2019 ANNUAL REPORT

Delivering transformation – together.

elexicon CORP

elexicon ENERGY

elexicon GROUP

Welcome to Elexicon Corporation: your energy service provider, partner and ally

As a united front, we're powering life's most meaningful moments, as well as creating harmonious connection between experiences and people and the environments where they dwell. Through our safe and reliable services, we illuminate, we move, we grow, we comfort, we nourish and we educate, ultimately shaping stronger communities and a better world.

Elexicon Corporation
is a holding company, 100 per cent owned by five municipal shareholders: the Town of Whitby, the City of Pickering, the Town of Ajax, the Municipality of Clarington and the City of Belleville. Elexicon Corporation consists of two wholly owned subsidiary operating companies: Elexicon Energy Inc. and Elexicon Group Inc.

Elexicon's companies are committed to supporting economic growth and enhancing the quality of life in communities by providing essential electricity distribution and energy-related services – safely, reliably, cost-effectively and with a dedication to superior customer service.

Elexicon Energy Inc.
is a regulated electricity distribution company that delivers electricity to approximately 169,000 homes and businesses located in ten municipalities in east-central Ontario.

The company is regulated by the Ontario Energy Board, an independent regulatory body that makes decisions and provides advice to the government in order to contribute to a sustainable, reliable energy sector, and to help consumers get value from their natural gas and electricity services. Elexicon Energy also operates a non-regulated small business focused on renewable energy generation.

Elexicon Group Inc.
is a non-regulated energy services business offering energy management and procurement consulting services, combined heat and power solutions, and specialty metering.

The company is focused on both organic growth and expanding the business through merger and acquisition opportunities.

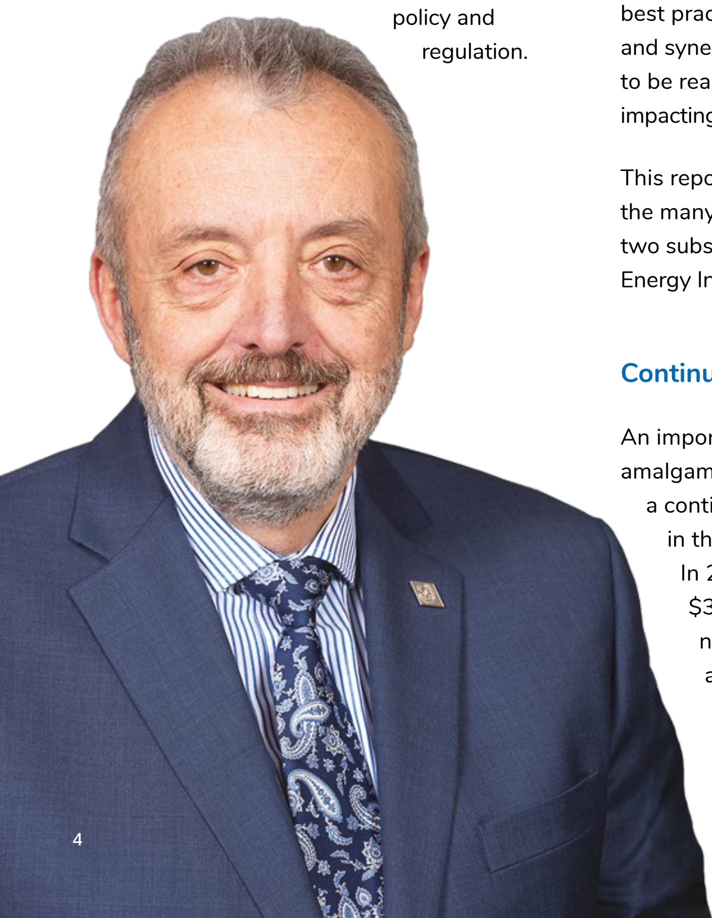
2019 Annual Report

Delivering transformation – together

On April 1, 2019, Veridian Corporation and Whitby Hydro Energy Corporation joined forces to build on each other's strengths and form Elexicon Corporation and its two subsidiary companies, Elexicon Energy Inc. and Elexicon Group Inc.

With our first nine months of operation behind us, I am delighted to provide our inaugural 2019 Annual Report to our shareholders: the Town of Whitby, the City of Pickering, the Town of Ajax, the Municipality of Clarington and the City of Belleville.

We are witnessing transformational change in the energy and utilities sector, driven by disruptive technologies impacting how power is generated, stored, distributed and managed; changing consumer expectations; heightened environmental awareness; and evolving energy policy and regulation.



The goal in amalgamating two well-respected utility companies was to generate significant benefits for our customers and shareholders and strengthen the company to capitalize on new opportunities presented by the changing energy landscape: *delivering transformation – together.*

Integration progressing smoothly

The Board of Directors of Elexicon Corporation is very pleased with the company's progress and performance in 2019, delivering on its merger promises and benefiting customers and communities through the achievement of its business strategies.

In the nine months since the company's inception, the two legacy organizations have been integrated, employees have settled into their positions, best practices are being adopted, and synergies have already begun to be realized, all without negatively impacting customer service.

This report highlights some of the many accomplishments of our two subsidiary companies, Elexicon Energy Inc. and Elexicon Group Inc.

Continued community support

An important aspect of the amalgamation was the desire for a continued strong presence in the communities we serve. In 2019, Elexicon invested $303,332 to support local not-for-profit organizations and a variety of worthy causes that contribute to community well-being.

Financial targets achieved

Financial performance for the period of April 1 to December 31, 2019 was strong, with net income of $7.3 million and capital investment of $57.2 million. Dominion Bond Rating Service assigned a rating of "A" with a stable trend to Elexicon.

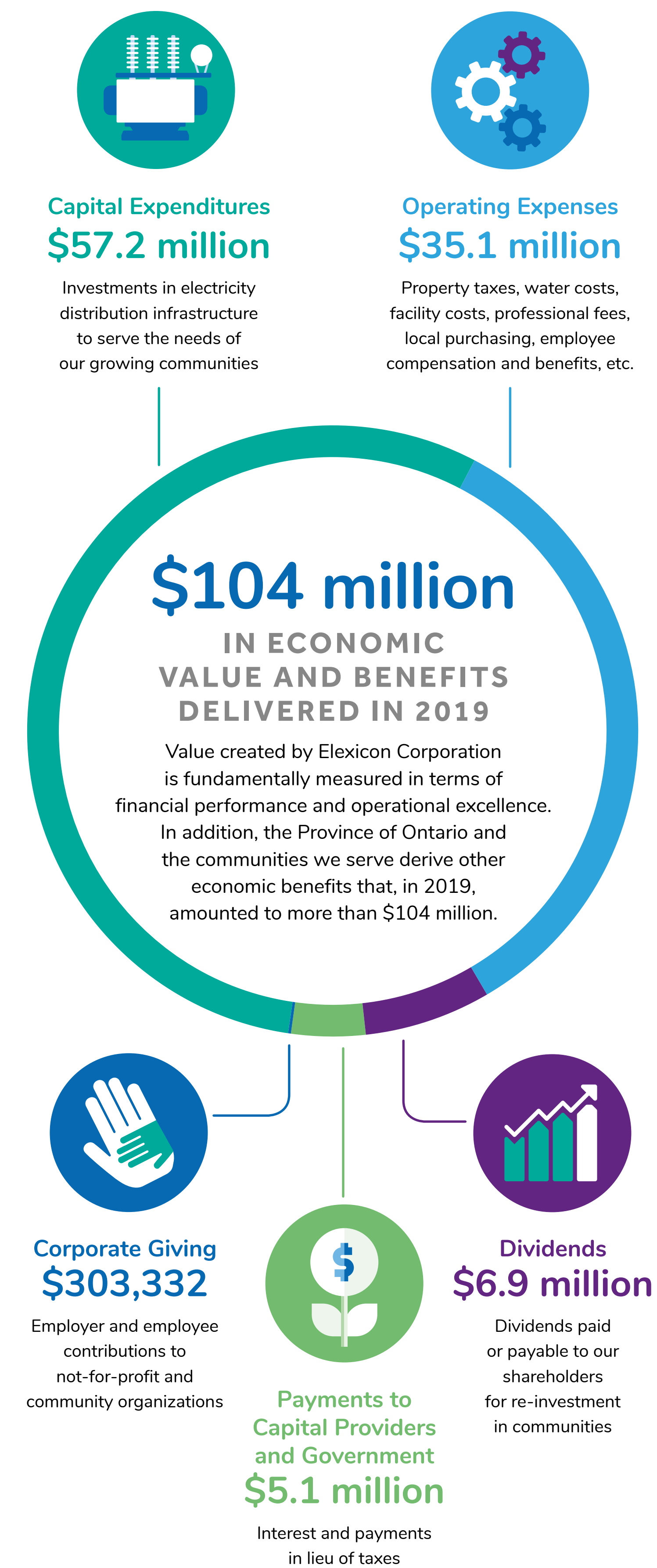
Municipal shareholders benefit from distributions of Elexicon's earnings through annual dividends. As set out in the *Shareholders' Agreement*, the Board of Directors of Elexicon Corporation reaffirmed a dividend policy for the 2019 calendar year with base dividends of $11.28 million to be pro-rated based on number of days in the fiscal period. For the nine months ended December 31, 2019, Elexicon recorded dividends paid or payable to shareholders of $6.9 million.

With plans and people in place, and exciting opportunities ahead of us, I believe Elexicon Corporation is well positioned to deliver increasing value to customers, communities and shareholders.

In closing, I would like to acknowledge the members of the Elexicon Corporation, Elexicon Energy and Elexicon Group Boards of Directors for their commitment to good governance.

I also offer my sincere thanks to the employees of Elexicon for their hard work and commitment to putting customers first as we work to build a new company and ignite a better future.

Patrick McNeil
Board Chair, Elexicon Corporation



COVID-19 response

Although this is a 2019 report, at time of publication, we are in the midst of a global pandemic. Our hearts go out to all of those who have suffered illness, loss or financial hardship due to COVID-19.

Faced with this unprecedented event, our employees rapidly and effectively implemented our *Pandemic Emergency Operations Plan* to protect each other and our customers while continuing key operations.

We were well prepared to enable our call centre staff and other employees to serve our customers and maintain critical business functions while working from home; mobilize and equip field crews to perform essential emergency restoration services; and set up and staff three System Control Centres to ensure uninterrupted grid operation.

We supported our communities in their fight against COVID-19 with a donation of $50,000 for hospitals within the Lakeridge Health network, including Ajax Pickering Hospital, Bowmanville Hospital, Port Perry Hospital and Whitby Hospital as well as South Muskoka Hospital, Orillia Soldiers' Memorial Hospital and Belleville Hospital.

I am so very proud of our employees' response to the pandemic and am impressed with their professionalism and ability to focus on what is important while adapting to quickly changing circumstances. When this is all over, I believe we will be stronger than ever – together.

As one, we are larger, stronger and better positioned

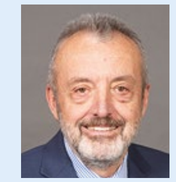
The goal in bringing Veridian Corporation and Whitby Hydro Energy Corporation together was to benefit customers and communities by providing increased capacity to:

- Reduce costs through greater efficiencies, innovations and economies of scale
- Invest in secure, advanced communications and data management systems
- Offer enhanced customer services through combined best practices and capabilities
- Provide the scale and capacity to capitalize on new opportunities presented by a changing energy landscape
- Increase dividends for municipal shareholders, which will offset tax increases and can be reinvested in local communities
- Invest in infrastructure and innovative and emerging technologies to ensure safety, improve reliability and meet the changing needs of our customers
- Be a strong voice in Ontario's energy sector, to assist in the development of sound energy policies and ensure our shareholders' and communities' interests are well represented at all levels of government
- Attract and retain top talent

ELEXICON CORPORATION BOARDS OF DIRECTORS

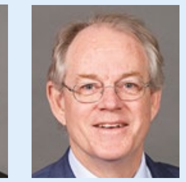
Elexicon Corporation

Independent Board Members

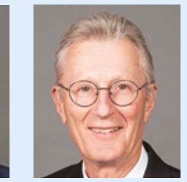


Patrick McNeil ICD.D
Chair, Independent Director

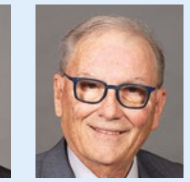
Ron Chatterton C.Dir
President, Niche Advantage Consulting Ltd.



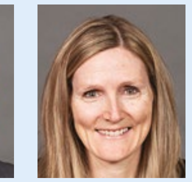
Jim Macpherson
President, Macpherson & Associates Inc.



Brian Mountford
Independent Director



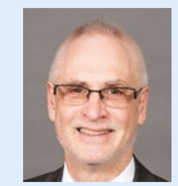
Doug Parker CPA-CMA
Independent Director



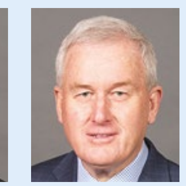
Lesley Rose C.Dir
Director, Financial Advisory Services, Commercial Financial Services, RBC Financial Group

Shareholder Board Members

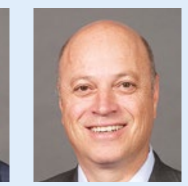
Shaun Collier C.Dir
Mayor, Town of Ajax



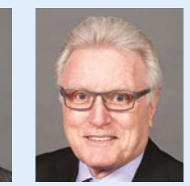
Adrian Foster
Mayor, Municipality of Clarington



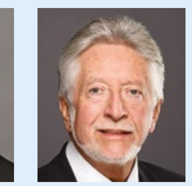
Don Mitchell
Mayor, Town of Whitby



Mitch Panciuk
Mayor, City of Belleville



Dave Ryan
Mayor, City of Pickering (Until March 12, 2020)

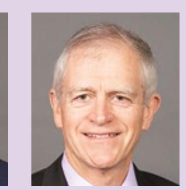


Ian Cumming
Councillor, City of Pickering, (Mayor's Designate Since March 12, 2020)

Elexicon Energy Inc.

Paul Murphy P.Eng.
Chair, Independent Director

Ted Baker C.Dir
Sr. Conservation Account Manager, CLEAResult



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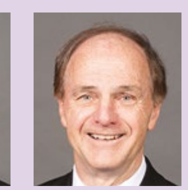
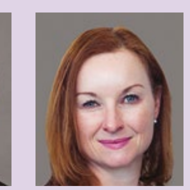
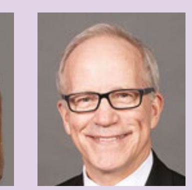


Dave McGregor HRCC
Independent Director



Nicole McNeill ICD.D
President & Chief Administrative Officer, Municipal Property Assessment Corporation

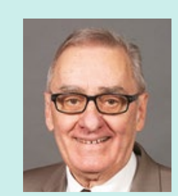


Sean O'Dwyer ICD.D
Independent Director

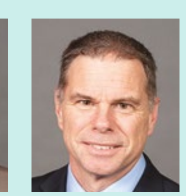
Doug Parker CPA-CMA
Independent Director

Elexicon Group Inc.

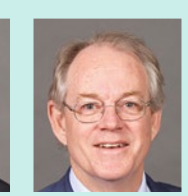
Karen Fisher C. Dir
Chair, Independent Director



Murray Angus
Director of Finance, Children's Mental Health Services



Darren MacDonald
Director of Energy, Gerdau Long Steel North America



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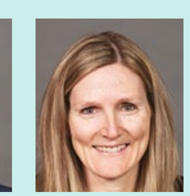

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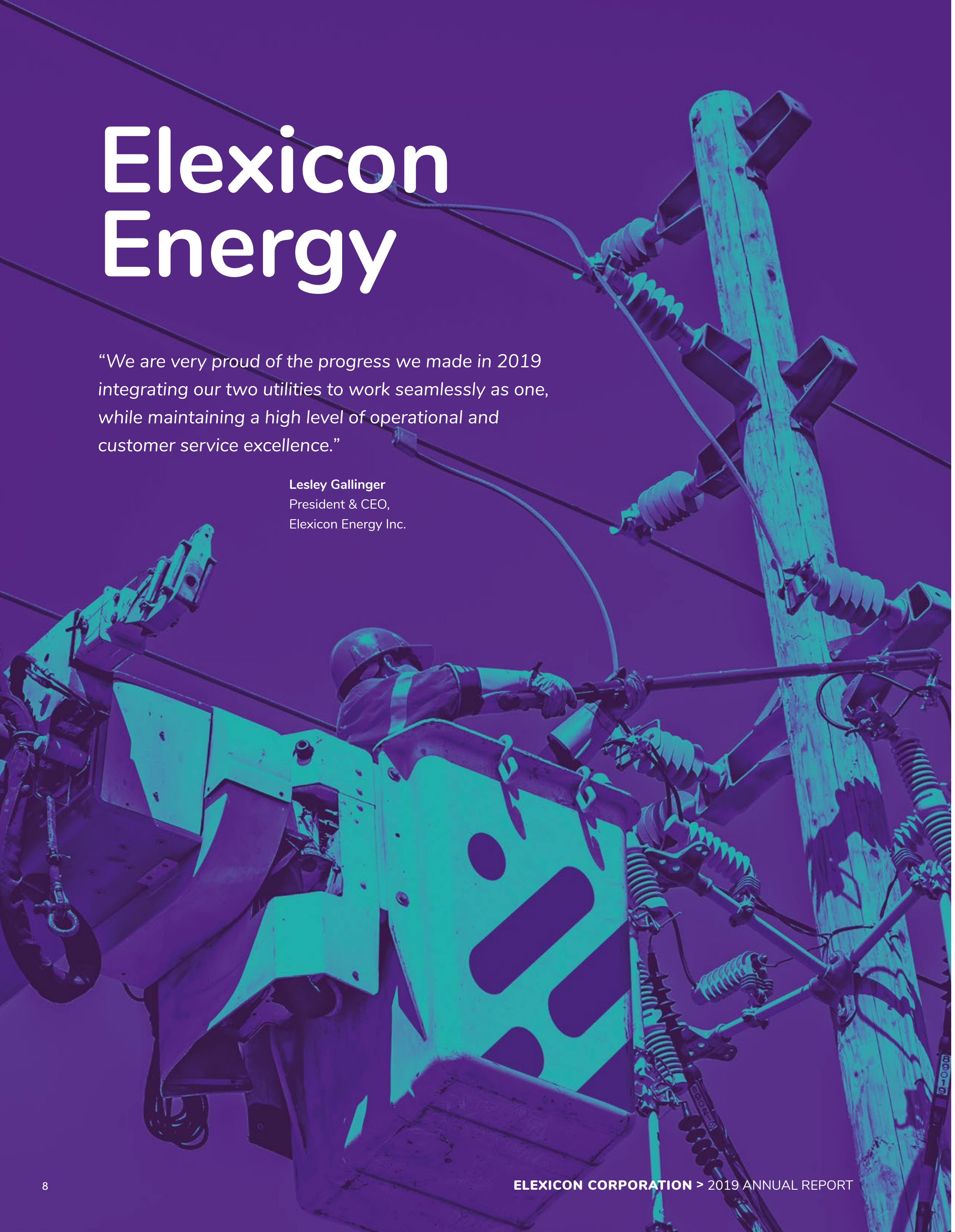
Director, Financial Advisory Services, Commercial Financial Services, RBC Financial Group



Elexicon Energy

"We are very proud of the progress we made in 2019 integrating our two utilities to work seamlessly as one, while maintaining a high level of operational and customer service excellence."

Lesley Gallinger
President & CEO,
Elexicon Energy Inc.

Our power is response-ability

I am very pleased to report that, thanks to our employees' efforts and commitment, the integration of Veridian Connections and Whitby Hydro Electric Corporation is progressing smoothly, and we are already delivering on our merger promises.

As a local electricity distribution company, nothing is more important than maintaining the public trust invested in us to deliver a safe, reliable, cost-effective supply of electricity to 169,000 homes and businesses in ten communities.

Operational performance in 2019 was nothing short of excellent, with safety, service quality and system reliability metrics all exceeding targets. Clearly, we are continuing to build long-term, sustainable value for customers, our shareholders and our communities.

Customer benefits of the merger

In the first nine months of the merger, Elexicon Energy moved quickly to consolidate and streamline operations to improve customer service and realize efficiencies laid out in the merger plan. One example, the merging of our System Control Centres, resulted in reduced costs, 24/7 system monitoring and improved power outage restoration for customers across our service territory.

We also amalgamated the company's telephone system and in-house call centre and launched a customer newsletter that provides tips for managing electricity use and costs, electrical safety reminders and other useful information.

Stronger together

The merger has provided us with the increased capacity and strength to take on the challenges of a transforming energy sector. Our talented employees – working together with an unwavering commitment to our customers – are the driving force behind our future success. I thank them for their enthusiasm in rising to the challenge of building a new utility. It is an honour to lead such an incredible team.

Lesley Gallinger
President & CEO,
Elexicon Energy Inc.

In 2019, we achieved an Average System Availability Index of 99.98 per cent and expanded our Health and Safety Department to concentrate additional efforts on building a positive safety culture.

"Operational performance in 2019 was nothing short of excellent, with safety, service quality and system reliability metrics all exceeding targets."

Mission

To provide our customers with reliable, affordable energy services and to continuously improve to meet their needs, while ensuring the needs of our shareholders are met through continuous growth.

Vision

To empower the communities we serve and help customers seize opportunities to ignite a better future.

Values

SAFETY

We prioritize the safety of our team and customers, knowing this is the foundation of a healthy home and engaged workplace.

COMPETENCE

We understand that our customers' trust is built upon our knowledge, solutions and ability to make – and keep – our promises.

KINSHIP

We seek every opportunity to forge personal connections with our customers and employees, because we know genuine relationships are lasting ones.

MINDFULNESS

We are mindful of our impact on the environment and make every effort to ensure we cause no undue harm during the delivery of our services.

RESPONSIVENESS

We know our customers rely on electricity to successfully navigate their day. As a result, we go above and beyond to meet their needs by proactively addressing their questions and concerns, and continuously improving our services.

Executive Leadership Team

Lesley Gallinger
President & CEO

Stacia Boss
Vice President, Human Resources and Corporate Services

Norm Fraser
Interim Vice President, Distribution Operations

Paul Hughes
Interim General Counsel and Corporate Secretary

Lucy J. Lombardi
Chief Financial Officer, Vice President, Regulatory Affairs

Rob Scarffe
Vice President, Customer Experience

Falguni Shah
Vice President, Technology and Innovation

Kevin Whitehead
Vice President, Asset Management

Our 2019 distribution system facts

Elexicon Energy distributes power from the provincial electricity grid across our network to residential and business customers in ten communities.

4,317 kilometres of overhead lines

22,339 transformers

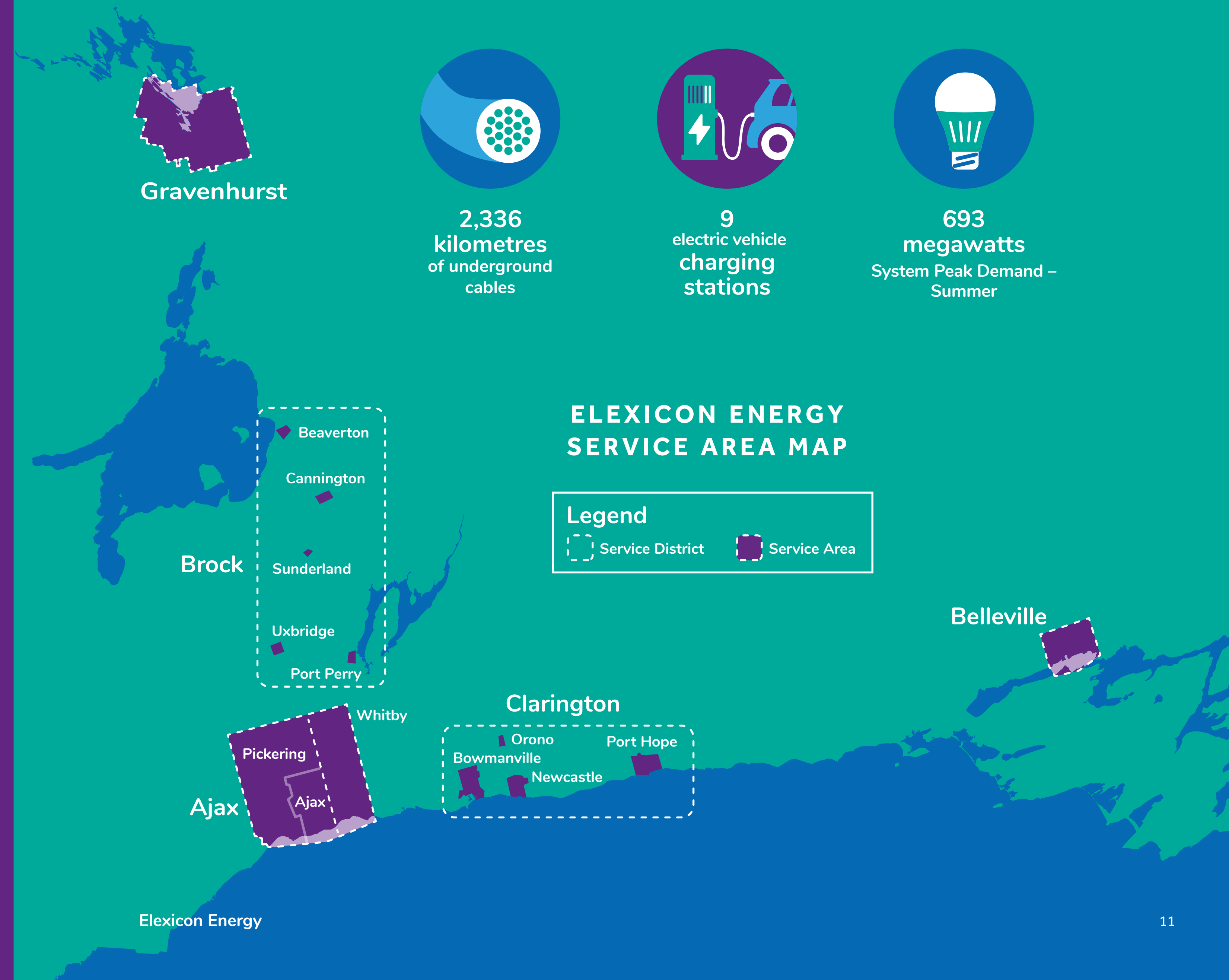
63 municipal substations

36,535 hydro poles and pole structures

2,336 kilometres of underground cables

9 electric vehicle **charging stations**

693 megawatts System Peak Demand – Summer



Delivering operational excellence

At Elexicon Energy, our success depends on achieving operational excellence that delivers ever-increasing value to our customers and stakeholders.

MAINTAINING RELIABILITY AND SAFETY

With 169,000 homes and businesses depending on a steady supply of electricity to power their lives – reliability and safety are our primary areas of focus. In 2019, we achieved an Average System Availability Index of 99.98 per cent and expanded our Health and Safety Department to concentrate additional efforts on building a positive safety culture.

Elexicon Energy's customer base grew by 2,393 customers in nine months in 2019.

Operating and investing in a smarter grid

Elexicon Energy operates a highly reliable, modern, secure, electricity distribution network that features intelligent monitoring systems and automated controls.

To keep the system running smoothly, we employ proactive outage prevention strategies that include insulator washing, tree trimming, wildlife mitigation and thermographic inspection of distribution system apparatus to identify hot spots before they can result in outages.

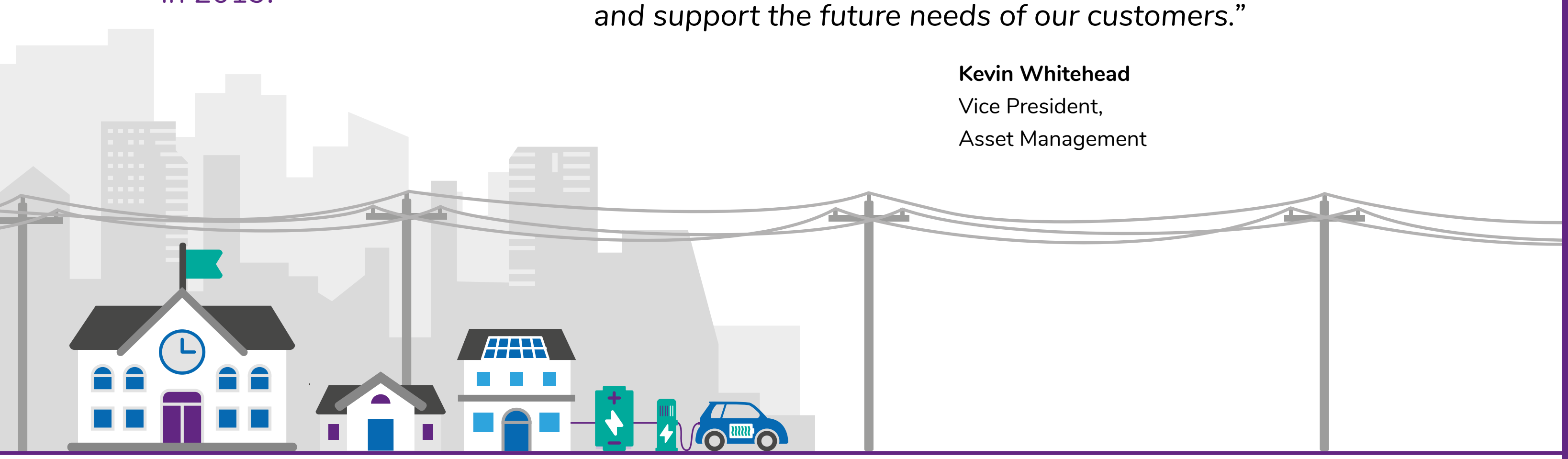
The operators in our 24/7, newly centralized System Control Centre monitor the flow of electricity across a network of 6,653 kilometres of overhead lines and underground cables. In the event that an outage cannot be restored remotely, a crew is dispatched from the nearest service depot to investigate the cause, make repairs and restore power to customers as swiftly as possible.

In 2019, our System Control Centres were consolidated and staff cross-trained in order to provide 24/7 monitoring across our entire grid.

One of the benefits of the merger is our ability to mobilize crews and equipment from all parts of our service territory to assist any of our communities that suffer widespread outages due to severe weather events.

"Our goal is to continue to modernize our grid infrastructure to improve resilience, enhance security, and support the future needs of our customers."

Kevin Whitehead
Vice President,
Asset Management



2019 DISTRIBUTION SYSTEM PERFORMANCE

99.98%
Average System Availability Index

1.335 hours
System Average Interruption Duration Index

1.035 interruptions
System Average Interruption Frequency Index

3.036 momentary interruptions
Momentary Average Interruption Frequency Index

BUILDING INFRASTRUCTURE CAPACITY AND RESILIENCE

With a service territory that covers ten municipalities in east-central Ontario, most of which are expected to see significant growth over the next five years, the ability to meet an increasing demand for electricity forms a key component of our distribution system planning and budgeting.

In 2019, we invested more than $26 million to maintain, upgrade and expand our network to accommodate growth and prevent outages.

As part of our integration efforts, we adopted best practices in our asset management plan and design standards. We also upgraded specifications to harden our system against severe weather events caused by climate change.

New life for an old substation in Beaverton

The William G. Gillespie substation (above), constructed in Beaverton in 1961, was one of the oldest substations in service in Elexicon Energy's fleet of more than 60 substations. After almost six decades of service, it was rebuilt in 2019 using modern, safer, substation controls and equipment to improve reliability and expand capacity for customers in Beaverton.

Ajax's Dowty Substation rebuilt from the ground up

Elexicon Energy's Dowty Substation was energized in December 2019 following a complete rebuild designed to enhance reliability and meet the needs of the growing Ajax community.

Integrating local sources of energy

With an eye on our customers' evolving needs, Elexicon Energy is continuing to invest capital to accommodate a growing number of distributed energy resources, such as solar photovoltaic panels, battery storage or combined heat and power systems, connecting to our network.

In 2019, the 375 distributed energy resources connected to the system fed 57.65 megawatts of electricity into the provincial grid, enough energy to power approximately 11,500 homes for one year.

Planning for growth in North Pickering

Anticipating an increased demand for electricity in the Seaton community in the City of Pickering, Elexicon Energy is designing and building a new 230-kilovolt municipal transformer station that will incorporate the latest in advanced smart grid technologies. This new transformer station will be connected to Hydro One's high-voltage grid and provide sufficient capacity to serve the planned development needs in North Pickering for many years to come.

"Building on the strong practices of our predecessor companies, in 2019, we continued to strengthen the safe and reliable operation of our power system for the benefit of our customers."

Norm Fraser
Interim Vice President,
Distribution Operations

EMBRACING INNOVATION

Elexicon Energy has embarked on a journey where the importance of technology as a source of innovation has been identified as a critical success factor, not only for technological improvement, but also to transform the electricity ecosystem as a whole. In response to the rapidly evolving energy and technology landscape, in 2019, Elexicon Energy took the bold step of forming a dedicated Technology and Innovation Department to drive innovation and capitalize on new opportunities.

The new department is staffed with experts in operational and information technologies, cyber security and data analytics. Key areas of focus include advanced grid automation and the integration of distributed generation, microgrids, battery storage and electrified transportation. Other areas of interest include cutting-edge cyber security practices using artificial intelligence and cloud-based services, increased information technology infrastructure resiliency and integrity, process automation and digitization, remote workforce enablement, and detailed asset modelling.

Community microgrid demonstration project

New homeowners in the Marshall Homes Altona Towns 27-unit townhome project in Pickering are participants in one of Ontario's first community microgrid projects.

In addition to being connected to the local grid, the community microgrid uses energy produced by rooftop solar panels and stored in a lithium-ion battery controlled and monitored by a communications system from Elexicon Energy's System Control Centre. Electricity credits earned from the power fed into the grid will be distributed by the condominium corporation to townhouse owners to help offset their electricity costs.

Real-world data gathered from the project will be used by Elexicon Energy and Ontario's Independent Electricity System Operator to explore how this type of community microgrid can help improve grid reliability and resilience, reduce consumer energy costs and cut greenhouse gas emissions.

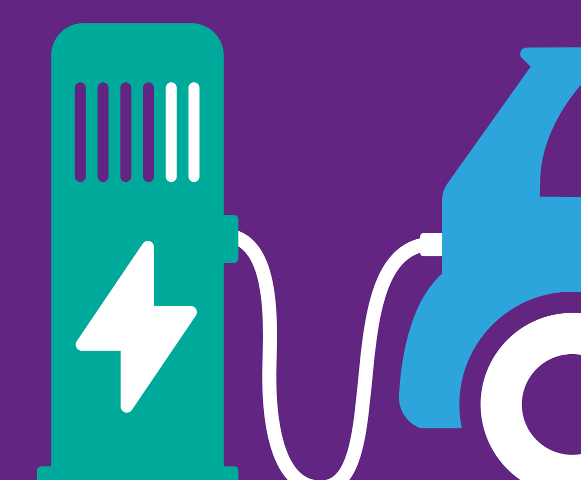
Elexicon Energy operates nine electric vehicle charging units located in Ajax, Clarington and Whitby.

Solar-powered electric vehicle carport

The solar-powered electric vehicle carport (above), located at Elexicon Energy's corporate headquarters in Ajax, was used 2,910 times in 2019. The 10-kilowatt solar panels generated 9,986 kilowatt hours of energy, which offset the cost of the electricity consumed by $1,185.

Respected as innovators in the energy industry

Elexicon Energy employees have demonstrated their leadership in technological innovation in the utility sector and have made a number of presentations at industry events. Topics included community microgrids and emerging technologies; light detection and ranging (LiDAR) machine learning; augmented reality; and artificial intelligence.



Committed to our customers

At Elexicon Energy, we are committed to providing a superior customer experience and innovative solutions to meet evolving energy and information needs. We work hard to earn our customers' trust, by being open, honest, fair, respectful and keeping our promises.

"The integration went so smoothly, I suspect the only difference many of our customers noticed was our new logo on envelopes and bills."

Rob Scarffe
Vice President,
Customer Experience

INTEGRATING AND IMPROVING THE CUSTOMER EXPERIENCE

Both of our predecessor utilities, Veridian Connections and Whitby Hydro, had a reputation for exceptional customer service. In 2019, our goal was to maintain the same high level of service while seamlessly integrating our people, systems and processes.

Working together, our team of knowledgeable and professional customer service representatives solidified our reputation for top-notch service, fielding 99,034 calls from April to December 2019, responding to 73 per cent of the calls within 30 seconds. Meanwhile, our Billing Department staff achieved 99.9 per cent accuracy in sending out approximately 1.5 million bills.

Looking forward, we will continue to streamline business processes to ensure consistency across our service territory and to make the customer experience easier and more satisfying than ever. As a first step, in 2020, we will be integrating our customer information systems and launching a new, customer-friendly bill. To ensure these two initiatives meet the needs of all stakeholders, in 2019, our project teams consulted with customers to obtain their input on the design of a new bill and Call Centre staff to engage them in the development of best practice business processes.

Enhanced customer communications

Customers were introduced to the new Elexicon brand through a multi-channel customer information campaign that included letters, bill inserts, social media and advertising as well as new website landing pages and co-branded bills.

A new customer newsletter, **the illuminator**, was launched to provide tips and resources to help customers manage electricity use and costs, avoid potential safety hazards and share news about Elexicon Energy.

In order to serve 169,000 homes and businesses as efficiently as possible, in 2019, we integrated our telephone systems, provided cross-training and located the majority of our Customer Call Centre staff in the company's corporate headquarters in Ajax.

MAINTAINING HIGH LEVELS OF CUSTOMER SERVICE

April – December 2019

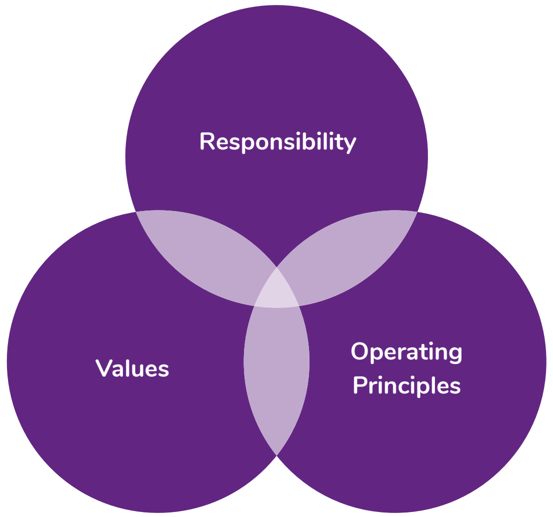
99,034
Total Number of Calls Answered

99.9%
Billing Accuracy

96.4%
New Residential / Small Business Services Connected On Time

Investing in our employees

Bringing two organizations together to move forward as one, with energy and enthusiasm, is no easy task. We are proud of our 258 Elexicon Energy employees for their commitment to ensuring that the merger was accomplished with efficiency and a minimum of disruption to our customers.



Elexicon Energy's
One Culture Foundational Pillars

STRONGER TOGETHER – OUR *ONE CULTURE* JOURNEY

In an effort to develop an inspiring, values-aligned corporate culture for our new company, in 2019, we launched a *One Culture* initiative. Using a bottom-up approach, staff were engaged in facilitated conversations to define and shape the "Elexicon Energy way" of doing things. A team of 14 employees from across the organization then outlined a detailed picture of the culture we want to build in to the *Narrative*, a document which was, subsequently, approved and embraced by the Executive Leadership Team. This document will serve as a foundation for the planning and implementation of Elexicon Energy's *One Culture* initiative in 2020.

"Our One Culture initiative is a big investment in our employees. It takes a bottom-up approach and gives our employees a voice."

Stacia Boss
Vice President,
Human Resources and Corporate Services

FOSTERING A SAFE WORKPLACE

At Elexicon Energy, as it was with our predecessor utilities, our top priority is ensuring the safety of our team, our contractors, our customers and the public. We know that building and sustaining a strong safety culture requires leadership support, organizational focus and personal employee responsibility.

To help drive our safety culture even deeper into our organization and go beyond our traditional goal of zero lost-time injuries, in 2019, we upscaled our Health and Safety Department and committed additional resources to develop a comprehensive framework, research and implement a new health and safety management system, and provide safe work practices, procedures and training consistent with industry best practice.

258 employees

160 employees represented by the Power Workers Union

FIRST ANNUAL RESCUE DAY

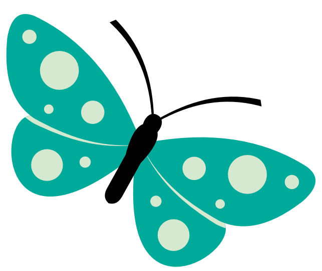
Regular review of safe work practices and skills training is critical for staff working on or near energized electrical equipment. Elexicon Energy's first Annual Rescue Day brought together all of the company's line maintainers, outside workers and other key personnel for valuable refresher training on aerial rescue techniques, confined workspace procedures and fire extinguisher use.

Contributing to the well-being of our communities

Elexicon goes well beyond distributing electricity. We take an active role in promoting public safety, supporting local not-for-profit organizations and community events, and donating to a variety of worthy causes.

AJAX MAYOR'S GALA

Elexicon Energy supported the inaugural Ajax Mayor's Gala in June 2019. Together, we promoted awareness of homelessness in our community and raised funds to benefit The Salvation Army, Joanne's House, the Homelessness Task Force and Durham Children's Aid Foundation.



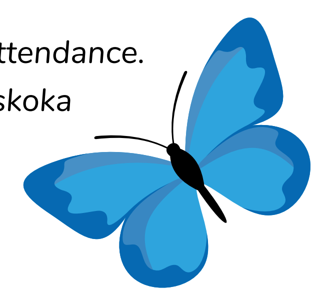
BRINGING HOPE AND JOY TO NEEDY CHILDREN

Thanks to the generosity of Elexicon Energy employees, 28 shoeboxes packed with small toys, hygiene items and school supplies were assembled and donated to the Samaritan's Purse Operation Christmas Child (above) – a hands-on project that brings joy and hope to children suffering as a result of war, poverty, famine, disease and disaster around the world.

CREATING A BRIGHTER HOLIDAY SEASON FOR THE LESS FORTUNATE

Elexicon Energy employees generously donated $2,480 to provide gifts for families through the Durham Children's Aid Foundation's Holiday Hope Program.

"Thanks to Elexicon's support, last year's event was a huge success, with over 800 butterflies released and approximately 300 people in attendance. The Butterfly Release has become a major fundraiser for Hospice Muskoka with approximately $35,000 raised in 2019."



Rosamond Abbott
Hospice Muskoka,
Butterfly Release Event

$75,000 RAISED TO FIGHT HUNGER IN OUR COMMUNITIES

More than 200 golfers attended Elexicon Energy's first annual golf tournament held at Deer Creek Golf Club in Ajax. The tournament raised $75,000 for three food banks fighting hunger in our communities (below, l-r): Gleaners Food Bank (Quinte) Inc., Feed the Need in Durham, and Gravenhurst Against Poverty.

ELECTRICAL SAFETY SHOULDN'T BE SCARY

Elexicon Energy is a proud advocate of the Kids' Safety Village of Durham Region. More than 12,500 students visit the site each year to learn about a variety of safety-related topics including electrical safety. Company employees volunteered their time to hand out treats at the Kids' Safety Village's Halloween Haunt event.

"Grandview Children's Foundation exists for one important reason – to help provide life-changing programs and services to kids in Durham Region. Every year, we help over 10,000 children and youth – another 3,900 more are on a waiting list. The kids at Grandview are thriving because of the support of our community. Thank you for your help in 2019 – we're so much stronger together!"

Brigitte Tschinkel
Executive Director,
Grandview Children's Foundation

PROMOTING ELECTRICAL SAFETY IN COMMUNITIES

At Elexicon Energy, we demonstrate our commitment to public safety by sending out storm preparation and other safety messages using Twitter and our new customer newsletter, promoting Dig Safe Month and conducting an electrical safety public awareness survey.

ENCOURAGING ENGINEERING EXCELLENCE

Elexicon Energy annually awards $2,500 scholarships to two full-time undergraduate Ontario Tech University students enrolled in the Faculty of Engineering and Applied Sciences, Electrical Engineering program, with a preference for those studying smart grid technology. In 2019, the recipients were Christopher Brown and Kandarp Gandhi.

"My family and I are extremely grateful for receiving this award... Awards such as these help keep me motivated to strive for success as an electrical engineering student, and vastly reduce the financial burden on myself and family as the cost of post-secondary education continues to increase."

Christopher Brown
Scholarship Recipient, Electrical Engineering,
Faculty of Engineering and Applied Science,
Ontario Tech University

SUPPORTING THE EDUCATION OF YOUNG PEOPLE

In 2019, Elexicon Energy provided bursaries to students in the following high schools:

Ajax
Ajax High School
Archbishop Denis O'Connor Catholic High School
J. Clarke Richardson Collegiate
Notre Dame Catholic Secondary

Belleville
Bayside Secondary School
Centennial Secondary School
Moira Secondary School
Nicholson Catholic College
Quinte Christian High School
St. Theresa Catholic Secondary School

Brock
Brock High School

Clarington
Bowmanville High School
Clarington Central Secondary School
Clarke High School
Courtice Secondary School
Holy Trinity Catholic Secondary School
St. Stephen Secondary School

Gravenhurst
Gravenhurst High School

Pickering
Durham District School – Dunbarton
École Ronald-Marion
Pickering High School
Pine Ridge Secondary School
St. Mary Catholic Secondary School

Port Hope
Port Hope High School

Scugog
Port Perry High School

Uxbridge
Uxbridge Secondary School

Elexicon Group

“We imagine energy as opportunity. No matter the challenge, if our customers use power, we’re the partners with the imagination and experience to help them use it better.”

James Darrach
President & CEO,
Elexicon Group Inc.

MESSAGE FROM THE PRESIDENT & CEO, ELEXICON GROUP INC.

Imagine energy as opportunity

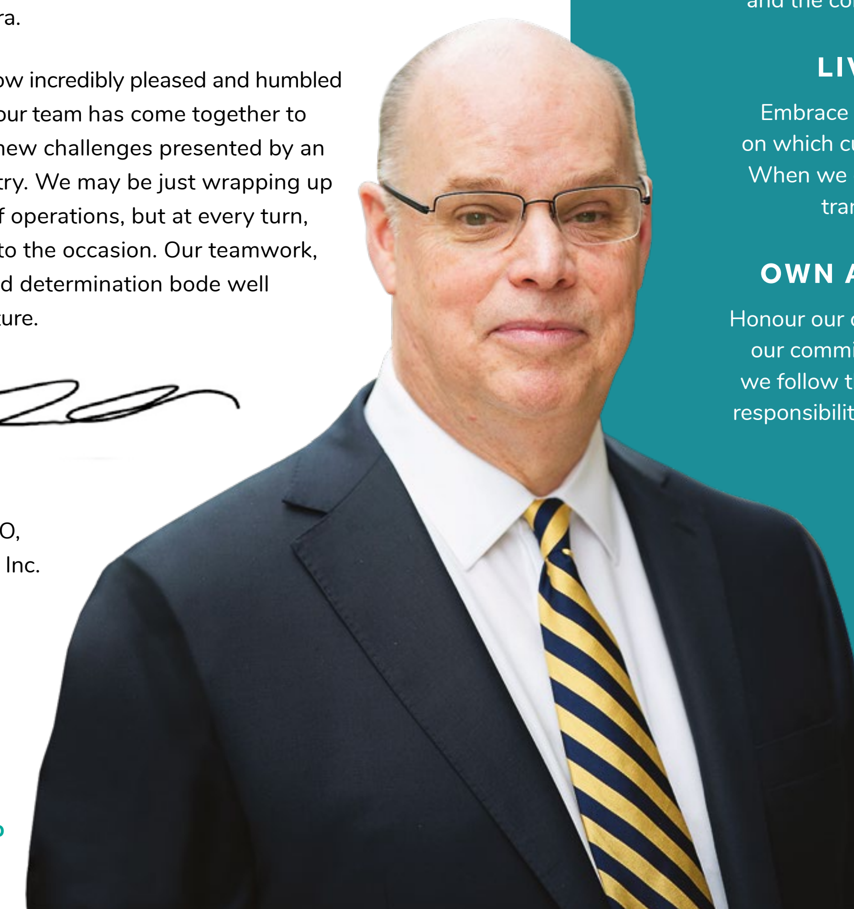
Following an extensive evaluation and community engagement process, Whitby Hydro Energy Services and Veridian Corporation moved forward with a proposal to merge in 2018. Now – under our new name and identity as Elexicon Group – we’re delivering a wider range of energy solutions to a wider range of customers.

A long history and solid reputation

As an entrepreneurial endeavour, Elexicon Group focuses on providing a wide range of energy solutions to customers, and brings almost two decades of reputation and results into this new era.

I want to say how incredibly pleased and humbled I am with how our team has come together to overcome the new challenges presented by an evolving industry. We may be just wrapping up our first year of operations, but at every turn, we have risen to the occasion. Our teamwork, adaptability and determination bode well for us in the future.

James Darrach
President & CEO,
Elexicon Group Inc.



Mission

Imagine energy as opportunity.

Vision

Be that partner: the one who makes energy management better for business and consumers, and saves a bit more of the world.

Values

COMMIT TO EXCELLENCE

Understand customer service excellence as more than just meeting customer requirements every time. It’s about providing the experience that sustains relationships.

VALUE PEOPLE

Attract, develop and retain inspired employees who come from diverse backgrounds and levels of experience. This diversity allows us to break barriers, push boundaries and do what hasn’t been done before.

MAKE A DIFFERENCE

Imagine the best solutions for our customers and the community. And then get to it.

LIVE INTEGRITY

Embrace integrity as the foundation on which customers build relationships. When we do business, we are honest, transparent and ethical.

OWN ACCOUNTABILITY

Honour our customers’ trust by honouring our commitments. When we promise, we follow through. We believe personal responsibility is essential to partnerships.

CELEBRATE CURIOSITY

Be inquisitive. Curiosity is how ideas come to life. It is the fuel that energizes the creative solutions that ultimately better serve our customers.

Ideas to make and use energy better while helping protect the planet

Elexicon Group works closely with municipal, commercial, industrial, multi-residential and institutional customers, providing detailed analysis and expert solutions on reducing electricity costs and improving the bottom line – all while improving sustainability and energy efficiency. We consult on every aspect of energy and utilities including electricity, gas and water. We understand energy as opportunity. We find the opportunities that reduce costs and improve the bottom line. No matter the challenge, we're the partners with the imagination and experience to help customers make and use energy better.

Circuit Monitoring
Tracking energy use in real time, all the time.

Energy Analytics
Our energy reporting makes your energy budget better.

Bus Conversions to EV
Ditch the diesel but keep the bus: converting to electric.

CHP / Retrofit Solutions
With equipment, getting older is rarely better. Retrofit anyone?

Price Optimization Program
Reduce electricity costs and find energy opportunities that improve your bottom line.

Electric Buses Charging Infrastructure
The electric bus is coming. Time to get on board?

Fleet Charging Stations
Take charge of your electric fleet.

Battery Storage
Battery energy storage: storing savings along with backup power.

Class A Global Services
Making sense of Class A and the global adjustment.

EV Charging / Backup
A new standard for EV charging: power for (part of) your facilities.

Solar Photovoltaic
Does solar work for you? It depends.

Water Metering Solutions
Minute-to-minute monitoring: just add water.

Management Team


James Darrach
President & CEO


Lisa Barker
Controller

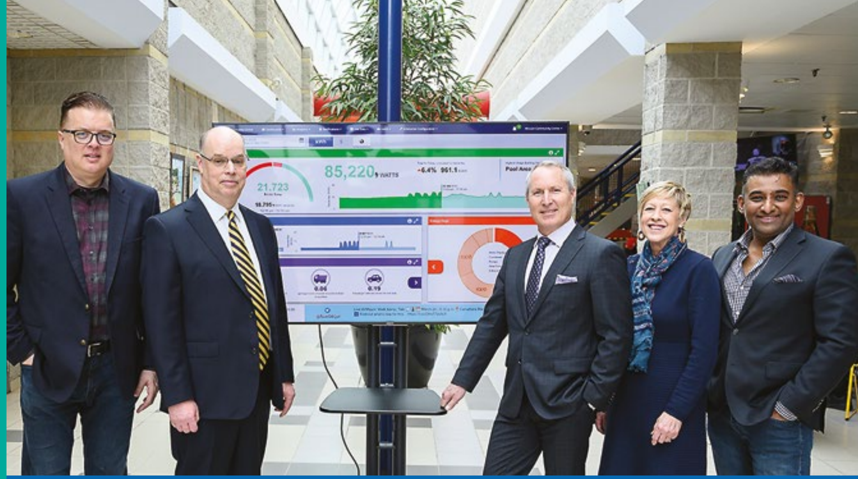

Don Séguin
Manager, Technical Services


Brian Vipond
Manager, Business Development

Municipalities

COST SAVINGS AND REDUCED ENVIRONMENTAL IMPACTS – AJAX AND PICKERING

In 2019, Elexicon Group partnered with the Town of Ajax and the City of Pickering to design and install circuit level monitoring systems to identify energy inefficiencies, reduce operating costs and lower environmental impacts in municipal buildings. The systems were commissioned in early 2020.



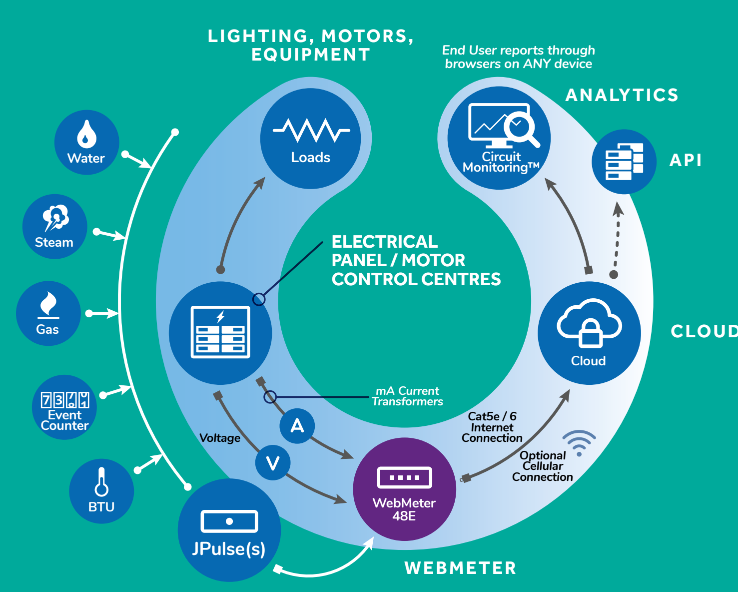
"With a vision to become a sustainable community by 2055, the Town of Ajax is proud to partner with Elexicon Group to implement real-time energy management in our municipal buildings. With the latest tools, we can make data-backed energy management decisions in real time, thereby reducing the municipality's energy consumption, operating costs and carbon footprint, and inspiring Ajax residents to do the same."

Shaun Collier
Mayor, Town of Ajax

"As a national leader in sustainability, the City of Pickering is proud to be the first municipality in Canada to incorporate a real-time energy management platform. With this innovative new platform installed at City Hall, we can make better informed decisions to reduce the City's energy consumption, costs and greenhouse gas emissions."

Dave Ryan
Mayor,
City of Pickering

Circuit monitoring precisely tracks electricity usage throughout an entire operation.



Multi-residential facilities

REDUCED UTILITY COSTS WITH COMBINED HEAT AND POWER RETROFITS – TORONTO

Elexicon Group was the engineering, procurement and construction contractor on a combined heat and power (CHP) retrofit project for CAPREIT, one of Canada's largest real estate investment trusts managing approximately 55,000 residential apartments, townhouses and manufactured home communities across Canada.

The turnkey solution included four modular-designed, 260-kilowatt CHP micro-turbines installed in a 520-unit apartment building in Toronto. The system, operated by Elexicon Group, supplies electricity and thermal heat for the building year-round and provides emergency backup power in the event of an outage. By installing the four microturbines, the building has reduced electricity costs by 57 per cent and annual electricity consumption by 58 per cent.

"Elexicon Group helps us to optimize the value of every dollar spent on electricity costs. Through the Price Optimization Program, we have been able to reduce our costs with no long-term price commitment and no fixed-term contracts. We can always rely on the team at Elexicon Group to provide honest, straightforward advice and education with electricity."

Eric Espe
Accounting Manager,
CARPREIT

"Energy conservation is important to all of us, so we are constantly seeking and seizing opportunities for efficiencies within our Villages. We're confident the return on this investment will be realized quickly and are delighted that we will be able to reinvest savings to enhance the quality of life for the residents who make their home here."

Peter Brouwers
Director of Facility and Environmental Services,
Schlegel Villages

Long-term care homes and retirement communities

REDUCED OPERATING COSTS WITH REAL-TIME ENERGY MANAGEMENT – HAMILTON

The Village of Wentworth Heights, a Schlegel Villages long-term care and retirement community in Hamilton, was the first in Canada to install and implement circuit-level monitoring technology in their operations.

Using the real-time energy management system supplied and installed by Elexicon Group, Schlegel Villages can now monitor, measure and better understand the energy consumption of its buildings, down to individual pieces of equipment. The detailed information will be used to help reduce operating costs.

Looking forward, the system will enable Schlegel Villages to develop effective, data-backed energy management strategies for peak building performance and accurately measure the savings generated by retrofit projects and other conservation initiatives.

Community centres

EMERGENCY BACKUP AND FIVE-YEAR PAYBACK WITH COMBINED HEAT AND POWER SYSTEM – TILLSONBURG

When a lightning strike and an associated gas leak forced the evacuation of approximately 60 Tillsonburg households in August 2019, the Tillsonburg Community Centre served as an emergency shelter. A microturbine CHP system, installed by the Elexicon Group as a turnkey project, kept the facility's electricity and hot water functioning despite the local power outage.

By using energy more efficiently, the Tillsonburg Community Centre expects to generate over 1,200,000 kilowatt hours of electricity. Other benefits include a five-year payback period, minimized maintenance downtime, reduced carbon emissions, and backup heat and power in the event of an emergency.

"Our Facility Management team is always looking for more innovative, efficient and cost-effective ways to service our community. With the flexibility and reliability offered by microturbines, the Town of Tillsonburg is able to maximize cost savings while providing facility resiliency."

Rick Cox
Director of Recreation,
Culture and Parks,
Town of Tillsonburg

"We're taking the waste heat we produce from the microturbines and using it to warm our indoor pool, heat the building and provide warm water. Using this highly efficient solution, we are making a long-term investment for our municipality. Our microturbines are durable assets that will save us money for up to 20 years."

J.J. John Romano
Manager of Facilities – Operations,
Town of Whitby

Community centres

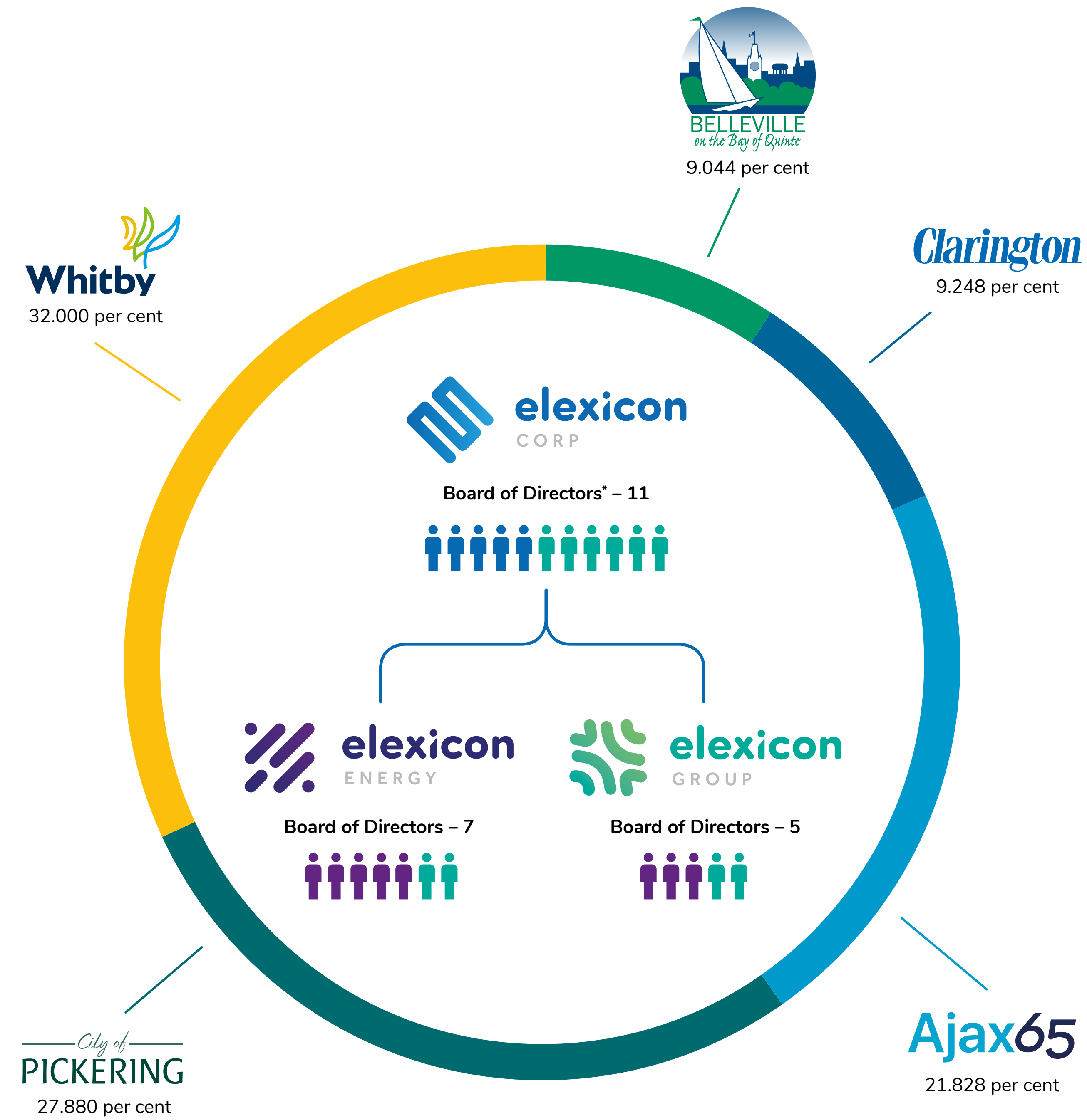
SUPPORTING MUNICIPAL SUSTAINABILITY OBJECTIVES WITH HIGHLY EFFICIENT ENERGY USE – WHITBY

Elexicon Group maintains and operates two combined heat and power microturbines in the Whitby Civic Recreation Centre. These small footprint microturbines generate power that costs less than purchasing power from the grid. The exhaust heat from the turbines is recovered and used to supply hot water, heat the swimming pool and provide space heating for the entire complex.

With its demand for energy reduced by over 60 per cent, the facility requires only two high-efficiency boilers to meet the demand previously supplied by four. This turnkey project has helped the Town of Whitby lower operating expenses, use energy more efficiently and support municipal sustainability objectives.

Corporate Governance

Elexicon Corporation is governed in accordance with the *Business Corporations Act (Ontario)* and a *Unanimous Shareholders' Agreement*. Elexicon Corporation recognizes the role of good governance in a successful business enterprise and provides voluntary disclosure on its corporate governance practices.



Elexicon Corporation is a holding company,
100 per cent owned by five municipal shareholders.

Board Membership:

- Mayor or designate
- Non-shareholder independent
- Independent (not Elexicon Corporation Board)

* The Ontario Energy Board requires that one-third of directors of a regulated local distribution company not be directors of affiliate companies.

BOARD AND COMMITTEE REPRESENTATION

Director	Elexicon Corporation Board	Audit Finance & Risk Management Committee (Committee of the Whole)	Elexicon Corporation Nominating Committee	Elexicon Corporation Transition and Implementation Committee	Elexicon Energy Inc. Board	Elexicon Energy Inc. Audit Finance & Risk Management Committee	Elexicon Energy Inc. Human Resources, Compensation and Governance Committee	Elexicon Energy In Merger Integration Committee	Elexicon Energy Inc. Nominating Committee	Elexicon Group Inc. Board Inc.	Elexicon Group Inc. Nominating Committee
	11	11	6	5	7	4	4	3		5	
James Macpherson – Pickering Term: April 1, 2019 – April 1, 2021	•	•	•	•						•	
Patrick McNeil (Chair) – Whitby Term: April 1, 2019 – April 1, 2021	• Chair	•	•	•							
Brian Mountford – Clarington Term: April 1, 2019 – April 1, 2021	•	•	•	•							
Lesley Rose – Whitby Term: April 1, 2019 – April 1, 2022	•	•	•							•	
Ron Chatterton – Pickering Term: April 1, 2019 – April 1, 2022	•	•	•		•	•		• Chair			
Doug Parker – Belleville Term: April 1, 2019 – April 1, 2022	•	• Chair	•		•	• Chair					
Mayor Adrian Foster – Clarington Term: April 1, 2019 – end of term in office	•	•									
Mayor David Ryan – Pickering Term: April 1, 2019 – March 12, 2020	•	•									
Ian Cumming – Pickering (Mayor's Designate) Term: March 12, 2020 – end of term in office											
Mayor Shaun Collier – Ajax Term: April 1, 2019 – end of term in office	•	•		• Chair							
Mayor Mitch Panciuk – Belleville Term: April 1, 2019 – end of term in office	•	•		•							
Mayor Don Mitchell – Whitby Term: April 1, 2019 – end of term in office	•	•									
Ted Baker – Pickering Term: April 1, 2019 – April 1, 2021					•		•				
Sean O'Dwyer – Whitby Term: April 1, 2019 – April 1, 2021					•		•				
Dave McGregor – Ajax Term: April 1, 2019 – April 1, 2022					•		• Chair	•			
Paul Murphy (Chair) – Whitby Term: April 1, 2019 – April 1, 2022					• Chair	•	•	•			
Nicole McNeill – Whitby Term: Sept 4, 2019 – April 1, 2022					•	•					
Murray Angus – Belleville Term: April 1, 2019 – April 1, 2021										•	
Karen Fisher (Chair) – Clarington Term: April 1, 2019 – April 1, 2022										• Chair	
Darren MacDonald – Whitby Term: April 1, 2019 – April 1, 2022										•	

2019 BOARD AND MEETING ATTENDANCE

Elexicon Corporation

Member	Board Meetings	Committee Meetings
Patrick McNeil (Chair) (1,2)	9/9	13/13
Jim Macpherson (Vice Chair) (1,2)	9/9	12/13
Ron Chatterton (1)	9/9	4/4
Don Mitchell (1)	9/9	4/4
Adrian Foster (1)	8/9	4/4
Dave Ryan (1)	8/9	4/4
Shaun Collier (1,2)	7/9	12/13
Mitch Panciuk (1,2)	8/9	12/13
Lesley Rose (1)	8/9	4/4
Doug Parker (1)	9/9	4/4
Brian Mountford (1,2)	9/9	13/13

Member of:
1. Audit, Finance & Risk Management Committee
2. Ad-hoc Transition and Implementation Committee
3. Nominating Committee (the Committee did not meet in 2019)

* The Board Chair of Elexicon Energy Inc. and Elexicon Group Inc. attend the Elexicon Corporation Board meetings as a compensated guest.
* Meeting attendance from April 1, 2019 to December 31, 2019

Elexicon Energy Inc

Member	Board Meetings	Committee Meetings
Paul Murphy (Chair) (1,2,3)	6/6	15/15
Ron Chatterton (1,3)	6/6	10/10
Doug Parker (1)	6/6	5/5
Ted Baker (2)	6/6	5/5
Dave McGregor (2,3)	6/6	10/10
Nicole McNeill (1)	3/3	2/2
Sean O'Dwyer (2)	6/6	5/5

Member of:
1. Audit, Finance & Risk Management Committee
2. Human Resources, Compensation & Governance Committee
3. Ad-hoc Merger Integration Committee
4. Nominating Committee (the Committee did not meet in 2019)

Elexicon Group Inc

Member	Board Meetings
Karen Fisher (Chair)	9/9
Jim Macpherson	7/9
Lesley Rose	9/9
Darren MacDonald	9/9
Murray Angus	9/9

Member of:
1. Nominating Committee
(the Committee did not meet in 2019)

APPENDIX A

Management's Discussion and Analysis

CONSOLIDATED FINANCIAL STATEMENTS

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of Elexicon Corporation ("Elexicon" or the "Corporation") for the nine months ended December 31, 2019. The consolidated financial statements are prepared in accordance with *International Financial Reporting Standards* ("IFRS") and in effect at December 31, 2019.

BUSINESS OF ELEXICON

Elexicon Corporation is 100% municipally owned by five shareholders: the Town of Whitby (32.0%), the City of Pickering (27.88%), the Town of Ajax (21.828%), the Municipality of Clarington (9.248%) and the City of Belleville (9.044%). Elexicon Corporation provides, through affiliated companies, energy-related services to approximately 169,000 customers located in ten municipalities in east-central Ontario. Durham Region has eight of these municipalities and is one of the fastest growing regions in Ontario. Its residential customer growth is expected to grow on average by approximately 3% annually over the next five years. The City of Belleville and Town of Gravenhurst are also expected to see significant growth over the next five years.

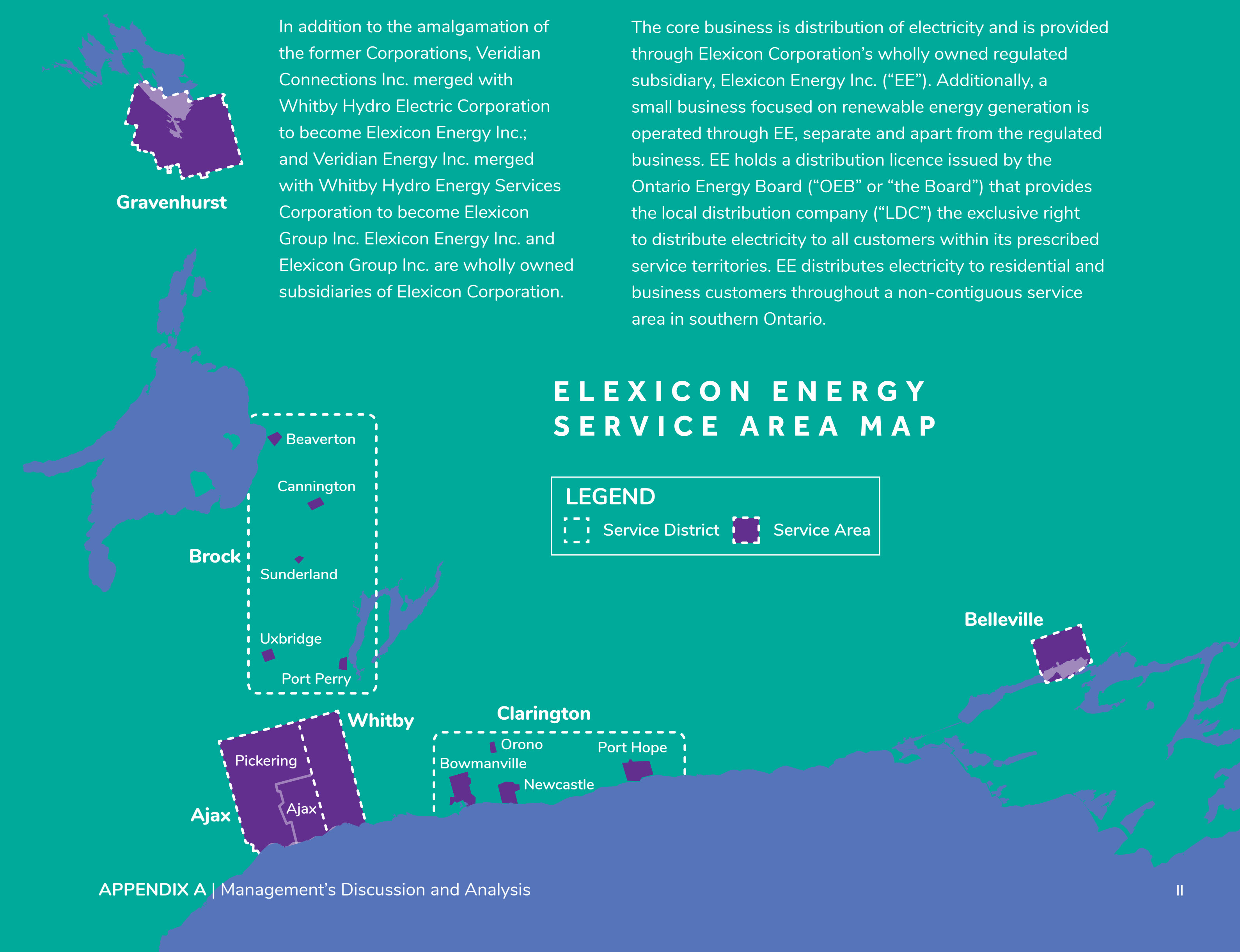
CORPORATE OVERVIEW

On April 1, 2019, the former Veridian Corporation ("Veridian") amalgamated with the former Whitby Hydro Energy Corporation ("Whitby Hydro") to form Elexicon Corporation. Under the amalgamation transaction, shares of the former Veridian and Whitby Hydro were exchanged for the voting common shares of the Corporation. The amalgamation transaction has been recognized as a business combination in accordance with IFRS 3, Business Combinations using the acquisition method with the former Veridian deemed as the acquirer based on its relative size compared to that of the former Whitby Hydro. These consolidated financial statements include the net fair value of the assets of former Whitby Hydro as at April 1, 2019; and the net assets of Veridian at its carrying amounts at April 1, 2019. The aggregate consideration of $110.8 million for 32,000 common shares, gave rise to additional goodwill of $55.6 million. When combined with the opening goodwill balance of $8.7 million at April 1, 2019, the total goodwill value at December 31, 2019 was $64.3 million.

In addition to the amalgamation of the former Corporations, Veridian Connections Inc. merged with Whitby Hydro Electric Corporation to become Elexicon Energy Inc.; and Veridian Energy Inc. merged with Whitby Hydro Energy Services Corporation to become Elexicon Group Inc. Elexicon Energy Inc. and Elexicon Group Inc. are wholly owned subsidiaries of Elexicon Corporation.

This merger is expected to increase efficiency in the electricity distribution sector through the creation of economies of scale and/or contiguity. It is expected that benefits to customers through lower costs and equal or better service levels and increased shareholder value will result. Under the current regulatory regime, shareholders of Elexicon will retain the benefit of operating synergies following the merger for up to ten years. Thereafter, the cost savings will result in lower distribution rates as compared to the status quo. The total forecasted net OM&A savings from the merger over the ten-year rebasing deferral period approximates $42.1 million. It is anticipated that OM&A cost savings will be realized largely from labor cost reductions through staff attrition, some of which has already occurred. In the short term, merger transition costs have increased controllable costs per customer however, the longer-term expectation is for reduced controllable costs per customer as economies of scale within the larger, merged entity and labor and non-labor synergies are realized. We are working towards achieving that goal and have implemented a process to track synergy savings.

The core business is distribution of electricity and is provided through Elexicon Corporation's wholly owned regulated subsidiary, Elexicon Energy Inc. ("EE"). Additionally, a small business focused on renewable energy generation is operated through EE, separate and apart from the regulated business. EE holds a distribution licence issued by the Ontario Energy Board ("OEB" or "the Board") that provides the local distribution company ("LDC") the exclusive right to distribute electricity to all customers within its prescribed service territories. EE distributes electricity to residential and business customers throughout a non-contiguous service area in southern Ontario.



EE's geographic service area is over 787 square kilometres with an asset base of $579M. The company delivered approximately 2,636 gigawatt hours of electricity to customers for the nine months ended December 31, 2019.

EE earns its revenues through charges to its customers for delivery of electricity through its electricity distribution network. EE has two distinct rate zones for the former Veridian and Whitby Hydro service areas with rate years effective May 1, and Jan 1 respectively. Distribution charges have two components; a fixed monthly service charge and a volumetric charge based on electricity consumption or demand. EE's rates are regulated and approved by the OEB. In 2015, the OEB released a policy requiring a transition to fully fixed monthly service charges for residential customers. The policy set out that the transition to a fully fixed rate would occur over four years beginning in 2016. Accordingly, EE's 2019 OEB-approved rates reflect the fourth year of transition to the fully fixed rate for residential customers.

An energy service business is provided through the wholly owned non-regulated subsidiary, Elexicon Group Inc. ("EG"). The EG subsidiary's three main product segments are energy management and procurement consulting services; combined heat power (CHP) solutions and specialty metering. EG is focused on both organic growth and expanding the business through merger and acquisition opportunities.

REGULATORY ENVIRONMENT

ELECTRICITY REGULATION

In Ontario, the OEB has powers and responsibilities for regulation of the electricity industry, including all electricity distributors such as EE. These include approving or fixing distribution rates, setting service standards, ensuring that distribution companies fulfill obligations to connect and service customers and prescribing conditions of license requirements. These conditions can include specific programs and investments such as conservation and demand management (CDM) programs, record keeping and filing requirements; connecting and enabling renewable generation facilities and specific requirements for rate setting.

RATE SETTING

EE's distribution rates and other regulated charges are determined to allow shareholders the opportunity to earn a regulated Return on Equity on deemed shareholder equity as determined by regulation. Periodically EE makes applications to the OEB for rate setting under various mechanisms.

RATE APPLICATIONS

In March 2019, the OEB approved a Price Cap Incentive Rate-setting application for the Veridian rate zone for changes to distribution rates effective May 1, 2019. On a total bill basis, the distribution rates result in a 0.64% increase for the average residential customer and a 0.31% increase for the average small commercial customer.

In December 2018, the OEB approved an Annual Incentive Rate-setting Index application for the Whitby rate zone for changes to distribution rates effective January 1, 2019. On a total bill basis, the distribution rates result in a 0.55% increase for the average residential customer and a 0.54% increase for the average small commercial customer.

CONSERVATION AND DEMAND MANAGEMENT ("CDM")

On March 21, 2019, the Ontario government issued a directive to the IESO giving the IESO responsibility for delivering the CDM programs instead of local distribution companies. As part of implementing is new mandate, the IESO terminated the Energy Conservation Agreement (ECA) effective June 20, 2019. EE was required to cease marketing and business development for all CDM programs immediately and wind down the delivery of programs.

CDM participation agreements with customers for many of the CDM programs in effect before April 1, 2019 remain in effect and EE will remain responsible for its obligations under such agreements. Participants have until December 31, 2020 to complete the projects. Amounts received from the IESO for the funding of projects under the participant agreements but not yet spent, are presented on the Consolidated Balance Sheets under current liabilities as deferred revenue. Settlement with the IESO will continue until all projects are completed and a compliance audit will be completed thereafter.

The OEB has established a mechanism to compensate distributors for revenue losses related to the reduction of load or energy usage associated with the distributors' CDM activities. During rate setting a forecasted impact on revenues due to CDM activities is included within rates and any variance from that forecast is recorded in a variance account (LRAMVA) to be settled in the future. The recovery risk associated with LRAMVA claims is low and these claims have historically been approved by the OEB.

FINANCIAL HIGHLIGHTS

REVENUES AND NET INCOME

Distribution revenues for the nine months ended December 31, 2019 were $58.8 million. Customer growth of 2,393 customers, or 1.4%, since Elexicon's inception on April 1, 2019, and a minor adjustment to distribution rates contributed to expected distribution revenues.

Elexicon's net income after net movements in regulatory balances for the nine months ended December 31, 2019 was $7.3 million.

OM&A COSTS AND COSTS PER CUSTOMER

Within its regulated electricity distribution company, EE, the standard industry measure of controllable cost per customer is tracked at least annually. In 2019, the EE controllable cost per customer, calculated on an annualized basis, was $269.

However, in this current period this cost per customer also includes merger related costs incurred in 2019 of $3.0 million. These merger related costs are outside of the basis for the industry measure reflecting costs incurred to serve customers and when excluded the adjusted cost per customer is $246.

CAPITAL EXPENDITURES

Total net capital expenditures for 2019 were $32.88 million.

Capital Expenditures (millions)	2019
Distribution System Assets	$ 26.85
Intangible Assets	2.30
Other Assets	3.73
Total	**32.88**

Of these investments, 81.6% or $26.8 million were for distribution system assets. These assets include poles, wires and cables, transformers, substations and meters.

These reflect investments for expanding, replacing and refurbishing distribution infrastructure to ensure safe and reliable distribution of electricity to customers and ensure compliance with statutes and regulations.

Intangible assets acquired in the reporting period include computer software and intellectual property. Other asset investments are in facilities, furniture and office equipment, computer hardware, fleet vehicles and system control equipment and tools.

SHAREHOLDERS' EQUITY AND RETURNS FOR SHAREHOLDERS

In 2019, the shareholders' opening equity position increased from $135.2 million, related to the former Veridian as the acquirer, to $244.8 million, an increase of $109.6 million. This increase is primarily due to the issuance of shares related to the amalgamation for $30.4 million, and recognition of $79.3 million in contributed surplus.

Net income realized after net movements in regulatory balances was $7.3 million. This is offset by ($0.5) million due to the re-estimation of employee future benefits at year- end and recognized as part of the accumulated other comprehensive loss.

Municipal shareholders benefit from distributions of Elexicon's earnings through annual dividends. As set out in the Shareholder Agreement, the Board of Directors of Elexicon Corporation reaffirmed a dividend policy for calendar 2019 with base dividends of $11.28 million to be pro-rated based on number of days in the fiscal period. For the nine months ended December 31, 2019, Elexicon recorded dividends paid or payable to shareholders of $6.9 million.

	Balance	Net Income	Other comp. loss	Share Issuance: Amalgamation	Dividends paid/accrued	Balance 31-Dec-19
Share Capital	$ 67,260	$ -	$	$ 30,432	$	$ 97,692
Contributed Capital	25					25
Contributed Surplus				79,301		79,301
Accum. other comprehensive loss	(316)		(500)			(816)
Retained Earnings	68,276	7,309				75,585
Dividends					(6,988)	(6,988)
Total Equity	**$ 135,245**	**$ 7,309**	**$ (500)**	**$ 109,733**	**$ (6,988)**	**$ 244,799**

LIQUIDITY AND FINANCING

Elexicon's debt to capitalization ratio at December 31, 2019 was 43%. The Corporation's debt includes $89.1 million in shareholder promissory note debt, as well as an available committed reducing term facilities of $130.0 million held with a Canadian chartered bank. Elexicon also has access to a revolving demand facility of $40 million available for short-term working capital requirements. These credit facilities have customary covenants normally associated with long-term debt, including debt to capitalization and debt service coverage ratios. Elexicon is in compliance with all bank covenants as at December 31, 2019.

On April 1, 2019, the Dominion Bond Rating Service ("DBRS") discontinued the Issuer Rating of Veridian Corporation at "A" with a stable trend. This rating action follows the merger between Veridian Corporation and Whitby Hydro Energy Corporation on April 1, 2019, to form Elexicon Corporation. DBRS concurrently assigned an Issuer Rating of "A" with a stable trend to Elexicon.

The DBRS report noted the following:

1) Elexicon's business risk assessment is underpinned by the reasonable regulatory regime in Ontario.
2) Veridian and Whitby Hydro were both regulated by the Ontario Energy Board under the same regulatory framework.
3) Elexicon is also expected to benefit from operating efficiencies and cost savings, especially given that Whitby Hydro's franchise area was contiguous with Veridian's.
4) Elexicon's financial risk assessment is also expected to be in line with the assigned rating. Veridian's key credit metrics had consistently been strong for the rating category, and Whitby Hydro's metrics would have been supportive of the "A" rating category.
5) As no debt will be issued for the merger, Elexicon's key credit metrics are expected to be in line with the "A" rating.

Elexicon's operating activities and these credit facilities are the primary sources of funds for liquidity and capital resource requirements. These resources are required for:

- capital expenditures to maintain, improve and modernize the electricity distribution system;
- servicing and repayment of debt;
- purchased power expense;
- prudential requirements;
- other investing activities;
- and dividends.

Management will continue to assess Elexicon's financial capital requirements and capacity as the capital needs evolve to meet all stated corporate strategic objectives.

Subsequent to December 31, 2019, the Covid-19 outbreak was declared a pandemic by the World Health Organization. The Covid-19 pandemic has caused material disruption to businesses resulting in an economic slowdown. The current challenging economic conditions may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also impact Elexicon's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the Corporation's business are not known at this time.

APPENDIX B

Consolidated Financial Statements of Elexicon Corporation

AND INDEPENDENT AUDITORS' REPORT THEREON

Period from April 1, 2019 to December 31, 2019

KPMG LLP
100 New Park Place Suite 1400
Vaughan ON L4K 0J3

Telephone (905) 265-5900
Fax (416) 777-8818
www.kpmg.ca

Independent auditors' Report

To the Shareholders of Elexicon Corporation

Opinion
We have audited the consolidated financial statements of Elexicon Corporation (the Entity), which comprise:

- the consolidated balance sheet as at December 31, 2019
- the consolidated statement of comprehensive income for the nine months then ended
- the consolidated statement of changes in equity for the nine months then ended
- the consolidated statement of cash flows for the nine months then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated balance sheet of the Entity as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the nine months then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information
Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion and Analysis as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants
Vaughan, Canada
March 27, 2020

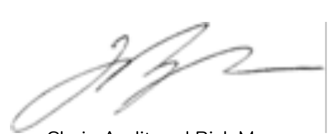
Consolidated Balance Sheet

(In thousands of dollars)

December 31, 2019	Notes	
Assets:		
Current assets:		
Cash		$ 7,089
Accounts receivable	3	71,672
Materials and supplies		4,419
Income taxes recoverable		303
Prepaid expenses		698
Other assets		752
Total current assets		84,933
Non-current assets:		
Property, plant and equipment	4, 23	436,629
Intangible assets	5, 23	5,277
Goodwill	2 ,5	64,348
Deferred tax assets	8	121
Other assets	13(b)	135
Total non-current assets		506,510
Total assets		591,443
Regulatory balances	7	15,145
Total assets and regulatory balances		**$ 606,588**
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	9, 19(b)	$ 62,155
Short-term debt	10	6,800
Deferred revenue	11	1,724
Deposits and developer obligations	12	15,354
Long-term debt	14	905
Other liabilities	20	475
Total current liabilities		87,413
Non-current liabilities:		
Long-term debt	14	180,360
Deferred contributions	15	74,723
Employee future benefits	16	9,798
Unrealized loss on interest rate swaps	24(e)	3,144
Deferred tax liabilities	8	2,638
Other liabilities	20	1,105
Total non-current liabilities		271,768
Total liabilities		359,181
Shareholders' equity:		
Share capital	17	97,692
Contributed capital		25
Contributed surplus		79,301
Accumulated other comprehensive loss		(816)
Retained earnings		68,597
Total shareholders' equity		244,799
Total liabilities and equity		603,980
Regulatory balances	7	2,608
Contingencies and guarantees	19	
Total liabilities, equity and regulatory balances		**$ 606,588**

See accompanying notes to the consolidated financial statements.
On behalf of the Board:

Chair, Board of Directors



Chair, Audit and Risk Management Committee

Consolidated Statement of Comprehensive Income

(In thousands of dollars)

Period from April 1, 2019 to December 31, 2019	Notes	
Revenue:		
Commodity		$ 305,445
Commodity cost		(311,627)
		(6,182)
Distribution revenue		58,759
Other income	21	1,227
		53,804
Expenses:		
Operating and maintenance	22	12,185
Administration	22	22,880
Depreciation and amortization	6	14,130
		49,195
		4,609
Finance income		348
Finance costs	14	(4,736)
Unrealized loss on interest rate swaps		(72)
		(4,460)
Income before income taxes		149
Income tax expense	8	(2,020)
Loss for the period		(1,871)
Net movements in regulatory balances, net of tax:	7	
Net movements in regulatory balances		7,404
Income tax on net movements in regulatory balances		1,776
		9,180
Net income after net movements in regulatory balances		7,309
Other comprehensive loss, net of tax:		
Remeasurements of employee future benefits		(500)
Total comprehensive income		**$ 6,809**

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Equity

(In thousands of dollars)

Period from April 1, 2019 to December 31, 2019	Balance, April 1, 2019	Net income after net movements in regulatory balances	Other comprehensive loss	Issuance of shares related to amalgamation	Dividends paid/accrued	Balance, December 31, 2019
Share capital	$ 67,620	$ –	$ –	$ 30,432	$ –	$ 97,692
Contributed capital	25	–	–	–	–	25
Contributed surplus	–	–	–	79,301	–	79,301
Accumulated other comprehensive loss	(316)	–	(500)	–	–	(816)
Retained earnings	68,276	7,309	–	–	–	75,585
Dividends	–	–	–	–	(6,988)	(6,988)
Total equity	**$ 135,245**	**$ 7,309**	**$ (500)**	**$ 109,733**	**$ (6,988)**	**$ 244,799**

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

(In thousands of dollars)

Period from April 1, 2019 to December 31, 2019	Notes	
Cash provided by (used in):		
Operating activities:		
Net income after net movements in regulatory balances		$ 7,309
Net movements in regulatory balances		(9,180)
Adjustments:		14,823
Depreciation and amortization	6	(1,044)
Amortization of deferred contributions		1,251
Loss on disposal/retirement of property, plant and equipment		187
Employee future benefits		72
Unrealized loss on interest rate swaps		(348)
Finance income		4,736
Finance costs		2,020
Income tax expense		1,297
Other assets/liabilities		26,652
Contributions received		2,050
Deposits and developer obligations		(392)
Income taxes paid		1,126
Income taxes received		
		50,559
Changes in non-cash operating working capital	23	(9,060)
Net cash provided by operating activities		41,499
Financing activities:		
Interest received		348
Repayment of long-term debt		(2,164)
Proceeds from long-term and short-term debt		26,800
Share redemption		(1,025)
Dividends paid	18	(5,591)
Interest paid		(4,736)
Net cash provided by financing activities		13,632
Investing activities:		
Additions to property, plant and equipment	23	(52,709)
Additions to intangible assets	23	(1,029)
Proceeds from disposal of property, plant and equipment		43
Net cash used in investing activities		(53,695)
Increase in cash		1,436
Cash, beginning of period		5,653
Cash, end of period		**$ 7,089**

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

(In thousands of dollars)

Period from April 1, 2019 to December 31, 2019

Elexicon Corporation (the "Corporation") was incorporated on April 1, 2019 under the Business Corporations Act (Ontario) by amalgamation (note 2) of the former entities: Veridian Corporation ("Veridian") and Whitby Hydro Energy Corporation ("Whitby Hydro"). The Corporation was formed to conduct electricity distribution and non-regulated utility service ventures through its subsidiaries. The Corporation's non-regulated ventures include: solar electricity generation facilities and systems, energy management and procurement consulting services, as well as combined heat and power solutions. The Corporation's registered office is located at 55 Taunton Road East, Ajax, Ontario L1T 3V3.

For accounting purposes, Veridian was deemed the acquirer under the Amalgamation Transaction. Consequently the opening balances in these consolidated financial statements are the balances of former Veridian as at March 31, 2019.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of consolidation:
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include the accounts of the Corporation and its subsidiaries, Elexicon Energy Inc. ("EEI") and Elexicon Group Inc. ("EGI") from the date that control commences until the date that control ceases. The Corporation controls a subsidiary if it is exposed, or has rights, to variable returns from its investment in the subsidiary and has the ability to affect those returns through its power over the subsidiary. All intercompany accounts and transactions have been eliminated on consolidation.

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. The consolidated financial statements have been prepared on the historical cost basis, except for employee future benefits and certain financial instruments that are measured at fair value.

(b) Regulated environment:
EEI is an electricity distributor licensed by the Ontario Energy Board (the "OEB"). It is regulated by the OEB under authority of the Ontario Energy Board Act, 1998. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility of ensuring that distribution companies fulfill obligations to connect and service customers.

The Ontario Energy Board Act, 1998 sets out guiding objectives for the OEB:

- To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service;
- To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry;
- To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances;
- To facilitate the implementation of a smart grid in Ontario; and
- To promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

EEI is responsible for charging its customers the following revenues:

- Commodity revenue - The commodity revenue is pass-through revenue for amounts payable to third parties. This revenue represents the costs of electricity consumed by the customers and passed through to the Independent Electricity System Operator ("IESO"). It also includes global adjustment revenue for non-regulated price plan consumers.
- Wholesale market services ("WMS") revenue - The WMS revenue represents the recovery of wholesale market costs for the IESO to operate the electricity market and maintain the system. This revenue is passed through to the IESO.
- Retail transmission service rate ("RTSR") revenue - The RTSR revenue represents the recovery of costs incurred for transmission of electricity to local distribution networks. This revenue is passed through to operators of transmission facilities.
- Electricity distribution revenue - The electricity distribution revenue represents the recovery of costs incurred by EEI in delivering the electricity to its customers.

Electricity distribution rates:

Electricity distribution rates include both fixed monthly rates per customer and variable rates per kWh usage or kW demand. In 2015, the OEB released a policy that for residential electricity customers only, distribution delivery costs will be recovered through a monthly, fixed service charge. The policy set out that the transition to a fully fixed rate would occur over four years beginning in 2016. The fixed rate will increase gradually and the variable rate will decline. These distribution rates are subject to regulation by the OEB.

For the distribution revenue, the Corporation typically files a Cost of Service ("COS") rate application with the OEB approximately every five years for each of the rate zones. The COS filing timeline may be extended if the Corporation is able to maintain good reliability and operations under the existing approved rate structure, and has either received approval by the OEB for such a deferral or has elected to follow the Annual Incentive Rate Setting Index ("Annual IR Index") approach. The COS rates are determined through a review of the forecasted annual amount of operating and capital expenditures, debt and shareholder's equity required to support the Corporation's business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and interveners; rates are approved based upon this review, including any revisions resulting from the review.

In intervening years, the OEB regulates electricity rates for distributors through three different rate setting options: Price Cap Incentive Rate-setting, Custom Incentive Rate-setting, and Annual Incentive Rate-setting Index.

The Corporation has two distinct rate zones for Veridian and Whitby with rate years effective May 1, and Jan 1 respectively. The Corporation's Veridian rate zone follows the Price Cap Incentive Rate-setting method. The Whitby rate zone shifted to the Annual Incentive Rate- setting Index in 2018 as required by the OEB when a distributor requests deferral of a cost of service rate application for an extended period of time. Both options set a distributor's rates through a formula-based mechanism using a price cap index, but apply different stretch factors.

Prior to the merger, Veridian rate zone last filed a COS application in October 2013 for rates effective May 1, 2014. Whitby rate zone filed a COS in January 2010 for rates effective May 1, 2010, and through settlement received approval for rates effective January 1, 2011. Pursuant to the completion of amalgamation on April 1, 2019 after receiving OEB approval, the Corporation intends to defer a COS rate application for a period of ten years from the date of the merger closing.

(c) Revenue recognition:

(i) Electricity distribution and sale:

Revenue from the sale of electricity is recognized on an accrual basis driven by cyclical billings based on electricity usage billed at OEB-approved distribution rates. Revenue from the sale of electricity includes an estimate of unbilled revenue accrued in respect of electricity delivered but not yet billed at period end. Unbilled revenue is calculated based on OEB-approved rates for electricity consumption and electricity demand driven by number of days between a customer's last meter reading in the period and December 31. Actual billed revenue could differ from estimates due to energy demand, weather, line losses and changes in the composition of customer classes.

The difference between the amounts charged to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs billed monthly by the IESO, is recorded as a settlement variance. In accordance with IFRS 14, Regulatory Deferral Accounts ("IFRS 14"), which permits a rate-regulated entity to continue to recognize and measure regulatory deferral account balances in accordance with its previous generally accepted accounting principles ("GAAP"), this settlement variance is presented within regulatory balances on the consolidated balance sheet and within net movements in regulatory balances, net of tax on the consolidated statements of comprehensive income.

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by the Corporation in delivering electricity to customers. Distribution revenue also includes revenue related to collection of specific OEB-approved rate riders.

The carrying amount of accounts receivable is measured at amortized cost and reduced through an allowance for doubtful accounts equal to the lifetime expected credit losses to be recognized at the reporting date.

(ii) Other income:

Other income, which includes revenue from electricity distribution-related services, is recognized as services are rendered. Capital contributions received from electricity customers to construct or acquire property, plant and equipment ("PP&E") for the purpose of connecting a customer to a network fall within the scope of IFRS 15, Revenue from Contracts with Customers. The contributions are received to obtain a connection to the distribution system in order to receive ongoing access to electricity. The Corporation has concluded that the performance obligation is the supply of electricity over the life of the relationship with the customer which is satisfied over time as the customer receives and consumes the electricity. Revenue is recognized on a straight-line basis over the useful life of the related asset.

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions are scoped out of IFRS 15, Revenue from Contracts with Customers. Cash contributions, received from developers are recorded as deferred contributions. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred contributions. The deferred contributions, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Government grants and the related performance incentive payments under Conservation and Demand Management ("CDM") programs are recognized as income in the period when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(iii) Deferred revenue:

Amounts received in advance in relation to the IESO supported CDM initiatives, Affordability Fund Trust from the Government of Ontario and others are presented as deferred revenue (note 11).

(d) Rate setting:

The electricity distribution rates of the Corporation are subject to regulation by the OEB and these rates are based on a revenue requirement that includes a rate of return of 9.36% for the Veridian rate zone (effective May 1, 2014), and 9.66% for the Whitby rate zone (effective January 1, 2011).

The Corporation's 2019 rates were approved by the OEB under a Price Cap Incentive Rate- setting application for Veridian rate zone, and an Annual Incentive Rate-setting Index for the Whitby rate zone. The approved OEB rate orders were transferred to the Corporation upon completion of the amalgamation transaction effective April 1 (Note 2). During the year, the Veridian rate zone implemented OEB approved rates effective May 1. The Whitby rate zone has a January 1 rate year.

On January 30, 2014, the IASB issued an interim standard, IFRS 14, to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. IFRS 14 describes regulatory deferral account balances as amounts of expense or income that would not be recognized as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with this standard because the amount is included, or is expected to be included, by the rate regulator in establishing the prices that an entity can charge to customers for rate-regulated goods or services.

The scope of this standard is limited to first-time adopters of IFRS and will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. The interim standard introduced new presentation requirements and permitted first-time adopters to continue to recognize amounts related to rate regulation in accordance with Chartered Professional Accountants of Canada Handbook Part V - Pre-changeover Accounting Standards (subsequently referred to as "previous Canadian GAAP") requirements and was effective from January 1, 2016, with early application permitted. The Corporation's former entities elected to early adopt IFRS 14 in their 2015 consolidated financial statements under IFRS, with a transition date of January 1, 2014 and determined that regulatory balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors".

The IASB's comprehensive project on rate-regulated activities is addressing whether IFRS should require entities operating in rate-regulated environments to recognize assets and liabilities arising from the effects of rate regulation.

In December 2018, the IASB tentatively decided on presentation & disclosure requirements under the new accounting model for 'defined rate regulation' and its interaction with IFRS standards.

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 the timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory balances. The Corporation's regulatory debit balances 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 Corporation has recorded regulatory credit balances, which represent obligations that are expected to be refunded to customers. The netting of regulatory debit and credit balances is not permitted under IFRS 14.

(e) Cash and cash equivalents:

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

Cash and cash equivalents are measured at amortized cost.

(f) Materials and supplies:
Materials and supplies, which consists of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on a weighted moving average basis.

Any write-downs taken on materials and supplies are reversed if and when net realizable value subsequently recovers. Major spare parts and standby equipment are recorded as part of PP&E and depreciated once they are available for use.

No amounts were written down due to obsolescence in the period from April 1, 2019 to December 31, 2019.

(g) Property, plant and equipment:
PP&E purchased or constructed by the Corporation are recorded at cost less accumulated depreciation. Costs include contracted services, materials, labour, engineering costs, directly attributable overheads and capitalized borrowing costs during construction when applied. Subsequent costs are capitalized only when it is probable that the future economic benefits associated with the costs will flow to the Corporation and the costs can be measured reliably. Certain assets may be acquired or constructed with financial assistance in the form of contributions from developers or customers. These contributions are used to connect customers to the Corporation's network and provide them with ongoing access to the supply of electricity. The contributions are recognized as deferred contributions and amortized into other income over the life of the related asset.

Upon energization of residential subdivision assets, a developer liability is accrued (as per the offer to connect contract) for the amounts payable to the developer for the Corporation's investment in the subdivision.

Depreciation of PP&E is charged to net income on a straight-line basis over their estimated service lives at the following annual rates:

Land rights	2.0%
Buildings	2.0% - 6.7%
Distribution station equipment	1.7% - 4.0%
Transmission and distribution system	1.7% - 10.0%
Meters	4.0% - 6.7%
Office equipment	10.0%
Computer hardware	20.0% - 33.3%
Vehicle fleet	6.7% - 16.7%
Renewable power generation	4.0%

The depreciation method, useful lives, and residual values are reviewed each financial period-end with the effect of any changes in estimate being accounted for on a prospective basis. Estimated useful lives reflect the best estimate and actual lives of assets may vary from estimated useful lives.

Construction in progress comprises PP&E under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

Construction in progress, land rights, major spare parts and standby equipment are not subject to depreciation until these assets are available for use. Land is not depreciated.

Borrowing costs directly attributable to the acquisition, construction or development of qualifying assets that necessarily take a substantial period of time to prepare for their intended use are capitalized, until such time as the assets are substantially ready for their intended use. The weighted average cost of long-term borrowings is used as the capitalization rate. Qualifying assets are considered to be those that take in excess of six months to construct.

When portions of the Corporation's distribution facilities are replaced or relocated, the associated costs less the salvage value of any material returned to materials and supplies are capitalized to the new asset. Depreciation is then recorded at the same rate used for the original asset.

Some of the Corporation's distribution assets, particularly those located on unowned easements and rights-of-way, may have decommissioning obligations, constructive or otherwise. The majority of the Corporation's easements and rights-of-way are subject to extension or renewal and are expected to be available for a perpetual duration. As the Corporation expects to use the majority of its installed assets into perpetuity, no removal date can be determined and consequently no reasonable estimate of the fair value of such asset retirement obligations can be made. If, at some future date, it becomes possible to estimate the fair value cost of removing the assets that the Corporation is legally or constructively required to remove, a related asset retirement obligation will be recognized at that time.

Assets are derecognized at their carrying value upon retirement or when no remaining economic benefits are expected from its use. The related gain or loss arising on the disposal or retirement is determined as the difference between the proceeds from sale and the carrying value of the asset and is included in net income for the related fiscal period. The cost of replacing a part of an item of PP&E is recognized as an addition to the carrying amount of the asset and the carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of PP&E assets is recognized in net income as incurred.

(h) Intangible assets:
Intangible assets acquired, or internally developed, are recognized initially at cost and comprised purchased software, labour, consulting costs, directly attributable overheads and capitalized borrowing costs, if applicable. Intangible assets qualifying for capitalized borrowing costs are considered to be those assets that take in excess of six months to develop. Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses.

Amortization of intangible assets is provided on a straight-line basis over the estimated service lives at the following annual rates:

Application software and intellectual property	33.3%
Internally generated software	20.0%

Software in development is not subject to amortization. The above-noted amortization rates apply to assets held within the application software and other intangible asset grouping (note 5). The amortization method, useful lives, and residual values are reviewed each financial period-end with the effect of any changes in estimate being accounted for on a prospective basis. Estimated useful lives reflect the best estimate and actual lives of assets may vary from estimated useful lives.

(i) Goodwill:
Goodwill relates to the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is evaluated for impairment at each reporting date. Goodwill is measured at cost and is not amortized. Impairment testing for goodwill is always carried out in the context of the cash generating unit ("CGU") as goodwill does not generate cash flows independently of other assets. The Corporation has determined that goodwill is not impaired.

(j) Financial assets measured at amortized cost:
A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for that asset.

(k) Impairment of non-financial assets:
The carrying costs of non-financial assets: PP&E, intangible assets and goodwill are reviewed for impairment at each reporting date to determine whether there is any indication of impairment, in which case, the asset's recoverable amount is estimated.

For the regulated business, the carrying costs of most of the Corporation's non-financial assets are included in rate base (the aggregate of approved investment in PP&E and intangible assets, excluding work in progress, less accumulated depreciation and amortization and unamortized capital contributions from customers, plus an allowance for working capital) where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable.

Impairment is tested at the CGU level, which is the smallest identifiable group of assets that generates independent cash flows. The Corporation has only one CGU, the regulated business unit. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount and is recognized in net income.

(l) Customer deposits and advance payments:
Customers may be required to post security deposits to obtain electricity or other services. Interest is paid on customer deposits at rates prescribed by the OEB: this is currently interest at Canada's prime business rate less 2.00%, which was 1.95% per annum as of December 31, 2019. The Corporation receives advance payments from customers in relation to construction projects and recognizes them as a liability until the projects are completed.

Customer deposits are measured at amortized cost.

(m) Employee benefits:

(i) Short-term employee benefits:

The Corporation provides short-term employee benefits, such as: salaries, employment insurance, short-term compensated absences, health and dental care. These benefits are recognized as the related service is rendered and is measured on an undiscounted basis. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of the cost of an item of materials and supplies, PP&E, intangible assets or recoverable projects. A liability is recognized in respect of any unpaid short- term employee benefits for services rendered in the reporting period.

The Corporation recognizes a current liability for the expected cost of accumulated non-vested sick leave benefits at the end of the reporting period. The assumptions used for estimating the amount of the liability are analogous to those used in the valuation of employee future benefits.

(ii) Defined benefit pension plan:

The Corporation accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan.

OMERS plan is a multi-employer defined benefit plan providing pension to employees of municipalities, local boards, public utilities and school boards. It is funded by equal contributions from participating employers and employees, as well as by investment earnings of the plan. Each year, an independent actuary determines the plan's funded status by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. OMERS does not track its investments by employer and actuarial assumptions are developed based on the entire plan membership on a commingled basis and, therefore, information for individual plans cannot be determined. As a result, the Corporation accounts for the OMERS plan as a defined contribution plan and contributions to the plan are recognized as an employee benefit expense.

(iii) Employee future benefits:

The Corporation provides all employees with life insurance benefits, as well as a Health Care Spending Account ("HCSA") for those employees from former Veridian retiring post April 1, 2011 having completed a minimum of 20 years of service with the Corporation. This benefit is available until age sixty-five. Management employees from former Whitby who retire with a minimum of 10 years of service are eligible for post-retirement health and dental benefits. All union employees from former Whitby who retire with a minimum of 10 years of service are eligible for post-retirement health benefits.

The Corporation actuarially determines the cost of employee future benefits offered to employees. These unfunded plans are accounted for as defined benefit obligations. The Corporation applies the projected benefit method, prorated on service and based on management's best estimates and assumptions. Under this method, the projected employee future benefits is deemed to be earned on a pro rata basis over the periods of service in the attribution period commencing at date of hire, and ending at the earliest age the employee could retire and qualify for benefits.

Remeasurements of the net benefit liability comprise actuarial gains or losses that are recognized in the consolidated balance sheet with a credit or charge to other comprehensive income or loss. Current service costs are allocated to operating, maintenance and administration expenses and to capital recognized in the consolidated balance sheet.

(n) Income taxes:
Under the Electricity Act, 1998, the Corporation and EEI are required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income 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. References in these consolidated financial statements to income taxes are with respect to PILs for the Corporation and EEI.

The Corporation uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and the tax bases of the Corporation's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Corporation's income taxes payable in the period or a later period.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of comprehensive income in the period that includes the date of enactment or substantive enactment.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. Previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. A valuation allowance is recorded against a deferred tax asset to the extent that the Corporation determines that it is probable that a deferred income tax asset will not be realized in the future.

Where the Corporation expects the deferred taxes to be recovered from or refunded to customers as part of the rate setting process, the deferred income tax assets and liabilities result in regulatory deferral debit balances or credit balances, respectively. Deferred tax assets that are not included in the rate-setting process result in a deferred tax provision that is charged or credited to the consolidated statements of comprehensive income.

(o) Provisions and contingencies:
The Corporation recognizes provisions if, as a result of a past event, there is a present legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The evaluation of the likelihood of the contingent events requires judgment by management as to the probability of exposure to potential gain or loss. Actual results could differ from these estimates.

(p) Leases
The Corporation allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. The Corporation recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease pre- payments, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right of use asset is subsequently measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for certain re-measurements of the lease liability. The right of use asset is depreciated using the straight-line method over the shorter of the lease term and the estimated remaining useful life of the asset.

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Generally, the Corporation uses its incremental borrowing rate as the discount rate. The Corporation has elected to use a single discount rate for all lease portfolios with reasonably similar characteristics.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments, or a lease modification. A corresponding adjustment is made to the carrying amount of the right of use asset or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

The Corporation has elected not to recognize right of use assets and lease liabilities for short term and low value leases. The Corporation recognizes the lease payments associated with these leases as an expense on a straight line basis over the lease term.

(q) Use of judgments and estimates:
The preparation of the consolidated financial statements requires management to make estimates, judgments and assumptions: within reasonable limits of materiality and within the framework of the significant accounting policies, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the periods. Due to inherent uncertainty involved in making such estimates, actual results reported in future years could differ from those estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the OEB or the Minister of Energy.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment is included in the following financial notes:

(i) Note 1(c)(i) - measurement of unbilled revenue;

(ii) Note 1(g) - environmental and decommissioning liabilities;

(iii) Notes 1(g), (h) - estimation of useful lives of PP&E and intangible assets;

(iv) Note 1(c)(i), 1(d) and note 7 - recognition and measurement of regulatory balances;

(v) Notes 1(m)(i), (iii) and note 16 - measurement of employee future benefits: key actuarial assumptions;

(vi) Note 1(o) - recognition and measurement of provisions and contingencies;

(vii) Note 1(n) and note 8 - recognition of deferred tax assets - availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be used;

(viii) Note 1(c)(i) and note 24(c) - allowance for doubtful accounts; and

(ix) Note 1(i), note 2 and note 5(b) - goodwill and cash generating units.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors that are considered to be relevant.

(r) Non-derivative financial instruments:
All non-derivative financial assets are classified as loans and receivables and all non- derivative liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized costs using the effective interest method less any impairment for the financial assets, as described in note 1(j) and note 24(c).

(s) Derivative financial instruments:
Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date.

The Corporation has not elected to apply hedge accounting for its interest rate swap contracts and does not enter into derivative agreements for speculative purposes. Changes in the fair value of the derivatives are recorded each period in the consolidated statements of comprehensive income.

(t) Capital disclosures:
The Corporation's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis, at reasonable rates, and to deliver the appropriate financial returns. As at December 31, 2019, the Corporation's definition of capital includes shareholders' equity, short-term and long-term debt, less cash and cash equivalents.

During the period, there have been no changes to how the Corporation assesses its capital structure.

(u) Changes in accounting policies:
IFRS 16, Leases became effective from January 1, 2019 and was early adopted by former Veridian from January 1, 2018 and by former Whitby Hydro from January 1, 2019 as per policy described in note 1(p).

The following amended standards and interpretations (effective from January 1, 2019) does not have a significant impact on the Corporation's consolidated financial statements:

- IFRIC 23, Uncertainty over Income Tax Treatments;
- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);
- Annual Improvements to IFRS Standards 2015-2017 Cycle - various standards; and
- Amendments to References to Conceptual Framework in IFRS Standards.

(v) New standards and interpretations not yet adopted:
The IASB issues new standards, amendments and interpretations which do not have to be adopted in the current period. The Corporation continues to analyze these standards and interpretations, described below, which the Corporation anticipates might have an impact on its consolidated financial statements or note disclosures:

(i) Definition of Material (Amendments to International Accounting Standard ("IAS") 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors):

On October 31, 2018, the IASB issued amendments to its definition of material. The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

The management anticipates, that it will not have a material impact on the Corporation's consolidated financial statements, if any.

(ii) Definition of a Business (Amendments to IFRS 3):

These amendments provide more guidance on the definition of a business. The amendments include an election to use a concentration test.

The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

The Corporation did not early adopt this amendment, and this did not have a specific application for these consolidated financial statements. However, it could apply to any future business combination or asset acquisition determinations.

2. BUSINESS COMBINATION:

On April 1, 2019, Veridian amalgamated with Whitby Hydro to form the Corporation. Under the Amalgamation Transaction, shares of the former Veridian and Whitby Hydro were exchanged for the voting common shares of the Corporation. Certain post-closing adjustments provided under the agreements to the Amalgamation Transaction were made through a redemption of special shares (Note 17). The Amalgamation Transaction has been recognized as a business combination in accordance with IFRS 3, Business Combinations, using the acquisition method with the former Veridian deemed as the acquirer based on its relative size compared to that of the former Whitby Hydro. These consolidated financial statements include: the net fair value of the assets of former Whitby Hydro as at April 1, 2019; and the net assets of Veridian at its carrying amounts at April 1, 2019. Whitby Hydro contributed revenue including electricity sales of $79,339 since the amalgamation date. Acquisition-related costs of $3,042 were incurred for the period from April 1, 2019 to December 31, 2019 and are included in administration expenses. The amalgamation is expected to result in more efficient and enhanced service delivery through lower operating costs, while providing significant benefits for communities and shareholders.

The aggregate consideration was $110,758 for 32,000 common shares and a redemption of $1,025 for special Class B shares, resulting in goodwill of $55,602, which is not deductible for income tax purposes. As a result of the amalgamation transaction, the contributed surplus increased by $79,301.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of amalgamation:

	Whitby Hydro
Accounts receivable and unbilled revenue	$ 20,103
Income taxes recoverable	875
Inventories	1,594
Property, plant and equipment	110,394
Intangible assets	331
Deferred tax assets	690
Regulatory assets	1,396
Other assets	447
Bank indebtedness	(3,472)
Accounts payable and accrued liabilities	(19,555)
Customer deposits	(2,196)
Loans and borrowings	(28,613)
Deferred contributions	(19,853)
Employee future benefits	(6,179)
Other liabilities	(806)
	55,156
Goodwill	55,602
Total consideration	$ 110,758

The valuation technique used for the purchase of Whitby Hydro was the discounted cash flow ("DCF") approach. Under the DCF approach, the expected future cash flows are discounted to their present value equivalent using appropriate market-based risk-adjusted rates of return.

3. ACCOUNTS RECEIVABLE:

Energy revenue	$ 28,629
Unbilled revenue	38,259
Project expenditures recoverable	2,608
Pole rentals and other	3,619
	73,115
Less: allowance for doubtful accounts	1,443
	$ 71,672

Trade receivables do not contain a significant financing component, and lifetime expected credit losses ("ECLs") are recognized as the maturities are typically 12 months or less. A provision matrix is used to determine ECLs on trade receivables. The amount of credit losses recognised is based on forward looking estimates that reflect current and forecast credit conditions.

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at the period end. Unbilled revenue is considered current with no allowance for doubtful accounts.

Accounts receivables, including unbilled revenue are measured at amortized cost.

4. PROPERTY, PLANT AND EQUIPMENT:

	April 1, 2019	Acquisition additions	Additions/ depreciation	Disposals/ retirements	December 31, 2019
Cost					
Land	$ 1,748	$ 428	$ –	$ –	$ 2,176
Land rights	447	–	5	–	452
Buildings (a)	18,305	6,055	778	–	25,138
Distribution station equipment	32,037	15,014	11,244	(857)	57,438
Transmission and distribution system	228,889	97,168	33,938	(784)	359,211
Meters	16,746	6,225	845	(13)	23,803
Office equipment	1,523	673	205	–	2,401
Computer hardware	3,349	618	585	–	4,552
Vehicle fleet (b)	8,325	1,211	2,156	(701)	10,991
Renewable power generation	759	386	–	–	1,145
Construction in progress	25,534	3,895	7,470	–	36,899
	$ 337,662	$ 131,673	$ 57,226	$ (2,355)	$ 524,206
Accumulated depreciation					
Land rights	$ 58	$ –	$ 9	$ –	$ 67
Buildings (a)	6,087	2,110	1,079	–	9,276
Distribution station equipment	4,748	1,929	1,362	(179)	7,860
Transmission and distribution system	29,019	13,377	8,233	(376)	50,253
Meters	6,746	2,862	1,304	(7)	10,905
Office equipment	1,091	338	223	–	1,652
Computer hardware	2,231	522	434	–	3,187
Vehicle fleet (b)	3,592	48	939	(498)	4,081
Renewable power generation	164	93	39	–	296
	$ 53,736	$ 21,279	$ 13,622	$ (1,060)	$ 87,577
Net book value	$ 283,926	$ 110,394	$ 43,604	$ (1,295)	$ 436,629

Right of use assets related to leased properties that do not meet the definition of investment property are presented as PP&E.

(a) Includes $292 office building right of use assets and $134 accumulated amortization.

(b) Includes $1,700 vehicle right of use assets and $286 accumulated amortization.

During the period, borrowing costs of $413 were capitalized to PP&E and credited to finance costs. Weighted average cost of long-term borrowings in EEI (note 14) is used for capitalizing borrowing costs as part of PP&E with an average rate of 3.47%.

Additions to construction in progress are net of transfers to other PP&E categories.

5. INTANGIBLE ASSETS AND GOODWILL:

(a) Intangible assets:

	April 1, 2019	Acquisition additions	Additions/ amortization	Disposals/ retirements	December 31, 2019
Cost					
Application software and other	$ 11,897	$ 1,395	$ 1,488	$ –	$ 14,780
Construction in progress related to application software and other	434	–	56	–	490
Capital contributions (note 19 (b))	1,484	–	686	–	2,170
	$ 13,815	$ 1,395	$ 2,230	$ –	$ 17,440
Accumulated amortization					
Application software and other	$ 9,922	$ 1,042	$ 1,199	$ –	$ 12,163
Net book value	$ 3,893	$ 353	$ 1,031	$ –	$ 5,277

No borrowing costs were capitalized on intangible assets under development in 2019.

Application software and other includes externally acquired, as well as internally generated computer software. The remaining amortization period is between one to five years.

(b) Goodwill:

	April 1, 2019	Acquisition additions	Additions	Impairments	December 31, 2019
Goodwill	$ 8,746	$ –	$ 55,602	$ –	$ 64,348

6. DEPRECIATION AND AMORTIZATION:

Total depreciation and amortization expense	$ 14,823
Allocated to:	
Depreciation/amortization of vehicle fleet included in operating and maintenance expenses	654
Depreciation/amortization of assets in non-regulated utility operations included in other income	39
	693
Depreciation and amortization expense	$ 14,130

7. REGULATORY BALANCES:

Regulatory balances can arise out of the rate-making process. Specifically, the following regulatory treatments have resulted in accounting treatments that differ from IFRS for enterprises operating in a non-regulated environment and regulated entities that did not adopt IFRS 14:

(a) The Corporation's Veridian rate zone records the difference between the borrowing costs capitalization rate prescribed by the OEB and the weighted average cost of borrowings rate used to capitalize PP&E under IFRS. This amount is recognized as a regulatory debit or credit balance to be recovered or paid respectively to the customers through future rates. The Whitby rate zone is not required to record this difference based on the settlement agreement approved in its 2019 rate application;

(b) The Corporation's Veridian rate zone records regulatory debit balances arising from derecognition of assets under IFRS. These amounts will be sought for disposition through the next cost of service rebasing application and recovered from customers through future rates. The Whitby rate zone does not record these balances, except when the calculated value exceeds the approved materiality threshold in its 2019 OEB rate decision;

(c) The Corporation records deferred tax assets or liabilities with a corresponding regulatory tax liability or asset, as the recovery from, or refund to, customers is expected to be included in future distribution rates for its regulated business activities;

(d) The Corporation has deferred certain retail settlement variances which comprise the variances between amounts charged by the Corporation to customers based on regulated rates and wholesale rates incurred for the cost of electricity service;

(e) The Corporation has deferred costs related to: IFRS implementation, lost revenue adjustment mechanism costs, and OEB assessment costs; and

(f) The Corporation has deferred variances related to pole attachment revenue and lost revenue associated with the collection of account charge which are expected to be refunded/ charged to customers in future rates.

Debit balances comprise of the following:

	April 1, 2019	Additions through acquisitions	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2019	Remaining recovery/reversal period (years)
Future settlement variances - RSVA (a)	$ –	$ (537)	$ 3,561	$ 3,414	$ (3,146)	$ 3,292	Note 1
Future settlement variances - RCVA (a)	492	111	85	–	–	688	Note 1
One-time IFRS conversion (b)	496	–	6	–	–	502	Note 1
IFRS transitional adjustments (d)	1,560	–	901	–	–	2,461	Note 1
Other (e)	2,449	969	171	(1,245)	–	2,344	Note 1
Deferred taxes (f)	2,815	1,300	1,743	–	–	5,858	Note 2
	$ 7,812	$ 1,843	$ 6,467	$ 2,169	$ (3,146)	$ 15,145	

Credit balances comprise of the following:

	April 1, 2019	Additions through acquisitions	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2019	Remaining recovery/reversal period (years)
Approved settlement variances (a)	$ 1,331	$ 400	$ 2,170	$ (2,980)	$ –	$ 921	1 year
Future settlement variances - RSVA (a)	3,146	–	–	–	(3,146)	–	Note 3
Stranded meters (c)	20	(297)	(2)	303	–	24	Note 1
Deferred taxes (f)	1,352	345	(34)	–	–	1,663	Note 2
	$ 5,849	$ 448	$ 2,134	$ (2,677)	$ (3,146)	$ 2,608	

Note 1 The Company intends to seek recovery or refund in future rate applications to the OEB.

Note 2 The Company will not seek disposition of the balance since it will be reversed through timing differences in the recognition of deferred tax assets or liabilities.

Note 3 These balances have been reclassified from regulatory debit to credit balances or vice versa.

The additions through acquisition, represents April 1, 2019 balances for the Whitby rate zone. The balances arising in the period column are new additions (for both debits and credits). The recovery/reversal column are amounts: collected or refunded through rate riders, disposition of OEB-approved regulatory balances, or other transactions which reduces existing regulatory balances. The other movements column consists of impairment (if the OEB disallowed certain amounts), and reclassification between the regulatory debit and credit balances. There is no impairment recorded for the period from April 1, 2019 to December 31, 2019.

Regulatory balances descriptions:

(a) Settlement variances:
The amounts include the variances between the amount charged by the IESO for the operation of the markets and grid, as well as various wholesale market settlement charges and transmission charges, as compared to the amount billed to consumers based on the OEB-approved rates. This amount also includes variances between the amounts charged by Hydro One Networks Inc. ("Hydro One") for low voltage services and the amount billed to consumers based on the OEB-approved rates. Also included are retail cost variances, being the differences between the revenue charged to retailers and the retail services costs associated with providing the retail services.

In 2019, the OEB approved:

- Disposition of the Veridian rate zone's retail settlement variance accounts as at December 31, 2017;
- Final disposition for regulatory accounting change balances as at December 31, 2018 for the Whitby rate zone; and
- Lost revenue recovery for conservation program impacts for 2016 and 2017 for Whitby and Veridian rate zones respectively.

(b) One-time IFRS conversion costs:
In accordance with an OEB directive, a deferral account has been established for the one- time administrative costs during transition to IFRS for the Veridian rate zone. These amounts will be sought for disposition in the Corporation's first cost of service rebasing application under IFRS or in a future stand-alone application.

(c) Stranded meters:
These amounts are related to the provincial government's directive for licensed distributors to install smart meters for specific customer classes and represent the net book value of stranded meter assets arising from the Corporation's smart metering program.

The OEB approved the Corporation's request for recovery of these regulatory balances. For Veridian rate zone the approval was received in 2014, through a rate rider with a one-year term which expired April 30, 2015. The Whitby rate zone received approval effective January 1, 2018 for a two-year term expiring on December 31, 2019. Residual balances will be refunded in a future rate application to the OEB.

(d) IFRS transitional adjustments:
Commencing in 2014, the Corporation's Veridian rate zone has recorded regulatory debit balances arising from derecognition of assets under IFRS and capitalized borrowing costs difference between weighted average long-term borrowing costs under IFRS and OEB guidelines. These amounts will be sought for disposition in the Corporation's first cost of service rebasing application under IFRS or in a future stand-alone application.

(e) Other:
These amounts relate to the deferral of costs or variances associated with lost revenue from the impact of conservation programs, and regulatory changes affecting the Collection of Account charge. The amounts also include, renewable generation connection funding adder, OEB assessment costs, pole attachment variances and other regulatory balances.

(f) Deferred taxes:
The regulatory debit balance is the expected future electricity distribution rate increase for customers arising from timing difference in the recognition of deferred tax assets and the regulatory credit balance is the deferred tax amount reclassified under IFRS 14.

The deferred tax amount related to the expected future electricity distribution rate increase for customers was $5,858 as at December 31, 2019.

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of $1,663 as at December 31, 2019.

8. INCOME TAXES:

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

Income before income taxes	$	149
Federal and Ontario statutory income tax rate		26.50%
Provision for income taxes at statutory rate	$	39
Increase (decrease) resulting from:		
Temporary differences expected to be recovered by customers		(2,470)
Current period losses for which no deferred tax asset is recognized		73
Over provided in prior periods		(51)
Other miscellaneous		2,653
Income taxes recorded in regulatory balances movements		1,776
Income tax expense	$	2,020
Allocated:		
Current recovery	$	(51)
Deferred		295
Income taxes recorded in regulatory balances movements		1,776
Total income tax expense	$	2,020

Deferred tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Corporation's assets and liabilities. The tax effects of these differences are as follows:

Deferred tax assets (liabilities):		
Property, plant and equipment and intangible assets (a)	$	(8,605)
Employee future benefits		3,504
Sick leave liability		363
Non-capital losses		1,047
Unrealized loss on interest rate swaps		833
Deferred revenue, contingent liability and others		1,009
		(1,849)
Valuation allowance		(668)
		(2,517)
Deferred tax liabilities:		
Regulatory balances		1,663
Moved to regulatory deferral account credit balances		(1,663)
		–
Deferred tax liabilities	$	(2,517)

(a) Taxable temporary difference, book value is more than tax value.

The Corporation has non-capital losses for income tax purposes of $2,501 available to reduce future periods' income for tax purposes, which will expire between 2036 and 2039. The potential deferred tax benefit of these losses has not been recognized since management has determined that it is probable that these amounts will not be realized in the foreseeable future.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

Power bill accrual	$	28,741
Customer credit balances		8,781
Other accounts payable and accrued liabilities		23,100
Hydro One contractual obligation (note 19(b))		1,533
	$	62,155

Accounts payable are measured at amortized cost.

10. CREDIT FACILITIES AND SHORT-TERM DEBT:

Credit facilities:

As at December 31, 2019, the Corporation had the following external credit facilities with a Canadian chartered bank (the "Bank"):

(a) Uncommitted revolving demand credit facility. The facility at all times is required to be no greater than $40,000 with a letter of credit ("L/C") carve-out availability;

(b) Committed reducing term facility with a credit limit of $40,999 and amortization term of 30 years with an optional exit strategy at 10 years, 15 years, 20 years and 25 years (note 14); and

(c) Committed or demand revolver facility (note 14) with a combined total no greater than $130,000 at all times.

The financial covenants to the above facilities require a funded debt to capitalization ratio of no greater than 0.60:1, and to maintain a debt service coverage ratio of not less than 1.20:1. The Corporation has been in compliance with all the covenants.

As at December 31, 2019, $6,800 was drawn out of facility (a); $37,132 was outstanding out of facility (b) and $55,000 was outstanding out of facility (c) above (note 14). To cover the risk of fluctuating interest rates, facility (b) was structured with an interest rate swap agreement with the Bank, effectively converting the obligations into a fixed interest rate loan of approximately 3.715%.

The Corporation utilized (a) for: $807 to issue an irrevocable L/C in favour of the IESO; and $100 to issue an irrevocable L/C in favour of the Ministry of Environment.

The IESO requires all purchasers of electricity in Ontario to provide security to mitigate the risk of their default based on their expected purchases from the IESO administered spot market. The IESO could draw on the L/C if the Corporation defaults on its payment.

The Ministry of Environment requires security to ensure adequate funds are available, to effect suitable remedial action, if an event occurs resulting in a health and safety hazard to any person, or the natural environment.

Credit facilities are measured at amortized cost.

11. DEFERRED REVENUE:

(a) As at December 31, 2019, $1,615 of deferred revenue represents the balance at period end of unearned revenue from funding received from the IESO to deliver CDM programs.

An agreement was entered with the IESO on December 16, 2014 and on June 8, 2015, whereby the IESO conditionally approved a CDM plan that was jointly submitted by the Corporation (Veridian and Whitby Hydro) to deliver CDM programs covering the period from January 1, 2015 to December 31, 2020. This CDM plan was most recently updated on April 18, 2017 and conditionally approved by the IESO on May 12, 2017.

On March 21, 2019 the Government of Ontario announced the end of the 2015-2020 CDM Framework for electricity distributors and the establishment of a scaled down IESO Interim Framework for the remainder of 2019 and 2020. Distributors were directed to cease accepting any new program applications by April 1, 2019 and were directed to wind down the delivery of their CDM programs in an orderly manner.

All programs under the IESO agreement and all relevant wind down costs are expected to be fully funded and paid by the IESO. The IESO is invoiced monthly for the costs incurred on various CDM programs and wind down expenditures. The Corporation received some initial funding in the form of a pre-payment from the IESO for the delivery of CDM programs under the energy conservation agreement. Amounts received but not yet spent are presented on the consolidated balance sheet under current liabilities as deferred revenue.

(b) As at December 31, 2019, $34 of deferred revenue represents the balance of unearned revenue related to the 2018 Affordability Fund Trust (AFT) program money received in advance from the Government of Ontario to support program expenses.

(c) As at December 31, 2019, $75 of deferred revenue represents other unearned revenue jobs.

12. DEPOSITS AND DEVELOPER OBLIGATIONS:

Advance payments - construction deposits	$	1,528
Customer deposits		7,225
Developer obligations		6,601
Deposits and developer obligations	$	15,354

13. RELATED PARTY TRANSACTIONS:

The Corporation provides electricity and services to its principal shareholders, the Town of Ajax, the Municipality of Clarington, the City of Pickering, the City of Belleville and the Town of Whitby (collectively, the "shareholders"). Electrical energy is sold to the shareholders at the same prices and terms as other electricity customers consuming equivalent amounts of electricity.

Summary of transactions with the shareholders:

Electricity and services revenue	$	8,149
Accounts receivable balance		905
Finance costs on the notes payable		2,761
Property taxes paid		541
Dividends declared and paid		5,591
Dividends declared and accrued		1,397

Summary of transactions with EEI and EGI:

Compensation paid to key management personnel (i)	$	2,082

(i) Comprising of the senior management team and members of the Board of Directors. The compensation includes salaries, performance pay and taxable benefits. This includes OMERS contribution of $179.

All intercompany related party transactions and outstanding balances are eliminated in the Corporation's consolidated financial statements.

The Corporation has renewable generation projects and holds interest in the following entities and joint operation:

(a) Quinte Solar Generation Inc.:
The Corporation, the Corporation of the City of Belleville and Solera Sustainable Energies Company Limited holds 70%%, 15% and 15% equity interest respectively in the above company, incorporated to own, operate and maintain projects related to solar electricity generation facilities and systems at some specific locations. Recent applications for project contracts were rejected by the IESO. This non-regulated venture remains dormant with no capital injection by the joint parties.

(b) Claremont Community Centre Solar:
EEI, Queen Street Solar Co-Operative Corporation ("Queen Street Solar") and Solera Sustainable Energies Company Limited entered into a joint operation agreement with an equity interest of 39%, 51% and 10%, respectively, to build, own, operate and maintain a solar generation project at Claremont Community Centre owned by the City of Pickering, located at 4941 Old Brock Road, Pickering, Ontario L1V 7E2. This project is approved under the Feed-in Tariff government program.

In 2016, the Corporation financed the above project for an amount of $264 for a 15-year term at an interest rate of 5.00%. An amount of $135 (net of repayments and intercompany funding) is included in other assets of the Corporation as at December 31, 2019. The funding provided by the Corporation was in the same proportion as the equity interest: EEI 39%, Queen Street Solar 51% and Solera Sustainable Energies Company Limited 10%.

During the year, Queen Street Solar sold its share of equity interest in the joint venture arrangement to TREC SolarShare Co-Operative (No. 1) Inc. Accordingly, joint venture agreements were amended to incorporate TREC SolarShare Co-Operative (No. 1) Inc. as the joint venture partner.

14. LONG-TERM DEBT:

Notes payable to the shareholders, due on demand, at the rate of 4.13% (a)	$	89,132
Long-term debt from the Bank, maturing on March 2, 2045 (note 10(b))		37,133
Long-term debt from the Bank, maturing on December 31, 2024 (note 10(c))		55,000
		181,265
Less: current portion		905
	$	180,360

(a) The shareholders have waived their right to demand repayment of any portion of the principal of the promissory notes payable before the date of January 1, 2021

Scheduled principal repayments for the next five years and thereafter as of December 31, 2019:

2020	$	905
2021		90,071
2022		974
2023		1,011
2024		56,049
Thereafter		32,255
		181,265
Less: current portion		905
	$	180,360

Scheduled interest payments for the next five years and thereafter as of December 31, 2019:

2020	$	6,530
2021		6,496
2022		2,780
2023		2,743
2024		2,704
Thereafter		13,687
	$	34,940

Expected weighted average borrowing cost:

2020	3.61%
2021	4.80%
2022	3.10%
2023	3.09%
2024	4.49%

Finance costs related to short-term and long-term debt comprises:

Interest on:		
Notes payable and loans	$	4,965
Customer deposits and other		184
		5,149
Less: capitalized borrowing costs		413
	$	4,736

15. DEFERRED CONTRIBUTIONS:

Deferred contributions are the capital contributions received from electricity customers, which have not yet been recognized into other income.

The continuity of deferred contributions is as follows:

Deferred contributions, beginning of period	$	49,115
Contributions received		26,652
Contributions amortized as other income		(1,044)
Deferred contributions, end of period	$	74,723

Customer contributions for the acquisition or construction of PP&E are considered to be deferred contributions and amortized over the useful lives of the related assets as other income.

16. EMPLOYEE FUTURE BENEFITS:

(a) Pensions:
During the period from April 1, 2019 to December 31, 2019, the Corporation made contributions totalling $2,227 to OMERS.

(b) Post-retirement benefits other than pensions:
The Corporation pays certain benefits on behalf of its retired employees and recognizes these post-retirement costs in the period in which the employees render the services.

Information about the Corporation's non-contributory defined benefit plan to fund life insurance, health and dental care benefits and a retiree HCSA, is as follows:

Accrued benefit liability recognized, beginning of period	$	9,111
Current service costs		215
Interest costs		245
Benefit payments		(245)
Remeasurements recognized in other comprehensive income		472
Accrued benefit liability, end of period	$	9,798

The amounts presented are based upon an actuarial valuation performed as at December 31, 2019.

The main actuarial assumptions employed for the valuations are as follows:

(i) General inflation:

Future general inflation levels, as measured by changes in the Consumer Price Index, are assumed at 2.00% for future periods.

(ii) Interest (discount) rate:

Amounts were determined using an annual discount rate of 3.20%.

(iii) Salary levels:

Future general salary and wage levels were assumed to increase at 3.20% per annum.

(iv) Health and dental care:

The health and dental care cost increases are 4.20% and 4.50%, respectively.

(c) Risks associated with the plan:
Significant actuarial assumptions related to discount rates, future health and dental costs, mortality rates, retirement age, and utilization rate of the HCSA etc. may affect the valuation of expected accrued benefit liability.

17. SHARE CAPITAL:

	Number of shares	Amount
Authorized:		
Unlimited common shares		
Issued	100,000	$ 97,692

Under the Amalgamation agreements, 68,000 special Class A shares were issued and redeemed for $1 dollar, and 32,000 special Class B shares were issued and redeemed for $1,025.

18. DIVIDENDS:

The Corporation's current dividend policy states:

(a) an annual dividend to the shareholders of at least $11,280, 11,310 and $11,390 for the first, second and third fiscal year, respectively;

(b) the dividend target in respect of the fourth fiscal year of the Corporation and each year thereafter will be 52.5% of EEI's net income in respect of such year;

(c) the Board will consider the following factors in assessing the Corporation's ability to pay a dividend:

(i) the ability of the Corporation to meet the solvency requirements of the Business Corporations Act (Ontario);

(ii) the ability of the Corporation and EEI to adhere to OEB policies and administrative decisions;

(iii) the Corporation's consolidated debt to total capitalization ratio for the current and following fiscal year should be 70% or lower and 60% or lower in the context of its regulated capital structure;

(iv) the capital expenditure requirements of EEI in the current and following fiscal year;

(v) the net income positive or negative variance to the budget of the Corporation in the current fiscal year;

(vi) the ability of the Corporation and its subsidiaries to meet covenants required by their respective lenders in the current and following fiscal year;

(vii) the ability of the Corporation and its subsidiaries to meet their respective obligations and capital re-investment needs in the coming year; and

(viii) any tax consequences that will adversely affect the Corporation, EEI, or its affiliates.

During the period, the Board of Directors of the Corporation:

- declared and paid dividends totalling $5,591; and
- declared and accrued dividends totalling $1,397 to the shareholders which were paid in January 2020.

19. CONTINGENCIES AND GUARANTEES:

(a) Insurance claims:
The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"), which was created on January 1, 1987. A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE provides general liability insurance to member electric utilities. MEARIE also provides vehicle and property insurance to the Corporation.

Insurance premiums charged to each member electric utility consist of a levy per $1 of service revenue subject to a credit or surcharge based on each electric utility's claims experience. The maximum coverage is $30,000 per occurrence for liability insurance, $21,000 for vehicle insurance, and $164,885 for property insurance; plus $10,000 excess coverage on top of the regular liability and vehicle coverage.

(b) Contractual obligation - Hydro One Networks Inc.:
The Corporation's subsidiary, EEI, is party to a connection and cost recovery agreement with Hydro One related to the construction by Hydro One of a transformer station designated to meet EEI's anticipated electricity load growth. Construction of the project was completed during 2007 and EEI connected to the transformer station during 2008.

To the extent that the cost of the project is not recoverable from future transformation connection revenues, EEI is obligated to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to EEI. The construction costs allocated to EEI for the project are $19,950.

Hydro One has performed a true-up based on actual load at the end of the tenth anniversary of the in-service date and the Corporation has paid $637 to Hydro One and recognized the same as an intangible asset. The Corporation has also recorded a current liability and a corresponding intangible asset for $1,533 as at December 31, 2019, based on management's best estimate of the future transformation connection revenues shortfall. Hydro One is expected to perform another true-up based on actual load at the end of the fifteenth anniversary of the in-service date.

(c) Prudential Support:
Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of default based on their expected activity in the market. The IESO could draw on this security if the Corporation fails to make the payment required on a default notice issued by the IESO. The Corporation has provided a $64,000 guarantee to the IESO on behalf of EEI. Additionally, the Corporation has provided a $6,900 letter of credit to the IESO for prudential support.

(d) General claims:
From time to time, the Corporation is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Corporation's consolidated financial position and results of operations or cash flows.

20. LEASES:

The Corporation is committed to lease agreements for various vehicles and an office building.

When measuring the lease liabilities for leases, the Corporation discounted lease payments using the implicit rate of each lease agreement with a range of 4.94% to 7.20% for vehicle leases and 2.00% for office building lease.

Future minimum non-cancellable lease payment obligations under finance leases are as follows:

2020	$ 475
2021	363
2022	229
2023	179
2024	124
Thereafter	210
	$ 1,580

Leases are measured at amortized cost.

As at December 31, 2019, a lease obligation of $475 is recorded as a current liability and $1,105 is recorded as a non-current liability.

The Corporation has also recognized $59 interest costs (recognized as finance costs in the consolidated statement of comprehensive income and the consolidated statement of cash flows) and $349 in lease repayments (recognized as changes in non-cash operating working capital in the consolidated statement of cash flows).

The Corporation has leases for low-value assets and recognized $2 in operating and maintenance expenses.

21. OTHER INCOME (LOSS):

Late payment charges	$ 333
Customer charges (a)	946
Pole rentals	936
Disposal of PP&E	(1,251)
Foreign exchange	(7)
Amortization of deferred contributions	1,044
Miscellaneous	(774)
	$ 1,227

(a) Includes reconnection/disconnection, collection and change of occupancy charges from customers.

22. OPERATING, MAINTENANCE AND ADMINISTRATION EXPENSES:

	Operating and maintenance	Administration	Total
Salaries and benefits	$ 7,048	$ 11,630	$ 18,678
External services	3,462	5,186	8,648
Materials and supplies	244	2	246
Vehicle	650	81	731
Other	781	5,981	6,762
	$ 12,185	$ 22,880	$ 35,065

23. CONSOLIDATED STATEMENT OF CASH FLOWS:

Changes in non-cash operating working capital provided by (used in) include the following:

Accounts receivable	$ (1,826)
Materials and supplies	397
Prepaid expenses	1,151
Accounts payable and accrued liabilities	(8,367)
Deferred revenue	(415)
	$ (9,060)

Reconciliation between the amount presented on the consolidated statement of cash flows and total additions to PP&E and intangible assets:

Purchase of PP&E, cash basis	$ 52,709
Net change in accruals related to PP&E	4,517
Total additions to PP&E	$ 57,226
Purchase of intangible assets, cash basis	$ 1,029
Net change in accruals related to intangible assets	1,201
Total additions to intangible assets	$ 2,230

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

(a) Market risk:
Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Corporation does not have commodity risk due to the flow-through nature of energy purchases and costs. All variances due to timing of customer billing or regulated pricing are recorded in retail settlement variance accounts and are recovered from or returned to customers in accordance with regulatory directives. The foreign exchange risk is considered not material and is limited to U.S. dollar cash and cash equivalents holdings of $19 as at December 31, 2019.

(b) Interest rate risk:
The Corporation enters into fixed interest rate long-term debt agreements to minimize cash flow and interest rate fluctuation exposure. In February 2015, former Veridian arranged from the Bank a $40,999, 30-year fixed rate term loan to blend and extend a $30,000 loan and a $15,000 loan. The Corporation entered into interest rate swap derivative agreements with the Bank to exchange interest rate cash flows. Under these agreements, the Corporation and the Bank have the periodic exchange of payments without exchanging the notional principal amount on which the payments are based. This effectively provided the Corporation with a fixed rate loan, which reduces the impact of fluctuating interest rates on long-term debt. The Corporation does not enter into any such financial instrument for speculative purposes.

The Corporation is also 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.

(c) Credit risk:
Financial assets create credit risk that a counterparty will fail to discharge an obligation, causing a financial loss. The Corporation's distribution revenue is earned on a broad base of customers. As a result, the Corporation did not earn a significant amount of revenue from any individual customer. As at December 31, 2019, there were no significant balances of accounts receivable due from any single customer.

The Corporation manages counterparty credit risk through various techniques, including limiting total exposure levels with individual counterparties consistent with the Corporation's policies and monitoring the financial condition of counterparties.

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

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

(ii) The Corporation, as permitted by the OEB's Retail Settlement and Distribution System Code, may obtain a security deposit or L/C from customers to mitigate risk of payment default.

(iii) The percentage of accounts receivable that is outstanding more than 90 days is approximately 1.47% of the total net outstanding balance.

(iv) The Corporation includes an amount of accounts receivable write-offs within net income for rate-setting purposes.

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31, 2019:

Total accounts receivable	$ 73,115
Less allowance for doubtful accounts	1,443
Total accounts receivable, net	$ 71,672
Of which:	
Unbilled revenue	$ 38,259
Outstanding 1 day but not more than 30 days	31,843
Outstanding 31 days but not more than 60 days	1,252
Outstanding 61 days but not more than 90 days	709
Outstanding 91 days but not more than 120 days	720
Outstanding more than 120 days	332
	73,115
Less: allowance for doubtful accounts	1,443
	$ 71,672

(d) Liquidity risk:
Liquidity risk is the risk that the Corporation 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 and funds from operations. Short-term liquidity is expected to be sufficient to fund normal operating requirements. The liquidity risks associated with financial commitments are as follows:

Financial commitments as of December 31, 2019:

	Due within one year	Due between one and five years	Due past five years
Financial liabilities:			
Accounts payable and accrued liabilities - undiscounted	$ 62,155	$ –	$ –
Short-term debt - undiscounted (note 10)	6,800	–	–
Long-term debt - undiscounted	905	148,105	32,255
Leases - discounted	477	903	260

(e) Fair values:
The Corporation included $3,144 of unrealized loss in its consolidated financial statements. This is the fair value of the interest rate swap derivatives which represents the amount that the Corporation would have paid to unwind its position as at December 31, 2019. This unrealized loss is not expected to affect cash as the Corporation intends to hold the financial instruments until their maturity.

Fair value measurements recognized in the consolidated statement of comprehensive income are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

The interest rate swap derivatives are all Level 2 as at December 31, 2019.

There were no transfers between levels during the period.

The carrying amounts of all financial instruments, except the short-term and long-term debt approximate fair values due to the immediate or short-term maturity of these financial instruments. The estimated fair values of the loans payable, including related party loans, are as follows:

Fair value	$ 185,892
Carrying value (notes 10 and 14)	188,065

(f) Capital management:
The Corporation considers its capital structure to consist of shareholders' equity, short-term debt, long-term debt, less cash and cash equivalents. The Corporation's capital structure was as follows:

Cash	$ (7,089)
Short-term debt	6,800
Long-term debt	181,265
	188,065
Share capital	97,692
Retained earnings	68,597
Contributed surplus	79,301
Contributed capital	25
Accumulated other comprehensive loss	(816)
	244,799
Total capital	$ 425,775

25. SUBSEQUENT EVENT:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the Corporation's business are not known at this time. These impacts potentially include an impact on the Corporation's ability to access and obtain capital financing, impairment of investments, reduction to operational cash flow as a result of the inability of the Corporation to fully recover on its customer accounts and potential future decreases in revenue or the profitability of the Corporation's ongoing operations.

Websites

elexiconcorp.com

elexiconenergy.com

elexicongroup.com

Telephone

Ajax, Pickering, Whitby:
905-427-9870

All other service areas:
1-888-445-2881

Elexicon Corporation Head Office

55 Taunton Road East
Ajax, Ontario L1T 3V3

elexicon CORP