Consolidated Financial Statements of

OAKVILLE HYDRO CORPORATION

December 31, 2010

KPMG

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Independent Auditors' Report

To the Shareholder of Oakville Hydro Corporation

We have audited the accompanying consolidated financial statements of Oakville Hydro Corporation ("the Entity"), which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of shareholder's equity, operations and cash flows for the year 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 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 an 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 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 consolidated financial position of Oakville Hydro Corporation as at December 31, 2010, and the consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Hamilton, Canada
March 31, 2011

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December 31, 2010

OAKVILLE HYDRO CORPORATION
Consolidated Balance Sheet
December 31, 2010
(in thousands of dollars)

	2010	2009
ASSETS		
CURRENT		
Cash and cash equivalents	$ 64,111	$ 7,100
Accounts receivable	32,203	27,870
Inventories (Note 4)	3,823	4,949
Prepaid expenses	584	703
Assets of discontinued operations (Note 3)	-	39,072
	100,721	79,694
OTHER		
Long-term receivables	163	113
Future income taxes (Note 6)	22,039	22,163
	22,202	22,276
CAPITAL ASSETS (Note 7)	136,866	119,779
	$ 259,789	$ 221,749
LIABILITIES		
CURRENT		
Accounts payable and accrued charges	$ 37,280	$ 26,293
Consumer deposits	5,008	6,043
Deferred revenue	3	-
Capital lease obligation (Note 10)	274	516
Liabilities of discontinued operations (Note 3)	-	2,680
	42,565	35,532
OTHER		
Regulatory liabilities (Note 5)	17,383	29,310
Post employment benefits (Note 8)	7,587	7,386
Capital lease obligation (Note 10)	12,285	8,805
Long-term debt (Note 11)	77,029	77,029
	114,284	122,530
	156,849	158,062
SHAREHOLDER'S EQUITY		
SHARE CAPITAL		
Authorized and issued - 2,000 common shares	63,024	63,024
RETAINED EARNINGS	39,916	663
	102,940	63,687
	$ 259,789	$ 221,749

See accompanying notes to the consolidated financial statements.

APPROVED BY THE BOARD

.... Director

.... Director

OAKVILLE HYDRO CORPORATION
Consolidated Statement of Shareholder's Equity
Year ended December 31, 2010
(in thousands of dollars)

		Share Capital		Retained Earnings
Balance, December 31, 2009	$	63,024	$	663
Write off balance of old capital lease (Note 10)		-		(3,581)
Net income		-		85,434
Dividends		-		(42,600)
Refundable taxes		-		(12,446)
Dividend refund		-		12,446
Balance, December 31, 2010	$	63,024	$	39,916
Balance, December 31, 2008	$	63,024	$	15,772
Change in policy recognizing future taxes		-		(16,146)
Net income		-		4,725
Dividends		-		(3,688)
Balance, December 31, 2009	$	63,024	$	663

See accompanying notes to consolidated financial statements.

OAKVILLE HYDRO CORPORATION
Consolidated Statement of Operations
Year ended December 31, 2010
(in thousands of dollars)

	2010	2009
REVENUES		
Energy and distribution revenue	**$ 160,930**	$ 148,597
Cost of power	**(130,386)**	(119,262)
Net distribution revenue	**30,544**	29,335
Other revenues	**7,569**	5,685
	38,113	35,020
EXPENSES		
Personnel costs	**13,492**	13,179
Contract services	**2,758**	2,935
Property and occupancy costs	**1,098**	1,061
Material costs	**1,102**	974
Other costs	**5,842**	5,480
Costs allocated to capital assets	**(8,847)**	(8,358)
	15,445	15,271
EARNINGS BEFORE AMORTIZATION, INTEREST AND INCOME TAXES	**22,668**	19,749
AMORTIZATION	**(10,779)**	(11,181)
INTEREST	**(5,701)**	(3,939)
INCOME BEFORE INCOME TAXES	**6,188**	4,629
INCOME TAX PROVISION (Note 6)	**1,096**	2,904
INCOME FROM CONTINUING OPERATIONS	**5,092**	1,725
INCOME FROM DISCONTINUED OPERATIONS, net of taxes (Note 3)	**80,342**	3,000
NET INCOME	**85,434**	4,725
COMPREHENSIVE INCOME	**$ 85,434**	$ 4,725

OAKVILLE HYDRO CORPORATION
Consolidated Statement of Cash Flows
Year ended December 31, 2010
(in thousands of dollars)

	2010	2009
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income	$ 85,434	$ 4,725
Items not affecting cash		
Income from discontinued operations	(80,342)	(3,000)
Amortization	10,779	11,181
Future taxes	707	(476)
Post-employment benefits	201	(158)
	16,779	12,272
Changes in non-cash working capital items		
Accounts receivable	(4,383)	(1,680)
Accounts payable and accrued charges	10,987	2,822
Other	1,248	22
Net cash from operating activities of continuing operations	24,631	13,436
Net cash from (used in) operating activities of discontinued operations	(9,763)	6,714
	14,868	20,150
FINANCING		
Consumer deposits	(1,035)	(180)
Contribution in aid of construction	2,684	2,320
Capital lease obligation	(343)	(567)
Dividends	(42,600)	(3,688)
Net cash used in financing activities of continuing operations	(41,294)	(2,115)
INVESTING		
Regulatory liabilities	(9,715)	1,609
Additions to capital assets	(33,345)	(22,791)
Net cash used in investing activities of continuing operations	(43,060)	(21,182)
Net cash from (used in) investing activities of discontinued operations	126,497	(9,348)
	83,437	(30,530)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	57,011	(12,495)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,100	19,595
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 64,111	$ 7,100

	2010	2009
SUPPLEMENTAL INFORMATION		
Interest paid	$ 5,755	$ 3,801
Income taxes paid	$ 2,476	$ 2,588
Acquisition of capital assets through non-cash capital contributions	$ 1,059	$ 1,659
Decrease in regulatory liabilities for stranded meters transferred from fixed assets	$ 2,795	$ 2,508
Decrease (increase) in regulatory liabilities related to decrease (increase) in future tax assets	$ (584)	$ 3,873

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS

Oakville Hydro Corporation ("the Corporation") and its wholly owned subsidiaries were incorporated January 28, 2000, under the laws of the Province of Ontario.

The principal activity of the Corporation and its subsidiaries is to distribute electricity to the residents and businesses in the Town of Oakville, under the license issued by the Ontario Energy Board ("OEB"). The Corporation's subsidiary, Oakville Hydro Electricity Distribution Inc., is regulated by the OEB and any power rate adjustments require OEB approval. All other subsidiaries must adhere to the Affiliate Relationship Code issued by the OEB.

Other activities of the Corporation, and its subsidiaries, are to provide energy services, water heater rental, billing services, street lighting services, retro-fit multi-residential buildings to individually metered units and utility related construction. In 2005, the Corporation's subsidiary, Oakville Hydro Energy Services Inc., obtained an Electricity Generation Licence from the OEB to allow it to generate electricity. A landfill gas generation plant was constructed to produce green energy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and policies as set forth in the Accounting Procedures Manual issued by the Ontario Energy Board under the authority of the Ontario Energy Board Act, 1998:

(a) Principles of consolidation

The consolidated financial statements include the accounts of Oakville Hydro Corporation and its wholly owned subsidiaries: Oakville Hydro Electricity Distribution Inc., Oakville Hydro Energy Services Inc., Golden Horseshoe Metering Systems Inc., Blink Communications Inc.("Blink") (for 2009), Mississauga Oakville Telecom Inc. and El-Con Construction Inc. All significant intercompany transactions and balances have been eliminated.

(b) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures thereto. Due to inherent uncertainty in making estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future regulatory decisions.

Accounts receivable, regulatory assets and liabilities are stated after evaluation of amounts expected to be collected and an appropriate allowance for doubtful accounts. Inventories are recorded net of provisions for obsolescence. Amounts recorded for amortization of capital assets are based on estimates of useful service life. Post employment benefits are based on certain assumptions, including interest (discount) rates, salary escalation, the average retirement age of employees, employee turnover and expected health and dental costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Cash and cash equivalents

Cash equivalents include short-term investments that are readily convertible to cash without significant loss in value. These short-term investments are comprised of bankers' acceptances and bankers' demand notes issued by Canadian banks.

(d) Inventories

Inventories are stated at the lower of cost and net realizable value and consist of maintenance materials and supplies. Cost is determined on a weighted average basis. Major spare parts and standby equipment are presented as capital assets as they are used during more than one period.

(e) Regulatory environment

Oakville Hydro Electricity Distribution Inc. ("OHEDI") is regulated by the OEB, under the authority granted by the Ontario Energy Board Act (1998). The OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

In August 2009, OHEDI filed a cost of service rate application to adjust its distribution charges effective May 1, 2010. The service rate application was revised on February 18, 2010 and approved on April 30, 2010. The application allows a rate of return of debt and equity of 5.62% and 9.85% respectively, based on OHEDI's debt (60%) and equity (40%) capital structure. The application also resulted in the disposition of the cumulative regulatory liabilities balances as at December 31, 2008 in the amount of $7,387 over a three year period.

In September 2010, OHEDI filed an incentive rate mechanism application to adjust its distribution charges effective May 1, 2011. This application requested an increase in rates of 0.18%, as well as an incremental capital rate rider to recover capital costs of $20,488 for a new Transformer Station expected in service in mid-2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Regulatory environment (continued)

Regulatory assets/liabilities – net regulatory assets (liabilities) represent costs incurred in excess of amounts billed to customers (or amounts recovered from customers in excess of costs incurred) at the OEB approved rates. These amounts have been accumulated pursuant to the Electricity Act and deferred in anticipation of their future resolution in electricity rates. Management assesses the future uncertainty with respect to the final disposition of those amounts and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

At December 31, 2010, regulatory liabilities incur interest at the rate of 1.2 % (2009 - 0.5 %) simple interest per annum.

Settlement variances - represent amounts that have accumulated since January 1, 2009 and comprise:

a) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission charges, and the amounts billed to customers by OHEDI based on the OEB approved wholesale market service rate; and,

b) variances between the amounts charged by the IESO for energy commodity costs and the amounts billed to customers by OHEDI based on OEB approved rates.

Deferred PILs – represent variances that result from the difference between OEB approved PILs recoverable in electricity distribution services charges and the actual amount of these charges to customers that relates to the recovery of PILs and the impact of any tax rate changes not reflected in the OEB approved PIL's rates.

Smart Meter Initiative

The Province of Ontario has committed to have "Smart Meter" electricity meters installed in all homes and small businesses throughout Ontario by the end of 2010. Smart Meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals. *Bill 21, Energy Conservation and Responsibility Act*, provides the legislative framework and regulations to support this initiative.

Included in distribution rates effective May 1, 2010 was a charge for Smart Meters of $1.69 (2009 - $ 1.00) per metered customer per month. OHEDI anticipates that its distribution rates will be adjusted for incremental investments related to its mass deployment plan for Smart Meters

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Regulatory environment (continued)

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect the distribution rates that OHEDI may charge and the costs that OHEDI may recover, including the balance of its regulatory assets/liabilities.

In the absence of rate regulation, generally accepted accounting principles would require OHEDI to record the costs and recoveries described above in the operating results of the year in which they are incurred and income before income taxes would be $5,418 lower than reported (2009 – $1,384 higher) and capital assets $7,093 (2009 – $1,538) higher than reported.

Green Energy and Green Economy Act

In early 2009, the government tabled the Green Energy and Green Economy Act ("GEGEA"). This new legislation makes fundamental changes to the roles and responsibilities of local distribution companies ("LDCs") in the areas of renewable power generation, conservation and demand management delivery, and the development of smart distribution grids.

The Green Energy and Green Economy Act provides LDCs with the freedom to own and operate a portfolio of renewable power generation and will permit them to provide district heating services in their communities through co-generation. LDCs will also bear added responsibilities to assist and enable consumers to reduce their peak demand and conserve energy in an effort to meet provincial conservation targets. LDCs will also gain new responsibilities in transforming their local distribution networks into smart grids harnessing advanced technologies to facilitate the connection of small-scale generators and the two-way flow of information.

On November 1, 2010, OHEDI filed the Conservation and Demand Management ("CDM") Strategy in accordance with the Conservation and Demand Management Code for Electricity Distributors. This plan provided a description of how OHEDI intends to achieve the OEB directed CDM targets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Capital assets

Capital assets are recorded at cost, and are amortized over their estimated service lives using the straight-line method of amortization. In the year of addition or completion, one half year of depreciation is taken on the asset. Construction in progress assets are not amortized until the project is complete and in service. The Corporation has not capitalized interest to the cost of assets constructed.

The estimated service lives of the various assets used in calculating amortization are as follows:

Buildings and leasehold improvements	50 - 60 years
Transmission and distribution system	15 - 35 years
Building under capital lease	20 years
Office equipment	5 - 10 years
Computer equipment and software	3 – 10 years
Plant and equipment	3 - 10 years
Vehicles under capital lease	1 - 8 years

Contributions in aid of construction consist of third party contributions toward the cost of constructing distribution assets and may be refunded by OHEDI based upon future economic evaluations, in accordance with the OEB Distribution System Code. They are accounted for as reductions to the cost of related capital assets and are amortized at rates corresponding with the useful lives of the related capital assets until such time as they are repayable to the third party contributor.

(g) Post employment benefits other than pension

The Corporation provides its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. The cost of these benefits is expensed as earned by employees through employment service. The excess of the net accumulated actuarial gains (losses) over the accrued benefit obligation is amortized over the average remaining service period of active employees. The expected average remaining service life of the current active group is 13.5 years.

(h) Revenue recognition

Energy revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power consumed.

Blink recognizes revenue in the period in which delivery of services has been rendered. Service revenues are fixed price and determinable from negotiated contracts. In addition, Blink charges one-time installation fees, which are recognized over the life of the service contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Payments in lieu of income taxes (PILs)

Under the Electricity Act, 1998, the Corporation and it subsidiaries, except Blink, makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes.

The Corporation accounts for PILs and regular corporate taxes using the liability method. Under the liability method, future income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized.

PILs and regular income taxes are henceforth referred to as income taxes.

(j) Impairment of long-lived assets

Generally accepted accounting principles require that an impairment loss be recognized when events or circumstances indicate that the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recorded in the period in which the impairment occurs.

The Corporation has determined that there was no impairment of long-lived assets as at December 31, 2010.

(k) Financial assets and liabilities

All financial instruments are classified into one of the following categories – held-for-trading, available for sale, held-to-maturity, other liabilities or loans and receivables. All financial instruments are carried on the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in accumulated other comprehensive income until the asset is sold or impaired

The Corporation has classified its financial instruments as follows:

Cash and cash equivalents	Held for trading
Accounts receivable	Loans and receivables
Long-term receivable	Loans and receivables
Accounts payable	Other liabilities
Consumer deposits	Other liabilities
Long-term debt	Other liabilities

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting

The Corporation does not have derivatives and does not engage in derivative trading or speculative activities. Hedge accounting has not been used in the preparation of these financial statements.

Financial Instruments

The Corporation has adopted CICA Handbook Sections 3862 Financial Instruments Disclosures and 3863 Financial Instruments Presentation. The adoption of these standards requires the disclosure of qualitative and quantitative information about the Corporation's risks associated with recognized and unrecognized financial instruments.

(in thousands of dollars)

3. DISCONTINUED OPERATIONS

On January 29, 2010, pursuant to a Share Purchase Agreement between the Corporation and an outside third party, the Corporation sold all the shares of its telecommunications business, Blink, for cash.

The results of operations of Blink have been reported as discontinued operations in the financial statements. Total revenue, income before tax, and income tax expense from discontinued operations was $1,767, $90,685 and $10,416 respectively (2009 - $19,410, $3,545 and $545).

The consideration received on the sale of shares of Blink consisted of cash proceeds of $130,000 resulting in a gain on disposition of $80,342, net of taxes of $22,789 and refundable taxes of $12,446. The gain has been reported in income from discontinued operations on the statement of operations.

4. INVENTORIES

The amount of inventories consumed by the Corporation and recognized as an expense during 2010 was $268 (2009 - $446).

5. REGULATORY LIABILITIES

	2010	2009
Settlement variances	**$ (2,426)**	$ (11,855)
Recovery of previous regulatory assets	**(5,947)**	(222)
Other regulatory assets	**903**	1,257
Smart Meter deferral	**12,592**	3,411
Deferred PIL's	**(3,046)**	(3,025)
Customer Liability of future taxes	**(19,459)**	(18,876)
Balance, end of year	**$ (17,383)**	$ (29,310)

(in thousands of dollars)

6. INCOME TAXES

	2010	2009
Accounting income before tax	$ 6,188	$ 4,629
Increase (decrease) in taxable income resulting from:		
Non-deductible and non-taxable items	175	140
Timing differences	(3,546)	4,622
Taxable income	$ 2,817	$ 9,391
Tax rate	31.00 %	33.00%
The provision for income taxes consists of:		
Current	$ 873	$ 3,099
Future income tax expense relating to current year change in temporary differences	124	(936)
Future income tax expense relating to change in tax rates	-	2,681
Regulatory liability relating to future tax expense	583	(2,222)
Other miscellaneous adjustments	(484)	282
Income tax provision	$ 1,096	$ 2,904

Significant components of the Corporation's future tax balance as at December 31 are as follows:

	2010	2009
Non-capital losses carried forward	$ 437	$ -
Tax reserves	113	210
Post retirement benefits other than pensions	1,896	1,846
Plant and equipment	15,248	12,547
Regulatory costs	4,345	7,560
Future income taxes	$ 22,039	$ 22,163

Future income taxes are calculated using a 25% rate (2009 - 25%).

(in thousands of dollars)

7. CAPITAL ASSETS

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 3,224	$ -	$ 3,224	$ 3,170
Land and buildings under capital lease	11,689	(6,404)	5,285	5,872
Buildings / Leasehold Improvements	3,057	(803)	2,254	2,252
Plant and equipment	16,182	(6,936)	9,246	9,707
Transmission and distribution system	197,452	(74,021)	123,431	116,487
Office equipment	864	(696)	168	180
Computer equipment and software	9,335	(8,186)	1,149	1,226
Construction in progress	19,145	-	19,145	5,484
	260,948	(97,046)	163,902	144,378
Contributions in aid of construction	(34,252)	7,216	(27,036)	(24,599)
Balance, end of year	$ 226,696	$ (89,830)	$ 136,866	$ 119,779

In 2010, the Corporation recorded amortization expense from continuing operations of $10,779 (2009 - $11,181) and $377 from discontinued operations (2009 - $3,767).

In 2010, the Corporation began taking a half year of depreciation on capital assets in the year of addition and completion (previously a full year of depreciation was taken in the year of addition). The impact of this change in accounting estimate has been to decrease amortization expense by $462.

(in thousands of dollars)

8. POST EMPLOYMENT BENEFITS

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. The Corporation recognizes these post-retirement costs in the period in which the employees earn the benefits, through their services. The accrued benefit liability and the expense for the year ended December 31, 2010, were based on results and assumptions determined by actuarial valuation as at January1, 2010.

	2010	2009
Accrued benefit obligation, beginning of year	**$ 5,512**	$ 7,521
Transferred liabilities of discontinued operations	**-**	(134)
Estimated benefit expense for year	**178**	84
Interest expense	**358**	303
Actuarial (gain)loss for year	**932**	(2,000)
Benefits paid during year	**(265)**	(262)
Accrued benefit obligation,end of year	**6,715**	5,512
Unamortized actuarial gain	**872**	1,874
Accrued benefit liability, end of year	**$ 7,587**	$ 7,386

The significant assumptions used are as follows (weighted average):

	2010	2009
Accrued benefit obligation as at December 31:		
Discount rate	**5.50%**	6.50%
Rate of compensation increase	**3.00%**	3.00%
Benefit cost for years ended December 31:		
Discount rate	**5.50%**	6.50%
Rate of compensation increase	**3.00%**	3.00%

	2010	2009
Assumed health care cost trend rates at December 31:		
Initial health care cost trend rate	**9.00%**	9.00%
Cost trend rate declines to	**4.00%**	4.00%
Year that rate reaches the rate it is assumed to remain at	**2025**	2015

(in thousands of dollars)

9. PENSIONS

The Corporation provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. Contributions by the Corporation were at a rate of 6.4% for employee earnings below the year's maximum pensionable earnings and 9.7% thereafter. In 2010, the Corporation made employer contributions of $753 (2009-$870) to OMERS.

10. CAPITAL LEASE OBLIGATION

The Corporation has a capital lease arrangement with the Town of Oakville for the property known municipally as 861 Redwood Square. The initial term of the original lease expired on December 31, 2009 and a new agreement was renegotiated in early 2010 with an effective date of January 1, 2010. At the beginning of the year, the Corporation derecognized the original lease and recognized the new lease obligation. The carrying value at January 1, 2010 was $9,321. The Corporation recognized a loss on derecognition of $3,581 which has been recorded in retained earnings in accordance with Canadian accounting standards for related party transactions.

The assets under capital lease are included in Capital Assets (see Note 7). The property under capital lease is amortized on a straight-line basis over the term of the lease agreement of 20 years.

Future minimum payments under the capital lease arrangement are as follows for the year-ends:

2011	$	1,345
2012		1,345
2013		1,345
2014		1,345
2015		1,345
2015-2019		18,830
Sub-total		25,555
Less amount representing interest, imputed at 8.6%		(12,996)
Less current portion		(274)
Long-term portion of lease obligation	$	12,285

11. LONG-TERM DEBT

The Corporation issued promissory notes effective February 1, 2000, held by the Town of Oakville, with principal repayment due on February 1, 2020. Future rates to be determined annually throughout the balance of the term of the notes. At December 31, 2010, the promissory notes of \$67,946 (2009 - \$67,946) had an interest rate in effect of 6% (2009-6%) and the promissory note of \$9,083 (2009 - \$9,083) had an interest rate in effect of 7% (2009-7%).

12. GENERAL LIABILITY INSURANCE

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the electrical utilities in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2010, no assessments have been made.

13. COMMITMENTS AND CONTINGENCIES

Class Action

Pursuant to its order dated July 22, 2010 (the "Order"), the Ontario Superior Court of Justice approved the settlement of a class action lawsuit, which was served on the former Toronto Hydro-Electric Commission, continuing as Toronto Hydro Corporation, on November 18, 1998. The original class action was for the amount of \$500,000 and was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities ("MEU") in Ontario, of which the Corporation is a successor MEU, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

By Order dated July 22, 2010, the Ontario Superior Court of Justice formalized a settlement pursuant to which the defendant MEUs will pay the amount of \$17,000 plus costs and taxes in settlement of all claims. The amount allocated for payment by each MEU is its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. The Corporation's share of the settlement amount is \$258, payable on June 30, 2011.

On October 29, 2010, the OEB issued a notice of proceeding involving all of the defendant MEUs including the Corporation, to determine whether the costs and damages incurred by MEUs are recoverable from electricity ratepayers, and if so, the form and timing of such recovery. On February 22, 2011, the OEB issued its decision on this matter and approved the recovery of all costs and damages arising from the settlement of the class action over a one year period commencing May 1, 2011, through a fixed rate rider. As a result the Corporation has accrued a liability in the amount of \$258, with a corresponding recovery through accounts receivable.

14. FINANCIAL INSTRUMENTS

The Corporation's fair value measurements are as follows:

Level 1

The carrying values of cash and cash equivalents, accounts receivable, consumer deposits and accounts payable approximate fair value because of the short maturity of these instruments.

Level 3

It is not practicable to determine the fair value of the long-term borrowings from the Town of Oakville due to the limited amount of comparable market information available.

The Corporation's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

i) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the Town of Oakville. No single customer would account for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the statement of operations. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations. The amount of the allowance for doubtful accounts at December 31, 2010 is $195 (2009 - $ 471).

The Corporation's credit risk associated with accounts receivable is primarily related to payments in OHEDI, from its distribution customers. At December 31, 2010, approximately $259(2009 - $217) is considered 60 days past due. OHEDI has approximately 63,378 customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2010, OHEDI holds security deposits in the amount of $5,008 (2009 - $6,043).

Deposits from electricity distribution customers are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. Customer deposits are also refundable to residential electricity distribution customers demonstrating an acceptable level of credit risk, as determined by the Corporation. Interest expense of $15 was incurred on liabilities not held for trading in 2010 (2009 $ 22).

14. FINANCIAL INSTRUMENTS (continued)

ii) Market risk

Market risks primarily refer to the risk of loss that result from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have commodity or foreign exchange risk. OHEDI is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

iii) Liquidity risk

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a $ 20,000 line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

(in thousands of dollars)

15. RELATED PARTY TRANSACTIONS

The following summarizes the Corporation's related party transactions, recorded at the exchange amount and balances with the Town of Oakville for the years ended December 31:

	2010	2009
Transactions		
Revenue		
Energy sales	$ 4,186	$ 3,125
Fibre optic rental	-	53
Streetlight maintenance	428	558
Expenses		
Cashier services	$ 3	$ 2
Tree trimming services	259	204
Garage services	474	491
Property taxes	314	314
Interest on capital leases	1,002	674
Interest on long-term debt	4,713	4,713
Dividends paid	42,600	3,688
Balances		
Amounts due to:		
Accounts payable	$ 1	$ 93
Capital leases	12,559	9,321
Long-term debt	77,029	77,029
Amounts due from:		
Accounts receivable	$ 758	$ 392

16. SHORT-TERM CREDIT FACILITIES

The Corporation has an uncommitted line of credit facility available of $20 million with a Canadian chartered bank. As at December 31, 2010 no amount was drawn on this facility. In addition, the Corporation has a letter of credit facility available of $16 million with a chartered bank, of which $15 million has been assigned to secure a prudential support by the Independent Electricity System Operator ("IESO") Settlements Manual.

17. EMERGING ACCOUNTING ISSUES

a) Transition to International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that will have Canadian GAAP converge with IFRS, effective January 1, 2011 which will require entities to restate, for comparative purposes, their interim and annual financial statements and their opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual period beginning on or after January 1, 2011 to disclose that fact.

The Corporation has decided to implement IFRS commencing on January 1, 2012.

b) Accounting for rate regulated activities under IFRS

IFRS does not currently provide guidance on accounting for the effects of rate regulation and the recognition of regulatory assets and liabilities. Currently, rate regulated entities do not recognize regulatory assets and liabilities in their IFRS compliant financial statements. On July 23, 2009, the International Accounting Standards Board ("IASB") issued as Exposure Draft – Rate Regulated Activities ("RRA ED"), allowing entities that are subject to "cost of service" regulation to continue to recognize regulatory assets and liabilities at the net present value of expected future cash flows. This proposal, if adopted, would reduce the volatility of The Corporation's earnings that may occur under the current IFRS framework.

The final outcome of the RRA ED is uncertain at this time. In October 2010, the IASB concluded that it could not resolve the matter quickly and decided to develop an agenda proposal for consideration for its future agenda in 2011.

As a result of the RRA ED uncertainty, the Corporation expects that rate regulated accounting will not be followed when it adopts IFRS for the December 31, 2012 financial statements. The Corporation will continue to monitor the RRA ED developments.

An amendment to IFRS 1, related to the deemed cost exemption for capital assets, was published in May 2010, in the annual "Improvement to IFRSs" amendment document, and applies to entities with operations subject to rate regulation.

17. EMERGING ACCOUNTING ISSUES

b) Accounting for rate regulated activities under IFRS (continued)

This exemption would permit, at the date of transition, an entity with operations subjected to rate regulation, to use the carrying values of property, plant and equipment and intangible assets as deemed cost, thus avoiding the need to restate historical balances using IFRS principles or to determined fair value. The Corporation has elected to apply this exemption for all items of property, plant and equipment and intangible assets upon the adoption of IFRS.

On July 28, 2009, the OEB issued its Report of the Board – Transition to IFRS, which contains recommendations on how regulatory reporting requirements should change in response to IFRS. The OEB has now initiated a second phase in its transition project, which involves amending certain regulatory instruments. The Corporation continues to evaluate the potential impacts of the recommendations contained in the Report of the Board on both the activities of Corporation and its IFRS transition plan.

c) Comprehensive Revaluation of Assets and Liabilities

In August 2009, the CICA amended Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities to be consistent with Handbook Section 1582, Business Combinations, Handbook Section 1601 and Handbook Section 1602, which were issued in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Corporation is currently in the process of evaluating the potential impact of these amendments on its financial statements.

18. CAPITAL DISCLOSURE

The main objectives of the Corporation when managing capital are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2010, shareholder's equity amounts to $ 102,940 (2009 – $ 63,687) and long-term debt amounts to $ 77,029 (2009 - $ 77,029).

19. COMPARATIVE FIGURES

Certain comparative data have been reclassified to conform with the presentation of the current year.