ELEXICON CORPORATION

Consolidated Financial Statements And Independent Auditors' Report

Year ended December 31, 2021

elexicon
CORP

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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, 2021
- 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, 2021, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

March 31, 2022

(In thousands of dollars)

As at December 31, 2021, with comparative information for 2020

	Notes	2021	2020
Assets			
Current assets:			
Cash		$ 13,110	$ 7,795
Accounts receivable	2, 23(c)	82,634	84,989
Materials and supplies	21	6,455	5,162
Income taxes recoverable		37	–
Prepaid expenses		2,030	579
Total current assets		104,266	98,525
Non-current assets:			
Property, plant and equipment	3, 22	513,236	463,612
Intangible assets	4, 22	7,365	7,441
Goodwill	1, 4	64,348	64,348
Deferred tax assets	7	223	35
Other assets	12(b)	118	126
Total non-current assets		585,290	535,562
Total assets		689,556	634,087
Regulatory balances	6	39,164	26,912
Total assets and regulatory balances		$728,720	$660,999
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	8	$ 61,911	$ 54,015
Short-term debt	9	–	13,100
Income taxes payable		–	44
Deferred revenue	10	1,709	1,714
Deferred contributions	14	2,610	2,142
Deposits and developer obligations	11	17,730	16,425
Long-term debt	13	976	940
Other liabilities	19	217	363
Total current liabilities		85,153	88,743
Non-current liabilities:			
Long-term debt	9,13	258,526	214,502
Deferred contributions	14	105,351	85,923
Employee future benefits	15	9,933	10,244

(In thousands of dollars)

Unrealized loss on interest rate swaps	23(e)	3,647	6,610
Deferred tax liabilities	7	13,078	7,394
Other liabilities	19	511	742
Total non-current liabilities		391,046	325,415
Total liabilities		476,199	414,158
Shareholders' equity:			
Share capital	16	97,692	97,692
Contributed capital		25	25
Contributed surplus		79,301	79,301
Accumulated other comprehensive loss		(1,257)	(1,815)
Retained earnings		75,354	69,802
Total shareholders' equity		251,115	245,005
Total liabilities and shareholders' equity		727,314	659,163
Regulatory balances	6	1,406	1,836
Contingencies and guarantees	18		
Total liabilities, shareholder's equity and regulatory balances		$728,720	$660,999

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Chair, Board of Directors

Chair, Audit and Risk Management Committee

(In thousands of dollars)

Year ended December 31, 2021, with comparative information for 2020

	Notes	2021	2020
Revenue:			
Commodity	20	$ 417,285	$ 473,986
Commodity cost		(426,225)	(480,262)
		(8,940)	(6,276)
Distribution revenue	20	84,070	79,380
Other income	20	7,490	10,789
Other loss	20	(475)	(848)
		91,085	89,321
Expenses:			
Operating and maintenance	21	17,213	17,681
Administration	21	31,363	31,617
Depreciation and amortization	5	20,746	19,231
		69,322	68,529
		12,823	14,516
Finance income		92	132
Finance costs	13	(5,759)	(6,029)
Unrealized gain (loss) on interest rate swaps		2,963	(3,465)
		(2,704)	(9,362)
Income before income taxes		10,119	5,154
Income tax expense	7	(5,871)	(5,194)
Net income (loss) for the period		4,248	(40)
Net movements in regulatory balances, net of tax:			
Net movements in regulatory balances		7,252	6,797
Income tax on net movements in regulatory balances		5,432	5,742
		12,684	12,539
Net income after net movements in regulatory balances		16,932	12,499
Other comprehensive income (loss), net of tax:			
Remeasurements of employee future benefits		558	(999)
Total comprehensive income		$ 17,490	$ 11,500

See accompanying notes to the consolidated financial statements.

(In thousands of dollars)

Year ended December 31, 2021, with comparative information for 2020

	Balance, December 31, 2020	Net income after net movements in regulatory balances	Other comprehensive income	Dividends paid	Balance, December 31, 2021
Share capital	$ 97,692	$ –	$ –	$ –	$ 97,692
Contributed capital	25	–	–	–	25
Contributed surplus	79,301	–	–	–	79,301
Accumulated other comprehensive loss	(1,815)	–	558	–	(1,257)
Retained earnings	88,084	16,932	–	–	105,016
Dividends	(18,282)	–	–	(11,380)	(29,662)
Total equity	$ 245,005	$ 16,932	$ 558	$ (11,380)	$ 251,115

	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

See accompanying notes to the consolidated financial statements.

(In thousands of dollars)

Year ended December 31, 2021, with comparative information for 2020

	Notes	2021	2020
Cash provided by (used in):			
Operating activities:			
Net income after net movements in regulatory balances		$ 16,932	$ 12,499
Net movements in regulatory balances		(12,684)	(12,539)
Adjustments:			
Depreciation and amortization	5	21,721	20,187
Amortization of deferred contributions		(2,174)	(1,767)
Loss on disposal/retirement of property, plant and equipment		475	847
Employee future benefits		247	(553)
Unrealized loss (gain) on interest rate swaps		(2,963)	3,465
Finance income		(92)	(99)
Finance costs		5,760	6,029
Income tax expense		5,871	5,194
Other assets/liabilities		(377)	(490)
Capital contributions received		22,070	15,109
Deposits and developer obligations	11	1,305	1,088
Income taxes paid		(550)	(484)
Income taxes received		138	400
		55,679	48,886
Changes in non-cash operating working capital	22	6,126	(21,487)
Net cash provided by operating activities		61,805	27,399
Financing activities:			
Interest received		92	108
Repayment of short-term debt		(13,100)	–
Repayment of long-term debt		(941)	(905)
Proceeds from short-term debt		–	6,300
Proceeds from long-term debt		45,009	35,083
Dividends paid	17	(11,380)	(11,294)
Interest paid		(5,760)	(6,029)
Net cash provided by financing activities		13,920	23,263

(In thousands of dollars)

Investing activities:			
Additions to property, plant and equipment	22	(67,526)	(45,282)
Additions to intangible assets	22	(2,929)	(4,689)
Proceeds from disposal of property, plant and equipment		45	15
Net cash used in investing activities		(70,410)	(49,956)
Increase in cash		5,315	706
Cash, beginning of year		7,795	7,089
Cash, end of year		$ 13,110	$ 7,795

See accompanying notes to the consolidated financial statements.

Elexicon Corporation (the "Corporation") was incorporated on April 1, 2019 under the Business Corporations Act (Ontario) by amalgamation 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.

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.

1. Significant accounting policies (continued):

(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.

1. Significant accounting policies (continued):

- 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.

Disconnections of customers are banned from November 15th to April 30th. In 2021, the disconnection moratorium was extended until June 2, 2021.

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 had transitioned prior to 2021 with the exception of the Seasonal Residential customers in the Veridian rate zone that were aligned in 2021. All these distribution rates are subject to regulation by the OEB.

1. Significant accounting policies (continued):

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

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

The Corporation has two distinct rate zones for Veridian and Whitby with the rate year effective January 1. The OEB approved a transition to a January 1 rate year in 2021 for the Veridian rate zone in order to provide for more consistent and efficient rate setting across both rate zones. The Corporation's Veridian rate zone follows the Price Cap Incentive Rate-setting method. The Whitby rate zone shifted to the Annual IR Index in 2018 as required by the OEB when a distributor requests deferral of a cost of service rate application for an extended period of time. Both options set a distributor's rates through a formula-based mechanism using a price cap index, but apply different stretch factors.

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

1. **Significant accounting policies (continued):**

(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, including unbilled revenue is measured at amortized cost and reduced through lifetime expected credit losses to be recognized at the reporting date.

1. Significant accounting policies (continued):

(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 10).

1. Significant accounting policies (continued):

The Corporation, through its unregulated subsidiary, EGI, may promise to provide distinct goods or services within a contract, in which case the contract is separated into the associated performance obligations as assessed from the customer's perspective. If a contract contains multiple performance obligations, the Corporation allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. When the Corporation is contracted to construct projects, the budgets and overall transaction prices are built up using the Corporation's best estimate of costs associated to complete the project using the appropriate overhead and subcontractor rates for a given project and location. This approach to estimate the overall costs and associated revenue is considered the most appropriate assessment of the standalone selling price for the associated performance obligations. Where costs are determined to be greater than total revenue, losses from any construction contracts are recognized in full in the year the loss becomes known. Losses are recorded within provisions on the consolidated balance sheet.

Contract revenue is recognized in the consolidated statement of income and comprehensive income in accordance with the pattern of satisfying the Corporation's performance obligations under a contract. This satisfaction occurs when control of good or service transfer to the customer.

For each performance obligation satisfied over time, the Corporation recognizes revenue by measuring progress toward complete satisfaction of that performance obligation. Using output or input methods based on the type of contract, the Corporation recognizes revenue in a pattern that reflects the transfer of control of the promised goods or services to the customer. Revenue from fixed price and cost plus contracts is recognized using the input method with reference to costs incurred. For agency relationships, such as construction management contracts, where the Corporation acts as an agent for its customers, fee revenue only is recognized, generally in accordance with the contract terms. Some contracts, particularly maintenance and service contracts, do not specify the amount of fixed consideration at contract inception, but will have a transaction price assigned to it once a work order is issued.

For the purpose of revenue recognition and disclosure, only the transaction price of secured work, as evidenced by work orders, would be included in revenue.

1. Significant accounting policies (continued):

Revenue from contract modifications, commonly referred to as change orders and claims, is recognized to the extent that the contract modifications have been approved by the customer and the amount can be measured reliably.

(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 deemed rate of return of 9.36% for the Veridian rate zone, and 9.66% for the Whitby rate zone. The weighted average deemed rate of return for Elexicon is 9.43%.

The Corporation's 2021 rates were approved by the OEB under a Price Cap Incentive Rate-setting application for Veridian rate zone, and an Annual IR Index for the Whitby rate zone.

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".

1. Significant accounting policies (continued):

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 for a model to account for regulatory assets and regulatory liabilities. If issued as a new IFRS Standard, the proposals would replace IFRS 14. The IASB discussed feedback on the Exposure Draft in October and November 2021. The IASB will begin redeliberating the proposals in the Exposure Draft at a future meeting.

The OEB has the general power to include or exclude costs, revenue, 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:

Cash is defined as cash or bank indebtedness.

(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.

(In thousands of dollars)

1. Significant accounting policies (continued):

(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 with fixed term	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.

1. Significant accounting policies (continued):

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 with fixed term, major spare parts and standby equipment are not subject to depreciation until these assets are available for use. Land and land rights in perpetuity are 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.

1. Significant accounting policies (continued):

(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 4). 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.

1. Significant accounting policies (continued):

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/liabilities measured at amortized cost:

Accounts receivables (including unbilled revenue), cash, customer deposits, accounts payable, credit facilities, long-term debt and leases are 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.

1. Significant accounting policies (continued):

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, 2021. 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 in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution services.

(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.

1. Significant accounting policies (continued):

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.

1. Significant accounting policies (continued):

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

(n) Income taxes:

Under the Electricity Act, 1998, the Corporation and EEI are required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. References in these consolidated financial statements to income taxes are with respect to PILs for the Corporation and EEI.

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

1. Significant accounting policies (continued):

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.

1. Significant accounting policies (continued):

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.

1. Significant accounting policies (continued):

(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 revenue 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) – recognition and measurement of unbilled revenue;

(ii) Note 1(c)(i) and note 23(c) - expected credit losses; and

(iii) Note 1(i) and note 4(b) - determining goodwill value-in-use.

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

(i) Note 1(g), (h) - determination of useful lives of PP&E and intangible assets;

(ii) Note 1(c)(i), 1(d) and note 6 - recognition and measurement of regulatory balances;

(iii) Note 1(m)(ii), (iii) and note 15 - measurement of employee future benefits: key actuarial assumptions;

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

(v) Note 1(n) and note 7 - recognition of deferred tax assets - availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be used.

1. Significant accounting policies (continued):

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 23(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.

1. Significant accounting policies (continued):

(u) Changes in accounting policies:

There are no amended standards and interpretations (effective from January 1, 2021) that have a significant impact on the Corporation's consolidated financial statements:

(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 is currently assessing the financial statement impact of adopting the following amendments to existing accounting standards:

(i) Classification of Liabilities as Current or Non-current (Amendments to International Accounting Standard ("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.

1. Significant accounting policies (continued):

(iii) Definition of Accounting Estimates (Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")):

In February 2021, the IASB issued amendments to IAS 8 to introduce a definition of "accounting estimates" and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

(iv) Disclosure of Accounting Policies (Amendments to IAS 1):

In February 2021, the IASB issued amendments to IAS 8 to introduce a definition of "accounting estimates" and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

(v) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12, Income Taxes ("IAS 12")):

In May 2021, the IASB issued amendments to IAS 12. The amendments clarify how companies should account for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption, so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize both a deferred tax asset and a deferred tax liability when accounting for such transactions. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

(In thousands of dollars)

2. Accounts receivable:

	2021	2020
Energy revenue	$ 36,670	$ 36,647
Unbilled revenue	40,070	39,568
Project expenditures recoverable	9,522	10,571
Other	2,231	2,421
	88,493	89,207
Less: expected credit losses	5,859	4,218
	$ 82,634	$ 84,989

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.

3. Property, plant and equipment:

December 31, 2021:

	December 31, 2020	Additions/ depreciation	Disposals/ retirements	December 31, 2021
Cost				
Land	$ 2,176	$ –	$ –	$ 2,176
Land rights	461	3,841	–	4,302
Buildings (a)	25,807	720	–	26,527
Distribution station equipment	59,716	5,703	–	65,419
Transmission and distribution system	394,533	44,834	(824)	438,543
Meters	25,017	1,172	(151)	26,038
Office equipment	2,518	87	(120)	2,485
Computer hardware	6,108	1,991	–	8,099
Vehicle fleet (b)	11,817	1,436	(140)	13,113
Renewable power generation	2,357	(88)	–	2,269
Construction in progress	38,710	9,715	–	48,425
	$ 569,220	$ 69,411	$ (1,235)	$ 637,396

(In thousands of dollars)

3. Property, plant and equipment (continued):

	December 31, 2020	Additions/ depreciation	Disposals/ retirements	December 31, 2021
Accumulated depreciation				
Land rights	$ 79	$ 13	$ –	$ 92
Buildings (a)	10,414	1,151	–	11,565
Distribution station equipment	9,643	1,884	–	11,527
Transmission and distribution system	61,321	11,854	(342)	72,833
Meters	12,738	1,945	(110)	14,573
Office equipment	1,783	127	(120)	1,790
Computer hardware	3,909	980	–	4,889
Vehicle fleet (b)	5,339	1,184	(120)	6,403
Renewable power generation	382	106	–	488
	$ 105,608	$ 19,244	$ (692)	$ 124,160
Net book value	$ 463,612	$ 50,167	$ (543)	$ 513,236

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

(In thousands of dollars)

3. Property, plant and equipment (continued):

	December 31, 2019	Additions/ depreciation	Disposals/ retirements	December 31, 2020
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

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

(a) Includes nil (2020 - $292) office building right-of-use assets and $292 (2020 - $224) accumulated amortization.

(b) Includes $1,700 (2020 - $1,700) vehicle right-of-use assets and $930 (2020 - $669) accumulated amortization.

During the year, borrowing costs of $722 (2020 - $646) were capitalized to PP&E and credited to finance costs. Weighted average cost of long-term borrowings in EEI (note 13) is used for capitalizing borrowing costs as part of PP&E with an average rate of 2.69% (2020 - 3.28%)

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

(In thousands of dollars)

4. Intangible assets and goodwill:

(a) Intangible assets:

December 31, 2021:

	December 31, 2020	Additions/ amortization	Disposals/ retirements	December 31, 2021
Cost				
Application software and other	$ 17,756	$ 3,202	$ (240)	$ 20,718
Construction in progress related to application software and other	943	(188)	–	755
Capital contributions (note 18(b))	2,772	(637)	–	2,135
	$ 21,471	$ 2,377	$ (240)	$ 23,608
Accumulated amortization				
Application software and other	$ 13,947	$ 2,289	$ (240)	$ 15,996
Capital contributions	83	164	–	247
	$ 14,030	$ 2,453	$ (240)	$ 16,243
Net book value	$ 7,441	$ (76)	$ –	$ 7,365

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 18(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

(In thousands of dollars)

4. Intangible assets and goodwill (continued):

No borrowing costs were capitalized on intangible assets under development in 2021.

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, 2020	Additions	Impairments	December 31, 2021
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 October 28, 2021, 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.

(In thousands of dollars)

4. Intangible assets and goodwill (continued):

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.

5. Depreciation and amortization:

	2021	2020
Total depreciation and amortization	$ 21,721	$ 20,187
Allocated to:		
Depreciation/amortization of vehicle fleet included in operating and maintenance expenses	917	871
Depreciation/amortization of assets in non-regulated utility operations included in other income	58	85
	975	956
Depreciation and amortization expense	$ 20,746	$ 19,231

6. 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;

6. Regulatory balances (continued):

- 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. Based on a past OEB decision, the Whitby rate zone may record material differences arising from a change in Useful Lives;

- 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 and 2021 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. On June 17, 2021 the OEB issued its report "Regulatory Treatment of Impacts Arising from the COVID-19 Emergency". This report identified how it will use a "Means test" to test the balances in the Account for possible recovery of 50% of the amount;

- The Corporation applied and received approval for disposition 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 were refunded to customers via rate riders during the 2021 year.

- Both the Veridian rate zone and the Whitby rate zone applied and received approval for partial disposition of LRAMVA balances. The Veridian rate zone also received permission to recover foregone revenue in 2021 that resulted from deferring May 2020 rates.

- 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;

(In thousands of dollars)

6. Regulatory balances (continued):

- 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; and

- The Corporation has deferred variances regarding Bill C-97 related to changes in the tax rules for Capital Cost allowance.

Debit balances comprise of the following:

	December 31, 2020	Balances arising in the year	Recovery/ reversal	Other movements	December 31, 2021	Remaining recovery/ reversal period (years)
Approved settlement variances (a)	$ 153	$ (710)	$ 731	$ –	$ 174	1 year
Future settlement variances - RSVA (a)	8,522	7,143	1,868	–	17,533	Note 1
Future settlement variances - RCVA (a)	712	11	–	–	723	Note 1
One-time IFRS conversion (b)	509	2	–	–	511	Note 1
IFRS transitional adjustments (d)	2,976	220	–	–	3,196	Note 1
Other (e)	2,294	(207)	(1,807)	–	280	Note 1
Deferred taxes (f)	11,746	5,001	–	–	16,747	Note 2
	$ 26,912	$ 11,460	$ 792	$ –	$ 39,164	

	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	$ (920)	$ 26,912	

(In thousands of dollars)

6. Regulatory balances (continued):

Credit balances comprise of the following:

	December 31, 2020	Balances arising in the year	Recovery/ reversal	Other movements	December 31, 2021	Remaining recovery/ reversal period (years)
Stranded meters (c)	$ 26	$ –	$ –	$ –	$ 26	Note 1
Deferred taxes (f)	1,810	–	(430)	–	1,380	Note 2
	$ 1,836	$ –	$ (430)	$ –	$ 1,406	

	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	

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

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 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, 2021 to December 31, 2021.

6. Regulatory balances (continued):

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 2021 rate year, the OEB approved:

- Lost revenue recovery for 2018 conservation program impacts for both Whitby and Veridian rate zone;

- Disposition of Group 1 Deferral and Variance Accounts – Whitby rate zone; and
- Collection of foregone revenue (2020) for the Veridian rate zone due to COVID-19. The OEB approved an annual inflationary adjustment in May 2020, and the Corporation requested that the implementation of this increase be deferred to 2021. This was done to help align the fiscal year with the rate year and to minimize rate impacts.

(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.

6. Regulatory balances (continued):

(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, 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 $16,747 (2020 - $11,746) as at December 31, 2021.

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of $1,379 (2020 - $1,810) as at December 31, 2021.

(In thousands of dollars)

7. 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:

	2021	2020
Income before income taxes	$ 10,119	$ 5,154
Federal and Ontario statutory income tax rate	26.5%	26.50%
Provision for income taxes at statutory rate	$ 2,682	$ 1,366
Increase (decrease) resulting from:		
Temporary differences expected to be recovered from customers	(4,017)	(3,226)
Current period losses for which no deferred tax asset is recognized	281	262
Over provided in prior periods	(138)	(92)
Other miscellaneous	1,631	1,142
Income taxes recorded in regulatory balances movements	5,432	5,742
Income tax expense	$ 5,871	$ 5,194
Allocated:		
Current expense	$ 374	$ 352
Deferred expense (recovery)	65	(900)
Income taxes recorded in regulatory balances movements	5,432	5,742
Total income tax expense	$ 5,871	$ 5,194

(In thousands of dollars)

7. Income taxes (continued):

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:

	2021	2020
Deferred tax assets (liabilities):		
Property, plant and equipment and intangible assets (a)	$ (18,618)	$ (13,824)
Employee future benefits	3,567	3,680
Sick leave liability	361	393
Non-capital losses	1,495	930
Unrealized loss on interest rate swaps	966	1,752
Deferred revenue	453	482
	(11,776)	(6,587)
Valuation allowance	(1,079)	(772)
	(12,855)	(7,359)
Deferred tax liabilities:		
Regulatory balances	1,378	1,810
Moved to regulatory deferral account credit balances	(1,378)	(1,810)
	–	–
Deferred tax liabilities	$ (12,855)	$ (7,359)

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

The Corporation has non-capital losses for income tax purposes of $5,231 available to reduce future years' income for tax purposes. $4,171 will expire between 2039 and 2040 and $1.060 will expire by 2041. 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.

(In thousands of dollars)

8. Accounts payable and accrued liabilities:

	2021	2020
Power bill accrual	$ 30,213	$ 27,851
Customer credit balances	5,607	6,087
Non-vested sick leave liability	995	1,092
Other accounts payable and accrued liabilities	25,096	18,985
	$ 61,911	$ 54,015

9. Credit facilities:

As at December 31, 2021, 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 $60,000 up to August 31, 2022 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 13);

(c) Committed or demand revolver facility (note 13) with a combined total no greater than $170,000 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, 2021, nil (2020 - $13.100) was drawn out of facility (a); $35,289 (2020 - $36,227) was outstanding out of facility (b) and $135,000 (2020 - $90,000) was outstanding out of facility (c) above (note 13). 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%.

9. Credit facilities (continued):

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.

10. Deferred revenue:

(a) As at December 31, 2021, $1,620 (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.

(In thousands of dollars)

10. Deferred revenue (continued):

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, 2021, nil (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, 2021, $89 (2020 - $68) of deferred revenue represents other unearned revenue jobs.

11. Deposits and developer obligations:

	2021	2020
Advance payments - construction deposits	$ 155	$ 89
Customer deposits	6,274	7,225
Developer obligations	11,301	9,111
Deposits and developer obligations	$ 17,730	$ 16,425

12. 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.

(In thousands of dollars)

12. Related party transactions (continued):

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	$ 2,727	$ 1,582	$ 1,739	$ 1,403	$ 408	$ 7,859
Other Income	95	67	–	27	–	189
Finance costs on the notes payable	581	1,171	742	231	246	2,971
Property taxes paid	220	241	44	70	34	609

	Town of Ajax	Town of Whitby	City of Pickering	City of Belleville	Municipality of Clarington	Total
Accounts receivable balance	$ 627	$ 252	$ 147	$ 160	$ 34	$ 1,220

	Town of Ajax	Town of Whitby	City of Pickering	City of Belleville	Municipality of Clarington	Total
Dividends paid	$ 2,484	$ 3,642	$ 3,173	$ 1,029	$ 1,052	$ 11,380

	2021	2020
Compensation paid to key management personnel (i)	$ 3,422	$ 3,202

(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 contributions of $ 314 (2020 - $269).

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

12. Related party transactions (continued):

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, TREC SolarShare Co-Operative (No. 1) Inc. 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 2021, the Corporation included its share of net income $7 (2020 - $7) 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 $118 (net of repayments and intercompany funding) is included in other assets of the Corporation as at December 31, 2021. The funding provided by the Corporation was in the same proportion as the equity interest: EEI 39%, TREC Solar Share Co-Operative (No. 1) Inc. and Solera Sustainable Energies Company Limited 10%.

12. Related party transactions (continued):

(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 2021 the Corporation included its share of net income (loss) ($3) 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 $81 is included in the Corporation's long-term-debt as at December 31, 2021 (note 13). The funding provided by the Corporation of the Town of Cobourg 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%.

(d) EVSTART Inc.:

The Corporation's subsidiary, EGI, and Wyse Metering Solutions both hold a 50% equity interest respectively in the above Corporation, incorporated to own, operate and maintain projects related to electric vehicle infrastructure and own chargers as a service. This joint venture was created in November of 2021 with a twenty dollars capital injection by EGI as at December 31, 2021.

The joint venture will commence operation in 2022. As such, no earnings were included in the December 31, 2021 financial statements.

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

(In thousands of dollars)

13. Long-term debt:

	2021	2020
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%	81	83
Long-term debt from the Bank, maturing on March 2, 2045 (note 9(b))	35,289	36,227
Long-term debt from the Bank, maturing on December 31, 2024 (note 9(c))	135,000	90,000
	259,502	215,442
Less: current portion	976	940
	$ 258,526	$ 214,502

(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, 2023.

Scheduled principal repayments for the next five years and thereafter as of December 31, 2021:

2022	$ 976
2023	90,145
2024	136,052
2025	1,091
2026	1,132
Thereafter	30,106
	259,502
Less: current portion	976
	$ 258,526

(In thousands of dollars)

13. Long-term debt (continued):

Scheduled interest payments for the next five years and thereafter as of December 31, 2021:

2022	$ 6,389
2023	6,352
2024	2,633
2025	1,184
2026	1,143
Thereafter	11,408
	$ 29,109

Expected weighted average borrowing cost:

2022	2.49%
2023	3.01%
2024	2.69%
2025	4.04%
2026	4.06%

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

	2021	2020
Interest on:		
Notes payable and loans	$ 5,467	$ 5,607
Customer deposits and other	1,014	1,068
	6,481	6,675
Less: capitalized borrowing costs	722	646
	$ 5,759	$ 6,029

(In thousands of dollars)

14. 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:

	2021	2020
Deferred contributions, beginning of year	$ 88,065	$ 74,723
Contributions received	22,070	15,109
Contributions amortized as other income	(2,174)	(1,767)
Deferred contributions, end of year	107,961	88,065
Less: current	2,610	2,142
Non-current	$ 105,351	$ 85,923

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.

15. Employee future benefits:

(a) Pensions:

During the year ended, the Corporation made contributions totalling $2,993 (2020 - $2,905) to OMERS. These contributions have been recognized as an operational expenditure net of the amount capitalized in assets. The expected payment for 2022 is $3,000 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.

(In thousands of dollars)

15. Employee future benefits (continued):

(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:

	2021	2020
Accrued benefit liability recognized, beginning of year	$ 10,244	$ 9,798
Current service costs	225	275
Past service gain	–	(831)
Interest costs	273	310
Benefit payments	(275)	(229)
Remeasurements recognized in other comprehensive income	(534)	921
Accrued benefit liability, end of year	$ 9,933	$ 10,244

The amounts presented are based upon an actuarial valuation performed as at December 31, 2019. An update to the accounting extrapolations was performed as at December 31, 2020 to account for changes in benefit plan provisions.

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% (2020 - 2.00% for future years).

(ii) Interest (discount) rate:

Amounts were determined using an annual discount rate of 3.00% (2020 - 2.70%).

(iii) Salary levels:

Future general salary and wage levels were assumed to increase at 3.20% (2020 - 3.20%) per annum.

(In thousands of dollars)

15. Employee future benefits (continued):

(iv) Health and dental care:

The health and dental care cost increases are 4.20% (2020 - 4.20%) and 4.50% (2020 - 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%)	$ 9,933	–
(1.70%) or -1.00%	12,217	+ 23%
(3.70%) or +1.00%	8,244	- 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.

16. Share capital:

	2021	2020
Authorized:		
100,000 unlimited common shares		
Issued	$ 97,692	$ 97,692

17. 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;

17. Dividends (continued):

(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 dividends of $11,310 on the issued and outstanding Common shares in respect of the 2020 fiscal year.

Dividends and dividend advances paid in 2021 were $11,380 and include the following:

- 2020 Q4 dividends of $1,414
- 2021 Q1, Q2, Q3, and Q4 dividend advances of $9,966

Dividends and dividend advances paid in 2020 were $11,294 and include the following:

- 2019 Q4 dividends of $1,398
- 2020 Q1, Q2, and Q3 dividend advances of $9,896

On March 31, 2022, the Board of Directors of the Corporation declared dividends of $11,390 on the issued and outstanding Common shares in respect of the 2021 fiscal year. Dividend advances of $9,966 were paid during 2021 with the remainder of $1,424 to be paid no later than April 14, 2022.

18. 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 $40,000 per occurrence for liability insurance, $21,000 for vehicle insurance, and $198,798 for property insurance and $12,000 for privacy, cyber, and network security insurance.

18. Contingencies and guarantees (continued):

(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 revenue, EEI is obligated to pay a capital contribution equal to the difference between these revenue 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 nil in 2021 (2020 - $2,135) to Hydro One and recognized the same as an intangible asset. 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 $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.

(In thousands of dollars)

19. 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:

2022	$ 217
2023	177
2024	124
2025	95
2026	71
Thereafter	44
	$ 728

As at December 31, 2021, a lease obligation of $217 (2020 - $363) is recorded as a current liability and $511 (2020 - $742) is recorded as a non-current liability.

The Corporation has also recognized $53 (2020 - $75) interest costs (recognized as finance costs in the consolidated statement of income and comprehensive income and the consolidated statement of cash flows) and $377 (2020 - $475) 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.

(In thousands of dollars)

20. Revenues and other income (loss):

	2021	2020
Commodity revenue	$ 417,285	$ 473,986
Distribution revenue	84,070	79,380
Other income:		
Late payment charges	$ 756	$ 1,176
Customer charges (a)	1,191	1,769
Pole rentals	1,357	1,330
Amortization of deferred contributions	2,174	1,767
Miscellaneous	2,012	4,747
	$ 7,490	$ 10,789
Other loss (disposal of PP&E)	$ (475)	$ (848)

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

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

	2021	2020
Residential service	$ 237,166	$ 265,518
General service	239,425	263,956
Large users	24,764	23,892
Total commodity and distribution revenue	$ 501,355	$ 553,366

21. Operating, maintenance and administration expenses:

	Operating and maintenance	Administration	2021	2020
Salaries and benefits	$ 9,985	$ 15,997	$ 25,982	$ 23,369
External services	5,567	12,439	18,006	20,832
Materials and supplies	257	606	863	599
Vehicle	1,153	45	1,198	894
Other	251	2,276	2,527	3,604
	$ 17,213	$ 31,363	$ 48,576	$ 49,298

(In thousands of dollars)

22. Consolidated statement of cash flows:

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

	2021	2020
Accounts receivable	$ 2,355	$ (12,577)
Materials and supplies	(1,293)	(743)
Prepaid expenses	(1,450)	119
Accounts payable and accrued liabilities	6,518	(8,275)
Deferred revenue	(4)	(11)
	$ 6,126	$ (21,487)

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

	2021	2020
Purchase of PP&E, cash basis	$ 67,526	$ 45,282
Net change in accruals related to PP&E	1,885	846
Total additions to PP&E	$ 69,411	$ 46,128
Purchase of intangible assets, cash basis	$ 2,929	$ 4,689
Net change in accruals related to intangible assets	(552)	(658)
Total additions to intangible assets	$ 2,377	$ 4,031

23. 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 $55 (2020 - $58) as at December 31, 2021.

23. Financial instruments and risk management (continued):

(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 $1,195 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.

(In thousands of dollars)

23. Financial instruments and risk management (continued):

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 7.6% (2020 - 5.6%) 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:

2020	$ 4,218
Additional allowances	2,691
Write off	(1,050)
	1,641
2021	$ 5,859

(In thousands of dollars)

23. Financial instruments and risk management (continued):

Pursuant to their respective terms, accounts receivable are aged as follows as at December 31, 2021:

	2021	2020
Total accounts receivable	$ 88,493	$ 89,207
Less: expected credit losses	5,859	4,218
Total accounts receivable, net	$ 82,634	$ 84,989
Of which:		
Unbilled revenue	$ 40,070	$ 39,568
Outstanding less than 30 days	38,331	41,842
Outstanding 31 days but not more than 60 days	1,881	1,672
Outstanding 61 days but not more than 90 days	1,972	1,371
Outstanding 91 days but not more than 120 days	828	833
Outstanding more than 120 days	5,411	3,921
	88,493	89,207
Less: expected credit losses	5,859	4,218
	$ 82,634	$ 84,989

(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.

(In thousands of dollars)

23. Financial instruments and risk management (continued):

The liquidity risks associated with financial commitments are as follows:

Financial commitments as of December 31, 2021:

	Due within one year	Due between one and five years	Due past five years
Financial liabilities:			
Accounts payable and accrued liabilities - undiscounted	$ 61,911	$ –	$ –
Long-term debt - undiscounted	976	228,420	30,106
Leases - discounted	217	467	44

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 9)	13,100	–	–
Long-term debt - undiscounted	940	183,263	31,239
Leases - discounted	363	627	115

(e) Fair values:

The Corporation included $3,647 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, 2021. This unrealized loss is not expected to affect cash as the Corporation intends to hold the financial instruments until their maturity.

(In thousands of dollars)

23. Financial instruments and risk management (continued):

Fair value measurements recognized in the consolidated statement of income and 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, 2021.

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 2021	Carrying value 2021	Fair value 2020	Carrying value 2020
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	98	81	108	83
Long-term debt from the Bank, maturing on March 2, 2045	36,095	35,289	39,689	36,227
Long-term debt from the Bank, maturing on December 31, 2024	135,000	135,000	90,000	90,000
Short-term debt	–	–	13,100	13,100
Total	$ 260,325	$ 259,502	$ 232,029	$ 228,542

(In thousands of dollars)

23. Financial instruments and risk management (continued):

(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:

	2021	2020
Cash	$ (13,110)	$ (7,795)
Short-term debt	–	13,100
Long-term debt	259,502	215,442
	259,502	228,542
Share capital	97,692	97,692
Retained earnings	75,354	69,802
Contributed surplus	79,301	79,301
Contributed capital	25	25
Accumulated other comprehensive loss	(1,257)	(1,815)
	251,115	245,005
Total capital	$ 497,507	$ 465,752