2020

Empowering Our Community

2020 ANNUAL REPORT

elexicon CORP

elexicon ENERGY

elexicon GROUP

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CORP

Empowering Our Community

Chair's Message

Empowering Our Community

When Veridian Corporation and Whitby Hydro Energy Corporation joined forces in April of 2019 to form Elexicon Corporation, nobody imagined that less than a year later we would all be grappling with a global pandemic.

The Board of Directors is extremely proud of how the leadership and staff at both of its subsidiaries, Elexicon Energy and Elexicon Group, successfully pivoted their operations to protect the health and safety of employees while working to meet their customers' needs and continuing to realize the anticipated benefits of the merger for its municipal shareholders: the Town of Whitby, the City of Pickering, the Town of Ajax, the Municipality of Clarington and the City of Belleville.

TRANSFORMATIONAL SUCCESS STORY

Since Elexicon Corporation was launched, the Boards of Directors of Elexicon Corporation, Elexicon Energy and Elexicon Group and their respective management teams have continued to work closely together to not only ensure the anticipated merger synergies are being achieved but the necessary groundwork is also being done to position the subsidiaries to achieve their strategic objectives to the benefit of both customers and the Corporation.

We are especially proud of the Corporation's performance in 2020 given the challenges COVID-19 has posed to us all. Elexicon's employees really stepped up to the challenges. They quickly adapted to new ways of working keeping each other safe and healthy and adjusted programs to maintain our financial footing.

Our results for the period January 1 to December 31, 2020 were strong, with net income of $12.5 million and capital investments of $46.1 million.

Dominion Bond Rating Service assigned a rating of "A" with a stable trend to Elexicon. Municipal shareholders benefit from distributions of Elexicon's earnings through annual dividends. For the twelve months ended December 31, 2020, Elexicon recorded dividends paid or payable to shareholders of $11.29 million.

These results highlight the strength of our leadership teams and employees to navigate multiple challenges while maintaining financial prudence and responsibility on behalf of our shareholder communities and customers.

SUPPORTING OUR COMMUNITY AND EMBRACING SUSTAINABILITY

Without a doubt, the world is a different place than it was a year ago. The crisis has highlighted that how we create value is just as critical as the results we achieve. In 2020, Elexicon invested $350,000 to support local not-for-profit organizations and a variety of worthy causes that contribute to community well-being. In 2021, we will continue to respond to other challenges that persist in our industry, primarily an historic and revolutionary transformation in the energy and utilities sector driven by another crisis; climate change. Through both our companies, Elexicon Energy and Elexicon Group we have the ability to be a force for good and help our municipalities, businesses and communities embrace a carbon neutral world through electrification. The Board of Directors and management of both companies have used this past year to reflect and start developing a roadmap to achieve these goals and harness new and disruptive technologies to improve our environment, economies, and communities to drive sustainability while also adhering to evolving energy policies and regulations.

In a year like no other I would like to sincerely thank the members of the Elexicon Corporation, Elexicon Energy and Elexicon Group Boards of Directors for their resilience, graciousness and commitment to good governance. And to the employees of Elexicon for their resilience, tenacity and hard work as we continue to drive towards a better future.

Patrick McNeil
Elexicon Corporation, Board Chair

Who We Are

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

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

ELEXICON CORPORATION

Is a holding company, 100 per cent owned by five municipal shareholders: the Town of Whitby, the City of Pickering, the Town of Ajax, the Municipality of Clarington and the City of Belleville. Elexicon Corporation consists of two wholly owned subsidiary operating companies: Elexicon Energy Inc. and Elexicon Group Inc. Elexicon's companies are committed to supporting economic growth and enhancing the quality of life in communities by providing essential electricity distribution and energy-related services – safely, reliably, cost-effectively and with a dedication to superior customer service.

ELEXICON ENERGY INC.

Is a regulated electricity distribution company that delivers electricity to approximately 170,000 homes and businesses located in ten municipalities in east-central Ontario. The company is regulated by the Ontario Energy Board, an independent regulatory body that makes decisions and provides advice to the government in order to contribute to a sustainable, reliable energy sector, and to help consumers get value from their natural gas and electricity services. Elexicon Energy also operates a non-regulated small business focused on renewable energy generation.

ELEXICON GROUP INC.

Is a non-regulated energy services business offering energy management and procurement consulting services, combined heat and power solutions, and specialty metering. The company is focused on both organic growth and expanding the business through merger and acquisition opportunities.

OUR GOALS

Elexicon Corporation's goal is simple, to generate significant benefits for our customers and shareholders and strengthen the company to capitalize on new opportunities presented by the ever-changing energy landscape.

To realize this goal we are focused on eight key areas of impact:

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

Our Performance

$109 million

In economic value and benefits delivered in 2020. Value created by Elexicon Corporation is fundamentally measured in terms of financial performance and operational excellence.

In addition, the Province of Ontario and the communities we serve derive other economic benefits that, in 2020, amounted to more than $109 million.

FINANCIAL HIGHLIGHTS

Despite the global pandemic, regulatory changes as a result of the global crisis and our recent merger transformation between Veridian Connections and Whitby Hydro in 2019, Elexicon Corporation experienced a strong financial performance in 2020. Thanks to our fiscal prudence and merger synergies, Elexicon Corporation had a net income of $12.5 million and capital investment of $46.1 million.

$46.1 million

In capital expenditures in 2020. Investments in electricity distribution infrastructure to serve the needs of our growing communities.

$45 million

In operating expenses in 2020. Property taxes, water costs, facility costs, professional fees, local purchasing, employee compensation and benefits, etc.

$11.2 million

Dividends paid or payable to our shareholders for reinvestment in our communities.

$6.5 million

Payments to capital Providers and Government. Interest and payments in lieu of taxes.

Corporate Governance

Elexicon Corporation believes that good governance in business leads to great outcomes. We are governed in accordance with the Business Corporations Act (Ontario) and a Unanimous Shareholders' Agreement, and provide voluntary disclosure on our corporate governance practices.

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

Board Membership:

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

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

INDEPENDENT BOARD MEMBERS

Patrick McNeil ICD.D
Chair,
Independent
Director

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

Jim Macpherson
President,
Macpherson &
Associates Inc.

Brian Mountford
Independent
Director

Doug Parker CPA-CMA
Independent
Director

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

SHAREHOLDER BOARD MEMBERS

Shaun Collier
C.Dir
Mayor,
Town of Ajax

Adrian Foster
Mayor,
Municipality of
Clarington

Don Mitchell
Mayor,
Town of Whitby

Mitch Panciuk
Mayor,
City of Belleville

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

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

2020 Board and Committee Meeting Attendance

ELEXICON CORPORATION

Member	Board Meetings	Committee Meetings
Patrick McNeil (Chair)(1, 2)	11/11	15/15
Jim Macpherson (Vice Chair) (1)	11/11	9/9
Ron Chatterton (2)	10/11	6/6
Don Mitchell	10/11	
Adrian Foster (1)	10/11	8/9
Dave Ryan (Appointed a designate in March 2020)	2	
Shaun Collier (2)	11/11	6/6
Mitch Panciuk (2)	11/11	6/6
Lesley Rose (1)	11/11	9/9
Doug Parker (1)	11/11	9/9
Brian Mountford (2)	11/11	6/6
Ian Cumming (Mayor Ryan's Designate March 2020)	9/9	

MEMBER OF:

1. Audit, Finance & Risk Management Committee
2. Ad-hoc Administration Committee

ELEXICON ENERGY INC.

Member	Board Meetings	Committee Meetings
Paul Murphy (Chair) (1,2,3)	11/11	11/11
Ron Chatterton (1, 3,4)	11/11	6/6
Doug Parker (1)	11/11	5/5
Ted Baker (2)	11/11	5/5
Dave McGregor (2,3)	11/11	6/6
Nicole McNeill (1,4)	11/11	5/5
Sean O'Dwyer (2)	11/11	5/5

MEMBER OF:

1. Audit, Finance& Risk Management Committee
2. Human Resources, Compensation & Governance Committee
3. Ad-hoc Merger Integration Committee (last meeting in Feb. 2020)
4. Nominating Committee (the Committee met once in 2020)

ELEXICON GROUP INC.

Member	Board Meetings
Karen Fisher (Chair)	20/20
Jim Macpherson	20/20
Lesley Rose	20/20
Darren MacDonald	19/20
Murray Angus	18/20

Corporate Giving

Our Purpose in Action

Elexicon Corporation is more than just a public utility.

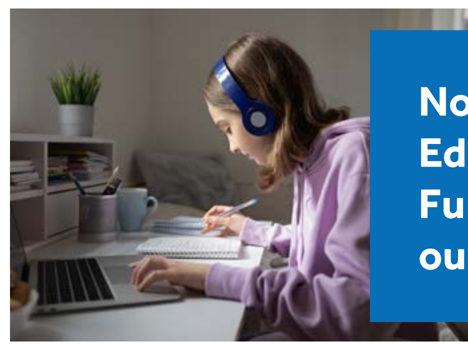
Our purpose is to keep the communities we serve both healthy and safe, not only through our safe and reliable energy services but by comforting, nourishing, educating and ultimately shaping a stronger community and a better world. This purpose inspires us to act resolutely in the face of challenge and change. It grounds our values and gives our work in the community meaning.

Supporting our Communities During COVID-19

Elexicon customers, community partners and organizations coping with the pandemic received financial support and advice including access to much needed government support programs. By year-end we helped provide over $625,500 in funding for more than 750 customers, businesses and organizations through the CEAP residential, CEAP small business and Elexicon’s Corporate Giving Program.

Helping Build Healthier Communities

With the safety of our community threatened by an unparalleled health crisis, Elexicon provided over $80,000 to help support the health needs of our community including providing support to our local hospitals.



Nourishing and Educating a Brighter Future Through our Youth

Elexicon believes in empowering the children and youth in our communities. In 2020 we helped fund over 20 organizations in the communities we serve including the Women for STEM program at Ontario Tech University, and provide bursaries to over 25 high schools.

elexicon
ENERGY

Your Power is our Response-Ability

President and CEO Message

To say this past year was a year like no other would be considered an understatement.

The global pandemic is one of the most difficult challenges our global and local communities, economies and systems have had to endure in decades. This pandemic gave us all a new awareness of the importance of community, kinship, safety, the environment and responsibility. It has tested our collective resolve and challenged us to quickly shift our perspectives and priorities.

The lessons of 2020 taught us that the ways we connect with one another, the values we respect, and the people who support us are critical to our ability to drive safety, recovery, sustainability, resilience and growth.

As the president and CEO of a newly merged utility, I am especially proud of our 258 employees at Elexicon Energy who showed an unwavering commitment to supporting the needs of our community. Our electricity distribution teams and essential workers who were required to work onsite to ensure our community had a safe and reliable source of energy to power our hospitals, homes, businesses, schools and grocery stores; you are our everyday heroes. Our customer care representatives and the rest of our teams found new ways to integrate the care they provide to our 171,000 customers with the care for their own families. You showed tremendous resilience as we shifted to a work from home model, and added new digital technologies to ensure we could continue to keep our employees safe and healthy while dealing with urgent customer calls, power disruptions and support for our communities. You exemplify customer service. And finally, our health and safety team who put our pandemic plan into action and ensured we were able to achieve our goal of zero transmissions of COVID-19 at our office and worksites. You went above and beyond.

We heard first-hand from our customers about the impact the pandemic has had on their families, businesses, hopes and dreams. Throughout this time, we provided advice and support, and rolled out government relief programs at unprecedented speed while also ensuring our commitments to our municipal shareholders were met.

We also made significant donations to help many of the more vulnerable members of our community who were at risk, through food insecurity, pandemic preparedness, safety, education or mental health. Elexicon Energy stepped up with over $350,000 to support our local hospitals in their fight against COVID-19 and organizations like Feed the Need Durham and Grandview Kids.

Elexicon Energy entered this pandemic just eight months after being formed from the merger of our two predecessor utilities, Veridian Connections and Whitby Hydro. In 2020, we continued to make significant progress in creating merger synergies, including integrating our financial systems and customer experience systems and databases. Our One Culture program continued its momentum with the development of a set of guiding principles and we found new ways to keep our community stakeholders informed through a new Quarterly Community Report that can be found on our website. We also exemplified industry leadership by making strong inroads in the development of Canada's first residential 'smart' community micro grid in the City of Pickering, and look forward to its launch next spring.

Management, together with the Board of Directors, also began the exercise of reimagining our shared future by developing a new five-year strategic plan. The plan provides direction to Elexicon Energy by identifying the four pillars of Customer Centricity, Operational Excellence, Economic Development and Strategic Investment, and the supporting initiatives required to achieve our organization's mission: to provide our customers with reliable, affordable energy services and continuously improve to meet their needs, while meeting the needs of our shareholders and stakeholders.

In closing, I'd like to thank the community for the opportunity to be your hydro service provider, partner and ally. We will continue to work hard to exceed the needs of your residents, businesses and families for years to come.

Your power is our Response-Ability!

Lesley Gallinger
President and CEO, Elexicon Energy

Who We Are

Elexicon Energy powers life's most meaningful moments, creating harmonious connections between experiences and people and the environments where they live. As the fourth largest municipally owned electricity distributor in Ontario, our vision is to empower the communities we serve and help customers seize opportunities to ignite a better future. We provide over 171,000 residential and business customers in parts of Durham Region and beyond with reliable and affordable energy services.

OUR VISION

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

OUR MISSION

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

OUR VALUES

SAFETY

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

KINSHIP

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

COMPETENCE

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

MINDFULNESS

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

RESPONSIVENESS

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

Executive Leadership Team

Lesley Gallinger
President and CEO

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

Stacia Boss
Vice President,
Human Resources and Corporate Services

Moranne McDonnell
Vice President,
Distribution Operations

Kristine Chandler
General Counsel and Corporate Secretary

Rob Scarffe
Vice President,
Customer Experience

Falguni Shah
Vice President,
Technology and Innovation

Kevin Whitehead
Vice President,
Asset Management

Governance

Elexicon Energy is committed to maintaining and continuously evolving in its good governance practices. Elexicon Energy is wholly-owned by Elexicon Corporation, which is owned by five municipal shareholders: the City of Pickering, Town of Ajax, Town of Whitby, City of Belleville and Municipality of Clarington.

BOARD OF DIRECTORS

Paul Murphy
P.Eng.
Chair,
Independent Director

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

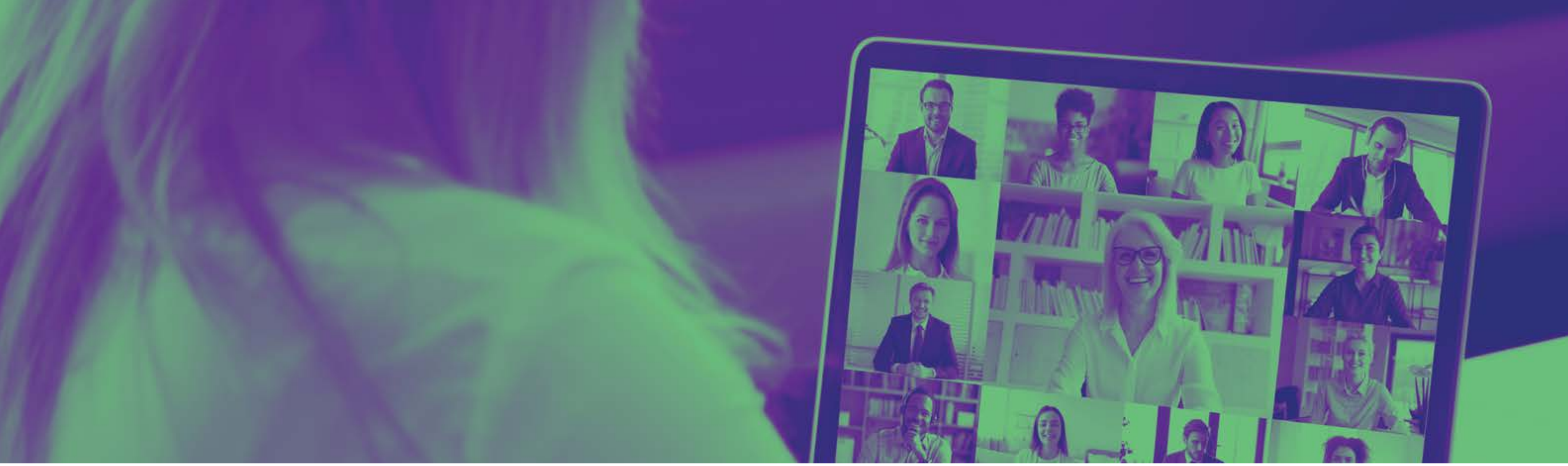
Ron Chatterton
C.Dir
President,
Niche Advantage Consulting Ltd.

Dave McGregor
HRCC
Independent Director

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

Sean O'Dwyer
ICD.D
Independent Director

Doug Parker
CPA-CMA
Independent Director



COMMITTEES

Audit, Finance & Risk Committee

The Audit, Finance & Risk Committee reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls.

Nominating Committee

The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as Directors.

Human Resources, Compensation and Governance Committee

The Human Resources, Compensation and Governance Committee reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. It reviews people resources and compensation practices to ensure systems are in place to attract, retain and motivate best in class employees. It also reviews and assesses the performance of the President and Chief Executive Officer, oversees the Board Assessment process, and monitors compliance with codes of conduct.

See Board and Committee Attendance on Page 9

Our Pillars

Building a Strong & Response-able Electricity Distributor

The pandemic gave us a new awareness of how rapidly the world is changing. It has tested our technology, innovation, demand for energy and adaptability. It has also made us collectively aware of our environment, society and humanity.

Elexicon Energy is taking meaningful steps towards fulfilling its vision of empowering our communities and meeting the present needs of our customers without compromising our ability to meet the needs of future generations.

OUR POWER IS RESPONSE-ABILITY

To our Customers, Shareholders and Communities

OUR STRATEGIC COMMITMENTS

- **Working Toward Customer Centricity**
- **Empowering Operational Excellence**
- **Nurturing Community Relationships**
- **Sparking Innovation**

WORKING TOWARD CUSTOMER CENTRICITY

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

We are proud of our reputation in the community. In 2020 Elexicon Energy conducted its first ever Customer Satisfaction Survey and scored 95 per cent for customer satisfaction. We wanted to ensure that the merger of our two predecessor utilities, Veridian Connections and Whitby Hydro was viewed positively by our customers. At the same time we understood that our customers were facing unprecedented circumstances and uncertainty this year. It was important for our team to not only manage our customer accounts but to make an emotional connection in a positive way with our customers.

Working together, and while managing their own daily home life and balancing work from home, our team of knowledgeable and professional customer service representatives came through and helped over 115,108 customers in 2020. At the same time the team successfully integrated our customer information systems and began work on redesigning a new and more customer-friendly bill, engaging customers and members of our community to help us come up with the right design that was simple and easy to navigate and understand.

In 2021, we will be working hard to continue to move toward a more customer centric culture within our own organization and will also begin work on redesigning and building a new Elexicon Energy corporate website that is simple and easy to navigate with meaningful information and content for our customers and communities.

EMPOWERING OPERATIONAL EXCELLENCE

Elexicon Energy's goal is to continuously improve our talented people, processes, places, safety and financial sustainability.

Our success comes from the 258 employees who bring our vision, values and strategy to life. With a focus on building a highly-engaged and talented Elexicon Energy team in 2020 we brought our One Culture initiative to life defining our new Operating Principles, which serve as a guidepost for how our people work together as One Elexicon.

Our people also showed a tremendous ability to pivot and mobilize to meet the needs of our customers in 2020. Our Technology and Innovation team responded quickly to the new requirements created by COVID-19, putting in place new technology and tools to allow us to continue to work from our homes, trucks and operations centres, while maintaining our system reliability and supporting the increased needs of our over 171,000 homes and business who depended on us to power their lives, now more than ever.

In 2020, we achieved an Average System Availability Index of 99.98 per cent and a System Average Interruption Duration Index of 1.37 hours. In early October, Elexicon Energy launched a survey to customers to help build our 2021-2026 Distribution Systems Plan (DSP). Customer input and feedback will ensure Elexicon Energy is making the right investments to meet the needs of our communities at the right time. We will be releasing results of the survey and our new plan in 2021.

To keep our system running smoothly we continued to invest in proactive prevention strategies this year, that included insulator washing, tree trimming, wildlife mitigation and thermographic inspection of distribution system apparatus to identify hot spots before they result in outages.

We operate a sophisticated electricity distribution network that features intelligent monitoring systems and automated controls. At the heart of this system are a team of highly skilled engineers and operators who monitor the flow of electricity across a network of 6,704 kilometres of overhead lines and underground cables. That's how many kilometres it takes to drive from Ajax, Ontario, where our headquarters are, to San Jose, Costa Rica! In the event that an outage can't be restored remotely we have crews available in all of our service territories that can be dispatched quickly to investigate the cause, make repairs and restore power to the customer quickly.

Distribution System Performance

99.98%

Average System Availability Index

1.37 hours

System Average Interruption Duration Index

1.014 interruptions

System Average Interruption Frequency Index

2.348 momentary interruptions

Momentary Average Interruption Frequency Index

NURTURING COMMUNITY RELATIONSHIPS

Elexicon Energy's success is rooted in building meaningful relationships with our shareholders and stakeholder communities.

As a municipally owned electrical local distribution company (LDC) Elexicon Energy is responsible for distributing electricity at market rates, set by the Ontario Energy Board to the community, as well as maintaining our community's network of wires and poles. We are also responsible for making the electricity that powers our community safe for use by customers.

Our communities include Ajax, Beaverton, Belleville, Bowmanville, Brock, Cannington, Gravenhurst, Newcastle, Orono, Pickering, Port Hope, Port Perry, Sunderland and Uxbridge, Whitby, Brooklin and Ashburn.

We believe it is our responsibility to be a force for good and positive change, which is why you can find many of our executives and employees actively participating in our community by volunteering on committees, boards, not-for-profit charities and organizations. We also deliver much needed assistance through corporate sponsorships programs and our own Corporate Giving Program which provided $350,000 in funding in 2020.

COVID-19 compounded the challenges facing so many of our local organizations this year but it also strengthened our own resolve as a newly formed LDC to help our communities.

Through initiatives like our Corporate Giving Program we were able to provide $350,000 in COVID-19 specific relief to organizations such as Ajax Pickering Hospital Foundation, Feed the Need In Durham and Belleville General Hospital.

We also worked closely with our government and regulatory partners to distribute over $275,000 in support to both our residential and small business partners through the CEAP and CEAP Small Business Programs.

Real-world data gathered from the project will be used by Elexicon Energy and Ontario's Independent System Operator to explore how this type of community can help make our electricity system cleaner, more reliable and resilient as climate change becomes an increasing force in our territories.

SPARKING INNOVATION

The future of energy is sustainability.

Which is why, in 2020 Elexicon Energy continued to make tangible investments in building a greener and more dependable energy grid for homeowners and businesses alike. We're preparing for a world that reaches net zero emissions by 2050 because we know electricity will play a starring role in this change. In 2020 Elexicon Energy broke new ground by developing Canada's first residential, nested community microgrid. In addition to being connected to the local grid, the community microgrid uses energy produced by rooftop solar panels and stored in a lithium-ion battery controlled and monitored by advanced software and communications systems from Elexicon Energy's System Control Centre. This additional source of energy will be used in the event of a blackout to maintain a reliable source of energy for the 27 homeowners but can also be fed into the grid to help residents offset their electricity costs in the future.

Did you know?

Elexicon Energy operates nine electric vehicle charging units located in Ajax, Clarington and Whitby. In 2020 these carports were used 2,910 times and generated 9,986 kilowatt hours of energy.

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GROUP

Your energy is our opportunity

Elexicon Group President and CEO Message

Our mission at Elexicon Group is to accelerate progress and opportunity for our clients.

Whether it's managing energy better, solving complex energy challenges, reducing operating costs and carbon footprint, or adopting electric vehicles and innovative new technologies – we want to be the industry's most trusted energy partner.

2020 presented unique challenges for everyone, but our team and partners more than rose to the occasion and the results we were able to deliver are truly remarkable. From state of the art cogeneration and renewable biogas plants to mission critical backup power systems, we continue to build on our ability to turn data, expertise and insights into real world results.

Our promise for 2021 is to continue our relentless pursuit of progress and to continue to evolve and invest to meet the changing and growing demands of our clients and to bring more value to more people.

Craig Ballard
President & CEO, Elexicon Group

Who We Are

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

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

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

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

Energy Analytics
Our energy reporting makes your energy budget better.

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

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

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

Fleet Charging Stations
Take charge of your electric fleet.

Solar Photovoltaic
Does solar work for you? It depends.

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

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

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

Elexicon Group Management Team

Craig Ballard,
President and CEO

Don Séguin
A.Sc.T.
Manager,
Technical Services

Brian Vipond
Manager,
Business
Development

Lisa Barker
CPA, CA
Controller

Ian Potter
Director of Sales

BOARD OF DIRECTORS

Karen Fisher
C. Dir
Chair,
Independent Director

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

Darren MacDonald
Director of Energy,
Gerdau Long Steel
North America

Jim Macpherson
President, Macpherson
& Associates Inc.

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

Our Goals

Our past is built for the future. With a long legacy of energy services that goes back more than a century we know how to reimagine the future. Our teams have been busy in 2020, helping find opportunities to reduce costs, manage the bottom line and find innovative solutions for our customers.

BELLEVILLE WASTEWATER TREATMENT FACILITY – BIOGAS CHP

The Belleville Wastewater Treatment Facility is a good example of an organization that can utilize CHP. In their process, heat and electricity are used in relatively large quantities to treat waste water from the inhabitants of Belleville. The electrical and thermal loads are relatively constant and continuous throughout a 24-hour period, allowing the CHP unit to operate as a base-load supply to the water treatment process.

The process of breaking down waste at the facility also produces a methane gas. This methane gas is currently utilized in the facility's boilers to make thermal energy and some is flared to the atmosphere. This project will use the methane gas produced at the facility, along with pipeline natural gas, in the CHP unit eliminating the need to flare to the atmosphere.

This project is a 370kW CHP installation utilizing one (1) Tedom reciprocating engine that combusts a mixture of biogas and natural gas. It is located outside, adjacent to the electrical room. The commissioning has begun on the installation and is due to be complete by May 2021.

CAPREIT – 500 MURRAY ROSS PARKWAY, TORONTO

This project is a 260kW dual mode CHP installation utilizing four (4) Capstone Microturbines located in the penthouse boiler room of a 20 storey apartment building. The project is now complete and fully commissioned. This CHP installation provides heat for the domestic hot water and the building heating system as well as displacing 260kW of electricity from the building's utility load. The system provides year round energy savings for our customer as well as acting as a Life Safety generator for the residents of the building.

HAMA INVESTMENTS - 170 LEES AVENUE, OTTAWA

This project is a 195kW dual mode CHP installation utilizing three (3) Capstone Microturbine located in the parking garage of a 20 storey apartment building. The construction of the project is complete and fully commissioned. This project came to fruition because of a need, by the building owner, to replace an aging and non functioning emergency backup generator for the building's Life Safety system. This building has a boiler system for domestic hot water and is electrically heated. The installation provides heat for the domestic hot water and displaces most of the electricity normally purchased from the local electricity utility which along with the heat recovery, translates into substantial energy savings to our customer.

elexicon
CORP

Giving Back to Our Community

Why We Give

At Elexicon, we stand for creating harmonious connections between experiences, people and our environment.

We illuminate, we move, we grow, we comfort, we nourish and we educate, ultimately shaping stronger communities and a better world. This annual Social Impact Report for the fiscal year 2020 focuses on three mission critical areas: creating meaningful moments, strengthening our community connections and leading in sustainability.

MESSAGE FROM PATRICK MCNEIL,
Chair of the Board, Elexicon Corporation

As a municipally-owned local electricity distribution company, we recognize the power of community and service. We endeavour to strike the right balance between shareholder needs and the betterment of our community and natural environment, and strive to be a reflection of the people we serve in every way possible.

MESSAGE FROM LESLEY GALLINGER,
President and CEO of Elexicon Energy

At Elexicon, we believe our organization has a key role to play in empowering our customers, employees and communities during this complex and difficult time. Our partnerships are critical to the future well-being of the communities across our service territory that have been disproportionately affected by the COVID-19 pandemic.

MESSAGE FROM CRAIG BALLARD,
President of Elexicon Group

We all have a role to play in saving the world, breaking the status quo, and championing creativity and ingenuity as a path toward sustainability and a better life for all.

Where We Are

At Elexicon our vision is to empower the communities we serve and help customers seize opportunities to ignite a better future.

This includes making a positive social impact on our communities and planet.

We strive to be a reflection of the diverse communities we serve which include the following areas:

Ajax

Brock

Gravenhurst

Port Hope

Uxbridge

Belleville

Clarington

Pickering

Scugog

Whitby

IN 2020 WE CREATED A LASTING IMPACT IN THESE COMMUNITIES BY:

- Developing partnerships that contribute to the long term sustainability of our natural resources, stronger environmental practices and demonstrating an environment-first mindset to community planning.
- Sponsoring not-for-profit events and providing funding through our Corporate Giving Program to organizations and projects that align with our mission and vision for the future. Funding is allocated through a formal process based on our Corporate Giving Policy, the proportion of customers within a service area and community need.
- Creating meaningful opportunities for our youth and young women in under-represented STEM fields through our bursary, scholarship and mentorship programs.

Through the careful selection of local community initiatives, our goal is to create lasting impact and long-term value in the communities that we serve.

The following summary serves as a transparent acknowledgement of our social impact in our service areas in 2020.

2020 CORPORATE GIVING PROGRAM, BY THEME

SUMMARY	SPEND BY THEME	% SPEND BY THEME
Child & Family Services	$43,586	12%
Community Safety & Support	$62,009	18%
Economic Development	$9,100	3%
Education & Youth	$16,000	5%
Environment & Sustainability	$4,746	1%
Food & Food Security	$21,146	6%
Health Services & Promotion	$83,609	24%
Local Events	$40,950	12%
Mayor Events	$52,000	15%
Municipal Events & Support	$16,500	5%
TOTAL	**$349,645**	**100%**

"Elexicon Energy's generous donation of $20,000 to Lakeridge Health Foundation has been instrumental in equipping virtual connections programming at the Whitby Hospital. Patients and their families have been incredibly grateful for having this technology available – being able to interact virtually when in-person visits have limitations has been invaluable."

- Lakeridge Health Foundation

Impact We've Made in 2020

Creating Meaningful Moments

As an essential service who has seen its fair share of emergency situations, Elexicon understands the importance of rallying together during difficult times. That's why in 2020 Elexicon announced a donation of $50,000 to support the fight against COVID-19 at hospitals within the Lakeridge Health network, including Ajax Pickering Hospital, Bowmanville Hospital, Port Perry Hospital and Whitby Hospital as well as South Muskoka Hospital, Orillia Soldiers' Memorial Hospital and Belleville Hospital.

Elexicon Energy employees also rallied together to help a number of food banks across our service territories, raising $5,000 to meet the increased need of residents challenged by food insecurity. Employee donations, which were matched by Elexicon Energy dollar for dollar, will support the following food banks: Feed the Need in Durham, Gleaners Food Bank (Quinte) Inc., Gravenhurst Against Poverty and Northumberland Fare Share Food Bank.

STRENGTHENING OUR COMMUNITY CONNECTIONS

EDUCATION AND STEM

Elexicon Energy annually awards $2,500 scholarships to two full-time undergraduate Ontario Tech University students enrolled in the Faculty of Engineering and Applied Sciences, Electrical Engineering program, with a preference for those studying smart grid technology. It also provided bursaries to over 25 high school students across Ajax, Belleville, Brock, Clarington, Gravenhurst, Pickering, Port Hope, Scugog and Uxbridge to further their education goals.

LEADING IN SUSTAINABILITY

Elexicon is committed to making a positive impact on the environment and in the communities we serve. Both our local regulated hydro utility and energy services business are working hard to ensure we are at the forefront of new and innovative sustainability practices through the many services we provide.

SMART COMMUNITY DEVELOPMENT - MICROGRIDS

In 2020 we continued to develop Canada's first residential Smart Community Nested Microgrid, alongside our partners Marshall Homes and Opus One Solutions, using leading technologies from Tesla to shape the future of urban and suburban development.

The project will successfully integrate multiple sources of residential clean energy, while maximizing load efficiencies and energy utilization levels for its customers. The microgrid has the potential to substantially minimize the cost of electricity by generating renewable energy locally and providing energy credits to community customers through the net metering arrangements.

ELECTRIC VEHICLE INFRASTRUCTURE

Elexicon is also a leader in sustainability in our community. Our LEED certified corporate headquarters in Ajax more than 400 photovoltaic solar panels occupying 45,000 square feet of the building's garage roof generating 160,000 kWh of clean, carbon-free electricity annually. This also includes our early adoption of electric vehicle infrastructure with our solar-powered electric vehicle carport in Ajax .To further support EV rollout in our community Elexicon Energy is partnering with Durham Region's Community Energy plan to increase electric vehicle adoption and encourage homeowners and businesses to adopt home and building retrofits that include renewable energy sources.

2020 Elexicon Corporation Social Impact

ORGANIZATIONS WE SUPPORTED

Ajax High School
Ajax Mayors Gala
Ajax Pickering Board of Trade
Ajax Pickering Hospital Foundation
Alzheimers Society of Durham Region
Archbishop Denis High School
Art With A Heart Inc
Autism Home Base
Autism Home Base Durham
Bayside Secondary School
Belleville Chamber of Commerce
Belleville Downtown DocFest
Belleville General Hospital
Belleville Police Services
Bethesda House
Big Brothers Big Sisters of Muskoka
Bowmanville High School
Bowmanville Hospital Foundation

Boys and Girls Club of Durham
Brock High School
Carea Community Health Centre
Centennial Secondary School
City of Belleville
City of Pickering
Clarington Mayor's Gala
Clarington Central Secondary School
Clarke High School
Community Living Ajax Pickering
Community Living Oshawa Clarington
Community Safety Net
Courtice Secondary School
Dunbarton High School
Durham Region Hospice
Eastminster United Church
Ecole Ronald-Marion
Epilepsy Foundation of Durham Region

Feed The Need in Durham
Gleaners Foodbank
Gravenhurst High School
Grandview Children's Foundation
Gravenhurst Salvation Army Food Bank
Gravenhurst Winter Carnival
Grace Inn Shelter
Gravenhurst Against Poverty
Hearth Place
Holy Trinity Catholic Secondary School
Hospice Muskoka
Herizon House
Hospice Muskoka
J. Clarke Richardson Collegiate
Jennifer Ashleigh Children's Charity
Lakeridge Hospital Foundation
Lions Club of Belleville
Mind-Aid (Muskoka Victim Services)

Moira Secondary School

Muskoka Women's Shelters & Services

Nicholson Catholic College

Notre Dame Catholic Secondary School

Ontario Philharmonic

Orillia Soldiers Memorial Hospital Foundation

Ontario Tech University

Ontario Shores Mental Health Foundation

Pickering Village Community Events

Pickering High School

Pickering Mayors Gala

Pickering Township Historical Society

Pine Ridge Secondary School

Port Hope High School

Port Perry High School

Port Perry Hospital Foundation

PARA Marine SAR

Quinte Regional Science and Technology Fair

Quinte Christian High School

Quinte Secondary School

Quinte Symphony

Quinte Humane Society

Quinte Arts Council

Rotary Club of Ajax and Pickering

Rotary Club of Belleville

Rotary Club of Gravenhurst

Royal Canadian Legion - Ajax Branch

Station Gallery

St. Isaac Jogues Knights of Colombus 11908

Salvation Army Gravenhurst

South Muskoka Hospital Foundation

St. Theresa Catholic Secondary School

Sir James Whitney Provincial Secondary

St. Mary's Catholic Secondary School

St. Stephens Secondary School

Scientists in Schools

Sir William Stephenson Statue

Scugog Chamber of Commerce

Salvation Army Belleville Ministries

The Children's Foundation

The Corporation of the Town of Ajax

The Corporation of the Town of Whitby

The Denise House

The Charles H. Best Diabetes Centre

Three Oaks Foundation

The Corporation of the Town of Whitby

Trinity United Church

The Salvation Army Gravenhurst

The Royal Canadian Legion Branch 606

The Denise House

Uxbridge Secondary School

United Way of Durham

Victim Services of Durham Region

Volunteer & Information Quinte

Whitby Mayor's Fundraiser

Whitby Sports Hall of Fame

Windreach Farm Foundation

Youth Fusion

YWCA Circles Program for Gravenhurst

YWCA Durham

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

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

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.

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

	Notes	2020	2019
LIABILITIES AND SHAREHOLDERS' EQUITY			
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

LIABILITIES AND SHAREHOLDERS' EQUITY (CONT'D)

	Notes	2020	2019
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.

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

Management's Discussion and Analysis

CONSOLIDATED FINANCIAL STATEMENTS

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of Elexicon Corporation ("Elexicon" or the "Corporation") for the year ended December 31, 2020. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and in effect at December 31, 2020.

BUSINESS OF ELEXICON

Elexicon Corporation is 100% municipally owned by five municipal shareholders: the Town of Whitby (32.0%), the City of Pickering (27.88%), the Town of Ajax (21.828%), the Municipality of Clarington (9.248%) and the City of Belleville (9.044%). Elexicon Corporation provides, through two wholly owned subsidiaries, energy-related services in east-central Ontario. Elexicon Energy Inc., its regulated electricity distribution company serves approximately 171,000 customers in 10 municipalities – 8 of which are in Durham Region. Durham Region is one of the fastest growing regions in Ontario. Its residential customer growth is expected to grow on average by 2.55% annually over the next five years. The City of Belleville and Town of Gravenhurst are also expected to see significant growth over the next five years. Elexicon Group Inc., its unregulated energy service subsidiary provides management and innovative energy solutions to help businesses better manage their energy cost and infrastructure needs. The company is actively expanding its product offerings and client base as it enters into new markets as we witness transformational change in the energy sector.

2020 A YEAR IN REVIEW

Significant Developments – COVID-19 Pandemic

The World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic on March 11, 2020. The impact of the COVID-19 pandemic on the economy has continued to evolve with disruptive effects throughout Canada and in the province of Ontario and the regions in which Elexicon Energy operates. In an attempt to contain the spread of COVID-19, measures including business closures, social distancing protocols, travel and gathering restrictions, school closures, and lockdowns have been imposed and continue to be in effect.

Although staged and full reopening plans vary and are fluid across Ontario and its regions, these measures are continuing to have extensive implications for the economy and continue to contribute to the uncertainty about the timing and extent of an economic and social recovery. The development and distribution of an effective vaccine also continues to raise uncertainty as the addition of new variants of the virus continue to surface. As a result, the COVID-19 pandemic has continued to affect our employees, our customers and the communities we service, with resultant impacts on our operations, financial results and present and future risks to our organization.

During the COVID-19 pandemic, governments and regulatory bodies have provided unprecedented relief programs and temporary measures to facilitate the continued operation of the global economy and financial system, all of which are intended to provide support to individuals and businesses. For further details on these measures and their impact on us, refer to the Relief Program sections outlined below as well as the Regulatory Environment, Shareholders' Equity and Returns for Shareholders, and Liquidity and Financing sections of this Report.

Given the uncertainty of the extent and duration of the COVID-19 pandemic and its impacts on the economy and society, as well as the timeline of the transition to a fully reopened economy, the future impact on our businesses and our financial results and condition remains uncertain.

Commencing in the first quarter of 2020, in line with Provincial Government edicts, we instituted various measures and programs to protect and support our employees, customers and communities, while also striving to ensure continued safety and reliability of our local electrical distribution systems. We have and will continue to review the effectiveness of these measures and programs and adapt them accordingly.

Impact of pandemic risk factor

We are closely monitoring the potential continued effects and impacts of the COVID-19 pandemic, however much will depend on future developments that are highly uncertain and cannot be predicted, including the scope, severity, duration and additional subsequent waves of the COVID-19 pandemic, as well as the effectiveness of actions and measures taken by government and regulatory authorities.

The COVID-19 pandemic has and may continue to result in disruptions to our customers and the way in which we conduct our business, including prolonged duration of staff working from home, and changes to our operations due to higher volumes of customer requests. To date, we have taken proactive measures through our business continuity plans and our pandemic response plans to adapt to the ongoing work from home arrangements, carefully planning the return to premise for some of our employees, if appropriate, ensuring the continuation of critical projects while also preserving the well-being of our employees and our ability to serve customers. We are also communicating with partners, suppliers and selective customers to continuously assess impacts to our current work in progress, and making adjustments as necessary.

Relief programs

In response to the COVID-19 pandemic, several government programs have been and continue to be developed to provide financial aid to individuals and businesses, which include interest free loans, rate relief programs and energy assistance programs for individuals and small businesses.

Elexicon Energy has also instituted an outreach campaign to assist customers who are facing hardship as a result of the pandemic including the offer of extended bill payment options.

FEDERAL AND PROVINCIAL GOVERNMENT

Commencing in the first quarter of 2020, the Federal and Provincial Government announced new programs and revisions to existing programs to help support individuals and businesses, in light of the impact of the COVID-19 pandemic.

- Canada Emergency Business Account ("CEBA") – The Government of Canada created the CEBA to provide qualified businesses with interest free loans (subject to some terms and conditions) of up to $60,000 to help defray operating costs during a period where revenues have been temporarily reduced.
- To support Ontarians staying home during the rapidly evolving COVID-19 pandemic, the Government of Ontario implemented an emergency rate relief program for households, farms, and small businesses who pay time of use (TOU) electricity rates to off-peak rates 24 hours a day, seven days a week. The program ended on May 31, 2020 and was replaced with the COVID-19 Recovery Rate that saw households, farms, and small businesses pay 12.8 cents per kWh. The program ran from June 1, 2020 – October 31, 2020. It was subsequently replaced with a new program, which held the price of electricity at 8.5 ¢/kWh for electricity used from January 1, 2021 until February 22, 2021. The fixed price was equal to the off-peak price set by the Ontario Energy Board for January 1, 2021.
- Summer and Winter Disconnection Ban - To help support Ontarians a temporary moratorium on disconnections for residential and small general service customers was implemented by the Ontario Energy Board. The summer moratorium, which ended on July 31, 2021, was then extended into the winter from November 15, 2020 – April 30, 2021.
- Ontario Small Business Support Grant, which provides a minimum of $10,000 to a maximum of $20,000, to eligible small businesses who have had to restrict their operations due to the province-wide shut down. All small businesses that are eligible for the grant are also eligible for the property tax and energy bill rebates.
- COVID-19 Energy Assistance Program (CEAP) and COVID-19 Energy Assistance Program for Small Business (CEAP-SB), which provide one time, on-bill credits to eligible customers to help them catch up on their energy bills and resume regular payments. As at January 20, 2021, we have facilitated the administration of CEAP to more than 614 residential customers and 54 small business customers who have enrolled in these programs.

Corporate Overview

On April 1, 2019, the former Veridian Corporation ("Veridian") amalgamated with the former Whitby Hydro Energy Corporation ("Whitby Hydro") to form Elexicon Corporation.

To date, the merger has created some increased efficiency in the electricity distribution sector through the creation of economies of scale and/or contiguity. It is expected that benefits to customers through lower costs and equal or better service levels and increased shareholder value will also result. Under the current regulatory regime, shareholders of Elexicon will retain the benefit of operating synergies following the merger for up to ten years. Thereafter, the cost savings will be passed on to customers in the form of lower distribution rates. The total forecasted net operating, maintenance and administration ("OM&A") savings from the merger over the ten-year rebasing deferral period approximates $42.1 million. OM&A cost savings have already occurred and will continue to be realized largely from labour cost reductions through staff attrition. The expectation is for reduced controllable costs per customer as economies of scale within the larger, merged entity and labor and non-labor synergies are realized. The longer-term exercise is to focus on identifying new opportunities for potential synergy savings in all aspects of the operations over the next several years.

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

EE's geographic service area is over 750.9 square kilometres with an asset base of $621 million. The company delivered approximately 3,478 gigawatt hours of electricity to customers for the year ended December 31, 2020.

EE earns its revenues through charges to its customers for delivery of electricity through its electricity distribution network. EE has two distinct rate zones for the former Veridian and Whitby Hydro service areas.

In its Incentive Rate Mechanism rate application filed during 2020, EE requested and received approval to harmonize the rate year for its two rate zones to January 1. Distribution charges have two components; a fixed monthly service charge and a volumetric charge based on electricity consumption or demand. Residential customers, however, are billed only fixed monthly distribution charges. EE's rates are regulated and approved by the OEB.

EC also operates a non-regulated energy service business through its wholly owned subsidiary, Elexicon Group Inc. ("EG"). EG's ambition is to deliver strong growth in revenue and returns for shareholders by providing services to clients that are designed to reduce energy operating costs, carbon footprint and improve energy efficiencies. The growth focus will be on both i) organic growth and ii) expanding the business through merger and acquisition opportunities, with the goal of diversifying EG's portfolio and expanding its product offerings, all from within its entrepreneurial culture.

In 2020, the government announced an additional $150 million in funding for its zero-emission vehicle infrastructure program, providing incentives for Electric Vehicle charges to workplaces, light duty fleet and multi-unit residential buildings. EG is poised to capitalize on this opportunity and EG sees an opportunity in the area of providing power solutions where existing grid restraints are preventing large scale charging and on providing cheaper EV energy solutions.

Regulatory Environment

ELECTRICITY REGULATION

In Ontario, the OEB has powers and oversight responsibilities for regulation of the energy industry, including all electricity distributors such as EE. These include approving or fixing distribution rates, setting service standards, ensuring that distribution companies fulfill obligations to connect and service customers and prescribing conditions of license requirements.

These conditions can include specific programs and investments such as record keeping and filing requirements, establishing the new-tiered customer class, connecting and enabling renewable generation facilities and specific requirements for rate setting.

IMPACT OF COVID-19 PANDEMIC

In 2020, the OEB and the Government of Ontario directed LDCs to implement several COVID-19 emergency measures. These included a flat rate for electricity over numerous periods; programs to help offset costs for residential and small business customers; a moratorium on disconnections, and various other customer-benefiting programs. The OEB has also issued accounting guidelines for LDCs to keep track of the costs associated with these programs.

On March 25, 2020, the OEB issued an accounting order that established a deferral account for utilities to track any incremental costs and lost revenues associated with the COVID-19 pandemic. In the accounting order, the OEB also stated that it will assess any claimed costs and/or lost revenues associated with the deferral account when they are requested for disposition.

On May 14, 2020 the OEB initiated a consultation process regarding the use and recoverability and disposition of deferral accounts by utilities. The ongoing consultation process considers the development of new accounting guidance and filing requirements for these deferral accounts with regard to bill impacts on customers. As this consultation is still underway, recovery is uncertain at this time, and the OEB anticipates that formal guidelines will not be available until the spring of 2021.

RATE SETTING

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

RATE APPLICATIONS

In April 2020, the OEB approved a Price Cap Incentive Rate setting application for the Veridian rate zone for changes to distribution rates effective May 1, 2020. Due to the uncertainty regarding the severity and duration of the COVID-19 emergency, EE elected to postpone the implementation of its new rates to January 1, 2021, to minimize the impact to customers, and provide it with the opportunity to align its rate years.

In December 2020, the OEB approved Annual Incentive Rate-setting Index applications for Whitby and Veridian rate zones for changes to distribution rates effective January 1, 2021. On a total bill basis, the distribution rates for the Whitby rate zone result in a net 1.33% reduction for the average residential customer and a net 1.20% reduction for the average small commercial customer. For the Whitby rate zone, regulatory balances that accumulated prior to 2021, were approved to be refunded to customers in 2021. In the Veridian rate zone the bill impact is a 0.25% increase for the average residential customer and a net 0.32% increase for the average small commercial customer.

CONSERVATION AND DEMAND MANAGEMENT ("CDM")

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

CDM participation agreements with customers for many of the CDM programs in effect before April 1, 2019 remain in effect and EE will remain responsible for its obligations under such agreements. Participants have until June 30, 2021 to complete the projects. Amounts received from the IESO for the funding of projects under the participant agreements but not spent, are presented on the Consolidated Balance Sheets under current liabilities as deferred revenue. Settlement with the IESO will continue until all projects are completed and a compliance audit will be completed thereafter.

The 2020 financial statements includes a reversal of a $675,000 provision from the prior year, associated with a potential liability involving customer incentive payments. This issue has now been resolved and as a result, EE no longer believes a provision is necessary.

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

While CDM will no longer be a program administered by EE in 2021, it is anticipated that any future benefits from the program will be offset by the future focus on growth and innovation from both EE and EG alongside any government funding mechanism to support its strategic imperatives.

Financial Highlights

REVENUES AND NET INCOME

Distribution revenues for the year ended December 31, 2020 were $79.4 million. Customer growth was 1,838 customers, or 1.1%, since December 31, 2019. At the request of the provincial government, due to COVID-19, EE postponed the implementation of its new rates for the Veridian rate to January 1, 2021, resulting in lower than expected distribution revenues.

Elexicon's adjusted net income after net movements in regulatory balances (of $12.5 million), and further adjusted to exclude unrealized gains or losses on interest rate swap derivatives (addback of $3.5 million) and deferred tax impacts (reduced by $0.9 million) for the year ended December 31, 2020 was $15.1 million.

OM&A COSTS AND COSTS PER CUSTOMER

Within its regulated electricity distribution company, EE, the standard industry measure of controllable cost per customer is tracked at least annually. In 2020, the EE controllable cost per customer, calculated on an annualized basis, after adjustment for merger related costs, was $254.

CAPITAL EXPENDITURES

Total net capital expenditures for 2020 were $35.09 million.

Capital Expenditures (millions)	2020	(nine months) 2019
Distribution System Assets	27.21	26.85
Intangible Assets	4.07	2.30
Other Assets	3.81	3.73

Of these capital investments, 77.5% or $27.2 million was expended on distribution system assets. These assets include poles, wires and cables, transformers, substations and meters.

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

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

SHAREHOLDERS' EQUITY AND RETURNS FOR SHAREHOLDERS

	Balance 31-Dec-19	Net Income	Other comp. loss	Dividends paid/ accrued	Balance 31-Dec-20
Share Capital	$ 97,692				$ 97,692
Contributed Capital	25				25
Contributed Surplus	79,301				79,301
Accum. 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**

In 2020, the shareholders' equity position increased from $244.8 million to $245.0 million, an increase of $0.2 million.

Net income realized after net movements in regulatory balances was $12.5 million. This is offset by $1.0 million due to the re-measurement of employee future benefits liability that is recognized as part of the accumulated other comprehensive loss. This actuarial loss was due to a 0.50% decrease in the discount rate from 3.20% (2019) to 2.70% (2020) thereby increasing the present value of the employee future benefit

Municipal shareholders benefit from distributions of Elexicon's earnings through annual dividends. As set out in the Shareholder Agreement, the Board of Directors of Elexicon Corporation reaffirmed a dividend policy for calendar 2020 with base dividends of $11.31 million for the fiscal year. For the year ended December 31, 2020, Elexicon recorded dividends paid or payable to shareholders of $11.29 million.

LIQUIDITY AND FINANCING

Elexicon's debt to capitalization ratio on December 31, 2020 was 48%. The Corporation's debt includes $89.1 million in shareholder promissory note debt, as well as an available committed reducing term credit facilities of $130.0 million held with a Canadian chartered bank. Elexicon also has access to a revolving demand facility of up to $40 million which was increased to $100 million on a short-term basis up to June 30, 2021, after which date the revised credit limit will be re-assessed. The facility may be renewed for the remainder of 2021. This $100 million credit facility is available for short-term working capital requirements and was temporarily increased to $100 million in light of the COVID-19 pandemic. If the business need for the temporary increase is determined to be no longer necessary, this demand facility will revert back to $40 million. These facilities carry covenants normally associated with long-term debt, including debt to capitalization and debt service coverage ratios. Elexicon complies with all bank covenants as at December 31, 2020.

On May 4, 2020, the Dominion Bond Rating Service ("DBRS") confirmed the Issuer Rating of Elexicon Corporation at "A" with a stable trend. The DBRS report noted that Elexicon's rating continues to be supported by its stable regulated operations, reasonable financial profile and supportive shareholders.

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

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

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