WOODSTOCK HYDRO SERVICES INC.

Financial Statements
For the year ended December 31, 2010

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Independent Auditors' Report

To the Shareholder of WOODSTOCK HYDRO SERVICES INC.

We have audited the accompanying financial statements of WOODSTOCK HYDRO SERVICES INC., which comprise the balance sheet as at December 31, 2010 and the statements of operations and retained earnings and cash flows for the year then 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.

Auditors' 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 an audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of the risks of material misstatement of 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 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 the company as at December 31, 2010 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Woodstock, Ontario
April 27, 2011

WOODSTOCK HYDRO SERVICES INC.
Balance Sheet

December 31	2010	2009
Assets		
Current		
Cash and bank	**$ 3,251,718**	$ 2,157,301
Accounts receivable	**4,209,743**	3,513,440
Unbilled revenue	**3,670,398**	3,606,543
Income taxes receivable	**373,447**	123,073
Due from related parties (Note 10)	**215,658**	121,214
Inventories (Note 1)	**610,043**	943,213
Prepaid expenses	**219,653**	140,729
	12,550,660	10,605,513
Capital assets (Note 2)	**21,051,423**	20,611,828
Regulatory assets (Note 5)	**3,218**	-
Future income tax asset	**2,284,790**	2,460,100
Long-term deposit - Hydro One TS (Note 3)	**162,000**	169,500
	$ 36,052,091	$ 33,846,941
Liabilities and Shareholder's Equity		
Current		
Accounts payable and accrued liabilities	**$ 5,763,769**	$ 5,632,435
Accrued payroll and vacation pay	**148,523**	160,549
Current portion of long-term debt (Note 6)	**88,208**	-
Current portion of customer deposits (Note 4)	**372,983**	316,500
	6,373,483	6,109,484
Sick leave liability	**97,176**	126,052
Long-term customer deposits (Note 4)	**1,398,630**	1,027,270
Regulatory liabilities (Note 5)	**-**	231,452
Long-term debt (Note 6)	**12,653,654**	10,941,862
Accrued benefit obligation (Note 13)	**1,142,616**	1,118,833
	21,665,559	19,554,953
Shareholder's equity		
Share capital (Note 8)	**10,941,862**	10,941,862
Retained earnings	**3,444,670**	3,350,126
	14,386,532	14,291,988
	$ 36,052,091	$ 33,846,941

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

WOODSTOCK HYDRO SERVICES INC.
Statement of Operations and Retained Earnings

For the year ended December 31	2010	2009
Sale of energy		
Residential	**$ 6,206,266**	$ 5,489,319
General service	**9,052,245**	6,766,295
Street/Sentinel lighting	**3,174**	2,896
Retail energy sales	**3,452,665**	3,424,485
Distribution	**6,430,689**	6,405,636
Non-competitive charges	**6,093,965**	5,669,546
	31,239,004	27,758,177
Service revenue adjustment	**(703,776)**	(93,728)
	30,535,228	27,664,449
Cost of power purchased	**24,104,539**	21,258,813
Gross margin on service revenue	**6,430,689**	6,405,636
Other operating revenue	**544,854**	499,987
	6,975,543	6,905,623
Expenses		
Operating and maintenance	**1,596,901**	1,592,150
Administration and general	**2,072,915**	1,856,767
Financial expense	**689,793**	581,034
Amortization	**1,857,654**	1,871,315
	6,217,263	5,901,266
Income before income taxes	**758,280**	1,004,357
Income taxes (Note 9)		
Current	**338,426**	587,559
Future (recovery)	**175,310**	(174,880)
	513,736	412,679
Net income for the year	**244,544**	591,678
Retained earnings, beginning of year	**3,350,126**	2,983,448
Dividends paid	**(150,000)**	(225,000)
Retained earnings, end of year	**$ 3,444,670**	$ 3,350,126

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

WOODSTOCK HYDRO SERVICES INC.
Statement of Cash Flows

For the year ended December 31	2010	2009
Cash provided by (used in)		
Operating activities		
Net income for the year	**$ 244,544**	$ 591,678
Items not involving cash:		
Amortization of capital assets	**1,950,520**	1,996,673
Future income taxes (recovery)	**175,310**	(174,880)
Gain on disposal of capital assets	**-**	(3,520)
(Decrease) increase in sick leave liability	**(28,876)**	4,463
Increase in accrued benefit obligation	**23,783**	31,306
	2,365,281	2,445,720
Net change in non-cash working capital balances (Note 11)	**(731,422)**	(593,258)
	1,633,859	1,852,462
Investing activities		
Purchase of capital assets	**(2,390,115)**	(2,986,434)
Proceeds on sale of capital assets	**-**	3,520
Change in regulatory assets/liabilities	**(234,670)**	(1,045,746)
Decrease in long-term deposit	**7,500**	-
	(2,617,285)	(4,028,660)
Financing activities		
Proceeds from long-term debt	**1,800,000**	-
Dividends paid	**(150,000)**	(225,000)
Increase in customer deposits	**427,843**	246,705
	2,077,843	21,705
Increase (decrease) in cash and cash equivalents during the year	**1,094,417**	(2,154,493)
Cash and cash equivalents, beginning of year	**2,157,301**	4,311,794
Cash and cash equivalents, end of year	**$ 3,251,718**	$ 2,157,301

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

WOODSTOCK HYDRO SERVICES INC.
Summary of Significant Accounting Policies

December 31, 2010

Nature of Business
The company was incorporated under the laws of Ontario and is licensed by the Ontario Energy Board (“OEB”) as an electricity distributor. The principle activity of the company is to operate distribution facilities and distribute electricity to customers within their Licensed Territory as defined in the Distribution License. The company is regulated by the OEB under authority of the Ontario Energy Board Act, 1998.

Basis of Accounting
These financial statements are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), including accounting principles as required by the Ontario Energy Board under authority of Section 57, 70(2) and 78 of the Ontario Energy Board Act, 1998, and policies set forth in the “OEB Accounting Procedures Handbook”.

Financial Instruments
In accordance with CICA Handbook Section 3855, Financial Instruments, Recognition and Measurement, all financial instruments are classified into one of the following four categories: held-for-trading, held-to-maturity, loans and receivables, or other financial liabilities. All financial instruments, including derivatives, are carried at fair value on the Balance Sheet.

On initial recognition, all financial instruments that meet the definition of a financial asset or financial liability are recorded at fair value, unless fair value cannot be reliably determined. Subsequent measurement depends on the category to which the financial instrument has been classified. The company has elected the following balance sheet classifications with respect to its financial assets and financial liabilities.

Cash is classified as “held-for-trading” and is measured at fair value. Transaction costs are expensed as incurred.

Cash equivalents, comprising of short-term investments, are financial assets classified as “held-to-maturity-investments" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Transaction costs are expensed as incurred.

Accounts receivable are classified as “loans and receivables” and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts of these instruments approximate their fair value due to their relatively short periods to maturity. Transaction costs are expensed as incurred.

Accounts payable, accrued liabilities, and long-term debt are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amount of accounts payable and accrued liability instruments approximate their fair value due to their relatively short periods to maturity. Transaction costs are expensed as incurred. Long-term debt also approximates its fair value.

Inventories
Inventories consist of parts, supplies, and materials held for maintenance and are stated at the lower of average cost or net realizable value.

Capital Assets
Capital assets are stated at cost less accumulated amortization. Costs may include material, labour, contracted services, overhead, and engineering costs, and are net of related investment tax credits, government grants, and contributions in aid of construction received. Work-in-progress costs may include the same cost discussed above, these assets are not amortized until available for use. Amortization is based on the estimated useful life of the asset and is recorded on the straight-line basis over the following number of years:

Buildings	25 years
Distribution stations	30 years
Distribution systems	25 years
Transformers	25 years
Meters	15 - 25 years
Generation equipment	20 years
Office equipment	10 years
Rolling stock	5 - 8 years
Stores equipment	10 years
Tools and equipment	10 years
Computer equipment	5 years
Computer software	5 years
Organization expense	40 years

Payments In Lieu of Corporate Taxes (PILs)
Under the Electricity Act, 1998, the company is responsible for making payments in lieu of corporate income and capital taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the Income Tax Act (Canada) and the Corporations Tax Act (Ontario), and are modified by regulations made under the Electricity Act, 1998.

The company follows the asset/liability method of accounting for income taxes. Future income tax assets that are likely to be realized and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities. Any payment in lieu of future tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in the period of the change. Future tax amounts are measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Regulatory assets and liabilities
Regulatory assets and liabilities arise as a result of the rate setting process by the OEB. Based on OEB regulations, certain costs and variance account balances are recorded as regulatory assets or regulatory liabilities and are reflected in the balance sheet until the OEB determines the manner and timing of their disposition.

Regulatory assets represent future revenues associated with certain costs, incurred in current or prior periods, that are expected to be recovered through the rate setting process. Regulatory assets and liabilities can arise from differences in amounts billed to customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by the company in the wholesale market administered by the Independent Electricity System Operator ("IESO") after May 1, 2002. These amounts have been accumulated pursuant to regulations underlying the Electricity Act, 1998, and deferred in anticipation of their future recovery in electricity distribution service charges. Amounts recorded are subject to review and approval by the OEB.

In the absence of rate regulation, Canadian generally accepted accounting principles would require that the costs be recognized as an expense or capital asset, as applicable, when incurred and the related recovery of these costs in income when received or receivable.

The expected recovery or settlement period, or likelihood of recovery and settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. The company believes that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the company determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

Accrued Benefit Obligation

The accrued benefit obligation and current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect management's best estimate. The transitional obligation recognized is amortized into expense prospectively over 11 years, which is reflective of the average remaining service period of active employees expected to receive benefits under the plan. Any actuarial gains or losses are amortized into expense using the corridor method.

Revenue Recognition

Distribution 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 period. Estimated customer usage from the last meter reading date to the period end (unbilled revenue) is included in revenue.

Distribution and energy related revenues attributable to the supply and delivery of electricity are based on OEB-approved rates and are recognized as electricity is delivered to customers. Other revenues, which include pole attachment fees, customer demand work, and other miscellaneous revenues are recognized at the time the service is provided.

Rate Regulating

The rates of the company's electricity business are subject to regulation by the OEB. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities. The company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the company has recorded regulatory liabilities which represent amounts for expenses incurred in different periods that would be the case had the company not been regulated. Specific regulatory assets and liabilities are disclosed in Note 5.

As prescribed by regulatory rate order, payment in lieu of taxes are recovered through customer rates based on the taxes payable method. Rates do not include the recovery of payment in lieu of future taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes.

Power Purchases

The power bill received from the Independent Electricity System Operator (IESO) is recorded in the period to which it refers and not in the period in which it is received.

Costs for power purchased represent the cost of electricity delivered to customers within the company's distribution service territory and consist of the wholesale commodity cost of energy, the IESO wholesale market service charges, and transmission charges levied by the IESO.

WOODSTOCK HYDRO SERVICES INC.
Summary of Significant Accounting Policies

December 31, 2010

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future, including changes as a result of future decisions made by the OEB, the Minister of Energy and Infrastructure, or the Minister of Finance.

Accounts receivable is based on expected amounts to be recovered less an appropriate allowance for unrecoverable amounts based on prior experience. Unbilled revenue and regulatory assets are reported based on amounts expected to be recovered.

1. Inventories

		2010		2009
Plant materials	$	**537,242**	$	386,604
Smart meters		**72,801**		556,609
Total	$	**610,043**	$	943,213

CICA Handbook Section 3031 – "Inventories", requires the company to retrospectively reclassify all amounts related to future components of its electricity distribution system from inventory to capital assets. Once capitalized, these items are amortized when they become available for use.

2. Capital Assets

	2010		2009	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 39,365**	**$ -**	$ 39,365	$ -
Buildings and distribution system	**33,177,766**	**13,463,833**	31,117,593	11,907,106
Machinery and equipment	**4,864,957**	**3,693,242**	4,565,116	3,303,407
Organization expense	**16,365**	**4,222**	16,365	3,806
Other capital assets	**70,848**	**3,542**	-	-
Work-in-progress	**46,961**	**-**	87,708	-
	$ 38,216,262	**$ 17,164,839**	$ 35,826,147	$ 15,214,319
Net book value		**$ 21,051,423**		$ 20,611,828

At December 31, 2010, the net book value of stranded meters related to the deployment of smart meters included in buildings and distribution systems was $1,082,758 net of accumulated amortization (2009 - 1,263,892). In the absence of rate-regulation, capital assets would have been reduced by this amount as of December 31, 2010. Disposition of these costs will be determined in future proceedings of the Ontario Energy Board

3. Long Term Deposit - Hydro One TS

A Letter Agreement between the company and Hydro One for construction of a new transformer station was signed on May 29, 2008. In accordance with the Letter Agreement, the company provided a deposit of $162,000 in July 2008 ($150,000 plus PST) that represented 50% of the cancellation cost.

In 2010 the company signed a Connection Cost Recovery Agreement (CCRA) related to the transformer station. Additional funding for the construction of this station may be required by the company.

4. Customer Deposits

Customer Deposits include amounts collected from customers to guarantee the payment of energy bills. The customer deposit liability includes interest credited to the customer's deposit accounts, with the debit charged to interest expense. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability. Customer deposits also include prudential deposits received from retailers.

Developer deposits collected for maintenance deposits and deposits for recoverable work are also included in Customer Deposits.

5. Regulatory Assets (Liabilities)

		2010		2009
Deferred payments in lieu of taxes	**$**	**307,221**	$	305,298
Late payment penalties settlement		**57,744**		-
Settlement sales variance		**(2,764,192)**		(2,125,997)
Smart meters		**1,989,409**		1,279,867
Special purpose charge variance		**67,010**		-
Other regulatory assets		**346,026**		274,837
Assets recovered through rates		**-**		34,543
	$	**3,218**	$	(231,452)

For most of the regulatory assets and liabilities identified the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. These costs have been deferred in accordance with OEB regulatory requirements. Amounts recorded are subject to review and approval of the OEB.

The regulatory asset (liability) balances of the company are defined as follows:

Deferred payments in lieu of taxes

The company has accumulated a PILs variance amount representing differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in the rate adjustment model. The 2010 OEB prescribed carrying charges were $1,923 (2009 - $2,720).

Late payment penalties settlement

The late payment penalties settlement account relates to the settlement costs accrual associated with the late payment charges class action (Note 14). All of the LDC's involved in the settlement have requested an order from the OEB allowing for the future recovery from customers of all costs related to the settlement. The company has accrued a liability and a corresponding regulatory asset in the amount of $57,744 as at December 31, 2010. In the absence of rate regulation, operating expenses for the year ended December 31, 2010, would have been $57,744 higher.

Settlement sales variance

In May 1, 2002 the Ontario energy market opened to competition. Since May 1, 2002, the difference between the cost of power based on time-of-use rates and amounts billed to non-time-of-use customers charged at an average rate are recorded in settlement variance accounts as directed by the OEB; variances resulting from energy line-loss are also included. These sales variance accounts ensure that a utility's gross profit is limited to distribution revenue and service charges.

5. Regulatory Assets (Liabilities) (continued)

Smart meter recovery

Effective May 1, 2006, the OEB has allowed the company to defer revenues, capital expenditures, operating expenditures and amortization relating to smart meters. Accordingly, the company has deferred these items in accordance with criteria set out in the Accounting Procedures Handbook.

In connection with the smart meter initiative, the corporation has incurred capital costs relating to their installation in 2010 of $670,073 (2009 - $1,314,184) net of amortization. Along with the capital expenditures incurred, the company also incurred operating, maintenance and amortization expenses in 2010 of $272,175 (2009 - $211,457), and incurred OEB prescribed carrying charges of $13,022 (2009 - $855).

For the year ended December 31, 2010, the company collected smart meter customer revenues of $245,728 (2009 - $119,512) from rate riders.

Special purpose charge variance

On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge (SPC) assessment under Section 26.1 of the Ontario Energy Board Act, 1998, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed the company $151,689 for its apportioned share of the total provincial amount. The company is permitted to recover this balance and is expected to occur over a one year period, which began on May 1, 2010. As at December 31, 2010, the company collected revenues related to the SPC balance of $85,125 and incurred OEB prescribed carrying charges of $445.

Other regulatory assets

OEB Assessment Costs

In December 2004, Local Distribution Companies (LDC's) were allowed to establish a deferral account to record the annual costs assessed by the OEB. The amounts recorded as deferral costs are the amounts by which the annual OEB assessment costs for the period January 1, 2004 to April 30, 2006, exceed the amounts being recovered through distribution rates. Subsequent to April 30, 2006, the annual assessment costs have been fully expensed by the company. It is anticipated the costs deferred will be reviewed by the OEB for final approval in a future rate application process. In 2010, OEB prescribed carrying charges of $271 (2009 - $383) for OEB cost assessment interest were recorded.

5. Regulatory Assets (Liabilities) (continued)

Pension Contributions

In December 2004, an OEB deferral account was established to record OMERS cash pension costs between January 1, 2005 and April 30, 2006 that were not recovered in rates. On May 1, 2006, pension cost contributions to OMERS were incorporated into the distribution rates. In 2010, OEB prescribed carrying charges of $1,472 (2009 - $2,081) for pension contribution interest were recorded.

International Financial Reporting Standards (IFRS) Costs

In 2009, an OEB deferral account was established to record one-time administrative costs related to the transition to IFRS. In 2010, one-time costs incurred for IFRS transition were $41,451 (2009 - $22,008). The company also incurred OEB prescribed carrying charges of $420 (2009 - $nil).

Renewable Generation Connection Costs

In 2009, an OEB deferral account was established to record costs associated with renewable energy costs. The deferral of costs includes those associated with demonstration projects, planning, education and training related to renewable energy development. In 2010, costs incurred for renewable energy education were $1,393 (2009 - $1,114).

Smart Grid Development Costs

In 2009, an OEB deferral account was established to record costs associated with smart grid development costs. The deferral of costs includes those related to smart grid demonstration projects, studies and planning exercises, and education and training. This deferral account is also be used to record the cost of smart grid investments that are undertaken as part of a project to accommodate renewable generation. In 2010, costs incurred for smart grid development were $25,950 (2009 - $nil).

Assets recovered through rates

The regulatory assets recovery account (RARA) includes regulatory asset balances the OEB has approved for recovery and recovered over a period ending March 31, 2008. The OEB has indicated that a future proceeding will address settlement of the residual balance in the RARA account.

During the year the costs included with this account were transferred to the company's sales settlement variance account in accordance with the OEB's decision and order related to the electricity distributors' deferral and variance account review report dated April 21, 2010.

December 31, 2010

6. Long-term Debt

	2010	2009
5.15% CIBC term bank loan, payable interest only monthly until May 2012, payable $87,385 principal and interest monthly thereafter until October 2025	**$ 10,941,862**	$ 10,941,862
4.21% Ontario Infrastructure Projects Corporation loan, payable $81,535 principal and interest semi-annually, due September 2025	**$ 1,800,000**	$ -
	$ 12,741,862	10,941,862
Less amounts due within one year included in current liabilities	**88,208**	-
	$ 12,653,654	$ 10,941,862

To mitigate exposure to interest rate risk, the company entered into an International Swaps and Derivatives Association (ISDA), 200 Master Agreement concurrent with the entry into the CIBC loan facility. The interest rate swap is used for non-speculative purposes to convert floating rate debt into fixed debt rate bearing interest at 5.15%.

The CIBC debt facility is amortized on the basis of a 15 year amortization schedule following a two-year interest-only period. The long-term debt obligation is unsecured.

The agreement with respect to the CIBC credit facility contains certain covenants regarding leverage, liquidity, restrictions on business activities, restrictions on distributions, change in ownership, mergers, acquisitions or change in line of business, and limitations on additional debt.

6. Long-term Debt (continued)

Principal repayments for the next five years and thereafter are as follows:

2011	$ 88,208
2012	378,613
2013	10,751,083
2014	99,952
2015	104,204
Thereafter	1,319,802
	$ 12,741,862

The debt facility has a termination date of October 1, 2025, with early termination options available to both CIBC and the company in July of 2013, 2018 and 2023.

Exercising the early termination option would result in either a liability or an asset for the company. This value of the asset of liability is based on an agreed upon amount between the two parties involved, dependent on the market conditions at the time of termination. It is the company's intention to continue the loan until the termination date.

7. Bank Operating Facility

The company has available an operating credit facility of up to $3,000,000 from the Canadian Imperial Bank of Commerce at the corporate bank prime rate of interest plus 0.15%. At December 31, 2010, there were no amounts drawn under the facility (2009 – $nil).

The company also has provided the Independent Electricity System Operator with a $1,960,005 letter of credit.

8. Share Capital

The authorized class "A" Special share capital of the company is an unlimited number of non-voting shares, with a stated value equal to consideration received on issue, redeemable and retractable at $100 per share and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

The authorized class "B" Special share capital of the company is an unlimited number of voting shares, with a stated value equal to the consideration received on issue, redeemable and retractable at $100 per share and entitled to a non-cumulative annual dividend to be determined each year by the directors based on the redemption amount.

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

The issued share capital is as follows:

		2010	2009
360	Common shares	**$ 10,941,862**	$ 10,941,862

9. Income Taxes

The provision for income taxes otherwise known as payments in lieu (PILs) of corporate taxes, as described in the summary of significant accounting policies, differs from the result which would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before income taxes. This difference results from the following items:

	2010	2009
Income before income taxes	**$ 758,280**	$ 1,004,357
Statutory income tax rate	**29.00 %**	33.00 %
Expected income tax expense	**219,901**	331,438
Increase (decrease) in tax expense resulting from:		
Permanent differences	**270**	310
Investment tax credits	**(33,460)**	-
Effect of changes to substantively enacted tax rates	**315,714**	53,431
Other items	**11,311**	27,500
	293,835	81,241
Income tax expense	**$ 513,736**	$ 412,679

Future income taxes assets of $2,284,790 (2009 - $2,460,100) have been recorded at year end based on statutory income tax rates. Such future income tax assets relate in part to the tax basis of assets and liabilities in excess of amounts recorded for accounting purposes, and in part to the timing difference between the recognition of revenue and expenses for accounting and income tax purposes.

10. Related Party Transactions

The following entities are related to Woodstock Hydro Services Inc.:

- Woodstock Hydro Holdings Inc. - parent company
- City of Woodstock - owner of Woodstock Hydro Holdings Inc.

The following table summarizes the company's related party transactions for the year:

	Woodstock Hydro Holdings Inc.	City of Woodstock	Total
Balance Sheet			
Due from related parties	$ 2,782	$ 212,876	$ 215,658
Accounts payable and accrued liabilities	$ -	$ 1,985	$ 1,985
Dividends paid	$ 150,000	$ -	$ 150,000
Statement of Operations			
Other operating revenue	$ -	$ 315,635	$ 315,635
Operating and maintenance	$ -	$ 5,231	$ 5,231
Property taxes	$ -	$ 104,352	$ 104,352

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

December 31, 2010

11. Net Change in Non-cash Working Capital Balances

The net change in non-cash working capital balances consists of:

		2010		2009
Accounts receivable	$	**(696,303)**	$	(133,724)
Unbilled revenue		**(63,855)**		(629,383)
Income taxes receivable		**(250,374)**		141,485
Due from related parties		**(94,444)**		(13,889)
Inventories		**333,170**		(32,027)
Prepaid expenses		**(78,924)**		14,420
Accounts payable and accrued liabilities		**131,334**		539,849
Deferred revenue		**-**		(500,622)
Accrued payroll and vacation pay		**(12,026)**		20,633
	$	**(731,422)**	$	(593,258)
Interest paid	$	**588,800**	$	533,880
Income taxes paid	$	**574,603**	$	446,070

12. Pension

The company makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees, based on the length of service and rates of pay.

The amount contributed to OMERS for 2010 was $183,111 (2009 - $166,241) for current service.

13. Accrued Benefit Obligation

The company has a number of unfunded benefit plans providing retirement and post-employment benefits (excluding pension) to most of its employees. The company pays certain dental, medical and life insurance benefits under unfunded defined benefit plans on behalf of its retired employees.

The company measures its accrued benefits obligation for accounting purposes as at December 31 of each year. The latest actuarial valuation was performed as at January 1, 2009, and there have been no significant changes in the employee demographics since that valuation. The next required valuation has been scheduled for 2011 and will cover the fiscal period ending December 31, 2011.

	2010	2009
Accrued benefit obligation		
Balance, beginning of year	**$ 1,118,833**	$ 1,087,527
Current service cost	**27,542**	21,820
Interest on benefits	**61,702**	64,899
Benefits paid	**(65,461)**	(55,413)
Balance, end of year	**$ 1,142,616**	$ 1,118,833

The assumptions used in the measurement of the benefit obligations are shown in the following table:

	2010	2009
Discount rate	**5.00 %**	5.00 %
Withdrawal rate	**2.00 %**	2.00 %
Rate of compensation increase	**3.30 %**	3.30 %
Health care cost trend rate	**8.33 %**	9.00 %

For December 31, 2010, health costs are assumed to be 8.33% of wages, these costs are assumed to decrease by 0.67% annually until 2015, where they are assumed to remain at 5.00% thereafter.

14. Contingency

An action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks $500 million in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to Section 347 of the Criminal Code. This action is at a preliminary stage. Pleadings have closed and examinations for discovery have been conducted. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceeding brought against Enbridge Gas Distribution Inc. (formally known as Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Enbridge Gas case rejecting all of the defences which had been raised by Enbridge Gas, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge and that settlement was approved by the Ontario Superior Court.

In 2007, Enbridge filed an application to the Ontario Energy Board ("OEB") to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008 the OEB approved the recovery of the said amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Enbridge Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs.

In the current year a formalized settlement agreement was reached, pursuant to which the defendant LDCs will pay the amount of $17,000,000 plus costs and taxes in settlement of all claims. The amount allocated for payment by each LDC 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 company's share of the settlement amount was expected to be $57,744, payable on June 30, 2011. Under the settlement, all the LDCs involved in the settlement have requested an order from the OEB allowing for the future recovery from customers of all costs related to the settlement. At December 31, 2010 the company has accrued a liability and a corresponding regulatory asset in the amount of $57,744 (Note 5).

15. Financial Instruments Risk Factors

Recognition and Measurement

The company's carrying value of financial instruments consist of the following:

	Designated held-for-trading	Loans and receivables	Other financial liabilities
Cash and bank	$ 3,251,718	$ -	$ -
Accounts receivable, net of allowance	-	4,209,743	-
Accounts payable and accrued liabilities	-	-	(5,763,769)
Accrued payroll and vacation pay	-	-	(148,523)
Sick leave liability	-	-	(97,176)
Long-term debt	-	-	(12,741,862)
Accrued benefit obligation	-	-	(1,142,616)
	$ 3,251,718	$ 4,209,743	$ (19,893,946)

The following is a discussion of risks and related mitigation strategies that have been identified by the company for financial instruments. This list is not exhaustive of all risks, nor will the mitigation strategies eliminate all risks listed.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and commodity prices, will affect the company’s cash flows of the value of its holdings of financial instruments. The objective of market risk management is to minimize the impact that market risks have on the company’s cash flows.

The company does not have commodity risk and has limited exposure to changes in foreign currency exchange rates.

The company’s revenue requirement is recovered through distribution rates and charges and other income, which includes interest income. Currently, the difference in interest revenue reduction and the actual interest income earned by the company is immaterial.

Changes in interest rates do not have a significant impact on cash payments that are required on the Company’s debt obligations. Exposure to changes in interest rates are mitigated through the use of an Interest Rate Swap (IRS) for the company’s long-term debt.

15. Financial Instruments Risk Factors (continued)

Credit risk

Credit risk is the risk that of a financial loss to the company if a customer or counterparty fails to discharge its obligation to the company. The company's maximum exposure to credit risk is equal to the carrying value of its financial assets. Credit risk can be prevalent in customers that are similarly affected by economic or other conditions. Concentrations of consumption by class or individual customer may also impact risk due to varying energy consumption patterns and allowable security deposit requirements associated with each class.

The company's objective is to maximize credit collection and minimize bad debt expense. Credit risk is managed by monitoring and limiting exposure to credit risk, subject to OEB guidelines, on an ongoing basis.

Risk is mitigated by regulation which provides for certain customers to provide security deposits for a prescribed period of time. Customers may be required to post security to receive electricity or other services.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts based on the financial condition of the counter-parties and by applying a percentage based amount to total accounts receivable, based on past experience. The amount of the related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement.

Credit risk associated with accounts receivable is as follows:

	2010
Total accounts receivable	$ 4,270,130
Less: Allowance for doubtful accounts	(60,387)
	$ 4,209,743
Of which:	
Outstanding for not more than 30 days	$ 3,913,639
Outstanding for more than 30 days but not more than 60 days	85,461
Outstanding for more than 60 days not not more than 90 days	18,423
Outstanding for more than 90 days	252,607
Less: Allowance for doubtful accounts	(60,387)
	$ 4,209,743

As of December 31, 2010, the company is not exposed to a significant concentration of credit risk within any customer class or individual customer.

15. Financial Instruments Risk Factors (continued)

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they become due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, as well as an established $3,000,000 operating credit facility (Note 7). The company believes that future cash flow from operating activities, available capacity on its existing revolving credit facility and access to additional liquidity through excess debt capacity will be adequate to meet its financial obligations.

	Due within 1 year	Due between 1 and 5 years	Due after 5 years
Financial liabilities			
Accounts payable and accrued liabilities	$ 5,763,769	$ -	$ -
Accrued payroll and vacation pay	148,523	-	-
Accrued sick leave	-	97,176	-
Long-term debt	88,208	11,333,852	1,319,802
Accrued benefit obligation	-	-	1,142,616
	$ 6,000,500	$ 11,431,028	$ 2,462,418

The timing of the accrued sick leave payable is unknown, and would be dependent on when the eligible employees would request to take the time, or retire. It has been reflected as due between 1 and 5 years.

There have been no significant changes from the previous year in the exposure to risk or policies procedures and methods used to measure the risks discussed above.

16. Public Liability Insurance

The company is a member of the Electricity Distributors Association Reciprocal Insurance Exchange which is a pooling of the public liability insurance risks of many of the municipal utilities in Ontario. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they are 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 five years. As at December 31, 2010, no assessments have been made.

17. Capital Disclosures

The company's objectives when managing its capital are to:

- maintain a financial position that supports the company's operations and growth strategies;
- provide an adequate return to its shareholder;
- comply with covenants related to its credit facilities; and
- align its capital structure for regulated activities with debt to equity structure recommended by the OEB, which is 60% debt and 40% equity.

The company defines capital as shareholder's equity. As of December 31, 2010, shareholder's equity amounted to $14,386,532 (2009 - $14,291,988).

The company has externally imposed capital requirements in the form of credit facility agreements that contain various financial and non-financial covenants (Note 6). The financial covenants associated with the company's credit facility are as follows:

(i) maximum debt to capitalization ratio of 60% at any time;
(ii) minimum cash flow debt service ratio of 1.5 at any time; and
(iii) minimum current ratio of 1.1 at any time.

As at December 31, 2010, the company was in compliance with all of the above financial covenants.

18. Economic Dependence

The company purchases substantially all of its power from the Independent Electricity System Operator. A minimal amount of electricity is purchased from Hydro One for long-term load transfers.