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Consolidated Financial Statements of Elexicon Corporation

AND INDEPENDENT AUDITORS' REPORT

THEREON YEAR ENDED DECEMBER 31, 2020

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, 2020
- the consolidated statement of income and comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year 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, 2020, and its consolidated financial performance and its consolidated cash flows for the year 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

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.

Chartered Professional Accountants,
Licensed Public Accountants
Vaughan, Canada
March 26, 2021

ELEXICON CORPORATION

Consolidated Balance Sheet

(In thousands of dollars)

As at December 31, 2020, with comparative information for 2019

	Notes	2020	2019
ASSETS			
Current assets:			
Cash		$ 7,795	$ 7,089
Accounts receivable	3, 24(c)	84,989	71,672
Materials and supplies	22	5,162	4,419
Income taxes recoverable		-	303
Prepaid expenses		579	698
Other assets		-	752
Total current assets		98,525	84,933
Non-current assets:			
Property, plant and equipment	4, 23	463,612	436,629
Intangible assets	5, 23	7,441	5,277
Goodwill	2, 5	64,348	64,348
Deferred tax assets	8	35	121
Other assets	13(b)	126	135
Total non-current assets		535,562	506,510
Total assets		634,087	591,443
Regulatory balances	7	26,912	15,145
Total assets and regulatory balances		$ 660,999	$ 606,588

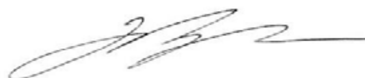
LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	2020	2019
Current liabilities:			
Accounts payable and accrued liabilities	9	$ 54,015	$ 62,155
Short-term debt	10	13,100	6,800
Income taxes payable		44	–
Deferred revenue	11	1,714	1,724
Deferred contributions	15	2,142	1,767
Deposits and developer obligations	12	16,425	15,354
Long-term debt	14	940	905
Other liabilities	20	363	475
Total current liabilities		88,743	89,180
Non-current liabilities:			
Long-term debt	10, 14	214,502	180,360
Deferred contributions	15	85,923	72,956
Employee future benefits	16	10,244	9,798
Unrealized loss on interest rate waps	24(e)	6,610	3,144
Deferred tax liabilities	8	7,394	2,638
Other liabilities	20	742	1,105
Total non-current liabilities		325,415	270,001
Total liabilities		$ 414,158	$ 359,181

	Notes	2020	2019
LIABILITIES AND SHAREHOLDERS' EQUITY (CONT'D)			
Shareholders' equity:			
Share capital	17	97,692	97,692
Contributed capital		25	25
Contributed surplus		79,301	79,301
Accumulated other comprehensive loss		(1,815)	(816)
Retained earnings		69,802	68,597
Total shareholders' equity		245,005	244,799
Total liabilities and shareholders' equity		659,163	603,980
Regulatory balances	7	1,836	2,608
Contingencies and guarantees	19		
Total liabilities, shareholder's equity and regulatory balances		$ 660,999	$ 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

ELEXICON CORPORATION

Consolidated Statement of Income and Comprehensive Income

(In thousands of dollars)

Year ended December 31, 2020, with comparative information for the period from April 1, 2019 to December 31, 2019

	Notes	2020	2019
Revenue:			
Commodity	21	$ 473,986	$ 305,445
Commodity cost		(480,262)	(311,627)
		(6,276)	(6,182)
Distribution revenue	21	79,380	58,759
Other income	21	6,482	2,478
Other loss	21	(848)	(1,251)
		78,738	53,804
Expenses:			
Operating and maintenance	22	14,084	12,185
Administration	22	30,874	22,880
Depreciation and amortization	6	19,231	14,130
		64,189	49,195
		14,549	4,609
Finance income		99	348
Finance costs	14	(6,029)	(4,736)
Unrealized loss on interest rate swaps		(3,465)	(72)
		(9,395)	(4,460)

	Notes	2020	2019
Income before income taxes		5,154	149
Income tax expense	8	(5,194)	(2,020)
Net loss for the period		(40)	(1,871)
Net movements in regulatory balances, net of tax:	7		
Net movements in regulatory balances		6,797	7,404
Income tax on net movements in regulatory balances		5,742	1,776
		12,539	9,180
Net income after net movements in regulatory balances		12,499	7,309
Other comprehensive loss, net of tax:			
Remeasurements of employee future benefits		(999)	(500)
Total comprehensive income		$ 11,500	$ 6,809

See accompanying notes to the consolidated financial statements.

ELEXICON CORPORATION

Consolidated Statement of Changes in Equity

(In thousands of dollars)

Year ended December 31, 2020, with comparative information for the period from April 1, 2019 to December 31, 2019

	Balance, December 31, 2019	Net income after net movements in regulatory balances	Other comprehensive loss	Dividends paid	Balance, December 31, 2020
Share capital	$ 97,692	$ –	$ –	$ –	$ 97,692
Contributed capital	25	–	–	–	25
Contributed surplus	79,301	–	–	–	79,301
Accumulated other comprehensive loss	(816)	–	(999)	–	(1,815)
Retained earnings	75,585	12,499	–	–	88,084
Dividends	(6,988)	–	–	(11,294)	(18,282)
Total equity	$ 244,799	$ 12,499	$ (999)	$ (11,294)	$245,005

	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, 2020
Share capital	$ 67,260	$ –	$ –	$ 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.

ELEXICON CORPORATION

Consolidated Statement of Cash Flows

(In thousands of dollars)

Year ended December 31, 2020, with comparative information for the period from April 1, 2019 to December 31, 2019

	Notes	2020	2019
Cash provided by (used in):			
Operating activities:			
Net income after net movements in regulatory balances		$ 12,499	$ 7,309
Net movements in regulatory balances		(12,539)	(9,180)
Adjustments:			
Depreciation and amortization	6	20,187	14,823
Amortization of deferred contributions		(1,767)	(1,044)
Loss on disposal/retirement of property, plant and equipment		847	1,251
Employee future benefits		(553)	187
Unrealized loss on interest rate swaps		3,465	72
Finance income		(99)	(348)
Finance costs		6,029	4,736
Income tax expense		5,194	2,020
Other assets/liabilities		(490)	1,297
Capital contributions received		15,109	26,652
Deposits and developer obligations		1,088	2,050

	Notes	2020	2019
Income taxes paid		400	(392)
Income taxes received		(484)	1,126
		48,886	50,559
Changes in non-cash operating working capital	23	(21,487)	(9,060)
Net cash provided by operating activities		27,399	41,499
Financing activities:			
Interest received		108	348
Repayment of long-term debt		(905)	(2,164)
Proceeds from short-term debt		6,300	6,800
Proceeds from long-term debt		35,083	20,000
Share redemption		–	(1,025)
Dividends paid	18	(11,294)	(5,591)
Interest paid		(6,029)	(4,736)
Net cash provided by financing activities		23,263	13,632
Investing activities:			
Additions to property, plant and equipment	23	(45,282)	(52,709)
Additions to intangible assets	23	(4,689)	(1,029)
Proceeds from disposal of property, plant and equipment		15	43
Net cash used in investing activities		(49,956)	(53,695)
Increase in cash		706	1,436
Cash, beginning of period		7,089	5,653
Cash, end of period		$ 7,795	$ 7,089

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

(In thousands of dollars)

Year ended December 31, 2020

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. Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

(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.

The OEB in March 2020 extended the ban on disconnecting residential and other low volume customers to July 31, 2020. This decision was made due to the COVID-19 pandemic as a payment relief measure implemented to assist customers. The Corporation followed OEB guidelines related to the ban on disconnections due to non-payment of the electricity bills by the customer.

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. All EEI residential customer rates have transitioned with the exception of Seasonal Residential customers for the Veridian rate zone. The Seasonal Residential rates will be fully transitioned in 2021 which is consistent with OEB decisions. These distribution rates are subject to regulation by the OEB.

(c) Revenue recognition:

(i) Electricity distribution and sale:

Revenue from the sale of electricity is recognized over time as the performance obligations are satisfied as the electricity is transferred to the customer. The value of which is determined on the basis of cyclical meter readings plus the estimated customer usage since the last meter reading date to the end of the year. 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 statement of income and 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. Revenue is recognized over time as the performance obligations are satisfied as the electricity is transferred to the customer. The value of which is determined on the basis of cyclical meter readings plus the estimated customer usage since the last meter reading date to the end of the year. 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 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 term of the contract with the customer.

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 provide the future customers access to the supply of electricity, is amortized to income on a straight-line basis over the term of the contract with the customer.

Government grants and the related performance incentive payments under Conservation and Demand Management ("CDM") programs are recognized as income in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received. Revenues and costs associated with CDM programs are presented using the net basis of accounting and recorded in other income.

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, and 9.66% for the Whitby rate zone.

The Corporation's 2020 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. During the year, the Whitby rate zone implemented OEB approved rates effective January 1. The Corporation elected to defer implementation of the 2020 rates for the Veridian rate zone from May 1, 2020 to January 1, 2021 to assist customers during the COVID-19 pandemic. This timing aligns with the Corporation's request and OEB approval to shift the Veridian rate year to January 1 starting in 2021.

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 January 2021, the IASB published the Exposure Draft "Regulatory Assets and Regulatory Liabilities", which sets out proposals that aim to give investors better information about the financial performance of companies that are subject to rate regulation. The deadline for submitting comments on the Exposure Draft is June 30, 2021. The IASB will consider feedback on the Exposure Draft in developing the final requirements.

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 or future 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 year.

(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 obligation 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 year 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 year. 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 year-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 represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. It is allocated from the acquisition date to the Corporation's rate regulated cash generating unit ("CGU") that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Goodwill is measured at cost less accumulated impairment losses, if any, and not amortized. Impairment testing for goodwill is carried out at each reporting date in the context of the CGU by comparing carrying amount with its recoverable amount. The recoverable amount of an asset or CGU is the greater of an asset's or CGU's fair value less costs of disposal and its value in use.

Impairment losses are recognized in net income. Impairment losses relating to CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis. An impairment loss in respect of goodwill is not reversed.

(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 and finite lived intangible assets is 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.

Goodwill and intangible assets with indefinite lives are tested for impairment annually and when circumstances indicate that the recoverable amount of an asset or CGU may be below their carrying value.

The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs of disposal. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU, a suitable discount rate in order to calculate a present value as a basis for determining impairment and an estimated terminal value calculated by discounting the final year in perpetuity.

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. 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 0.45% per annum as of December 31, 2020. 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 year.

The Corporation recognizes a current liability for the expected cost of accumulated non vested sick leave benefits at the end of the reporting year. 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 pays certain medical benefits on behalf of some of its retired employees.

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 years of service in the attribution year 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 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 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 year or a later year.

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 years 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 income and comprehensive income in the year 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 statement of income and 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:

At inception of a contract, the Corporation assess whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Corporation with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date.

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 years. 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) Notes 1(g), (h) - estimation of useful lives of PP&E and intangible assets; (iii) Note 1(c)(i), 1(d) and note 7 - recognition and measurement of regulatory balances;

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

(v) Note 1(o) - recognition and measurement of provisions and contingencies; (vi) Note 1(c)(i) and note 24(c) - expected credit losses; and

(vii) Note 1(i), note 2 and note 5(b) - determining goodwill value-in-use.

Management is required to make significant judgements in the area of:

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.

Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years 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 year in the consolidated statement of income and 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. The Corporation's definition of capital includes shareholders' equity, short term and long-term debt, less cash and cash equivalents.

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

(u) Changes in accounting policies:

The following amended standards and interpretations (effective from January 1, 2020) do not have a significant impact on the Corporation's consolidated financial statements:

- 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); and
- Definition of a Business (Amendments to IFRS 3).

(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 year. 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) Classification of Liabilities as Current or Non-current (Amendments to IAS 1):

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or noncurrent. Specifically, the amendments clarify one of the

criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

(ii) Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")):

In May 2020, the IASB issued amendments to IAS 37 regarding costs that should be included as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments clarify that the cost of fulfilling the contract comprises all costs that relate directly to the contract. Such costs include both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied. The amendments are effective for annual periods beginning on or after January 1, 2022, with early adoption permitted.

The Corporation is currently assessing the impact of the above amendments on its financial statements.

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 to December 31, 2019. 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:

	2020	2019
Energy revenue	$ 36,647	$ 28,629
Unbilled revenue	39,568	38,259
Project expenditures recoverable	10,571	2,608
Other	2,421	3,619
	89,207	73,115
Less: expected credit losses	4,218	1,443
	$ 84,989	$ 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, in particular - the best estimate of the impact of the COVID-19 pandemic.

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at the year end.

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

4. PROPERTY, PLANT AND EQUIPMENT:

December 31, 2020:

	December 31, 2019	Additions/ depreciation	Disposals/ retirements	December 31, 2020
Cost				
Land	$ 2,176	$ –	$ –	$ 2,176
Land rights	452	9	–	461
Buildings (a)	25,138	669		25,807
Distribution station equipment	57,438	2,672	(394)	59,716
Transmission and distribution system	359,211	35,969	(647)	394,533
Meters	23,803	1,287	(73)	25,017
Office equipment	2,401	117	–	2,518
Computer hardware	4,552	1,556	–	6,108
Vehicle fleet (b)	10,991	826	–	11,817
Renewable power generation	1,145	1,212	–	2,357
Construction in progress	36,899	1,811	–	38,710
	$ 524,206	$ 46,128	$ (1,114)	$ 569,220
Accumulated depreciation				
Land rights	$ 67	$ 12	$ –	$ 79
Buildings (a)	9,276	1,138	–	10,414
Distribution station equipment	7,860	1,805	(22)	9,643
Transmission and distribution system	50,253	11,248	(180)	61,321
Meters	10,905	1,883	(50)	12,738
Office equipment	1,652	131	–	1,783
Computer hardware	3,187	722	–	3,909
Vehicle fleet (b)	4,081	1,258	–	5,339
Renewable power generation	296	86	–	382
	$ 87,577	$ 18,283	$ (252)	$ 105,608
Net book value	$ 436,629	$ 27,845	$ (862)	$ 463,612

December 31, 2019:

	April 1, 2019	Acquisition additions	Additions/ depreciation	Disposals/ retirements	December 31, 2020
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	$ 57,226	$ 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		$ 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 (2019 - $292) office building right of use assets and $224 (2019 - $134) accumulated amortization.

(b) Includes $1,700 (2019 - $1,700) vehicle right of use assets and $669 (2019 - $286) accumulated amortization.

During the year, borrowing costs of $646 (2019 - $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 3.28% (2019 - 3.47%)

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

5. INTANGIBLE ASSETS AND GOODWILL:

(a) Intangible assets:

December 31, 2020:

	December 31, 2019	Additions/ amortization	Disposals/ retirements	December 31, 2020
Cost				
Application software and other	$ 14,780	$ 2,976	$ –	$ 17,756
Construction in progress related to application software and other	490	453	–	943
Capital contributions (note 19 (b))	2,170	602	–	2,772
	$ 17,440	$ 4,031	$ –	$ 21,471
Accumulated amortization				
Application software and other	$ 12,163	$ 1,784	$ –	$ 13,947
Capital contributions	–	83	–	83
	$ 12,163	$ 1,867	$ –	$ 14,030
Net book value	$ 5,277	$ 2,164	$ –	$ 7,441

	April 1, 2019	Acquisition additions	Additions/ amortization	Disposals/ retirements	December 31, 2020
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 2020.

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:

	December 31, 2019	Additions	Impairments	December 31,2020
Goodwill	$ 64,348	$ –	$ –	$ 64,348

(c) Impairment test:

Goodwill with carrying amount of $64,348 was allocated to the Corporation's rate regulated CGU as a result of business acquisition and amalgamation. Impairment testing was carried out for December 31 by comparing the recoverable amount with the carrying amount. The recoverable amount of this CGU is based on its value in use, determined by discounting the future cash flows to be generated from the continuing operation of the CGU. The key assumptions used in the estimation of value in use were as follows.

Discount rate	4.7%
Terminal value growth rate	2.0%

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. Revenue growth was projected based on the average growth rate, the estimated sales volume and expected price increases for the next five years.

The discount rate was a post-tax measure based on the return of equity rate issued by OEB on November 9, 2020, and the rates of long-term and short-term debts that EEI currently holds.

The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

The impairment test was performed by considering the latest developments and economic conditions, including those related to the COVID-19 pandemic.

The estimated recoverable amount of the CGU was determined to be higher than its carrying amount, therefore no impairment was recorded.

6. DEPRECIATION AND AMORTIZATION:

	2020	2019
Total depreciation and amortization expense	$ 20,187	$ 14,823
Allocated to:		
Depreciation/amortization of vehicle fleet included in operating and maintenance expenses	871	654
Depreciation/amortization of assets in non-regulated utility operations included in other income	85	39
	956	693
Depreciation and amortization expense	$ 19,231	$ 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:

- 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;
- 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;
- 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;
- In 2020, the Corporation incurred costs due to the COVID-19 pandemic that were outside of the normal operations of the Corporation. The OEB allowed the Corporation to establish deferral accounts to track these costs for possible future disposition, however, the Corporation has concluded that the OEB Staff Proposal, issued in December 2020, has introduced uncertainty as to whether these costs can actually be recovered. Consequently, the Corporation does not believe that there

are currently amounts that are probable of recovery. This may change in the future periods as more OEB guidance is issued.

- The Corporation applied and received approval for disposition for of its Group 1 Deferral Accounts in 2021 for the Whitby rate zone (Group 1 accounts represent the variance(s) of the differences between purchased and billed power costs). These balances will be refunded to customers via rate riders for the 2021 year.
- 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;
- The Corporation has deferred costs related to: IFRS implementation, lost revenue adjustment mechanism costs, and OEB assessment costs; and
- 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:

	December 31, 2019	Balances arising in the year	Recovery/ reversal	Other movements	December 31, 2020	Remaining recovery/ reversal period (years)
Approved settlement variances (a)	$ –	$ 452	$ 623	$ (922)	$ 153	1 year
Future settlement variances - RSVA (a)	3,292	5,228	–	2	8,522	Note 1
Future settlement variances -RCVA (a)	688	24	–	–	712	Note 1
One-time IFRS conversion (b)	502	7	–	–	509	Note 1
IFRS transitional adjustments (d)	2,461	515	–	–	2,976	Note 1
Other (e)	2,344	402	(452)	–	2,294	Note 1
Deferred taxes (f)	5,858	5,888	–	–	11,746	Note 2
	$ 15,145	$ 12,516	$ 171	$ (922)	$ 26,912	

	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:

	December 31, 2019	Balances arising in the year	Recovery/ reversal	Other movements	December 31, 2020	Remaining recovery/ reversal period (years)
Approved settlement variances (a)	$ 921	$ –	$ –	$ (921)	$ –	Note 3
Stranded meters (c)	24	–	2	–	26	Note 1
Deferred taxes (f)	1,663	147	–	–	1,810	Note 2
	$ 2,608	$ 147	$ 2	$ (921)	$ 1,836	

	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 Corporation intends to seek recovery or refund in future rate applications to the OEB. These are expected to be settled in 2 to 3 years.

Note 2 The Corporation 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 January 1, 2020 to December 31, 2020.

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.

For the 2020 rate year, the OEB approved:

- Lost revenue recovery for 2017 conservation program impacts for the Whitby rate zone.

(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. The rebasing under IFRS will be due in ten years from the date of amalgamation i.e. April 1, 2019.

(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. These amounts reflect the small residual balances for Stranded Meters which will be addressed in a future 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. The rebasing under IFRS will be due in ten years from the date of amalgamation i.e. April 1, 2019.

(e) Other:

These amounts relate to the deferral of costs or variances associated with lost revenue from the impact of conservation programs and deferred rate implementation, as well as 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 $11,746 (2019 - $5,858) as at December 31, 2020.

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of $1,810 (2019 - $1,663) as at December 31, 2020.

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:

	2020	2019
Income before income taxes	$ 5,154	$ 149
Federal and Ontario statutory income tax rate	26.50%	26.50%
Provision for income taxes at statutory rate	$ 1,366	$ 39
Increase (decrease) resulting from:		
Temporary differences expected to be recovered from customers	(3,226)	(2,470)
Current period losses for which no deferred tax asset is recognized	262	73
Over provided in prior periods	(92)	(51)
Other miscellaneous	1,142	2,653
Income taxes recorded in regulatory balances movements	5,742	1,776
Income tax expense	$ 5,194	$ 2,020
Allocated:		
Current expense (recovery)	352	$ (51)
Deferred expense (recovery)	(900)	295
Income taxes recorded in regulatory	5,742	1,776
Total income tax expense	$ 5,194	$ 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:

	2020	2019
Deferred tax assets (liabilities):		
Property, plant and equipment and intangible assets (a)	$ (13,824)	$ (8,605)
Employee future benefits	3,680	3,504
Sick leave liability	393	363
Non-capital losses	930	1,047
Unrealized loss on interest rate swaps	1,752	833
Deferred revenue, contingent liability and others	482	1,009
	(6,587)	(1,849)
Valuation allowance	(772)	(668)
	(7,359)	(2,517)
Deferred tax liabilities:		
Regulatory balances	1,810	1,663
Moved to regulatory deferral account credit balances	(1,810)	(1,663)
	–	–
Deferred tax liabilities	$ (7,359)	$ (2,517)

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

The Corporation has non-capital losses for income tax purposes of $3,674 available to reduce future years' income for tax purposes. $3,491 will expire between 2037 and 2040 and $183 will expire by 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:

	2020	2019
Power bill accrual	$ 27,851	$ 28,741
Customer credit balances	6,087	8,781
Non-vested sick leave liability	1,092	1,013
Other accounts payable and accrued liabilities	18,985	22,087
Hydro One contractual obligation (note 19(b))	–	1,533
	$ 54,015	$ 62,155

Accounts payable are measured at amortized cost.

10. CREDIT FACILITIES:

As at December 31, 2020, 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 $100,000 up to June 30, 2021 after which date the credit limit shall reduce to $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);**

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

(d) **Uncommitted revolving demand credit facility with a credit limit of $5,000.**

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, 2020, $13,100 was drawn out of facility (a); $36,227 was outstanding out of facility (b) and $90,000 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, 2020, $1,615 of deferred revenue represents the balance at year 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, 2020, $31 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, 2020, $68 of deferred revenue represents other unearned revenue jobs.

12. DEPOSITS AND DEVELOPER OBLIGATIONS:

	2020	2019
Advance payments - construction deposits	$ 89	$ 1,528
Customer deposits	7,225	7,225
Developer obligations	9,111	6,601
Deposits and developer obligations	$ 16,425	$ 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:

	Town of Ajax	Town of Whitby	City of Pickering	City of Belleville	Municipality of Clarington	Total
Electricity and services revenue	$ 2,562	$ 2,791	$ 2,002	$ 1,294	$ 539	$ 9,188
Finance costs on the notes payable	810	1,171	1,035	322	343	3,681
Property taxes paid	218	240	45	49	34	586

	Town of Ajax	Town of Whitby	City of Pickering	City of Belleville	Municipality of Clarington	Total
Accounts receivable balance	$ 303	$351	$173	$217	$36	$1080

	Town of Ajax	Town of Whitby	City of Pickering	City of Belleville	Municipality of Clarington	Total
Dividends declared and paid	$ 2,468	$ 3,606	$ 3,152	$ 1,022	$ 1,046	$ 11,294

	2020	2019
Compensation paid to key management personnel (i)	$ 3202	$ 2082

(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 $269 (2019 - $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, joint operations:

(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.

The joint venture started operation in July 2015. In 2020 the Corporation included its share of net income $7 (2019 - $5) in the financial statements.

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 $126 (net of repayments and intercompany funding) is included in other assets of the Corporation as at December 31, 2020. 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%.

On May 29, 2019, 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.

(c) Elexicon, Lakefront, Solera Joint Operation:

EEI, Lakefront Utility Services Inc. and Solera Sustainable Energies Company Limited entered into a

joint operation agreement with an equity interest of 42.5%, 42.5% and 15% respectively, to build, own, operate and maintain a solar generation project at the property owned by The Corporation of the Town of Cobourg, located at 739 D' Arcy Street, Cobourg, Ontario (Building 13).

The joint venture started operation in 2019. In 2020 the Corporation included its share of net income $9 in the financial statements.

In 2019, the Town of Cobourg Holding Inc. financed the above project for an amount of $202 for a 25-year term at an interest rate of 5.75%. An amount of $83 is included in the Corporation's long-term-debt as at December 31, 2020 (note 14). The funding provided by the Corporation of the Town of Cobourg was in the same proportion was in the same proportion as the equity interest: EEI 42.5%, Lakefront Utility Services Inc. 42.5% and Solera Sustainable Energies Company Limited 15%.

The Corporation, as a joint operator accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operations in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

14. LONG-TERM DEBT:

	2020	2019
Notes payable to the shareholders, due on demand, at the rate of 4.13% (a)	$ 89,132	$ 89,132
Loan payable to Town of Cobourg Holding Inc., maturing in February 2044, at a rate of 5.75%	83	–
Long-term debt from the Bank, maturing on March 2, 2045 (note 10(b))	36,227	37,133
Long-term debt from the Bank, maturing on December 31, 2024 (note 10(c))	90,000	55,000
	215,442	181,265
Less: current portion	940	905
	$ 214,502	$ 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, 2022.

Scheduled principal repayments for the next five years and thereafter as of December 31, 2020:

2021	$ 940
2022	90,108
2023	1,013
2024	91,051
2025	1,091
Thereafter	31,239
	215,442
Less: current portion	940
	$ 214,502

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, 2020:

2021	$ 7,104
2022	7,068
2023	3,350
2024	3,312
2025	1,184
Thereafter	12,551
	$ 34,569

Expected weighted average borrowing cost:

2021	3.35%
2022	4.25%
2023	2.77%
2024	4.43%
2025	4.12%

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

	2020	2019
Interest on:		
Notes payable and loans	$ 5607	$4965
Customer deposits and other	1068	184
	6,675	5,149
Less: capitalized borrowing costs	646	413
	$ 6,029	$ 4,736

Long-term debt is measured at amortized cost.

15. DEFERRED CONTRIBUTIONS:

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

The continuity of deferred contributions is as follows:

	2020	2019
Deferred contributions, beginning of year	$ 74,723	$ 49,115
Contributions received	15,109	26,652
Contributions amortized as other income	(1,767)	(1,044)
Deferred contributions, end of year	88,065	74,723
Less: Current	2,142	1,767
Non-current	$ 85,923	$ 72,956

Customer and developer 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 year ended, the Corporation made contributions totalling $2,905 (2019 – $2,169) to OMERS. These contributions have been recognized as an operational expenditure net of the amount capitalized in assets. The expected payment for 2021 is $2,900 and representing less than 1% of the group plan contributions. As at December 31, 2019, and subject to the estimates, assumptions and valuations of OMERS, the plan obligations are 97% funded by its assets. OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions.

Long-term debt is measured at amortized cost.

(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 year 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:

	2020	2019
Accrued benefit liability recognized, beginning of year	$ 9,798	$ 9,111
Current service costs	275	215
Past service costs (gain)	(831)	-
Interest costs	310	245
Benefit payments	(229)	(245)
Remeasurements recognized in other comprehensive income	921	472
Accrued benefit liability, end of year	$ 10,244	$ 9,798

The amounts presented are based upon an actuarial valuation performed as at December 31, 2020.

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% (2019 - 2.00% for future years.

(ii) Interest (discount) rate:

Amounts were determined using an annual discount rate of 2.70% (2019 - 3.20%).

(iii) Salary levels:

Future general salary and wage levels were assumed to increase at 3.20% (2019 - 3.20%) per annum.

(iv) Health and dental care:

The health and dental care cost increases are 4.20% (2019- 4.20%) and 4.50% (2019 - 4.50%), respectively.

(c) Sensitivity Analysis:

Discount rate is one of the significant actuarial assumptions for benefit obligation measurement purposes.

Changes in discount rate assumptions would have had the following effect on the benefit obligation:

Discount Rate	Estimated value of future payments	% difference
Base (2.7%)	$ 10,244	–
(1.70%) or -1.00%	12,549	+ 23%
(3.70%) or +1.00%	8,524	- 17%

(d) 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:

	2020	2019
Authorized: 100,000 Unlimited common shares		
Issued	$ 97,692	$ 97,692

Under the 2019 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 fiscal year (2019), second fiscal year (2020) and third fiscal year (2021), respectively, and provided that, where such first fiscal year begins on a date other than January 1 and ends on December 31, such dividends shall be equal to $11,280 pro-rated for the number of days in the first financial year;

(b) the dividend target in respect of the fourth fiscal year (2022) of the Corporation and each year thereafter will be 52.5% of EEI's net income in respect of such year; plus

(i) 52.5% of the aggregate net income of all of the wholly owned subsidiaries of the Corporation other than EEI, or 52.5% of the proportion owned by the Corporation of a non-wholly owned subsidiary; plus

(ii) 52.5% of the after-tax interest income in the Corporation earned on any promissory notes issued to the Corporation by EEI or any subsidiary.

(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 year, the Board of Directors of the Corporation:

- declared and paid dividends totalling $11,294 (2019 - $5,591).

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 $161,680 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 $2,135 in 2020 (2019 - $637) to Hydro One and recognized the same as an intangible asset. The Corporation recorded a current liability for $1,533 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, EEI has provided letters of credit for $6,900 and $807 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:

2021	$ 363
2022	229
2023	179
2024	124
2025	95
Thereafter	115
	$ 1,105

Leases are measured at amortized cost.

As at December 31, 2020, a lease obligation of $363 (2019 - $475) is recorded as a current liability and $742 (2019 - $1,105) is recorded as a non-current liability.

The Corporation has also recognized $75 (2019 - $59) interest costs (recognized as finance costs in the consolidated statement of income and comprehensive income and the consolidated statement of cash flows) and $475 (2019 - $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. REVENUES AND OTHER INCOME (LOSS):

	2020	2021
Commodity revenue	$ 473,986	$ 305,455
Distribution revenue	79,380	58,759
Other income:		
Late payment charges	$ 1,176	$ 333
Customer charges (a)	1,769	946
Pole rentals	1,330	936
Amortization of deferred contributions	1,767	1,044
Miscellaneous	440	(781)
	$ 6,482	$ 2,478
Other loss (disposal of PP&E)	(848)	(1,251)

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

Energy sales and distribution revenue by customer class are as follows:

	2020	2021
Residential service	$ 265,518	$ 174,754
General service	263,956	173,725
Large users	23,892	15,725
Total commodity and distribution revenue	$ 553,366	$ 364,204

22. OPERATING, MAINTENANCE AND ADMINISTRATION EXPENSES:

	Operating and maintenance	Administration	Total 2020	Total 2019
Salaries and benefits	$ 7,795	$ 14,301	$ 22,096	$ 18,678
External services	5,043	12,730	17,773	8,648
Materials and supplies	373	81	454	246
Vehicle	873	18	891	731
Other	-	3,744	3,744	6,762
	$ 14,084	$ 30,874	$ 44,958	$ 35,065

23. CONSOLIDATED STATEMENT OF CASH FLOWS:

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

	2020	2021
Accounts receivable	$ (12,577)	$ (1,826)
Materials and supplies	(743)	397
Prepaid expenses	119	1,151
Accounts payable and accrued liabilities	(8,275)	(8,367)
Deferred revenue	(11)	(415)
	$ (21,487)	$ (9,060)

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

	2020	2021
Purchase of PP&E, cash basis	$ 45,282	$ 52,709
Net change in accruals related to PP&E	846	4,517
Total additions to PP&E	$ 46,128	$ 57,226
Purchase of intangible assets, cash basis	$ 4,689	$ 1,029
Net change in accruals related to intangible assets	(658)	1,201
Total additions to intangible assets	$ 4,031	$ 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 $58 as at December 31, 2020.

(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.

The COVID-19 pandemic creates a higher degree of uncertainty due to economic and business disruption. Management considers current economic and credit conditions in revising the estimates and judgments used in preparation of the expected credit losses provision on its accounts receivable balances. The Corporation applies provision rates based on recent and changing trends to customer aging balances, customer collection patterns and risk of customer default and has recorded an increase to the expected credit loss allowance of $2,775 to account for these anticipated risks, which includes the impact

of the COVID-19 pandemic. The impact of the OEB's moratorium on disconnections impacted the Corporation's ability to mitigate credit risk from customer accounts receivable balances.

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 5.6% (2019 - 1.5%) of the total net outstanding balance.

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

Expected credit risk losses:

2019		$ 1,443
Additional allowances		3,440
Write off	(665)	
		2,775
2020		$ 4,218

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31, 2020:

	2020	2019
Total accounts receivable	$ 89,207	$ 73,115
Less: expected credit losses	4,218	1,443
Total accounts receivable, net	$ 84,989	$ 71,672
Of which:		
Unbilled revenue	$ 39,568	$ 38,259
Outstanding less than 30 days	41,842	31,843
Outstanding 31 days but not more than 60 days	1,672	1,252
Outstanding 61 days but not more than 90 days	1,371	709
Outstanding 91 days but not more than 120 days	833	720
Outstanding more than 120 days	3,921	332
	89,207	73,115
Less: expected credit losses	4,218	1,443
	$ 84,989	$ 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. The Corporation has access to credit facilities and monitors cash balances daily. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations and a revolving credit facility. Short-term liquidity is expected to be sufficient to fund normal operating requirements.

The current challenging economic climate affected by factors including but not limited to the effects of the COVID-19 pandemic may lead to material adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on the Corporation's operating results and financial position in the future. Accordingly, the Corporation continues to monitor and adapt its response plan as the economic climate evolves.

The liquidity risks associated with financial commitments are as follows:

Financial commitments as of December 31, 2020:

	Due within one year	Due between one and five years	Due past five years
Financial liabilities:			
Accounts payable and accrued liabilities - undiscounted	$ 54,015	$ –	$ –
Short-term debt - undiscounted (note 10)	13,100	–	–
Long-term debt - undiscounted	940	183,263	31,239
Leases - discounted	363	627	115

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 $6,610 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, 2020. 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, 2020.

There were no transfers between levels during the year.

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:

Instrument	Fair Value 2020	Carrying value 2020	Fair value 2019	Carrying value 2019
Town of Ajax promissory notes, due on demand	$ 19,610	$ 19,610	$ 19,610	$ 19,610
Town of Whitby promissory note, due on demand	28,338	28,338	28,338	28,338
City of Pickering promissory notes, due on demand	25,069	25,069	25,069	25,069
City of Belleville promissory notes, due on demand	7,794	7,794	7,794	7,794
City of Clarington promissory notes, due on demand	8,321	8,321	8,321	8,321
Loan payable to the Town of Cobourg Holding Inc., maturing on September 1, 2031	108	83	-	-
Long-term debt from the Bank, maturing on March 2, 2045	39,689	36,227	34,960	37,133
Long-term debt from the Bank, maturing on December 31, 2024	90,000	90,000	55,000	55,000
Short-term debt	13,100	13,100	6,800	6,800
Total	$ 232,029	$ 228,542	$ 185,892	$ 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:

	2020	2019
Cash	$ (7,795)	$ (7,089)
Short-term debt	13,100	6,800
Long-term debt	215,442	181,265
	228,542	188,065
Share capital	97,692	97,692
Retained earnings	69,802	68,597
Contributed surplus	79,301	79,301
Contributed capital	25	25
Accumulated other comprehensive loss	(1,815)	(816)
	245,005	244,799
Total capital	$ 465,752	$ 425,775