the Town of Markham) and 831 Class A common shares are registered under Barrie Hydro Holdings Inc. (wholly owned by the City of Barrie).

Dividends

The Corporation has established a dividend policy to distribute a minimum dividend on the common shares of 50% of net income with consideration given to the:

- Cash position at the beginning of the year;
- Working capital requirements for the current year; and
- Net capital expenditures required for the current year.

In 2010, the Corporation paid a dividend on the common shares of \$10,532. During 2009, the Corporation paid \$11,274 to the shareholders based on the combined net income of the predecessor corporations. In addition, the Corporation made a special payment of \$19,808 to the shareholders as the final closing adjustment for the amalgamation of PowerStream Inc. and Barrie Hydro Distribution Inc.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

15. Insurance

The Corporation maintains appropriate types and levels of insurance with major insurers. With respect to liability insurance, the Corporation is a member of the Municipal Electricity 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 thousands of dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Coverage is provided to a level of \$24,000 per incident.

16. Leases

On October 9, 2008, the Corporation entered into a 25 year lease agreement relating to its operation centre. The lease term commenced January 1, 2010 and occupancy occurred in March 2010. Upon entering into this lease arrangement, the Corporation evaluated whether substantially all of the benefits and risks of ownership related to this operation centre have been transferred to the Corporation (the lessee) in order to determine if the lease is classified and recorded as capital or operating. The component of the annual basic rent related to the land is classified and recorded as an operating lease and the component related to the building is classified as a capital lease.

The Corporation is also committed to lease agreements for various vehicles and equipment that have been classified as operating leases.

The annual basic rent for capital and operating leases are as follows:

	Capital	Operating
	\$	\$
2011	1,430	1,128
2012	1,430	1,204
2013	1,430	1,162
2014	1,430	1,145
2015	1,430	1,143
2016 and thereafter	29,285	22,268
	<u>36,435</u>	<u>28,050</u>
Less: amounts representing interest	18,497	
	17,938	
Less: current portion of capital lease obligation	259	
Capital lease obligation	<u>17,679</u>	

Interest on the lease obligation during fiscal 2010 amounted to \$1,087 based on the rate of 6.57% per annum. Amortization of the corresponding capital asset during fiscal 2010 amounted to \$731 based on the straight-line method with a useful life equal to the term of the lease (25 years).

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

17. Contingencies

(a) Legal claims

The Corporation has been named as a defendant in several actions. No provision has been recorded in the financial statements for these potential liabilities as the Corporation expects that these claims are adequately covered by its insurance.

(b) Ministry of Finance tax audits

The Ministry of Finance (the "Ministry") has conducted PILs audits of the taxation years up to and including the 2006 year.

There remains an outstanding matter regarding the treatment of the RSVA for tax purposes.

There has been inconsistent practice of tax treatment of certain regulatory asset/liability accounts among LDCs across Ontario.

In accordance with OEB regulations, the Corporation has recorded the variance between amounts charged by the Corporation to its customers (at the OEB prescribed rates) and the costs charged to the Corporation for electricity, market services and transmission services, namely retail settlement variances, as regulatory assets or liabilities on the financial statements. Similar treatment has been followed for tax purposes. The Ministry is questioning this treatment of the RSVA for tax purposes and is suggesting that RSVA liabilities may be considered income for tax purposes.

The Ministry is currently reviewing the treatment of RSVA for tax purposes on a province wide basis. The impact of a tax ruling may result in a reassessment of taxes payable which could have an impact on results, financial position and cash flows in the future. The outcome of the Ministry's review is not determinable and as such, amounts will be recorded as necessary.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

18. Financial instruments and risk management

(a) Recognition and measurement

The Corporation's accounting policies relating to the recognition and measurement of financial instruments are disclosed in Note 2(c).

The Corporation's carrying value and fair value of financial instruments are as follows:

Description	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Assets				
Cash	8,568	8,568	42,612	42,612
Accounts receivable (net of allowance for doubtful accounts)	69,366	69,366	73,633	73,633
	77,934	77,934	116,245	116,245
Liabilities				
Accounts payable and accrued liabilities	105,339	105,339	110,405	110,405
Customer deposits	13,549	13,549	17,726	17,726
Due to related parties	12,214	12,214	12,049	12,049
Short-term debt	40,000	40,000	40,000	40,000
Infrastructure Ontario financing	827	827	-	-
Bank term loan	50,000	52,529	50,000	53,686
Debentures payable	123,765	131,326	123,091	135,391
Notes payable	182,430	207,468	182,430	198,901
	528,124	563,252	535,701	568,158

The fair value of financial instruments has been calculated using the market interest rates as at December 31, adjusted for the Corporation's risk rating. The Corporation uses Level 1 classifications for fair value measurements for most of its financial instruments and Level 2 classifications for the bank term loan, debentures payable and notes payable.

(b) Risk factors

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk and liquidity risk as well as related mitigation strategies have been discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

PowerStream Inc.

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18. Financial instruments and risk management (continued)

(c) Credit risk

The Corporation's primary source of credit risks to its accounts receivable result from customer's failing to discharge their dues for electricity consumed and billed. The Corporation has approximately 325,000 (2009 - 321,000) residential and commercial customers. In order to mitigate such potential credit risks, the Corporation has taken various measures in respect of its Energy customers such as collecting security deposits amounting to \$17,043 (2009 - \$21,872) in accordance with OEB guidelines, reviewing Dun & Bradstreet (D&B) reports for the top 3000 commercial customers with an outstanding balance of \$5 or more, in-house collection department as well as external collection agencies and a bad debt insurance policy for \$4,500 (2009 - \$4,500) related to energy receivables. Thus, the Corporation monitors and limits its exposure to such credit risks on an ongoing basis.

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

	2010		2009	
	Total		Total	
	\$	\$	\$	\$
Less than 30 days	55,435	78	55,965	73
30 - 60 days	8,493	12	4,346	6
61 - 90 days	3,434	5	4,336	6
Greater than 91 days	4,082	5	11,161	15
Total outstanding	71,444	100	75,808	100
Less: Allowance for doubtful accounts	(2,078)	(3)	(2,175)	(3)
	69,366		73,633	

As at December 31, 2010, there was no significant concentration of credit risk with respect to any class of financial assets.

(d) Interest rate risk

The Corporation manages its exposure to interest rate risk by issuing long term fixed rate debt in the form of debentures, promissory notes and bank loans. It also ensures that all payment obligations are met by adopting proper capital planning.

As part of the Corporations' revolving demand operating credit facility, the Corporation may utilize the line of credit for working capital and/or capital expenditure purposes. Such short term borrowing may expose the Corporation to short term interest rate fluctuations as follows:

	2010	2009
364 day revolving facility		
Prime based loans	PR*+0.15% p.a.	PR*+0.25% p.a.
Bankers Acceptances	SF*+1.10% p.a.	SF*+1.37% p.a.
Demand facility		
Prime based loans	PR*-0.10% p.a.	PR*+0.00% p.a.
Bankers acceptances	SF*+0.90% p.a.	SF*+1.00% p.a.
Letter of guarantee facility	0.50% p.a.	0.50% p.a.
Committed term facility (Fixed Rate for 5 Years)	5.08% p.a.	5.08% p.a.
Infrastructure Ontario financing	Floating rate p.a.	-

Note: PR* - Prime Rate, SF* - Stamping Fee

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

18. Financial instruments and risk management (continued)

(d) Interest rate risk (continued)

A sensitivity analysis was conducted to examine the impact of a change in the prime rate or stamping fee on the short-term debt. A variation of 1% (100 basis points) would increase or decrease the annual interest expense by approximately \$400.

Cash balances that are not required for day to day obligations earn an interest of Prime minus 1.7% per annum. These interest rate fluctuations could impact the level of interest income earned by the Corporation.

(e) Liquidity risk

Liquidity risks are those risks associated with the Corporation's inability to meet obligations associated with financial liabilities such as repayment of principal or interest payments on debts. The Corporation monitors its liquidity risks on a regular basis to ensure there is sufficient cash flow to meet the obligations as they fall due as well as minimize the interest expense. Cash flow forecasts are prepared to monitor liquidity risks. Liquidity risks associated with financial liabilities are as follows:

Maturity period	2010			2009	
	Principal *	Interest	Total	Principal *	Interest
	\$	\$	\$	\$	\$
Less than 1 year	117,553	-	117,553	123,454	-
1-5 years	231,327	22,159	253,486	231,327	33,673
6-10 years	-	-	-	-	-
Over 10 years	166,102	124,353	290,455	166,102	133,621
	514,982	146,512	661,494	520,883	167,294

* The principal includes \$1,908 of deferred issuing cost amortization

(f) Hedging / Derivative risk

The Corporation has a swap and derivative transaction policy to enable the Corporation to enter into agreements such as interest rate swaps where 100% of the floating rate risk is hedged into a fixed rate. This is done for prudent risk management purposes and not speculative purposes. The Corporation has not entered into any such transactions during the year.

19. Capital disclosures

The Corporation's main objectives in the management of capital are to:

- (i) Ensure that there is access to various funding options at the lowest possible rates for the various capital initiatives and working capital requirements necessary for the distribution business.
- (ii) Ensure compliance with various covenants related to its long-term/short-term debt, promissory notes and debentures.
- (iii) Consistently maintain a high credit rating for the Corporation.
- (iv) Maintain a split of approximately 60% debt, 40% equity as recommended by the OEB.
- (v) Ensure interest rate fluctuations are mitigated primarily by long term borrowings as well as capital planning.
- (vi) Deliver appropriate financial returns to shareholders.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

19. Capital disclosures (continued)

The Corporation considers shareholders' equity, long-term debt and certain short-term debt as its capital. The capital structure as at December 31, 2010 is as follows:

	2010	2009
	\$	\$
Shareholders' equity		
Share capital (Note 14)	249,618	247,183
Retained earnings	36,999	21,064
Total equity	286,617	268,247
Short-term debt		
Short-term debt (Note 10 (a))	40,000	40,000
Infrastructure Ontario financing (Note 10 (b))	827	-
Long-term debt		
Bank term loan (Note 11 (a))	50,000	50,000
Debenture payable (Note 11 (b))	123,765	123,091
Notes payable (Note 11 (c))	182,430	182,430
Total debt	397,022	395,521
Total capital	683,639	663,768

As at December 31, 2010, the Corporation was in compliance with all covenants included in its short-term debt, bank term loan, debentures payable and notes payable. Details relating to debt covenants are disclosed in Note 10 and Note 11.

The Corporation is within the debt and equity requirements of the OEB.

The Corporation's dividend policy is disclosed in Note 14.

PowerStream Inc.

Notes to the financial statements

December 31, 2010

(In thousands of dollars)

20. Corporate income taxes

The provision for PILs is comprised of the following:

	2010	2009
	\$	\$
Current income taxes	10,527	8,561
Future income liabilities	61	-
	10,588	8,561

(a) Current taxes

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

	2010	2009
	\$	\$
Income from operations before PILs	37,055	29,625
Statutory Canadian federal and provincial income tax rates	31.00%	33.00%
Expected tax provision on income at statutory rates	11,487	9,776
Increase (decrease) in income taxes resulting from timing differences:		
Amortization/CCA differences	(2,776)	(2,755)
Post employment benefits	611	305
Eligible capital expenditures	(166)	(227)
Other reserves	368	590
Revenue and overheads related to smart meters recognized for tax purposes but capitalized for accounting purposes	604	401
Other	569	577
Permanent differences	(109)	(106)
Provision for PILs	10,588	8,561

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(In thousands of dollars)

20. Corporate income taxes (continued)

(b) Future income tax assets

Future income tax assets of \$53,313 (2009 - \$61,665), and a corresponding regulatory liability of \$53,313 (2009 - \$61,665) were recorded as at December 31, 2010. Significant components of the Corporation's future income tax assets and liabilities are as follows:

	2010	2009
	\$	\$
Employee future benefits	4,377	3,943
Property, plant, equipment and intangible assets	46,126	56,235
Smart meter revenues/costs	1,914	1,543
Other taxable temporary differences	896	(56)
	53,313	61,665

(c) Future income tax liabilities

Future income tax liabilities of \$61 were recorded as at December 31, 2010. The future tax liabilities relate to taxable temporary differences. This amount is not offset by a regulatory asset, as it relates specifically to the Corporation's non-regulated solar business.

21. Net change in non-cash operating working capital

	2010	2009
	\$	\$
Accounts receivable	4,267	(9,586)
Unbilled revenue	(4,047)	(11,501)
Income taxes recoverable	1,525	2,206
Inventories	819	126
Prepaid and other	(137)	96
Accounts payable and accrued liabilities	(7,372)	(11,853)
Current portion of customer deposits	478	-
Increase in due to related parties	165	2,150
Income taxes payable	1,588	5,034
	(2,714)	(23,328)

22. Net interest expense

	2010	2009
	\$	\$
Interest expense	22,421	21,886
Interest income	(407)	(272)
	22,014	21,614

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23. Guarantees

In the normal course of business, the Corporation enters into agreements that meet the definition of a guarantee as follows:

- (a) The Corporation has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Corporation agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) Indemnity has been provided to all directors and/or officers of the Corporation for various items including, but not limited to, all costs to settle suits or actions due to association with the Corporation, subject to certain restrictions. The Corporation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Corporation. The maximum amount of any potential future payment cannot be reasonably estimated.
- (c) In the normal course of business, the Corporation has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

24. Comparatives

In certain instances, the prior year information presented for comparative purposes has been reclassified to conform to the financial statement presentation adopted for the current year.