Consolidated Financial Statements of

# OAKVILLE ENTERPRISES CORPORATION

Year ended December 31, 2020
(Expressed in thousands of dollars)

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# INDEPENDENT AUDITORS' REPORT

To the Shareholder of Oakville Enterprises Corporation

***Opinion***

We have audited the consolidated financial statements of Oakville Enterprises Corporation (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of 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 financial position of the Entity as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

***Basis for Opinion***

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

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

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

***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, 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

Hamilton, Canada
April 1, 2021

# OAKVILLE ENTERPRISES CORPORATION

Consolidated Statement of Financial Position
As at December 31, 2020, with comparative information for 2019
(in thousands of dollars)

| | Note | | 2020 | | 2019 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 5 | $ | 10,537 | $ | 19,573 |
| Accounts receivable | 6 | | 80,394 | | 68,141 |
| Income taxes receivable | | | 244 | | 1,242 |
| Materials and supplies | 7 | | 5,017 | | 5,002 |
| Prepaid expenses | | | 1,486 | | 1,933 |
| Total current assets | | | 97,678 | | 95,891 |
| **Non-current assets** | | | | | |
| Right-of-use assets | 8 | | 14,766 | | 7,212 |
| Property, plant and equipment | 9 | | 282,096 | | 276,163 |
| Intangible assets | 10 | | 37,462 | | 31,337 |
| Goodwill | | | 14,766 | | 9,555 |
| Deferred tax assets | 12 | | 14,894 | | 12,899 |
| Total non-current assets | | | 363,984 | | 337,166 |
| **Total assets** | | | 461,662 | | 433,057 |
| Regulatory balances | 13 | | 8,190 | | 7,522 |
| **Total assets and regulatory balances** | | $ | 469,852 | $ | 440,579 |

See accompanying notes to the consolidated financial statements.

# OAKVILLE ENTERPRISES CORPORATION

Consolidated Statement of Financial Position
As at December 31, 2020, with comparative information for 2019
(in thousands of dollars)

| | Note | | 2020 | | 2019 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | 14 | $ | 57,495 | $ | 59,681 |
| Income taxes payable | | | 1,180 | | 37 |
| Long-term debt due within one year | 15 | | 4,768 | | 6,338 |
| Finance lease obligation | 8 | | 1,225 | | 1,213 |
| Customer deposits | | | 14,101 | | 8,644 |
| Total current liabilities | | | 78,769 | | 75,913 |
| **Non-current liabilities** | | | | | |
| Long-term debt | 15 | | 131,768 | | 132,347 |
| Finance lease obligation | 8 | | 20,265 | | 12,640 |
| Post-employment benefits | 16 | | 12,956 | | 12,563 |
| Deferred revenue | 11 | | 45,571 | | 38,339 |
| Deferred tax liabilities | 12 | | 22,118 | | 16,477 |
| Derivative liabilities | | | 555 | | 183 |
| Total non-current liabilities | | | 233,233 | | 212,549 |
| **Total liabilities** | | | 312,002 | | 288,462 |
| **Equity** | | | | | |
| Share capital | 17 | | 63,024 | | 63,024 |
| Retained earnings | | | 86,819 | | 81,001 |
| Accumulated other comprehensive loss | 18 | | (3,102) | | (2,688) |
| **Total equity** | | | 146,741 | | 141,337 |
| **Total liabilities and equity** | | | 458,743 | | 429,799 |
| Regulatory balances | 13 | | 11,109 | | 10,780 |
| **Total liabilities, equity and regulatory balances** | | $ | 469,852 | $ | 440,579 |

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Director

Director

# OAKVILLE ENTERPRISES CORPORATION

Consolidated Statement of Comprehensive Income
Year ended December 31, 2020, with comparative information for 2019
(in thousands of dollars)

| | Note | | 2020 | | 2019 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Sale of energy | | $ | 233,591 | $ | 201,488 |
| Distribution revenue | | | 43,088 | | 42,479 |
| Other revenue | | | 122,012 | | 106,546 |
| | 19 | | 398,691 | | 350,513 |
| **Operating expenses** | | | | | |
| Cost of power purchased | | | 224,522 | | 193,301 |
| Employee salaries and benefits | 20 | | 89,366 | | 83,366 |
| Operating expenses | 21 | | 39,031 | | 32,619 |
| Depreciation and amortization | 8,9,10 | | 21,168 | | 19,925 |
| | | | 374,087 | | 329,211 |
| **Income from operating activities** | | | 24,604 | | 21,302 |
| Finance income | 22 | | 619 | | 987 |
| Finance costs | 22 | | 8,828 | | 9,510 |
| **Income before income taxes** | | | 16,395 | | 12,779 |
| Income tax expense | 12 | | 4,816 | | 3,586 |
| **Net income for the year** | | | 11,579 | | 9,193 |
| Net movement in regulatory balances | | | (914) | | (121) |
| Tax on net movement | | | 1,253 | | 1,087 |
| | | | 339 | | 966 |
| **Net income for the year and net movement in regulatory balances** | | | 11,918 | | 10,159 |
| **Other comprehensive (loss) income** | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Remeasurements of post-employment benefits | 16 | | (248) | | (805) |
| Tax on remeasurements | 12 | | 65 | | 213 |
| | | | (183) | | (592) |
| Items that will be reclassified to profit or loss: | | | | | |
| Remeasurements of cash flow hedge | 15 | | (371) | | (155) |
| Tax on remeasurements | 12 | | 140 | | - |
| | | | (231) | | (155) |
| **Other comprehensive loss for the year** | | | (414) | | (747) |
| **Total comprehensive income for the year** | | $ | 11,504 | $ | 9,412 |

See accompanying notes to the consolidated financial statements.

# OAKVILLE ENTERPRISES CORPORATION

Consolidated Statement of Changes in Equity
Year ended December 31, 2020, with comparative information for 2019
(in thousands of dollars)

| | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income (loss) | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2019** | $ 63,024 | $ - | $ 76,942 | $ (1,941) | $ 138,025 |
| Net income and net movement– in regulatory balances | - | - | 10,159 | - | 10,159 |
| Other comprehensive loss | - | - | | (747) | (747) |
| Dividends | - | - | (6,100) | - | (6,100) |
| **Balance at December 31, 2019** | $ 63,024 | $ - | $ 81,001 | $ (2,688) | $ 141,337 |
| **Balance at January 1, 2020** | $ 63,024 | $ - | $ 81,001 | $ (2,688) | $ 141,337 |
| Net income and net movement in regulatory balances | - | - | 11,918 | - | 11,918 |
| Other comprehensive loss | - | - | - | (414) | (414) |
| Dividends | - | - | (6,100) | - | (6,100) |
| **Balance at December 31, 2020** | $ 63,024 | $ - | $ 86,819 | $ (3,102) | $ 146,741 |

See accompanying notes to the consolidated financial statements.

# OAKVILLE ENTERPRISES CORPORATION

Consolidated Statement of Cash Flows
Year ended December 31, 2020, with comparative information for 2019
(in thousands of dollars)

| | 2020 | 2019 |
|---|---|---|
| **Operating activities** | | |
| Net income and net movement in regulatory balances | $ 11,918 | $ 10,159 |
| Adjustments for: | | |
| Depreciation and amortization | 21,168 | 19,925 |
| Amortization of deferred revenue | (1,020) | (828) |
| Post-employment benefits | 145 | 162 |
| Gain on disposal of property, plant and equipment | (132) | (55) |
| Recovery of promissory note liability | (225) | (250) |
| Write off of hold back on acquisition | - | (111) |
| Other | 51 | - |
| Net finance costs | 8,209 | 8,523 |
| Income tax expense | 4,816 | 3,586 |
| | 44,930 | 41,111 |
| Change in non-cash operating working capital: | | |
| Accounts receivable | (10,034) | (3,613) |
| Materials and supplies | (15) | (485) |
| Prepaid expenses | 472 | 31 |
| Accounts payable and accrued liabilities | (3,162) | 4,025 |
| Customer deposits | 5,457 | 972 |
| Deferred revenue | 354 | 286 |
| | (6,928) | 1,216 |
| Regulatory balances | (339) | (966) |
| Contributions received from customers | 7,085 | 4,867 |
| Income tax paid | (2,599) | (3,008) |
| Income tax received | 998 | 649 |
| Interest paid | (8,802) | (9,538) |
| Interest received | 620 | 987 |
| **Net cash from operating activities** | 34,965 | 35,318 |
| **Investing activities** | | |
| Acquisitions | (8,310) | (4,700) |
| Purchase of property, plant and equipment | (22,202) | (26,545) |
| Proceeds on disposal of property, plant and equipment | 309 | 303 |
| Purchase of intangible assets | (749) | (776) |
| **Net cash used by investing activities** | (30,952) | (31,718) |
| **Financing activities** | | |
| Dividends paid | (6,100) | (6,100) |
| Proceeds from long-term debt | - | 3,050 |
| Repayment of long-term debt | (5,674) | (8,625) |
| Repayment of finance lease | (1,275) | (1,303) |
| **Net cash from financing activities** | (13,049) | (12,978) |
| Change in cash and cash equivalents | (9,036) | (9,378) |
| Cash and cash equivalents, beginning of year | 19,573 | 28,951 |
| **Cash and cash equivalents, end of year** | $ 10,537 | $ 19,573 |
| Non-cash additions to property, plant and equipment | $ (813) | $ (4,752) |
| Non-cash contributions from customers | 813 | 4,752 |

See accompanying notes to the consolidated financial statements.

## 1. Reporting entity

Oakville Enterprises Corporation (the "Corporation") is a holding company which was incorporated on January 28, 2000 under the *Business Corporations Act* (Ontario), in accordance with the *Electricity Act.* The Corporation is wholly owned by The Corporation of the Town of Oakville and is located in the Town of Oakville. The address of the Corporation's registered office is 861 Redwood Square, Oakville, Ontario L6K 0C7.

The Corporation, through its wholly owned subsidiaries, delivers electricity within the Town of Oakville and provides energy and infrastructure services to residential and commercial customers primarily within Ontario. The Corporation's subsidiaries include:

- Oakville Hydro Electricity Distribution Inc.
    - Distribution of electricity within the Town of Oakville under license and regulations issued by the Ontario Energy Board ("OEB"). Changes to rates and terms of operations require OEB approval. The Corporation and all its subsidiaries are considered affiliates of Oakville Hydro Electricity Distribution Inc. and must adhere to the Affiliate Relationship Code issued by the OEB.
- Oakville Hydro Energy Services Inc.
    - Green energy power generation within the Region of Halton, including landfill gas generation and rooftop solar. Other services include water billing services within the Town of Oakville. In 2005 Oakville Hydro Energy Services Inc., obtained an Electricity Generation License from the OEB to allow it to generate electricity.
- Golden Horseshoe Metering Systems Inc.
    - Retro-fit and new installations of multi-residential buildings to individually metered units and utility billing services within the province of Ontario.
- OEC Kagawong Inc.
    - Run-of-the-river hydro power generating facility located on Manatoulin Island, Ontario.
- El-Con Construction Inc.
    - Utility related construction and streetlight maintenance business in the greater Toronto and Hamilton area.
- PVS Contractors Inc.
    - Underground utility locating operating in Niagara, southern Ontario and Edmonton area of Alberta.
- G-Tel Engineering Inc.
    - Underground utility locating and gas leak detection, primarily in Ontario.
- Sunny Shores Finance Co. Inc. and Sunny Shores LP
    - Operation of a 14 MW solar farm located in Picton, Ontario.

**1. Reporting entity (continued)**

- UTS Consultants Inc.
    - Engineering utility solutions for municipalities, telecommunication and power utility network owners and operators and is located in Fergus, Ontario.
- OEC Generation Inc.
    - Holding company for electricity generation projects.
- OEC Services Inc.
    - Providing administrative and fleet management services for the Corporation and affiliated businesses, including the purchase and maintenance of fleet assets for use within the consolidated group.
- OEC Geo-Exchange Inc.
    - Holding company for geo-exchange energy projects, including Oakville Trafalgar Community Centre geo-exchange project.
- OEC Geo-Exchange Seasons GP Inc. and OEC Geo-Exchange Seasons LP
    - Geo-exchange for former project, held for future projects.
- OEC Geo-Exchange Eddy GP Inc. and OEC Geo-Exchange Eddy LP
    - Geo-exchange project at “The Eddy” condominium in Ontario.
- OEC Geo-Exchange Union Lofts GP Inc. and OEC Geo-Exchange Union Lofts LP
    - Geo-exchange project for the “Union Lofts” condominium in Ontario.
- OEC Geo-Exchange Ironstone GP Inc. and OEC Geo-Exchange Ironstone LP
    - Geo-exchange project for the “Ironstone” condominium in Ontario.
- OEC FIT 3 GP Inc. and OEC FIT 3 LP (49%)
    - Rooftop solar generation projects within the Town of Oakville.
- Planview Utility Services Limited
    - Provides an integrated approach to managing utility infrastructure through utility engineering, GIS services and sub-surface utility engineering in Canada.
- 2590550 Ontario Inc., 1981104 Inc., 1247902 Ontario Inc. as GP and Carlisle LP
    - Run-of-the-river hydro power generating facility located in Powassan, Ontario.
- Teraflex Limited
    - Municipal and utility construction business in the Ottawa area.
- 2800847 Ontario Inc.
    - QSP Geographics Inc.
        - Providing strategic insights in various geospatial, field collection and CAD disciplines.

**1. Reporting entity (continued)**

The financial statements are for the Corporation and its subsidiaries as at and for the year ended December 31, 2020.

**2. Basis of presentation**

(a) Statement of compliance

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements were approved by the Board of Directors on April 1, 2021.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis, unless otherwise stated.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgments

(i) Assumptions and estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

(i) Notes 3 (f), (g), (h), (m), 8, 9, 10 – estimation of useful lives of its property, plant and equipment, intangible assets and right-of-use assets and impairment tests for long-lived assets
(ii) Notes 3 (h) – impairment test on intangible assets and goodwill; key assumptions underlying recoverable amounts, including the recoverability of development costs
(iii) Notes 3 (k), 13 – recognition and measurement of regulatory balances
(iv) Notes 3 (l), 16 – measurement of defined benefit obligations: key actuarial assumptions
(v) Notes 3 (m), 8 – measurement of leases: discount rate
(vi) Notes 3 (j), 23 – recognition and measurement of provisions and contingencies

**2. Basis of presentation (continued)**

(d) Use of estimates and judgments (continued)

(ii) Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes:

(i) Notes 3 (m), 8 – leases: whether an arrangement contains a lease
(ii) Note 3 (m) – leases: lease term, underlying leased asset value
(iii) Note 3 (d) – determination of the performance obligation for contributions from customers and the related amortization period
(iv) Notes 3 (k), 13 – recognition of regulatory balances

(e) Rate regulation

A subsidiary of the Corporation is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the subsidiary, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The OEB has a decision and order in place banning LDC's in Ontario from disconnecting homes for non-payment during the winter. This ban is normally in place from November 15 to April 30 each year but was extended during the year to July 31, 2020.

**2. Basis of presentation (continued)**

(e) Rate regulation (continued)

Rate setting

*(i) Distribution Rates*

The Corporation is required to file a “Cost of Service” (“COS”) rate application every five years, unless approved for a deferral, under which the OEB establishes the revenues required to recover the forecasted operating costs, including amortization and income taxes, of providing the regulated electricity distribution service and providing a fair return on the Corporation’s rate base. 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 any registered interveners. Rates are approved based upon the review of evidence and information, including any revisions resulting from that review.

In the intervening years, an Incentive Regulation Mechanism application (“IRM”) is filed. An IRM Application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year’s rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand (“GDP IPI-FDD”) net of a productivity factor set by the OEB and a “stretch factor” determined by the relative efficiency of an electricity distributor.

On October 1, 2013, the Corporation submitted a COS rate application to the OEB to change distribution rates effective May 1, 2014. The application was approved by the OEB on May 1, 2014.

On August 12, 2019, the Corporation submitted an IRM Application to the OEB requesting approval to change distribution rates effective January 1, 2020. The IRM Application, which provided a mechanistic and formulaic adjustment to distribution rates and charges, was approved by the OEB on December 12, 2019. The GDP IPI-FDD for 2020 is 2.0%, the Corporation’s stretch factor is 0.3% and the productivity factor determined by the OEB is 0%, resulting in a net adjustment of 1.7% to the previous year’s rates.

**2. Basis of presentation (continued)**

(e) Rate regulation (continued)

*(ii) Electricity Rates*

The OEB sets Ontario electricity prices for low-volume consumers twice each year (May and November) based on an estimate of how much it will cost to supply the province with electricity for the next year.

In 2020, the OEB also adjusted the Regulated Price Plan (RPP) prices in March and June in response to the Government issued Emergency Orders under the *Emergency Management and Civil Protection Act* to assist Ontarians who were forced to stay home due to the COVID-19 pandemic.

All remaining consumers pay the market price for electricity.

The Corporation is billed for the cost of the electricity that its customers use by the Independent Electricity System Operator and passes this cost on to the customer at cost without a mark-up.

*(iii) Retail Transmission Rates*

These are the costs of delivering electricity from generating stations across the Province to local distribution networks. These charges include the costs to build and maintain the transmission lines, towers and poles and operate provincial transmission systems. Retail transmission rates are passed through to the operators of transmission networks and facilities.

*(iv) Wholesale Market Service Rates*

These are the costs of administering the wholesale electricity system and maintaining the reliability of the provincial grid and includes the costs associated with funding Ministry of Energy conservation and renewable energy programs. The Corporation is billed for the cost of the wholesale electricity system by the Independent Electricity System Operator and passes this cost on to the customer at cost without a mark-up.

3. **Significant accounting policies**

The accounting policies set out below have been applied consistently in all years presented in these consolidated financial statements.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the following corporations:

- Oakville Hydro Electricity Distribution Inc. (100%)
- Oakville Hydro Energy Services Inc. (100%)
    - Golden Horseshoe Metering Systems Inc. (100%)
    - Oakville Hydro Energy Solutions Inc. (100%)
    - Sunny Shores Finance Co. Inc. (100%)
        - Sunny Shores GP Inc. (100%)
        - Sunny Shores LP (100%)
    - OEC Geo-Exchange Inc. (100%)
        - OEC Geo-Exchange Seasons GP Inc. (100%)
        - OEC Geo-Exchange Seasons LP (100%)
        - OEC Geo-Exchange Eddy GP Inc. (100%)
        - OEC Geo-Exchange Eddy LP (100%)
        - OEC Geo-Exchange Union Lofts GP Inc. (100%)
        - OEC Geo-Exchange Union Lofts LP (100%)
        - OEC Geo-Exchange Ironstone GP Inc. (100%)
        - OEC Geo-Exchange Ironstone LP (100%)
    - OEC Generation Inc. (100%)
        - OEC Kagawong Inc. (100%)
        - OEC FIT 3 GP Inc. (100%)
        - OEC FIT 3 LP (100%)
- El-Con Construction Inc. (100%)
- OEC Services Inc. (100%)
- PVS Contractors Inc. (100%)
- G-Tel Engineering Inc. (100%)
        - 2590550 Ontario Inc. (100%)
        - 1981104 Ontario Inc. (100%)
        - 1247902 Ontario Inc. (100%)
        - Carlisle LP (100%)

**3. Significant accounting policies (continued)**

(a) Basis of consolidation (continued)

| | |
|---|---|
| • UTS Consultants Inc. | (100%) |
| • Planview Utility Services Ltd. | (100%) |
| • Teraflex Ltd. | (100%) |
| • QSP Geographics Inc. | (100%) |

Subsidiaries are entities controlled by the Corporation. The financial statements of the subsidiaries are included in these consolidated financial statements from the date on which control commences until the date on which control ceases. OEC FIT 3 LP is 49% owned by the Corporation and 51% owned by the Town of Oakville. The assets are roof top solar installations on Town of Oakville owned properties. Because control over the operation of OEC FIT 3 LP is through OEC FIT 3 GP Inc. which is 100% owned by the Corporation it is proportionately consolidated in the financial statements of the Corporation.

All inter-company accounts and transactions have been eliminated.

(b) Business combinations

The Corporation accounts for business combinations using the acquisition method when control is transferred to the Corporation. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(c) Financial instruments

All financial assets and all financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(h).

**3. Significant accounting policies (continued)**

(c) Financial instruments (continued)

Cash and cash equivalents include short-term investments with maturities of three months or less when purchased.

The Corporation holds derivative financial instruments (interest rate swap) to hedge its interest rate risk exposure on the term loan of its subsidiary 2590550 Ontario Inc. and Teraflex Ltd.

On initial designation of the hedge, the Corporation formally documented the relationship between the interest rate swap and term loan, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Corporation makes an assessment, both at the inception of the hedge relationship as well as the ongoing basis, whether the interest rate swap is expected to be “highly effective” in offsetting the changes in the cash flows of the term loan during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

*Cash flow hedges*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized liability, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in unrealized gains/losses on cash flow hedges in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the interest rate swap no longer meets the criteria of hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(d) Revenue recognition

*Sale and distribution of electricity*

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Corporation has the right to bill. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

**3. Significant accounting policies (continued)**

(d) Revenue recognition (continued)

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this billing stream.

*Capital contributions*

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 revenue. 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 revenue. The deferred revenue, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Certain customers are also required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. These contributions 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 receive ongoing access to electricity. The Corporation has concluded that the performance obligation is the supply of electricity over the life of the relationship with the customer which is satisfied over time as the customer receives and consumes the electricity. Revenue is recognized on a straight-line basis over the useful life of the related asset.

*Other revenue*

The performance obligations for the provision of services is recognized over time using an input method based on labour hours and resources consumed to measure the satisfaction of the performance obligation. The value of services transferred to the customer is determined based on the agreed-upon price with the customer and represents the amount that the Corporation has the right to bill for services completed to date.

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

## 3. Significant accounting policies (continued)

(e) Materials and supplies

Materials and supplies, the majority of which are consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on a weighted average cost basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

(f) Property, plant and equipment

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the date of transition to IFRS, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation costs, direct labour, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Corporation's borrowings. Qualifying assets are considered to be those that take in excess of nine months to construct.

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Corporation has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

**3. Significant accounting policies (continued)**

(f) Property, plant and equipment (continued)

The estimated useful lives are as follows:

| | Years |
|---|---|
| Buildings and leasehold improvements | 5 - 60 |
| Distribution equipment | 15 - 60 |
| Other fixed assets | 2 - 20 |

(g) Intangible assets and goodwill

Intangible assets used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the date of transition to IFRS, less accumulated amortization. All other intangible assets are measured at cost.

Computer software that is acquired or developed by the Corporation after January 1, 2014, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate.

The estimated useful lives are:

| | Years |
|---|---|
| Computer software | 3 - 7 |
| Customer contracts | 5 - 25 |
| Brand | indefinite |

Goodwill arising on the acquisition of subsidiaries is subsequently measured at cost less accumulated impairment losses as described in note 3(h)(ii).

(h) Impairment

(i) Financial assets measured at amortized cost

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

**3. Significant accounting policies (continued)**

(h) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than materials and supplies and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. In addition, irrespective of whether there is any indication of impairment, the Corporation is required to test intangible assets with an indefinite life and goodwill for impairment at least annually.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or “CGU”). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a prorated basis, if applicable.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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 construction 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.

## 3. Significant accounting policies (continued)

(i) Customer deposits

Customer deposits represent cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills. Interest is paid on certain customer deposits. Deposits are also received for planned chargeable work. No interest is paid on these deposits.

Deposits are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

(j) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated 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 the risks specific to the liability.

(k) Regulatory balances

The Corporation elected to apply the requirements of IFRS 14, effective December 31, 2015.

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue.

When the Corporation is required to refund amounts to ratepayers in the future, the Corporation recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. When the amounts are returned to the customer at rates approved by the OEB the amounts are recognized as a reduction of revenue.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB, etc. Any resulting impairment loss is recognized in profit or loss in the year incurred.

**3. Significant accounting policies (continued)**

(l) Post-employment benefits

(i) Pension plan

The Corporation provides a pension plan for some of its full-time employees through Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan that provides pensions for employees of Ontario municipalities, local boards and public utilities. OMERS is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by investment earnings. To the extent that the plan finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The Corporation is not responsible for any other contractual obligations other than the contributions. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due.

The Corporation provides a defined contribution pension plan for its full time employees who are not a part of OMERS. Obligations for contributions to this defined contribution pension plan are recognized as an employee benefit expense in profit or loss when they are due.

(ii) The Corporation provides a defined contribution pension plan for all eligible employees of certain subsidiaries through a plan administrator. The plan is financed by equal contributions from the subsidiary and its employees, and by the investment earnings of the plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the statement of comprehensive income when they are due. All contributions are settled within twelve months of the reporting date.

(iii) Post-employment benefits, other than pension

The Corporation provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management’s best estimate of certain underlying assumptions. Re-measurements of the net defined benefit obligations, including actuarial gains and losses and the return on plan assets (excluding interest), are recognized immediately in other comprehensive income. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

**3. Significant accounting policies (continued)**

(m) Leased assets

At inception of a contract, the Corporation assess whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Corporation with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, 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 depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

The lease liability is initially measured at the present value of lease payments plus the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Corporation's incremental borrowing rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, 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 leases that have a lease term of 12 months or less or for leases of low value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**3. Significant accounting policies (continued)**

(n) Finance income and finance costs

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents.

Finance costs comprise interest expense on borrowings, finance lease obligations and net interest expense on post-employment benefits and interest on customer deposits. Finance costs are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

(o) Income taxes

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Corporation and some of its subsidiaries are exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Tax Acts as modified by the *Electricity Act*, 1998, and related regulations. Payments in lieu of taxes and payments under the Tax Acts are collectively referred to as income taxes.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.

**3. Significant accounting policies (continued)**

(p) Future changes in accounting policies and disclosures

The Corporation is evaluating the adoption of the following new and revised standards along with any subsequent amendments.

*Classification of Liabilities as Current or Non-Current*

The IASB has issued amendments to IAS 1, Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. Adoption of the amendment has been deferred by one year as a result of the COVID-19 pandemic (see note 27) and is effective for annual periods beginning on or after January 1, 2023. The amendments specifically removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period. The Corporation does not expect a significant impact as a result of adoption of this amendment on its results of operations, financial position and disclosures.

*Onerous Contracts*

In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract as an amendment to IAS 37, Provisions, contingent liabilities and contingent assets. The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments first applied. Early adoption is permitted. The amendments specifically address the fact that the current standard does not specify which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The IASB has clarified in the amendment to state that costs comprise both the incremental costs and allocation of other direct costs as applicable. The Corporation does not expect a significant impact as a result of adoption of this amendment on its results of operations, financial position and disclosures.

(in thousands of dollars)

## 4. Acquisitions

In December 2020, the Corporation acquired all of the issued and outstanding shares of 1269914 Ontario Inc., operating as QSP Geographics Inc. The price paid for the business was $12,500 and is comprised of the following:

| | |
|---|---|
| Cash | $ 8,750 |
| Vendor financing | 3,750 |
| | $ 12,500 |

The vendor financing is comprised a promissory note issued to the vendors in the amount of $3,750 (note 15), subject to purchase price adjustments contained in the share purchase agreement.

The purchase price was allocated to the following tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as follows:

| | |
|---|---|
| Working capital | $ 885 |
| Plant and equipment | 31 |
| Brand | 1,145 |
| Customer relationships | 8,013 |
| Deferred income taxes | (2,427) |
| Goodwill | 4,853 |
| Total consideration | $ 12,500 |

The Corporation incurred $149 in legal, and advisory costs associated with the acquisition which were expensed in 2020. The Corporation made a cash payment of $8,310 with $440 being held to settle an obligation on behalf of the previous shareholders.

In January 2019, the Corporation acquired all of the issued and outstanding shares of 1828539 Ontario Inc., operating as Teraflex Ltd. The price paid for the business was $4,700 and is comprised of the following:

| | |
|---|---|
| Cash | $ 4,000 |
| Vendor financing | 700 |
| | $ 4,700 |

The vendor financing is comprised of two tranches for payment. The first tranche is a holdback on the purchase price to adjust for changes in working capital and other adjustments post-closing. The amount of this tranche is $200, non-interest bearing and was paid 90 days after close.

The second tranche is a promissory note issued to the vendors in the amount of $700 (note 15).

(in thousands of dollars)

## 4. Acquisitions (continued)

The purchase price was allocated to the following tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as follows:

| | |
|---|---|
| Working capital | $ 2,751 |
| Plant and equipment | 731 |
| Brand | 128 |
| Customer relationships | 885 |
| Deferred income taxes | (675) |
| Goodwill | 880 |
| Total consideration | $ 4,700 |

The Corporation incurred $80 in legal, accounting and advisory costs associated with the acquisition which were expensed in 2019. During the year goodwill was increased by $358, offset by an increase in deferred income tax liabilities in the amount of $328 and reduction of working capital in the amount of $30.

## 5. Cash and cash equivalents

| | 2020 | 2019 |
|---|---|---|
| Bank balances | $ 36,533 | $ 42,446 |
| Bank overdrafts used for cash management purposes | (25,996) | (22,873) |
| Cash and cash equivalents | $ 10,537 | $ 19,573 |

## 6. Accounts receivable

| | 2020 | 2019 |
|---|---|---|
| Trade receivables | $ 48,284 | $ 38,399 |
| Government assistance – CEWS (note 25) | 3,368 | – |
| Unbilled revenue | 30,766 | 30,800 |
| Less: | | |
| Loss allowance | (2,024) | (1,058) |
| | $ 80,394 | $ 68,141 |

## 7. Materials and supplies

The amount written down due to obsolescence in 2020 was $97 (2019 - $72). The amount of inventories consumed by the Corporation and recognized as an expense during 2020 was $8,846 (2019 - $8,430).

(in thousands of dollars)

## 8. Finance leases

| | Land and buildings | Equipment | Total |
|---|---|---|---|
| **Right-of-use assets** | | | |
| ***Cost*** | | | |
| Balance at January 1, 2020 | $ 9,456 | $ 26 | $ 9,482 |
| Additions | 496 | – | 496 |
| Remeasurements | 8,408 | – | 8,408 |
| Disposals/retirements | (248) | – | (248) |
| Balance at December 31, 2020 | $ 18,112 | $ 26 | $ 18,138 |
| Balance at January 1, 2019 | $ 3,838 | $ 26 | $ 3,864 |
| IFRS 16 transition | 5,618 | – | 5,618 |
| Disposals/retirements | – | – | – |
| Balance at December 31, 2019 | $ 9,456 | $ 26 | $ 9,482 |
| ***Accumulated depreciation*** | | | |
| Balance at January 1, 2020 | $ 2,253 | $ 17 | $ 2,270 |
| Depreciation | 1,301 | 9 | 1,310 |
| Disposals/retirements | (208) | – | (208) |
| Balance at December 31, 2020 | $ 3,346 | $ 26 | $ 3,372 |
| ***Accumulated depreciation*** | | | |
| Balance at January 1, 2019 | $ 1,207 | $ – | $ 1,207 |
| Additions | 1,046 | 17 | 1,063 |
| Disposals/retirements | – | – | – |
| Balance at December 31, 2019 | $ 2,253 | $ 17 | $ 2,270 |
| ***Carrying amounts*** | | | |
| At December 31, 2020 | $ 14,766 | $ – | $ 14,766 |
| At December 31, 2019 | 7,203 | $ 9 | 7,212 |
| **Finance lease liability** | | | |
| Balance at January 1, 2020 | $ 13,843 | $ 10 | $ 13,853 |
| Additions | 496 | – | 496 |
| Remeasurement | 8,416 | – | 8,416 |
| Interest | 1,077 | – | 1,077 |
| Disposals/retirements | (2,342) | (10) | (2,352) |
| Balance at December 31, 2020 | $ 21,490 | $ - | $ 21,490 |
| Balance at January 1, 2019 | $ 15,131 | $ 26 | $ 15,157 |
| Additions | – | – | – |
| Remeasurement | – | – | – |
| Interest | 1,062 | 1 | 1,063 |
| Disposals/retirements | (2,350) | (17) | (2,367) |
| Balance at December 31, 2019 | $ 13,843 | $ 10 | $ 13,853 |

Total cash outflows with respect to leasing arrangements during the year was $2,352 (2019 - $2,367) consisting of principal and interest of $1,275 and $1,077 respectively (2019 - $1,303, $1,064).

## 8. Finance leases (continued)

The Corporation has lease commitments that expire within 12 months of the commencement date and are considered short-term in nature and thus not recognized as a right-of-use asset and corresponding finance lease liability. During the year, the Corporation expensed $2,688 (2019 - $1,944) in profit or loss.

The Corporation has several lease commitments for which the underlying asset value has been determined by the Corporation to be less than $5,000 USD. These assets have not been accounted for under IFRS 16 *Leases* due to their low value. As such, the Corporation has expensed $21 (2019 - $39) in profit or loss during the year for these leases.

Certain leases held by the Corporation provide the Corporation with extension options and termination options that may impact the term of the Lease which can impact the finance lease liability recognized in the statement of financial position. The Corporation has determined the lease term for all contracts based on all available information as at the reporting date.

(in thousands of dollars)

## 9. Property, plant and equipment

| | Land and buildings | Distribution equipment | Other fixed assets | Construction -in-Progress | Total |
|---|---|---|---|---|---|
| ***Cost or deemed cost*** | | | | | |
| Balance at January 1, 2020 | $ 18,113 | $ 239,117 | $ 88,462 | $ 6,044 | $ 351,736 |
| Acquired assets | – | – | 31 | – | 31 |
| Additions | 316 | 17,188 | 4,957 | 554 | 23,015 |
| Transfers | – | – | 270 | (270) | – |
| Disposals/retirements | – | (108) | (1,787) | (336) | (2,231) |
| Balance at December 31, 2020 | $ 18,429 | $ 256,197 | $ 91,933 | $ 5,992 | $ 372,551 |
| | | | | | |
| Balance at January 1, 2019 | $ 17,286 | $ 214,672 | $ 82,347 | $ 6,578 | $ 320,883 |
| Acquired assets | – | – | 610 | – | 610 |
| Additions | 827 | 24,612 | 5,117 | 741 | 31,297 |
| Transfers | – | – | 1,275 | (1,275) | – |
| Disposals/retirements | – | (167) | (887) | – | (1,054) |
| Balance at December 31, 2019 | $ 18,113 | $ 239,117 | $ 88,462 | $ 6,044 | $ 351,736 |
| | | | | | |
| ***Accumulated depreciation*** | | | | | |
| Balance at January 1, 2020 | $ 3,046 | $ 39,442 | $ 33,085 | $ – | $ 75,573 |
| Depreciation | 503 | 8,077 | 7,496 | – | 16,076 |
| Disposals/retirements | | (48) | (1,146) | – | (1,194) |
| Balance at December 31, 2020 | $ 3,549 | $ 47,471 | $ 39,435 | $ | $ 90,455 |
| | | | | | |
| Balance at January 1, 2019 | $ 2,588 | $ 31,890 | $ 26,777 | $ – | $ 61,255 |
| Depreciation | 458 | 7,613 | 7,030 | – | 15,101 |
| Disposals/retirements | – | (61) | (722) | – | (783) |
| Balance at December 31, 2019 | $ 3,046 | $ 39,442 | $ 33,085 | $ – | $ 75,573 |
| | | | | | |
| ***Carrying amounts*** | | | | | |
| At December 31, 2020 | $ 14,880 | $ 208,726 | $ 52,498 | $ 5,992 | $ 282,096 |
| At December 31, 2019 | 15,067 | 199,675 | 55,377 | 6,044 | 276,163 |

At December 31, 2020, PP&E with a carrying amount of $282,096 (2019 - $276,163) are subject to general security agreements within the operating entities.

During the year, no borrowing costs were capitalized as part of the cost of PP&E.

(in thousands of dollars)

## 10. Intangible assets

| | Computer software | Customer contracts | Brand | Total |
|---|---|---|---|---|
| ***Cost or deemed cost*** | | | | |
| Balance at January 1, 2020 | $ 7,651 | $38,927 | $2,638 | $ 49,216 |
| Additions | 749 | – | – | 749 |
| Acquired assets | – | 8,013 | 1,145 | 9,158 |
| Impairment | – | – | – | – |
| Balance at December 31, 2020 | $ 8,400 | $46,940 | $3,783 | $ 59,123 |
| Balance at January 1, 2019 | $ 6,754 | $38,042 | $2,510 | $ 47,306 |
| Additions | 776 | – | – | 776 |
| Acquired assets | 121 | 885 | 128 | 1,134 |
| Impairment | – | – | – | – |
| Balance at December 31, 2019 | $ 7,651 | $38,927 | $2,638 | $ 49,216 |
| ***Accumulated amortization*** | | | | |
| Balance at January 1, 2020 | $ 5,078 | $12,801 | $ – | $ 17,879 |
| Amortization | 1,114 | 2,668 | – | 3,782 |
| Balance at December 31, 2020 | $ 6,192 | $15,469 | $ – | $ 21,661 |
| Balance at January 1, 2019 | $ 4,020 | $10,098 | $ – | $ 14,118 |
| Amortization | 1,058 | 2,703 | – | 3,761 |
| Balance at December 31, 2019 | $ 5,078 | $12,801 | $ – | $ 17,879 |
| ***Carrying amounts*** | | | | |
| At December 31, 2020 | $ 2,208 | $31,471 | $3,783 | $ 37,462 |
| At December 31, 2019 | 2,573 | 26,126 | 2,638 | 31,337 |

(in thousands of dollars)

## 11. Deferred revenue

| | Distribution assets | Construction in-Progress | Other | Total |
|---|---|---|---|---|
| ***Cost or deemed cost*** | | | | |
| Balance at January 1, 2020 | $ 38,919 | $ 1,314 | $ 503 | $ 40,736 |
| Additions | 7,533 | 365 | 354 | 8,252 |
| Disposals/retirements | - | - | - | - |
| Balance at December 31, 2020 | $ 46,452 | $ 1,679 | $ 857 | $ 48,988 |
| Balance at January 1, 2019 | $ 30,300 | $ 314 | $ 19 | $ 30,633 |
| Additions | 8,619 | 1,000 | 484 | 10,103 |
| Disposals/retirements | - | - | - | - |
| Balance at December 31, 2019 | $ 38,919 | $ 1,314 | $ 503 | $ 40,736 |
| ***Accumulated depreciation*** | | | | |
| Balance at January 1, 2020 | $ 2,397 | $ – | $ – | $ 2,397 |
| Amortization | 1,020 | – | – | 1,020 |
| Disposals/retirements | - | – | – | – |
| Balance at December 31, 2020 | $ 3,417 | $ – | $ – | $ 3,417 |
| Balance at January 1, 2019 | $ 1,569 | $ – | $ – | $ 1,569 |
| Amortization | 828 | – | – | 828 |
| Disposals/retirements | – | – | – | – |
| Balance at December 31, 2019 | $ 2,397 | $ – | $ – | $ 2,397 |
| ***Carrying amounts*** | | | | |
| At December 31, 2020 | $ 43,035 | $ 1,679 | $ 857 | $ 45,571 |
| At December 31, 2019 | 36,522 | 1,314 | 503 | 38,339 |

Deferred revenue relates mainly to capital contributions received from customers and others. The amount of deferred revenue received from customers during the year is $7,086 (2019 - $4,867). Deferred revenue is recognized as revenue on a straight-line basis over the life of the related asset for which the contribution was received. During the year, the Corporation also recognized non-cash contributions in the amount of $813 (2019 - $4,752).

(in thousands of dollars)

## 12. Income tax expense

Current tax expense

| | 2020 | 2019 |
|---|---|---|
| Current year | $ 3,547 | $ 1,196 |
| Adjustment for prior years | 68 | (255) |
| | $ 3,615 | $ 941 |

Deferred tax expense

| | 2020 | 2019 |
|---|---|---|
| Origination and reversal of temporary differences | $ 1,201 | $ 2,645 |
| | $ 1,201 | $ 2,645 |

Income tax recovery of $205 (2019 - $213) has been recognized in other comprehensive income at the Corporation's statutory income tax rate related to remeasurement of the Corporation's cash flow hedges and post-employment benefits.

Reconciliation of effective tax rate

| | 2020 | 2019 |
|---|---|---|
| Income before taxes | $ 16,395 | $ 12,779 |
| Canada and Ontario statutory income tax rates | 26.5% | 26.5% |
| Expected tax provision on income at statutory rates | 4,345 | 3,386 |
| Increase (decrease) in income taxes resulting from: | | |
| Permanent differences | 85 | 13 |
| Prior year adjustments | (53) | (57) |
| Other | 439 | 244 |
| Income tax expense | $ 4,816 | $ 3,586 |

(in thousands of dollars)

## 12. Income tax expense (continued)

Components of the Corporation's deferred tax balances

| | 2020 | 2019 |
|---|---|---|
| Deferred tax liabilities: | | |
| Property, plant and equipment and intangibles | $ (21,481) | $ (16,216) |
| Cumulative eligible capital | (246) | (261) |
| Other tax reserves | (391) | - |
| | $ (22,118) | $ (16,477) |
| Deferred tax assets: | | |
| Property, plant and equipment and intangibles | $ 17 | $ 17 |
| Cumulative eligible capital | 82 | 85 |
| Post-employment benefits | 3,433 | 3,329 |
| Loss carry forward | 3,846 | 4,453 |
| Other tax reserves | 1,818 | 1,294 |
| Finance lease obligation | 5,698 | 3,721 |
| | $ 14,894 | $ 12,899 |

## 13. Regulatory balances

The Corporation has determined that certain debit and credit balances arising from rate-regulated activities qualify for regulatory accounting treatment in accordance with IFRS 14 and the OEB's prescribed accounting procedures for electricity distributors. The regulatory balances are comprised of regulatory debit variances of $8,190 (2019 - $7,522) and regulatory credit balances for $11,109 (2019 - $10,780) for a net regulatory liability of $2,919 (2019 - $3,258).

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points, with exception of the tax balances. In 2020, the rate was 2.18% for the period January to June 2020 and 0.57% from July to December. The regulatory balances for the Corporation consist of the following:

(a) Settlement Variance

These accounts includes the variances between amounts charged by the Corporation, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by the Corporation such as commodity charges, retail transmission rates and wholesale market services charges. The Corporation has deferred the variances and related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. This account also includes variances between the amounts approved for disposition by the OEB and the amounts collected or paid through OEB approved rate riders.

Settlement variances are reviewed annually as part of a COS or IRM Application submitted to the OEB and a request for disposition is made if the aggregate of the settlement accounts exceeds the OEB's prescribed materiality level.

In the Corporation's 2020 IRM Application, submitted in August 2019, the Corporation sought OEB approval for the disposition of the 2019 audited balances as they were below the OEB prescribed materiality level.

(b) Stranded meters:

The stranded meter account relates to the provincial government's directive to install smart meters for all Ontario customers by December 2010. In its 2014 cost of service application, the Corporation received approval from the OEB for the recovery of the stranded meter costs associated with the Province's smart meter initiative over a five-year period beginning on May 1, 2014 and ending on April 30, 2019.

Over the five-year period, Oakville Hydro collected $210 more than that approved by the OEB. This amount will remain in a variance account until the OEB approves the disposition of the balance at which time it will be returned to customers.

(in thousands of dollars)

## 13. Regulatory balances (continued)

(c) Customer Liability for Deferred Taxes

The customer liability for deferred taxes variance account relates to the expected regulatory liability relating to deferred taxes arising from timing differences in the determination of income taxes.

(d) Lost Revenue Adjustment Mechanism

This deferral account includes the lost revenue adjustment variances in relation to the conservation and demand management ("CDM") programs or activities undertaken by the Corporation in accordance with OEB prescribed requirements (e.g. licence, codes and guidelines).

(e) Other

These deferral accounts include the allowable costs associated with the transition to IFRS, the installation of interval meters for General Service greater than 50 kilowatts, as directed by the OEB, the transition to monthly billing and other miscellaneous regulatory accounts.

Reconciliation of the carrying amount for each class of regulatory balances

| **Regulatory deferral account debit balances** | January 1, 2020 | Additions/ transfers | Recovery/ reversal | December 31, 2020 | Remaining years |
|---|---|---|---|---|---|
| Settlement variances | $ 3,748 | $ 1,735 | $ (412) | $ 5,071 | 1 |
| Stranded meters | – | – | – | – | – |
| Lost revenue adjustment mechanism | 1,121 | 385 | (1,202) | 304 | 2 |
| Other regulatory accounts | 1,784 | – | 694 | 2,478 | 2 |
| Income tax | 869 | (532) | – | 337 | Note 1 |
| | $ 7,522 | $ 1,588 | $ (920) | $ 8,190 | |

| **Regulatory deferral account debit balances** | January 1, 2019 | Additions/ transfers | Recovery/ reversal | December 31, 2019 | Remaining years |
|---|---|---|---|---|---|
| Settlement variances | $ 6,731 | $ (3,001) | $ 18 | $ 3,748 | 1 |
| Stranded meters | 116 | 209 | (325) | – | – |
| Lost revenue adjustment mechanism | 1,058 | 63 | – | 1,121 | 2 |
| Other regulatory accounts | 1,678 | – | 106 | 1,784 | 2 |
| Income tax | 1,565 | (696) | – | 869 | Note 1 |
| | $ 11,148 | $ (3,425) | $ (201) | $ 7,522 | |

(in thousands of dollars)

## 13. Regulatory balances (continued)

| Regulatory deferral account credit balances | | January 1, 2020 | | Additions/ transfers | | Recovery/ reversal | | December 31, 2020 | Remaining years |
|---|---|---|---|---|---|---|---|---|---|
| Settlement variances | $ | (2,517) | $ | (1,857) | $ | 453 | $ | (3,921) | 1 |
| Stranded meters | | (209) | | - | | (1) | | (210) | – |
| Other regulatory liabilities | | (1,779) | | (709) | | – | | (2,488) | 2 |
| Customer liability for deferred taxes | | (6,275) | | 1,785 | | – | | (4,490) | Note 1 |
| | $ | (10,780) | $ | (781) | $ | 452 | $ | (11,109) | |

| Regulatory deferral account credit balances | | January 1, 2019 | | Additions/ transfers | | Recovery/ reversal | | December 31, 2019 | Remaining years |
|---|---|---|---|---|---|---|---|---|---|
| Settlement variances | $ | (5,952) | $ | 3,512 | $ | (77) | $ | (2,517) | 1 |
| Stranded meters | | – | | (209) | | – | | (209) | – |
| Other regulatory liabilities | | (722) | | (417) | | – | | (1,139) | 2 |
| Customer liability for deferred taxes | | (8,698) | | 1,783 | | – | | (6,915) | Note 1 |
| | $ | (15,372) | $ | 4,669 | $ | (77) | $ | (10,780) | |

1. *These balances will be recovered over the life of the related capital assets.*

The “Additions/Transfers” column consists of new additions to regulatory balances (for both debits and credits). The “Recovery/Reversal” column consists of amounts collected or paid through rate riders or transactions reversing an existing regulatory balance. Recoveries and reversals occur as a result of the approval of an application to recover. There were no reversals of regulatory balances for the year ended December 31, 2020.

## 14. Accounts payable and accrued liabilities

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Accounts payable – energy purchases | $ | 7,276 | $ | 7,000 |
| Trade payables | | 21,439 | | 28,391 |
| Payroll payable | | 8,624 | | 6,684 |
| Interest payable | | 4,774 | | 4,742 |
| Water billing | | 6,730 | | 5,828 |
| Other | | 8,652 | | 7,036 |
| | $ | 57,495 | $ | 59,681 |

(in thousands of dollars)

## 15. Long-term debt

| | 2020 | 2019 |
|---|---|---|
| Notes payable | $ 81,668 | $ 78,529 |
| Infrastructure Ontario loans | 48,034 | 50,750 |
| Secured bank loans | 6,834 | 9,406 |
| | $ 136,536 | $ 138,685 |

(a) Notes payable:

(i) The Corporation has unsecured promissory notes held by The Corporation of the Town of Oakville in the amount of $77,029 (2019 - $77,029). The notes were renewed effective February 1, 2020 for a 10 year term and bear interest at a rate of 6% (2019 – 6%), payable annually no later than 30 days after the end of the fiscal year. Interest rates are reviewed annually. The Corporation of the Town of Oakville has the option to change the terms of the promissory notes with one year notice. The Corporation of the Town of Oakville and the Corporation have set the interest rates for 2021 at 6%.

(ii) As part of the acquisition of Planview Utility Services Ltd., the Corporation issued a vendor promissory note to the vendors in the amount of $4,200 less any adjustments to purchase price. Beginning in 2017, the note is repayable in four annual payments of $1,050 and bears interest at 4% per annum. The annual repayment amount is subject to a reduction if an EBITDA threshold is not achieved in the year of the required payment. During the year, the Corporation and the vendors agreed to an amendment to the repayment schedule as a result of the COVID-19 pandemic (see note 28). As a result of this amendment, a payment of $386 on the principal amount outstanding was made with the balance of $664 due December 1, 2021. As at December 31, 2020, the amount of the promissory note owing plus interest to the vendor is $727, of which $63 is recorded as interest payable and included in accounts payable and accrued liabilities (2019 - $1,078 with interest payable of $28). The promissory note is secured by a General Security Agreement, subordinate to the bank and a guarantee by the Corporation.

(iii) As part of the acquisition of Teraflex Ltd., the Corporation issued a vendor promissory note to the vendors in the amount of $700 less any adjustments to purchase price and repayable in three annual payments of $250, $225 and $225 and bearing interest at 6% per annum. The annual repayment amount is subject to a reduction if an EBITDA threshold is not achieved in the year of the required payment and is due 10 days after agreement on the EBITDA threshold adjustment. During the year, the Corporation recognized a recovery of $225 (2019 - $250) in other income in the statement of comprehensive income as a result of EBITDA thresholds not being achieved. As at December 31, 2020 the amount of the promissory note plus interest to the vendor was $252 (2019 - $477), consisting of $27 (2019 - $27) in interest payable. The promissory note is secured by a General Security Agreement, subordinate to the bank and a guarantee by the Corporation.

**15. Long-term debt (continued)**

(a) Notes payable (continued):

(iv) As part of the acquisition of QSP Geographics Inc., the Corporation issued a vendor promissory note to the vendors in the amount of $3,750 less any adjustments to the purchase price. Beginning in 2022, the note is repayable in three annual payments of $1,250 and bears interest at 4% per annum. The annual repayment amount is subject to a reduction if an EBITDA threshold is not achieved in the year of the required payment. As at December 31, 2020, the amount of the promissory note was $3,750. The promissory note is secured by a General Security Agreement over the assets of G-Tel Engineering Inc., subordinated to the bank, and a guarantee by the Corporation.

(b) Infrastructure Ontario loans:

(i) The Corporation, through its wholly owned subsidiary, Oakville Hydro Electricity Distribution Inc. has a $18,333 (2019 - $18,849) debenture with Infrastructure Ontario due October 2042 bearing interest at a rate of 4% per annum for the entire term of the debenture. Security is in the form of a pari passu first charge, dated August 31, 2016 on the assets of Oakville Hydro Electricity Distribution Inc., which replaced the original second charge dated October 1, 2012. The loan is payable in monthly principal and interest installments of $105. The debenture was issued on October 1, 2012.

(ii) In July 2015, through Sunny Shores Finance Co. Inc., the Corporation converted a loan into a long term project debenture with $29,701 (2019 - $31,901) outstanding as at December 31, 2020. The loan is secured by a first charge General Security Agreement on the assets of Sunny Shores and the applicable limited partnership. The project debenture bears interest at 3.3% per annum and payments of interest and principal of $183 are due monthly. The debenture matures in June 2034.

(in thousands of dollars)

## 15. Long-term debt (continued)

(c) Secured bank loans:

The Corporation, through wholly owned subsidiaries, has term bank loans outstanding in the amount of $6,834 (2019 - $9,406) with a Canadian chartered bank with maturity dates between January 2020 and November 2024. Interest is charged per annum on secured bank loans with principal and interest payable monthly. Security is in the form of a first charge on the assets of the borrowing and guaranteeing subsidiaries, assignment of insurance and subordination agreements for other borrowers as well as cross guarantees between specific subsidiaries.

| | 2020 | 2019 |
|---|---|---|
| *Planview Utility Services* | | |
| Term loan, bearing interest at prime rate plus 1%, which at December 31, 2020 was 4.95%. Repayable in monthly principal installments of $100 plus interest. Final instalment is May 2021 and is secured by a general security agreement over the assets of specific subsidiaries of the Corporation. | $ 500 | $ 1,700 |
| *UTS Consultants Inc.* | | |
| Term loan, bearing interest at prime rate plus 1%, which at December 31, 2020 was 4.95%. Repayable in monthly principal installments of $33 plus interest. Final instalment was March 2020 and is secured by a general security agreement over the assets of specific subsidiaries of the Corporation. | – | 100 |
| *OEC Services* | | |
| Term loan, bearing interest at 2.85%, repayable in monthly principal and interest installments of $71. Final instalment was January 2020 and is secured by a general security agreement over the fleet assets of OEC Services Inc. | – | 66 |
| Term loan, bearing interest at 2.8%, repayable in monthly principal and interest installments of $124. Final instalment was February 2020 and is secured by a general security agreement over the fleet assets of OEC Services Inc. | – | 247 |
| Term loan, bearing interest at 2.86%, repayable in monthly installments of $26. Final instalment was April 2020 and is secured by a general security agreement over the fleet assets of OEC Services Inc. | – | 127 |
| Term loan, bearing interest at 2.85%, repayable in monthly installments of $5. Final instalment is January 2022 and is secured by a general security agreement over the fleet assets of OEC Services Inc. | 63 | 119 |
| Promissory note, bearing interest at 4.08% and repayable in monthly instalments of $27. Final instalment is January 2022 and is secured by a general security agreement over the fleet assets of OEC Services Inc. | 314 | 618 |
| *2590550 Ontario Inc.* | | |
| Term loan, bearing interest at 1 month BA CDOR repayable in monthly principal and interest installments of $31. Final instalment is November 2024 and is secured by a general security agreement over the assets of specific subsidiaries of the Corporation. | 4,148 | 4,319 |
| *Teraflex Limited* | | |
| Term loan, bearing interest at 1 month BA CDOR Term loan, repayable in monthly principal and interest installments of $33. Final instalment is February 2026 and is secured by a general security agreement over the assets of specific subsidiaries of the Corporation | 1,809 | 2,110 |
| | $ 6,834 | $ 9,406 |

(in thousands of dollars)

### 15. Long-term debt (continued)

(d) Interest rate swap agreement:

The Corporation, through its wholly owned subsidiary 2590550 Ontario Inc., issued a term loan in December 2017 bearing interest at prime rate plus 1% per annum, which at December 31, 2020 was 3.45% (2019 – 4.95%). The term loan of the loan is 19 years. The final instalment of the loan is November 2036. The Corporation elected to use a cash flow hedge (swap contract) to protect from changes in interest rates. Under the terms of the term loan and swap contract, the Corporation has contracted to pay interest at a fixed rate of 4.60% per annum while receivable a variable rate equivalent to the one-month Canadian Dollar Offer Rate. Repayment of the loan is in monthly installments of $31 of principal. The interest rate swap agreement is recorded at fair value and is in a net unfavorable position of $468 (2019 - $155). The loan is secured by a General Security Agreement over the assets of the Corporation and by the guarantees of certain affiliated companies.

The Corporation, through its wholly owned subsidiary, Teraflex Ltd., has a term loan with an outstanding balance of $1,809 (2019 - $2,110) and at an interest rate of prime rate plus 1% per annum, which at December 31, 2020 was 3.45% (2019 - 4.95%). The final instalment of the loan is February 2026. The Corporation elected to use a cash flow hedge (swap contract) to protect from changes in interest rates. Under the terms of the term loan and swap contract, the Corporation has contracted to pay interest at a fixed rate of 4.83% per annum while receiving a variable rate equivalent to the one-month Canadian Dollar Offer Rate. Repayment of the loan is in monthly installments of $33 of principal and interest. The swap contract is recorded at fair value and is in a net unfavorable position of $87. The term loan of the swap contract is 5 years. The loan is secured by a General Security Agreement over the assets of the Corporation and an affiliated company and by the guarantees of an affiliated company.

(e) Repayment of long-term debt:

Repayment of long term debt for the years ended December 31

| | | |
|---|---|---|
| 2021 | $ | 4,768 |
| 2022 | | 4,758 |
| 2023 | | 4,576 |
| 2024 | | 4,626 |
| 2025 | | 3,429 |
| Thereafter | | 114,379 |
| | | 136,536 |
| Current portion | | (4,768) |
| | $ | 131,768 |

(in thousands of dollars)

## 16. Post-employment benefits

(a) OMERS pension plan

The Corporation provides a pension plan for some of its full time employees through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the employer and its employees. In 2020, the Corporation made employer contributions of $1,003 to OMERS (2019 - $996) which has been recognized in profit or loss. The Corporation estimates that a contribution of $1,130 to OMERS will be made during the next fiscal year.

(b) The Corporation provides a defined contribution pension plan for employees of certain subsidiaries with equal contributions by the employer and its employees. In 2020, the Corporation made contributions of $1,289 (2019 - $1,436).

(c) Post-employment benefits other than pension

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-employment benefits in the year in which employees' services were rendered. The Corporation is recovering its post-employment benefits in rates based on the expense and re-measurements recognized for post-employment benefit plans.

| Reconciliation of the obligation | 2020 | 2019 |
|---|---|---|
| Defined benefit obligation, beginning of year | $ 12,563 | $ 11,596 |
| Included in profit or loss | | |
| Current service cost | 206 | 184 |
| Interest cost | 400 | 438 |
| | 13,169 | 12,218 |
| Included in OCI | | |
| Actuarial (gains) losses arising from: | | |
| changes in demographic assumptions | 10 | (511) |
| changes in financial assumptions | 238 | 1,316 |
| | 13,417 | 13,023 |
| Benefits paid | (461) | (460) |
| Defined benefit obligation, end of year | $ 12,956 | $ 12,563 |

| Actuarial assumptions | 2020 | 2019 |
|---|---|---|
| Discount (interest) rate | 2.65% | 3.15% |
| Salary levels | 3.00% | 3.00% |
| Medical Costs | 6.00% | 6.20% |
| Dental Costs | 4.00% | 4.00% |

(in thousands of dollars)

## 16. Post-employment benefits (continued)

(c) Post-employment benefits other than pension (continued)

Medical costs are estimated to increase at a rate which declines over time from 6.0% per annum in 2020 to 4% by 2040.

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by ($1,890). A 1% decrease in the assumed discount rate would result in an increase of $2,428 to the defined benefit obligation.

## 17. Share capital

| | 2020 | 2019 |
|---|---|---|
| Authorized and Issued: | | |
| 2,000 common shares | $ 63,024 | $ 63,024 |

Dividends

The holders of the common shares are entitled to receive dividends from time to time.

The Corporation paid aggregate dividends during the year on common shares at $3.05 per share (2019 - $3.05), which amount to total dividends paid in the year of $6,100 (2019 - $6,100).

## 18. Accumulated other comprehensive income (loss)

| | Remeasurements of post-employment benefits | Remeasurement of cash flow hedge | Total |
|---|---|---|---|
| Balance at January 1, 2019 | $ (1,928) | $ (13) | $ (1,941) |
| Remeasurement of post-employment benefits, net of tax | (592) | – | (592) |
| Remeasurement of cash flow hedge, net of tax | - | (155) | (155) |
| Balance at December 31, 2019 | (2,520) | (168) | (2,688) |
| Remeasurement of post-employment benefits, net of tax | (183) | – | (183) |
| Remeasurement of cash flow hedge, net of tax | - | (231) | (231) |
| Balance at December 31, 2020 | $ (2,703) | $ (399) | $ (3,102) |

(in thousands of dollars)

## 19. Revenue from contracts with customers and other sources

| | 2020 | 2019 |
|---|---|---|
| Revenue from contracts with customers: | | |
| Energy sales | $ 233,591 | $ 201,488 |
| Locating and leak survey | 54,614 | 53,301 |
| Electricity distribution | 43,088 | 42,479 |
| Construction and design services | 44,474 | 44,181 |
| Streetlight maintenance | 1,018 | 1,389 |
| Region water billing | 2,144 | 2,052 |
| Meter services | 8,461 | 2,605 |
| Other | 1,489 | 1,442 |
| | 388,879 | 348,937 |
| Revenue from other sources: | | |
| Amortization of deferred revenue | 1,020 | 828 |
| CDM programs | 5 | 51 |
| Government assistance – CEWS (note 25) | 8,457 | – |
| Other | 330 | 697 |
| | $ 398,691 | $ 350,513 |

The following table disaggregates revenues from contracts with customers by type of customer:

| | 2020 | 2019 |
|---|---|---|
| Revenue from contracts with customers: | | |
| Residential | $ 119,219 | $ 88,645 |
| Commercial | 114,549 | 112,422 |
| Large users | 24,530 | 25,357 |
| Other | 130,581 | 122,513 |
| | $ 388,879 | $ 348,937 |

(in thousands of dollars)

## 20. Employee salaries and benefits

| | 2020 | 2019 |
|---|---|---|
| Salaries, wages and benefits | $ 82,971 | $ 77,111 |
| CPP and EI remittances | 3,897 | 3,639 |
| Contributions to OMERS | 1,003 | 996 |
| Contribution to pension plans | 1,289 | 1,436 |
| Employee future benefits | 206 | 184 |
| | $ 89,366 | $ 83,366 |

## 21. Operating expenses

| | 2020 | 2019 |
|---|---|---|
| Contract/consulting | $ 18,320 | $ 15,060 |
| Materials and supplies | 9,675 | 8,906 |
| Vehicles | 6,923 | 6,512 |
| Write down of material and supplies | 97 | 72 |
| Loss allowance | 1,200 | 251 |
| Other | 2,816 | 1,818 |
| | $ 39,031 | $ 32,619 |

(in thousands of dollars)

## 22. Finance income and costs

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Finance income | | | | |
| Interest income on bank deposits | $ | 619 | $ | 987 |
| Finance costs | | | | |
| Interest expense on long-term debt | | 6,750 | | 7,094 |
| Interest expense on finance lease | | 1,077 | | 1,064 |
| Interest expense on customer deposits | | 35 | | 56 |
| Net interest expense on post-employment benefits | | 400 | | 438 |
| Other | | 566 | | 858 |
| | | 8,828 | | 9,510 |
| Net finance costs recognized in profit or loss | $ | 8,209 | $ | 8,523 |

## 23. Commitments and contingencies

Contractual Obligations

General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance

The Corporation and its subsidiaries are members of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2020, no assessments have been made.

(in thousands of dollars)

## 24. Related party transactions

(a) Parent and ultimate controlling party

The sole shareholder of the Corporation is The Corporation of the Town of Oakville. The Town of Oakville produces consolidated financial statements that are available for public use.

The following summarizes the Corporation's related party transactions recorded at the exchange amount and balances with the Town of Oakville for the year ended December 31:

| | 2020 | 2019 |
|---|---|---|
| *Amounts due to:* | | |
| Promissory note | $ 77,029 | $ 77,029 |
| Finance lease | 17,641 | 9,821 |
| Interest on promissory note | 4,619 | 4,624 |
| Accounts payable | 61 | 77 |
| *Amounts due from:* | | |
| Energy receivable | 525 | 56 |
| Accounts receivable | 448 | 457 |
| *Transactions*: | | |
| Revenue: | | |
| Energy sales | 7,425 | 7,257 |
| Construction/locating | 2,070 | 1,900 |
| Rent | 147 | 147 |
| Streetlight conversion and maintenance | 211 | 819 |
| Expenses: | | |
| Interest on promissory notes | 4,619 | 4,624 |
| Interest on finance lease | 910 | 874 |
| Garage services | 333 | 313 |
| Property taxes | 549 | 507 |
| Tree trimming | 323 | 363 |
| Other | 43 | 72 |

(b) Transactions with parent

The Corporation delivers electricity to the Town of Oakville throughout the year for the electricity needs of the Town and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The Corporation also provides additional services to the Town, including streetlight maintenance services, construction, locating and sentinel lights.

(in thousands of dollars)

## 24. Related party transactions (continued)

(c) Key management personnel

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members. The compensation paid or payable is as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Directors' fees | $ | 186 | $ | 165 |
| Salaries, bonuses and other short-term benefits | | 2,465 | | 2,001 |
| | $ | 2,651 | $ | 2,166 |

## 25. Government assistance

During the year the Corporation received $8,457 (2019 - $nil) of government assistance recognized in other income related to the Federal Government's Canada Emergency Wage Subsidy program ("CEWS program"), which provides employers with relief for wages up to a prescribed maximum amount per claim period based on decline in revenue. The CEWS program is directly related to the COVID-19 pandemic. The Corporation has determined that it is an eligible entity under the criteria of the CEWS program and has recognized the claim periods for which the Corporation determined it was eligible based on the decline in service revenue. As at December 31, 2020, $3,368 (2019 - $nil) was recognized as a receivable for claims submitted to the Federal Government not yet received.

## 26. Financial instruments and risk management

### Fair value disclosure

The carrying values of cash and cash equivalents, accounts receivable, unbilled revenue, and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

Fair value of the secured bank term loans approximates their cost since they bear interest at a variable rate. For one of the Corporation's subsidiaries, OEC Services Inc., secured bank term loans bear interest at fixed rates. The secured bank term loans held by OEC Services of $377 have a fair value estimated at $380 (2019 - $1,112) using a discount rate of 3.45% (2019 – 4.00%).

The Infrastructure Ontario debentures of $48,034 has a fair value estimated at $52,715 (2019 - $50,750) using discount rates between 2.27% and 2.53% (2019 – 2.54%). This discount rate is determined using indicative quoted rates for instruments with approximately the same terms and credit risk.

The fair value of the notes payable to the Town of Oakville held by the Corporation's regulated subsidiary of the Corporation is estimated at $92,315 (2019 - $88,479) using a discount rate of 1.67% (2019 – 2.54%). The fair value of notes payable to the Town of Oakville held by the Corporation is estimated at $12,341 (2019 - $11,360) using a discount rate of 1.67% (2019 – 3.05%). The fair value of notes payable to an unrelated third party is $723 using a discount rate of 3.45%. These discount rates are determined using indicative quoted rates for instruments with approximately the same terms and credit risk.

### Financial risks

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

(a) Credit risk

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the Province of Ontario. No single customer accounts for a balance in excess of 10% of total accounts receivable.

**26. Financial instruments and risk management (continued)**

**Financial risks (continued)**

(a) Credit risk (continued)

The Corporation's credit risk associated with accounts receivable is primarily related to payments from its customers for services rendered. As a result of the COVID-19 pandemic (see Note 27), certain of the Corporation's customers have experienced business shut-downs and disruptions which many impact the customers ultimate ability to settle its obligations to the Corporation. For the Corporation's regulated subsidiary, the extension of the OEB's winter disconnection ban negatively impacted the Corporation's ability to exercise the full extent of its collection tools to manage the credit risk. In response to the increased collection risk, the Corporation has increased its loss allowance for expected credit losses to adjust for the higher level of expected customer defaults on accounts receivable. The Corporation has estimated the expected credit losses using its historical loss rates and recent trends for customer collections along with current and forecasted economic conditions and data. There is a greater degree of estimation uncertainty over this loss estimate than in 2019. To support residential and small business customers struggling to pay their energy bills, the Government of Ontario provided funding for the COVID-19 Energy Assistance Program ("CEAP"). The Corporation was allocated a portion of this funding and actively participated in the program. Additionally, the Corporation further mitigates this risk ultimately by transacting with companies that are reputable with strong history of collections. The Corporation's increase in accounts receivable is based on timing and nature of contracts with customers.

The carrying amount of accounts receivable is reduced through the use of an allowance for estimated credit losses and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2020 is $2,024 (2019 - $1,058). An impairment loss of $1,200 (2019 - $251) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2020, approximately $2,825 (2019 - $1,104) is considered 60 days past due. The Corporation has over 73 thousand customers, the majority of whom are residential. Credit risk for electricity distribution is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2020, the Corporation holds security deposits in the amount of $14,101 (2019 - $8,644). Other businesses manage the credit risk through a variety of methods including credit check, active credit collection and where possible direct withdrawals from accounts. Accounts receivable relating to these business is $26,881 (2019 - $24,754) with an allowance for impairment of $885 (2019 - $153).

**26. Financial instruments and risk management (continued)**

**Financial risks (continued)**

(b) Market risk

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk. The Corporation is 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.

Through its subsidiary companies, the Corporation is subject to changes in the prime rate of interest for its term loans. A 1% increase in the interest rates will result in an additional interest expense of approximately $12 (2019 - $29).

Through its subsidiary, the Corporation has entered into an interest rate swap (see Note 15) with its lender that exchanges the floating interest rate for a fixed interest rate for the entire term of its contract in order to hedge its exposure to interest rate risk.

(c) Liquidity risk

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to various credit facilities totaling $37,500 and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they become due. As at December 31, 2020, $nil (2019 - $nil) had been drawn under the Corporation's $37,500 credit facilities. During the year, the Corporation negotiated access to an additional $25,000 credit facility secured during the pandemic as a mitigation against potential depletion of cash reserves. The temporary facility expires July 31, 2021. As at December 31, 2020 $nil had been drawn under the Corporation's temporary credit facility.

The Corporation also has a facility for $16,000 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $14,921 has been drawn and posted with the IESO (2019 - $14,921).

The majority of accounts payable, as reported on the statement of financial position, are due within 30 days.

## 26. Financial instruments and risk management (continued)

### Financial risks (continued)

(d) Capital disclosures

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, to comply with covenants related to its credit facilities, to prudently manage its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity and finance leases and long-term debt. As at December 31, 2020, shareholder's equity amounts to $146,741 (2019 - $141,337) and finance leases and long-term debt amounts to $158,026 (2019 - $152,538).

## 27. Impact of COVID-19

The COVID-19 pandemic continues to result in on-going government intervention and assistance, lockdown measures and safety protocols that are continuing to impact business in Canada and globally. The Corporation has taken advantage of the Federal Government's CEWS program as described in note 25 and continues to monitor the situation to ensure business and operations can continue. While the COVID-19 pandemic has resulted in a temporary decline in revenues, the Corporation has continued to provide engineering solutions to customers and will continue to monitor and adhere to Federal, Provincial and local guidelines.

The Corporation continues to monitor its liquidity requirements and manage its collection of accounts receivable to mitigate credit risk on the Corporation's accounts receivable.