Fort Frances Power Corporation
Financial Statements
For the year ended December 31, 2010

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Independent Auditor's Report

To the Shareholder of
Fort Frances Power Corporation

We have audited the accompanying financial statements of the Fort Frances Power Corporation as at December 31, 2010, which comprise the Balance Sheet as at December 31, 2010, and the Statement of Operations and Deficit and Statement of 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.

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 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 auditor's judgement, 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 circumstances, but not for the purpose of expressing an opinion on the effectiveness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the 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 Fort Frances Power Corporation as at December 31, 2010, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO CANADA LLP

Chartered Accountants, Licensed Public Accountants

Fort Frances, Ontario
April 21, 2011

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Fort Frances Power Corporation
Balance Sheet

December 31	2010	2009
Assets		
Current		
Cash	$ 667,980	$ 310,570
Investments (Note 1)	1,425,697	1,664,810
Accounts receivable (Note 2)	2,478,773	789,460
Unbilled revenue	890,711	938,659
Inventory	119,690	134,758
Prepaid expense	44,814	21,502
Recoverable income taxes	8,780	466
	5,636,445	3,860,225
Property, plant and equipment (Note 3)	3,074,231	2,909,521
Regulatory assets (Note 7)	819,928	643,663
Future income tax assets (Note 6)	224,413	213,990
	$ 9,755,017	$ 7,627,399
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 4)	$ 3,282,798	$ 1,103,542
Customer deposits	65,197	74,058
Deferred revenue	1,652	7,000
	3,349,647	1,184,600
Employee future benefits	114,568	109,715
Regulatory liabilities (Note 7)	677,401	736,735
	4,141,616	2,031,050
Shareholder's equity		
Share capital (Note 5)	5,807,391	5,807,391
Deficit	(193,990)	(211,042)
	5,613,401	5,596,349
	$ 9,755,017	$ 7,627,399

On behalf of the Board:

Director

Director

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

Fort Frances Power Corporation
Statement of Operations and Deficit

For the year ended December 31	2010	2009
Service revenue		
Residential	$ 3,606,922	$ 3,301,592
General	3,494,609	3,222,820
Street lighting	95,321	90,964
Reconnection charges	6,371	6,012
Special purpose charges	18,810	-
	7,222,033	6,621,388
Cost of power	5,722,105	5,151,423
Gross margin on service revenue	1,499,928	1,469,965
Other operating revenue (Note 8)	369,592	473,771
	1,869,520	1,943,736
Operating and maintenance expense	554,731	468,258
Billing and collection	264,158	265,275
General and administrative expense	677,044	737,938
Amortization	357,117	348,721
Interest	6,978	181,674
	1,860,028	2,001,866
Net income (loss) before the following	9,492	(58,130)
Loss on disposal of assets	(1,220)	-
Income taxes		
Current expense (recovery)	(8,780)	(466)
Net income (loss) for the year	17,052	(57,664)
Deficit, beginning of year	(211,042)	(153,378)
Deficit, end of year	$ (193,990)	$ (211,042)

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

Fort Frances Power Corporation
Statement of Cash Flows

For the year ended December 31	2010	2009
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	$ 17,052	$ (57,664)
Item not involving cash		
Amortization	357,117	348,721
	374,169	291,057
Changes in non-cash working capital balances		
Accounts receivable	(1,689,313)	(288,361)
Unbilled revenue	47,948	(82,714)
Inventory	15,068	6,511
Prepaid	(23,312)	7,406
Regulatory assets	(176,265)	(629,730)
Accounts payable	2,179,256	(118,688)
Deferred revenue	(5,348)	3,500
Current income taxes	(8,314)	(3,275)
Future income taxes	(10,423)	(22,334)
Regulatory liabilities	(59,334)	128,365
Employee future benefits	4,853	45,917
	648,985	(662,346)
Investing activities		
Net increase in property, plant and equipment	(521,827)	(277,785)
Decrease in investments	239,113	253,871
	(282,714)	(23,914)
Financing activities		
Decrease in customer deposits held	(8,861)	(2,804)
Increase (decrease) in cash during the year	357,410	(689,064)
Cash, beginning of year	310,570	999,634
Cash, end of year	$ 667,980	$ 310,570
Supplementary cash flow information		
Total interest paid	$ 301	$ 3,005
Total income taxes paid	$ -	$ 2,809

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

Fort Frances Power Corporation
Summary of Significant Accounting Policies

December 31, 2010

Nature of Business

On June 19, 2000, Fort Frances Power Corporation was incorporated under the Business Corporation Act (Ontario), under the laws of Ontario, created for the purpose of continuing electricity distribution activities. The incorporation was required in accordance with the *Energy Competition Act, 1998*, in the Province of Ontario.

Pursuant to this legislation, under the terms of By-law No. 55/00 of the Town of Fort Frances ("Transfer By-law"), enacted on November 6, 2000, the Town of Fort Frances transferred all employees, assets, liabilities, rights and obligations of the former Fort Frances Public Utilities Commission, in consideration for the issuance of equity securities of Fort Frances Power Corporation.

The Corporation is engaged in the regulated distribution of retail electricity to customers located in the Town of Fort Frances as a Local Distribution Company ("LDC").

Basis of Accounting

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

Regulation

The *Energy Competition Act, 1998*, was given Royal Assent on October 30, 1998, which provided for a competitive market in the generation and sale of electricity and the regulation of the monopoly electricity delivery system in the Province of Ontario (the "Province").

On May 1, 2002, the government of Ontario opened Ontario's wholesale and retail markets to competition by providing generators, retailers and consumers with open access to Ontario's transmission and distribution network ("Open Access").

Since the commencement of Open Access, electricity distributors have been purchasing their electricity requirements from the wholesale market administered by the Independent Electricity System Operator (the "IESO") and recovering the cost of electricity and certain other costs at a later date in accordance with procedures mandated by the Ontario Energy Board (the "OEB").

The Ontario Energy Board (the "OEB") has regulatory oversight of electricity matters in the Province of Ontario. The *Ontario Energy Board Act, 1998*, sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for separate businesses and filing process requirements for rate-setting purposes.

Regulation (continued) The OEB's authority and responsibilities include the power to approve and 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 electricity distribution Companies fulfill obligations to connect and service customers.

An LDC is required to charge its customers for the following amounts (all of which, other than the distribution rate, represent a pass through of amounts payable to third parties):

(i) *Electricity Price and Related Rebates.* The electricity price and related rebates represent a pass through of the commodity cost of electricity.

(ii) *Distribution Rate.* The distribution rate is designed to recover the costs incurred by an LDC in delivering electricity to customers and the OEB-allowed rate of return. Distribution rates are regulated by the OEB and typically comprise a fixed charge and usage-based (consumption) charge.

The volume of electricity consumed by LDC's customers during any period is governed by events largely outside LDC's control (principally sustained periods of hot or cold weather which increase the consumption of electricity and sustained periods of moderate weather which decrease the consumption of electricity).

(iii) *Retail Transmission Rate.* The retail transmission rate represents a pass through of the wholesale costs incurred by distributors in respect of the transmission of electricity from generating stations to local areas. Retail transmission rates are regulated by the OEB.

(iv) *Wholesale Market Service Charge.* The wholesale market service charge represents a pass through of various wholesale market support costs. Retail rates for the recovery of wholesale market service charges are regulated by the OEB.

Market participants (including distributors and retailers) are required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations.

Market-based Rate of Return

Before the introduction of rate caps in December 2002, the OEB had authorized electricity distributors to adjust their distribution rates to incorporate a market-based rate of return.

Regulation (continued) Since the introduction of market based rate of return for Ontario distribution Companies, the Fort Frances Power Corporation has elected to take a 0.0% rate of return on common equity for the Corporation and has operated under the rate minimization model. This is mainly due to the historical agreement with the local paper mill, which has always been a defining characteristic of the utility. As such, the Fort Frances Power Corporation has not applied for any distribution rate increases required to fund a financial rate of return.

Regulatory Treatments The following regulatory treatments have resulted in accounting treatments which differ from Canadian GAAP for enterprises operating in an unregulated environment:

Regulatory Assets and Liabilities

In accordance with Canadian Institute of Chartered Accountants Accounting Guideline 19 "Disclosures by Entities Subject to Rate Regulation" ("AcG-19"), certain costs and variance account balances deemed to be "regulatory assets" or "regulatory liabilities" in the LDC are reflected separately on the Corporation's balance sheet until the manner and timing of disposition is determined by the OEB.

Effective January 1, 2009, the Corporation adopted amended Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1100 - "Generally Accepted Accounting Principles", Handbook Section 3465 - "Income Taxes", and Accounting Guideline 19 "Disclosures by Entities Subject to Rate Regulation". These amended sections and guidance established new standards and removed a temporary exemption in Handbook Section 1100 pertaining to the application of that section to the recognition and measurement of assets and liabilities arising from rate regulation. The new standards require the recognition of future income tax liabilities and assets in accordance with Handbook Section 3465 as well as a separate regulatory asset or liability balance for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers, and retain existing requirements to disclose the effects of rate regulation. The revised standards are effective for interim and annual financial statements for the fiscal years beginning on or after January 1, 2009.

Following the removal of the temporary exemption for rate-regulated operations included in Handbook Section 1100, the Corporation developed accounting policies for its assets and liabilities arising from rate regulation using professional judgement and other sources issued by bodies authorized to issue accounting standards in other jurisdictions.

Regulatory Treatments (continued)

Upon final assessment and in accordance with Handbook Section 1100, the Corporation determined that its assets and liabilities arising from rate-regulated activities qualify for recognition under Canadian GAAP and this recognition is consistent with U.S. Financial Accounting Standards Board Accounting Standards Codification 980 - "Regulated Operations".

Spare Transformers

Spare transformers are items that are expected to substitute for original distribution plant transformers when these original plant assets are being repaired and are held and dedicated for the specific purpose of backing up plant in service as opposed to assets available for other uses. According to the criteria set out in the OEB's Accounting Procedures Handbook (AP Handbook), spare transformers are treated as property, plant and equipment. These assets would be recorded as inventory under Canadian GAAP for unregulated businesses.

Financial Instruments

Effective January 1, 2007, the Corporation adopted the CICA Handbook Sections 3855 - "Financial Instruments - Recognition and Measurement", 3861 - "Financial Instruments - Disclosure and Presentation", 1530 - "Comprehensive Income" and the revised CICA Handbook Section 3251 - "Equity" (the "Handbook Sections"). As provided under the standards, the comparative financial statements have not been restated. These new Handbook Sections have lead to changes in the accounting for financial instruments. All relevant changes are outlined below.

Financial Instruments - Recognition and Measurement - Section 3855

This Section establishes the standards for the recognition and measurement of financial assets and financial liabilities. At inception, all financial instruments which meet the definition of a financial asset or a financial liability are to be recorded at fair value, unless fair value cannot be reliably determined. Depending on the nature of the financial instrument, revenues, expenses, gains and losses would be reported in either net income or other comprehensive income. Subsequent measurement of each financial instrument will depend on the balance sheet classification elected by the Corporation.

Financial Instruments (continued)

As of January 1, 2007, the Corporation has elected the following balance sheet classifications with respect to its financial assets and financial liabilities:

- Cash and investments are classified as "Assets Held - For Trading" and are measured at fair value.
- Accounts receivable and unbilled revenue 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.
- Accounts payable and accrued liabilities and customer deposits 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.

Comprehensive Income - Section 1530

This Section describes the recognition and disclosure requirements with respect to comprehensive income. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income represents the changes in the fair value of a financial instrument which has not been included in net income.

Unless otherwise noted, it is managements opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carry values, unless otherwise noted.

There was no other comprehensive income during the year ended December 31, 2010.

Inventories

Inventories consist primarily of maintenance and construction materials and are stated at the lower of cost and replacement cost, with cost determined on a standard cost basis net of the provision for obsolescence.

Fort Frances Power Corporation
Summary of Significant Accounting Policies

December 31, 2010

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization based on the estimated useful life of the asset is as follows:

Buildings	- 3% straight line basis
Distribution equipment	- various straight line basis
Other equipment	- 10% straight line basis
Computer equipment and software	- 20 & 100% straight line basis
Automotive equipment	- various straight line basis
Office equipment	- 10% straight line basis
Leasehold improvements	- 20% straight line basis

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances and investments in money market instruments and bond funds with maturities of three months or less.

Revenue Recognition

Revenue from the sale of electricity is recorded on a basis of cyclical billings and also includes unbilled revenue accrued in respect of electricity delivered but not yet billed.

Customer Deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded within the next fiscal year are classified as a current liability.

Use of Estimates

The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenue and expenses for the year. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or the Minister of Finance.

Fort Frances Power Corporation
Summary of Significant Accounting Policies

December 31, 2010

Impairment of Long-lived Assets

Long-lived assets held and used by the Corporation are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Management believes that there has been no impairment of any of the Corporation's long-lived assets as at year end.

Payments in Lieu of Taxes

The Corporation is required to compute taxes under the Income Tax Act and Ontario Corporations Tax Act and remit such amounts thereunder to the Ontario Electricity Financial Corporation. These amounts referred to as Payments in Lieu of Taxes under the Energy Competition Act, are applied to reduce certain debt obligations of the former Ontario Hydro.

Future Income Taxes

Commencing January 1, 2003, the Corporation adopted the liability method of accounting for income taxes as outlined in the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Employee Future Benefits

Employee future benefits provided by the Corporation include accumulated sick leave and vacation credits. Employee future benefit expense is recognized in the period in which the employees render services on an accrual basis.

Capital Disclosures

Effective January 1, 2008, the Corporation adopted CICA Handbook Section 1535 - "Capital Disclosures" which requires disclosure of the Corporation's objectives, policies and processes for managing capital as well as its compliance with any external capital requirements. The implementation of this standard did not have any impact on the Corporation's results of operations or financial position.

New Accounting Pronouncement

International Financial Reporting Standards ("IFRS")

On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP prior to 2011, with the remaining standards to be adopted at the change over date.

The Corporation has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its financial statements. At this time, the Corporation believes that the impact on its financial statements could be material.

On September 10, 2010, the AcSB granted an optional one year deferral for IFRS adoption for entities subject to rate regulation. This decision came in light of the uncertainty created by the International Accounting Standards Board ("IASB") in regard to the rate-regulated project which is assessing the potential recognition of regulatory assets and regulatory liabilities under IFRS. Subsequently, the Canadian Securities Administrators announced that entities subject to rate regulation may defer the adoption of IFRS for up to one year, consistent with the one year deferral granted by the AcSB.

Given the continued uncertainty around the timing, scope and eventual adoption of a rate-regulated accounting ("RRA") standard under IFRS and the potential material impact of RRA on the Corporation's financial statements, the Corporation has decided to elect the optional one year deferral of its adoption of IFRS. Accordingly, the Corporation will continue to prepare its financial statements in accordance with Canadian GAAP accounting standards in Part V of the CICA Handbook for 2011.

As a result of these developments related to IFRS and the uncertainty regarding the impact of IFRS on the OEB electricity distribution rates application process, the Corporation cannot reasonably quantify the full impact that adopting IFRS would have on its future financial position and results of operations. Although the Corporation has completed a detailed assessment of the accounting and disclosure differences between Canadian GAAP and IFRS, in light of the one-year deferral, this assessment will be revisited due to changes to standards during this period. The Corporation will continue to actively monitor IASB developments with respect to RRA and non-RRA IFRS developments and their potential impacts.

December 31, 2010

1. Investments

	2010	2009
Money market and bond mutual funds	$ 1,425,697	$ 1,448,448
Guaranteed investment certificate	-	216,362
	$ 1,425,697	$ 1,664,810
Market value	$ 1,425,697	$ 1,664,810

Money market and bond mutual funds have effective interest rates of 1.24% to 3.61% (2009 - 0.72% to 3.51%). Fair values are considered to approximate market values.

2. Accounts Receivable

	2010	2009
Electrical energy	$ 519,587	$ 553,693
Own municipality	-	5,523
Sundry	230,207	230,244
Global adjustment charge cost recovery	1,728,979	-
	$ 2,478,773	$ 789,460

3. Property, Plant and Equipment

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Land	$ 100,000	$ -	$ 100,000	$ 100,000
Buildings	1,210,166	966,340	243,826	243,170
Distribution equipment	8,058,814	5,757,448	2,301,366	2,391,409
Other equipment	159,140	126,158	32,982	37,648
Automotive equipment	815,243	534,172	281,071	95,849
Computer equipment and software	71,094	50,349	20,745	17,832
Office equipment	117,407	96,206	21,201	23,494
Leasehold improvements	86,122	13,082	73,040	119
	$ 10,617,986	$ 7,543,755	$ 3,074,231	$ 2,909,521

At December 31, 2010, net book value of stranded meters related to the deployment of smart meters amounting to $118,795 (2009 - $87,173) is included in property, plant and equipment. In the absence of rate regulation, property, plant and equipment would have been $118,795 lower at December 31, 2010 (2009 - $87,173).

4. Accounts Payable and Accrued Liabilities

	2010	2009
Trade accounts payable	$ 3,282,138	$ 1,103,542
Own municipality	660	-
	$ 3,282,798	$ 1,103,542

Accounts payable and accrued liabilities include an accrual in the amount of $1,918,399 (2009 - $NIL). This represents the identified surplus for the year ending December 31, 2010, and rebates relating to settlement adjustments for provincial benefit costs paid to the IESO during the 2005 to 2010 years, as a result of the power agreement. This surplus is to be dispensed to the ratepayers in the form of a credit rebate subsequent to year end.

5. Share Capital

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

Issued share capital is as follows:

		2010	2009
5,807,391	Common shares	$ 5,807,391	$ 5,807,391

6. Future Income Tax Assets

The components of the future income tax assets at December 31 are as follows:

	2010	2009
Property, plant and equipment	$ 216,137	$ 206,652
Employee future benefits	7,122	7,122
Other taxable temporary differences	1,154	216
	$ 224,413	$ 213,990

7. Regulatory Assets and Liabilities

Regulatory assets consist of the following:

	2010	2009
Smart meters	$ 777,964	$ 622,170
Deferral account for OEB annual cost assessment	23,392	21,294
Special purpose charges	13,918	-
Other	4,654	199
	$ 819,928	$ 643,663

Regulatory liabilities consist of the following:

	2010	2009
Settlement variances	$ 452,988	$ 522,745
Future income taxes	224,413	213,990
	$ 677,401	$ 736,735

The regulatory assets and liabilities balances of the Corporation are defined as follows:

(a) Smart Meters:

The smart meters regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario. The LDC launched its smart meter project shortly following the Province of Ontario's announcement in 2006. In 2008, the OEB ordered the LDC to record all future expenditures and revenues related to smart meters to a regulatory asset account and allowed the LDC to keep the net book value of the stranded meters related to the deployment of smart meters in its rate base. The deferred balances continue to be calculated and attract carrying charges.

7. **Regulatory Assets and Liabilities** (continued)

In connection with its smart meter initiatives, the Corporation has incurred capital costs for the year ended December 31, 2010. As at December 31, 2010, smart meter capital expenditures, net of accumulated depreciation, totalling $713,797 have been recorded to regulatory assets (December 31, 2009 - $620,396). These expenditures would otherwise have been recorded as property, plant and equipment under Canadian GAAP for unregulated businesses. In the absence of rate regulation, property, plant and equipment and intangible assets would have been $713,797 higher as at December 31, 2010 (December 31, 2009 - $620,396).

For the year ended December 31, 2010, smart meter operating expenses of $74,288 (2009 - $NIL), and smart meter depreciation expense of $97,573 (2009 - $68,933) were deferred which would have been expensed under Canadian GAAP for unregulated businesses. In the absence of rate regulation, for the year ended December 31, 2010, operating expenses would have been $74,288 higher (2009 - $NIL) and depreciation expense would have been $28,640 higher (2009 - $68,933).

For the year ended December 31, 2010, smart meter customer revenues of $47,125 were deferred (2009 - $35,545). In the absence of rate regulation, for the year ended December 31, 2010, revenue would have been $47,125 higher (2009 - $35,545 higher).

(b) Settlement variances:

The OEB has allowed the Corporation to defer settlement variances since May 1, 2002. This balance represents the variances between amounts charged by the Corporation to customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by it in the wholesale market administered by the IESO after May 1, 2002. The settlement variances relate primarily to service charges, non-competitive electricity charges, imported power charges and the global adjustment. Accordingly, the Corporation has deferred these recoveries in accordance with the criteria set out in the AP Handbook.

The settlement variances net of recoveries arising after May 1, 2002, is deferred in a regulatory liability account.

Under such regulation, the variances are allowed to be deferred which would be recorded as revenue when incurred under Canadian GAAP for unregulated businesses. In the absence of rate regulation, the cost of power in 2010 would have been $69,757 higher (2009 - $99,290 lower).

The deferred balance for unapproved settlement variances continues to be calculated and attract carrying charges in accordance with the OEB's direction. The manner and timing of disposition of the variance has not been determined by the OEB.

7. Regulatory Assets and Liabilities (continued)

(c) Special purpose charges:

On April 9, 2010, the OEB informed electricity distributors of a Special Purpose Charge ("SPC") assessment for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB assessed the Corporation the amount of $32,606 for its apportioned share of the total provincial amount of the SPC of $53,695,000 in accordance with the rules set out in Ontario Regulation 66/10 (the "SPC" regulation). In accordance with Section 9 of the SPC Regulation, the Corporation is allowed to recover this balance. As at December 31, 2010, the balance in the account consists of the Corporation's assessment of $32,606 less the recoveries received from customers. In the absence of rate regulation, revenue would have been $13,918 higher and operating expenses would have been $13,918 higher.

(d) Deferral account for OEB annual cost assessments:

The OEB has allowed the Corporation to defer the OEB annual cost assessments for the fiscal years starting after January 1, 2004. Accordingly, the Corporation has deferred these expenditures in accordance with the criteria set out in the AP Handbook.

(e) Future income taxes:

This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of future tax assets.

As at December 31, 2010, the Corporation has recorded a future income tax asset of $224,413 (2009 - $213,990) and corresponding regulatory liability of $224,413 (2009 - $213,990).

8. Other Operating Revenue

	2010	2009
Investment income	$ 31,133	$ 41,403
Regulatory asset carrying charges	12,466	171,359
Late payment charges	25,151	21,804
Pole rentals	47,328	44,484
OPA grant revenue	134,362	93,024
Miscellaneous revenue	119,152	101,697
	$ 369,592	$ 473,771

9. Related Party Transactions

Fort Frances Power Corporation is owned by the Corporation of the Town of Fort Frances.

	2010	2009
Sales to the Corporation of the Town of Fort Frances	$ 43,614	$ 20,587

The sales were made in the normal course of business and recognized at the exchange amount which is equivalent to fair market value.

10. Credit Facilities

Fort Frances Power Corporation is party to a short-term credit facility with a Canadian chartered bank pursuant to which the Corporation could borrow up to $370,000 in the form of an operating loan. The amount drawn under the credit facility as at December 31, 2010, was $NIL.

11. Financial Guarantees

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

The Corporation is party to an irrevocable standby letter of credit with a Canadian chartered bank. As at December 31, 2010, the credit amounts to $438,495 (2009 - $438,495). This letter of credit is secured by a general security agreement.

12. Pension Agreements

The Corporation makes contributions to the Ontario Municipal Employees' Retirement Fund (OMERS), a multi-employer plan, on behalf of nine members 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. Employees and employers contribute jointly to the plan.

Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of the Ontario municipal organizations and their employees. As a result, the municipality does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2010 was $48,602 (2009 - $45,286) for current services. The OMERS Board rate was 6.4% to 13.1% depending on the income level for 2010 (2009 - 6.3% to 12.8% depending on the income level).

13. Capital Disclosures

The Corporation's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain and improve the electricity distribution system of the Fort Frances Power Corporation.
- ensure compliance with covenants related to its credit facilities.

As at December 31, 2010, the Corporation's definition of capital includes shareholder's equity. As at December 31, 2010, shareholder's equity amounts to $5,613,401 (2009 - $5,596,349). There have been no changes in the Corporation's approach to capital management during the year.

14. Risk Factors

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

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

Credit risk

Financial instruments are exposed to credit risk as a result of the risk of the counterparty defaulting on its obligations. The Corporation monitors and limits its exposure to credit risk on a continuous basis. The Corporation provides reserves for credit risks based on the financial condition and short and long-term exposures to counterparties.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from Fort Frances Power Corporation customers. Fort Frances Power Corporation has approximately 4,000 customers, the majority of which are residential. Fort Frances Power Corporation collects security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2010, Fort Frances Power Corporation held security deposits in the amount of $65,197 (2009 - $74,058).

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 and deficit. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations and deficit.

At December 31, 2010, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties. The Corporation's maximum exposure to credit risk is equal to the carrying value of its financial assets.

Interest rate risk

The Corporation is exposed to interest rate risk in holding certain financial instruments. The Corporation's objective is to minimize net interest expense. The Corporation attempts to minimize interest rate risk by issuing long-term fixed rate debt.

14. Risk Factors (continued)

Under the Corporation's Revolving Credit Facility (Note 10), the Corporation may obtain short-term borrowings for working capital purposes. These borrowings expose the Corporation to fluctuations in short-term interest rates (borrowings in the form of prime rate loans in Canadian dollars and bankers' acceptances and letters of credit).

Liquidity risk

The Corporation monitors and manages 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 expense. The Corporation has access to credit facilities and monitors cash balances daily to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

Hedging and Derivatives risk

As at December 31, 2010, the Corporation has not entered into hedging and derivative financial instruments.

Foreign exchange risk

As at December 31, 2010, the Corporation has limited exposure to the changing values of foreign currencies.

15. Comparative Figures

Certain prior year figures have been restated to conform to current year financial statement presentation.