Consolidated Financial Statements of

Essex Power Corporation

And Independent Auditors' Report thereon

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Essex Power Corporation

Opinion

We have audited the consolidated financial statements of Essex Power 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 are 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.

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- 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

Windsor, Canada
April 28, 2021

ESSEX POWER 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		$ 4,765	$ 3,979
Accounts receivable	4	8,447	8,480
Due from related parties	20	98	165
Unbilled revenue		6,270	5,802
Income taxes receivable		256	670
Materials and supplies	5	667	656
Prepaid expenses		482	501
Current portion of note receivable	6	76	49
Total current assets		21,061	20,302
Non-current assets			
Property, plant and equipment	7	73,472	69,789
Intangible assets	8	5,423	5,462
Right-of-use assets	9	2,026	2,435
Goodwill		1,623	1,623
Deferred assets		61	406
Note receivable	6	2,422	1,665
Deferred tax assets	10	872	953
Total non-current assets		85,899	82,333
Total assets		106,960	102,635
Regulatory balances	11	15,181	13,421
Total assets and regulatory balances		$ 122,141	$ 116,056

See accompanying notes to the consolidated financial statements.

ESSEX POWER CORPORATION

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

	Note	2020	2019
Liabilities			
Current liabilities			
Bank indebtedness		$ 1,081	$ 4,200
Accounts payable and accrued liabilities	12	8,201	7,663
Long-term debt due within one year	13	6,003	9,299
Callable debt	13	-	2,430
Due to related parties	20	4,174	3,604
Obligation under finance lease due within one year	9	365	465
Income taxes payable		339	–
Deferred revenue		565	434
Customer deposits		1,030	1,278
Dividend payable		1,802	1,802
Total current liabilities		23,560	31,175
Non-current liabilities			
Long-term debt	13	36,628	25,397
Obligation under finance lease	9	1,435	1,695
Post-employment benefits	14	3,327	2,915
Deferred revenue		6,165	5,674
Deferred tax liabilities	10	5,289	5,602
Total non-current liabilities		52,844	41,283
Total liabilities		76,404	72,458
Equity			
Share capital	15	19,667	19,667
Retained earnings		17,764	16,931
Net assets attributable to external Limited Partners		2,322	1,599
Accumulated other comprehensive income		1,617	1,370
Total equity		41,370	39,567
Total liabilities and equity		117,774	112,025
Regulatory balances	11	4,367	4,031
Total liabilities, equity and regulatory balances		$ 122,141	$ 116,056

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Director

Director

ESSEX POWER CORPORATION

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

	Note	2020	2019
Revenue			
Sale of energy	16	$ 77,342	$ 66,529
Distribution revenue	16	13,161	11,551
Other	16 and 21	12,040	10,818
		102,543	88,898
Operating expenses			
Cost of energy purchased		78,745	69,599
Operating expenses	17 and 21	14,995	14,347
Depreciation and amortization		5,576	4,988
Research and development SR&ED ITC received		(131)	–
Employee future benefit – plan improvements		586	–
		99,771	88,934
Income (loss) from operating activities		2,772	(36)
Net finance costs	18	(1,212)	(1,155)
Income (loss) before income taxes		1,560	(1,191)
Current tax expense (recovery)	10	435	(14)
Deferred tax expense (recovery)	10	(196)	1,490
Net income (loss) for the year		1,321	(2,667)
Net movement in regulatory balances, net of tax	11	1,424	5,182
Net income and net movement in regulatory balances		2,745	2,515
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits	14	206	(56)
Tax (recovery) on remeasurements	10	(41)	20
Other comprehensive income (loss) for the year		247	(36)
Total comprehensive income for the year		$ 2,992	$ 2,479

See accompanying notes to the consolidated financial statements.

ESSEX POWER CORPORATION

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

	Share capital	Retained earnings	Net assets attributable to external Limited Partners	Accummulated other comprehensive income	Total
Balance at January 1, 2019	$ 19,667	$ 16,317	$ 1,711	$ 1,406	$ 39,101
Decrease in net assets attributable to external Limited Partners	–	–	(194)	–	(194)
Net income and net movement in regulatory balances	–	2,515	–	–	2,515
IFRS 16 transitional adjustment	–	(17)	–	–	(17)
Income allocated to External Limited Partners	–	(82)	82	–	–
Other comprehensive loss	–	–	–	(36)	(36)
Dividends	–	(1,802)	–	–	(1,802)
Balance at December 31, 2019	$ 19,667	$ 16,931	$ 1,599	$ 1,370	$ 39,567
Balance at January 1, 2020	$ 19,667	$ 16,931	$ 1,599	$ 1,370	$ 39,567
Increase in net assets attributable to external Limited Partners	–	–	613	–	613
Net income and net movement in regulatory balances	–	2,745	–	–	2,745
IFRS 16 transitional adjustment	–	–	–	–	–
Income allocated to External Limited Partners	–	(110)	110	–	–
Other comprehensive income	–	–	–	247	247
Dividends	–	(1,802)	–	–	(1,802)
Balance at December 31, 2020	$ 19,667	$ 17,764	$ 2,322	$ 1,617	$ 41,370

See accompanying notes to the consolidated financial statements.

ESSEX POWER CORPORATION

Consolidated Statements 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	$ 2,745	$ 2,515
Adjustments for:		
Depreciation and amortization	5,576	4,988
Amortization of deferred revenue	(161)	(144)
Post-employment benefits	618	64
Loss on disposal of property, plant and equipment	25	54
Decrease in deferred charges	273	208
Net finance costs	1,212	1,155
Income tax expense	239	1,476
	10,527	10,316
Changes in non-cash operating working capital:		
Accounts receivable	33	1,613
Unbilled revenue	(468)	(131)
Materials and supplies	(11)	(5)
Due to/from related parties	637	(19)
Customer deposits	(248)	54
Prepaid expenses	19	(40)
Accounts payable and accrued liabilities	538	(1,537)
Deferred revenue	131	(628)
	631	(693)
Net movement in regulatory balances	(1,424)	(5,182)
Contributions received from customers	652	808
Income tax paid	(96)	(208)
Income tax received	394	–
Interest paid	(1,442)	(1,439)
Interest received	230	284
Net cash from operating activities	9,472	3,886
Investing activities		
Purchase of property, plant and equipment and intangibles	(8,757)	(7,985)
Proceed on disposal of property, plant and equipment and intangibles	8	–
Government assistance for purchase of intangibles	126	294
Note receivable issued	(847)	–
Reduction of note receivable	90	45
Net cash used by investing activities	(9,380)	(7,646)
Financing activities		
Bank overdraft	(3,119)	1,737
Proceeds from long-term debt	12,656	7,000
Repayment of long-term debt	(7,151)	(2,365)
Repayment of obligation under finance lease	(503)	(503)
Repayments to external limited partner	(234)	(194)
Contributions by external limited partner	847	–
Dividends paid	(1,802)	(1,802)
Net cash from financing activities	694	3,873
Change in cash, cash equivalents and bank indebtedness	786	113
Cash, cash equivalents and bank indebtedness, beginning of year	3,979	3,866
Cash and cash equivalents, end of year	$ 4,765	$ 3,979

See accompanying notes to the consolidated financial statements.

1. Reporting entity:

Essex Power Corporation (the "Corporation") is a holding company, which was incorporated on March 17, 2000 under the *Business Corporations Act* (Ontario), The incorporation was required in accordance with the *Electricity Act, 1998 Ontario*. The Corporation is wholly owned by the Town of Amherstburg, Town of LaSalle, Town of Tecumseh and Municipality of Leamington. The Corporation is located in Oldcastle, Ontario. The address of the Corporation's registered office is 2199 Blackacre Drive, Suite 200, Oldcastle, ON N0R 1L0.

The Corporation, through its wholly owned subsidiaries, delivers electricity within Essex County and provides energy and software utility services to residential and commercial customers primarily within Ontario. The Corporation's subsidiaries include:

- Essex Powerlines Corporation ("Powerlines") – distribution of electricity within the Town of Amherstburg, the Town of LaSalle, the Municipality of Leamington and the Town of Tecumseh under license and regulations issued by the Ontario Energy Board ("OEB"). The Corporation and all of its subsidiaries are considered affiliates of Essex Powerlines Corporation and must adhere to the Affiliate Relationship Code issued by the OEB.
- Essex Power Services Corporation
- Essex Energy Corporation ("EEC") – EEC and its subsidiaries provide software solutions and data services for Utilities, Municipalities, Industrial, Commercial and Residential consumers and offering multiple hosted, managed MDM offerings, without the use of any special hardware or software licenses. In addition, this company provides solar PV systems to a broad range of customers and its other subsidiaries. Certain subsidiaries operate rooftop solar PV systems to generate and sell solar power.
    - Utilismart Corporation
        - Wattsworth Analysis Inc.
    - ASI SPE 106 Inc.
    - EE Solar Partners Inc.
        - Muskoka Solar LP
        - Rosseau Solar LP

On March 1, 2020, the Corporation received 49% of Class A Units of the Rosseau Limited Partnership (the "Partnership") as a Limited Partner along with an unrelated third party who holds 51% of the Class A Units. The Corporation also received 50.02% of the Class B Units under the same partnership agreement as the General Partner of the Partnership. The Corporation has determined that they control the Partnership based on the terms of the partnership agreement and units held. The Corporation's contribution to the Partnership during the year was $847. As a result of control, the Corporation has consolidated the Partnership in the Corporation's consolidated financial statements and recognized net income attributable to the other limited partner based on the percentage of Class A Units held.

1. Reporting entity (continued):

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

2. Basis of presentation:

(a) Statement of compliance:

The Corporation's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were approved by the Board of Directors on April 28, 2021.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

These consolidated 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 judgements:

(i) Assumptions and estimation uncertainty:

The preparation of 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 (e), (f), (h), (m), 7,8,9 – estimation of useful lives of its property, plant and equipment and intangible assets and related impairment tests on long-lived assets
(ii) Notes 3 (k), 17 – recognition and measurement of regulatory balances
(iii) Notes 3 (l), 14 – measurement of defined benefit obligations: key actuarial assumptions
(iv) Notes 3 (m), 10 – measurement of leases: discount rate
(v) Notes 3 (j) and 19 – recognition and measurement of provisions and contingencies

2. Basis of presentation (continued):

(ii) Judgements:

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

(vi) Note 3 (m) – leases: whether an arrangement contains a lease
(vii) Note 3 (m) – leases: lease term, underlying leased asset value
(viii) Note 3 (c) – determination of the performance obligation for contributions from customers and the related amortization period
(ix) Notes 3 (k), 17 – recognition of regulatory balances
(x)

(e) Rate regulation:

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 Corporation, 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.

(i) Distribution Rates:

The Corporation files 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 company'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.

2. Basis of presentation (continued):

(e) Rate regulation (continued):

(i) Distribution Rates (continued):

On August 28, 2017, Powerlines submitted a COS rate application to the OEB to change distribution rates effective May 1, 2018. The application was approved by the OEB on October 10, 2018.

On October 15, 2019, Powerlines submitted an IRM Application to the OEB requesting approval to change distribution rates effective May 1, 2020. The IRM Application, which provided a mechanistic and formulaic adjustment to distribution rates and charges, was approved by the OEB on April 16, 2020. Implementation of the new distribution rates was deferred until November 1, 2020 in accordance with OEB guidance which authorized the option to postpone implementation of adjustments to rates as a result of the COVID-19 pandemic. The GDP IPI-FDD for 2020 is 2.0%, the Corporation's stretch factor is 0.15% and the productivity factor determined by the OEB is 0%, resulting in a net adjustment of 1.85% to the previous year's rates.

(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 2017, the OEB set new lower Regulated Price Plan (RPP) prices established under the *Ontario Fair Hydro Act, 2017*.

On May 9, 2019, the Government of Ontario enacted Bill 87, the *Fixing the Hydro Mess Act, 2019*. The legislation amended the *Ontario Rebate for Electricity Consumers Act, 2016* and the *Ontario Fair Hydro Plan Act, 2017.* Effective November 1, 2019, the OEB set electricity prices under the RPP based on the estimated cost to supply the province with electricity. The Ministry of Energy, Northern Development and Mines set the amount of the rebate under the *Ontario Rebate for Electricity Consumers Act, 2016* such that the monthly bill for a typical customer increased by the rate of inflation.

In 2020, the OEB also adjusted the Regulated Price Plan (RPP) prices 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. Powerlines 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.

2. Basis of presentation (continued):

(e) Rate regulation (continued):

(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 include 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:

(i) Essex Powerlines Corporation (100%)

(ii) Essex Energy Corporation (100%)

(iii) EE Solar Partners Inc. (100%)

(iv) Muskoka Solar LP (49.98% Class A Units / 50.02% Class B Units)

(v) Rosseau Solar LP (49.98% Class A Units / 50.02% Class B Units)

(vi) ASI SPE 106 Inc. (100%)

(vii) Essex Power Services Corporation (100%)

(viii) Utilismart Corporation (100%)

(ix) Wattsworth Analysis Inc. (100%)

Subsidiaries are entities controlled or managed 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.

All inter-company accounts and transactions have been eliminated.

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

On January 1, 2020, the Corporation's subsidiaries Enerconnect Inc. and Enermajica Ontario Inc. were amalgamated into Utilismart Corporation Inc. The Corporation transferred the assets and assumed the liabilities at book value as at the date of amalgamation.

(b) 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).

The Corporation does not enter into derivative instruments. Hedge accounting has not been used in the preparation of these financial statements.

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

3. Significant accounting policies (continued):

(c) 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.

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.

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

Revenue earned from the provision of services is recognized as the service is rendered. The Corporation provides various services which are generally recognized as the service is rendered or contract milestones are achieved. For larger projects, the Corporation recognizes revenue over time measured by progress to satisfaction of the performance obligations within the contract. Amounts received in advance of these milestones are presented as current deferred revenue or customer deposits.

3. Significant accounting policies (continued):

(c) Revenue recognition (continued):

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.

The Corporation has not incurred any additional costs to obtain or fulfil contracts with its customers nor any sort of variable considerations from the revenue generating activities noted above.

(d) Materials and supplies:

Materials and supplies, the majority of which is 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.

(e) 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 12 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.

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

(e) Property, plant and equipment (continued):

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.

The estimated useful lives are as follows:

	Years
Buildings and fixtures	50
Distribution equipment	15 -50
Computer hardware, and other equipment	5 - 10
Office equipment	5 - 10
Solar generation	15 - 20
Utility equipment and trucks	7 - 10

(f) Intangible assets:

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, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Corporation does not hold title. Land rights are 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, 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.

3. Significant accounting policies (continued):

(f) Intangible assets (continued):

The estimated useful lives are:

	Years
Computer software	5
Customer relationships	15
Leasehold improvements	15
MSP Development costs	10
Land rights	50

(g) Goodwill:

Goodwill acquired in a business combination is measured at the fair value of the consideration transferred less the recognized amount of identifiable assets acquired and liabilities assumed at the acquisition date. Subsequently goodwill is measured at cost less accumulated impairment losses as described in note 3(h).

(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 the asset.

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than 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.

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.

3. Significant accounting policies (continued):

(h) Impairment (continued):

(ii) Non-financial assets (continued):

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.

(i) Customer deposits:

Customer deposits represent cash deposits from contract advances from customers that are provided consulting services, and electricity distribution customers and retailers to guarantee the payment of energy bills and deposits. Interest is paid on 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:

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of recognizing regulatory balances in accordance with its previous Generally Accepted Accounting Principles (“GAAP”) when it adopts IFRS. An entity is permitted to apply the requirements of this standard in its first IFRS financial statements if it conducts rate-regulated activities and recognized amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP. IFRS 14 is effective for periods beginning on or after January 1, 2016, however, early application was permitted. The Corporation elected to apply this Standard in its first IFRS financial statements as at December 31, 2015.

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

(k) Regulatory balances (continued):

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 other comprehensive income ("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.

(l) Post-employment benefits:

(i) Pension plan:

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund 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.

3. Significant accounting policies (continued):

(l) Post-employment benefits (continued):

(ii) 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. Remeasurements 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.

(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.

3. Significant accounting policies (continued):

(m) Leased assets (continued):

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.

(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, net interest expense on post-employment benefits, and finance lease obligations.

(o) Government grants:

Government grants received for the purchase of property, plant and equipment and intangibles are recognized as a reduction to the carrying amount of the related asset and amortized over the useful life of the asset.

(p) Business reorganizations between entities under common control:

Business reorganizations between entities under common control are accounted for at book value.

(q) 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 certain subsidiaries are currently 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 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. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are 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.

All corporations other than Essex Powerlines Corporation follow the tax allocation basis of accounting for income taxes whereby income tax expense is recorded in the year the income and expenses are recognized for accounting purposes regardless of when the related taxes are actually paid or recovered.

(in thousands of dollars)

3. Significant accounting policies (continued):

(q) Income taxes (continued):

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.

4. Accounts receivable:

	2020	2019
Trade receivables	$ 8,101	$ 7,934
Billable work	41	74
Accrued miscellaneous receivables	527	616
Less:		
Loss allowance	(222)	(144)
	$ 8,447	$ 8,480

5. Materials and supplies:

Amount written down due to obsolescence in 2020 was $nil (2019 – $nil). The amount of materials and supplies consumed by the Corporation and recognized as an expense during 2020 was $853 (2019 - $744).

(in thousands of dollars)

6. Note receivable:

		2020		2019
Fixed rate loan receivable – Giizis Power LP, receivable in blended monthly payments of $15 bearing an interest rate of 8.0%. Loan matures January 2, 2037.	$	1,665	$	1,714
Fixed rate loan receivable – Giizis Power LP, receivable in blended monthly payments of $7 bearing an interest rate of 8.0%. Loan matures April 2, 2038.		833		–
Less: Current portion of long-term note receivable		76		49
	$	2,422	$	1,665

The approximate long-term principal receipts over the next 5 years are as follows:

2021	$	76
2022		83
2023		89
2024		97
2025		105
Thereafter		2,048
	$	2,498

(in thousands of dollars)

7. 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	$ 2,685	$ 66,354	$ 16,831	$ 278	$ 86,148
Additions	33	4,921	532	18	5,503
Acquisition of cost-Limited Partnership	–	–	1,795	–	1,795
Disposals/retirements	–	(67)	(204)	–	(271)
Balance at December 31, 2020	$ 2,718	$ 71,208	$ 18,954	$ 296	$ 93,175
Balance at January 1, 2019	$ 2,506	$ 60,245	$ 16,882	$ 67	$ 79,700
Additions	179	6,197	1,250	211	7,837
Transfers	–	–	(1,301)	–	(1,301)
Disposals/retirements	–	(88)	–	–	(88)
Balance at December 31, 2019	$ 2,685	$ 66,354	$ 16,831	$ 278	$ 86,148
Accumulated depreciation					
Balance at January 1, 2020	$ 237	$ 9,883	$ 6,239	$ –	$ 16,359
Acquisition of accumulated depreciation-Limited Partnership	–	–	43	–	43
Depreciation	51	2,093	1,396	–	3,540
Disposals/retirements	–	(34)	(204)	–	(238)
Balance at December 31, 2020	$ 288	$ 11,942	$ 7,474	$ –	$ 19,704
Balance at January 1, 2019	$ 188	$ 7,973	$ 5,555	$ –	$ 13,716
Transfer to assets under lease	–	–	(700)	–	(700)
Depreciation	49	1,944	1,384	–	3,377
Disposals/retirements	–	(34)	–	–	(34)
Balance at December 31, 2019	$ 237	$ 9,883	$ 6,239	$ –	$ 16,359
Carrying amounts					
At December 31, 2020	$ 2,430	$ 59,266	$ 11,480	$ 296	$ 73,472
At December 31, 2019	2,448	56,471	10,592	278	69,789

At December 31, 2020 property, plant and equipment with a carrying amount of $73,472 (2019 - $69,780) are subject to a general security agreement.

There were no borrowing costs capitalized as part of the cost of property, plant and equipment in 2020 and 2019.

(in thousands of dollars)

8. Intangible assets:

	Computer Software	Customer Relationships	Land Rights	Other	Total
Cost					
Balance at January 1, 2020	$ 9,895	$ 5,338	$ 237	$ 867	$ 16,337
Additions	1,259	–	1	314	1,574
Grants	(126)	–	–	–	(126)
Disposal	(312)	–	–	–	(312)
Balance at December 31, 2020	$ 10,716	$ 5,338	$ 238	$ 1,181	$ 17,473
Balance at January 1, 2019	$ 8,949	$ 5,340	$ 233	$ 867	$ 15,389
Additions	1,240	–	4	–	1,244
Grants	(294)	–	–	–	(294)
Disposal	–	(2)	–	–	(2)
Balance at December 31, 2019	$ 9,895	$ 5,338	$ 237	$ 867	$ 16,337
Accumulated depreciation					
Balance at January 1, 2020	$ 7,372	$ 3,212	$ 26	$ 265	$ 10,875
Amortization	1,139	287	5	56	1,487
Disposal	(312)	–	–	–	(312)
Balance at December 31, 2020	$ 8,199	$ 3,499	$ 31	$ 321	$ 12,050
Balance at January 1, 2019	$ 6,286	$ 2,927	$ 21	$ 225	$ 9,459
Amortization	1,086	287	5	40	1,418
Disposal	–	(2)	–	–	(2)
Balance at December 31, 2019	$ 7,372	$ 3,212	$ 26	$ 265	$ 10,875
Carrying amounts					
At December 31, 2020	$ 2,517	$ 1,839	$ 207	$ 860	$ 5,423
At December 31, 2019	2,523	2,126	211	602	5,462

(in thousands of dollars)

9. Finance leases:

		Buildings		Computer Equipment		Total
Right-of-use assets						
Cost						
Balance at January 1, 2020	$	2,027	$	1,301	$	3,328
Additions		81		56		137
Transfer from property, plant and equipment		-		-		-
Balance at December 31, 2020	$	2,108	$	1,357	$	3,465
Balance at January 1, 2019	$	2,027	$	-	$	2,027
Additions		-		-		-
Transfer from property, plant and equipment		-		1,301		1,301
Balance at December 31, 2019	$	2,027	$	1,301	$	3,328
Accumulated amortization						
Balance at January 1, 2020	$	193	$	700	$	893
Additions		-		-		-
Amortization		358		188		546
Balance at December 31, 2020	$	551	$	888	$	1,439
Balance at January 1, 2019	$	-	$	-	$	-
Additions		-		-		-
Amortization		193		-		193
Transfer from property, plant and equipment		-		700		700
Balance at December 31, 2019	$	193	$	700	$	893
Carrying amounts						
At December 31, 2020	$	1,557	$	469	$	2,026
At December 31, 2019		1,834		601	$	2,435
Finance lease liability						
[PS20]						
Balance at January 1, 2020	$	1,742	$	418	$	2,160
Additions		87		56		143
Interest		71		13		84
Lease payments		(378)		(209)		(587)
Balance at December 31, 2020	$	1,522	$	278	$	1,800
Balance at January 1, 2019	$	2,044	$	85	$	2,129
Additions		-		534		534
Remeasurement		-		-		-
Interest		76		15		91
Lease payments		(378)		(216)		(594)
Balance at December 31, 2019	$	1,742	$	418	$	2,160

Total cash outflows with respect to leasing arrangements during the year was $587 (2019 - $594) consisting of principal and interest of $503 and $84, respectively (2019 - $503 and $91).

9. Finance leases (continued):

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.

The Corporation has leases for which certain payments made under the leasing arrangement are variable in nature and thus not included in the determination of the right-of-use asset and finance lease liability. These payments include payments for common area maintenance, insurance, and taxes. During the year, the Corporation recognized $96 (2019 - $96) as an expense in profit or loss relating to variable lease payments. The Corporation expects to recognize $96 within the next 12 months in profit or loss relating to variable payments.

(in thousands of dollars)

10. Income tax expense:

Current tax expense:

	2020	2019
Current tax expense (recovery)	$ 435	$ (14)
Deferred tax expense (recovery)	(196)	1,490
	$ 239	$ 1,476

Reconciliation of effective tax rate

	2020	2019
Income (loss) before taxes	$ 1,560	$ (1,191)
Canada and Ontario statutory Income tax rates	26.5%	26.5%
Expected tax (recovery) on income at statutory rates	413	(316)
Increase (decrease) in income taxes resulting from:		
Permanent differences	73	96
Net movement in regulatory balances	89	1,159
Other	(336)	537
Income tax expense	$ 239	$ 1,476

Significant components of the Corporation’s deferred tax balances:

	2020	2019
Deferred tax assets (liabilities):		
Property, plant and equipment	$ (4,823)	$ (5,053)
Post-employment benefits	872	953
Other	(466)	(549)
	$ (4,417)	$ (4,649)

11. 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 balances of $15,181, (2019 - $13,421) and regulatory credit balances of $4,367 (2019 - $4,031) for a net regulatory asset of $10,814 (2019 - $9,390).

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 the exception of the tax balances. In 2020, the rate was 2.18% for the period January to June and 0.57% for the period July to December.

The regulatory balances for the Corporation consist of the following:

(a) Settlement variance:

This account 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.

(b) Regulatory settlement accounts:

Regulatory settlement accounts include those settlement variances for which the OEB has approved for disposition. On October 8, 2020 the OEB issued a final rate order approving 2020 rates effective May 1, 2020 to be postponed and implemented on November 1, 2020 as agreed by the Corporation.

(c) Customer liability for deferred taxes:

The OEB requires the Corporation to estimate its income taxes when it files a COS application to set rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from or paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates.

(d) Other:

This deferral account includes the allowable costs associated with the transition to IFRS and other miscellaneous regulatory accounts.

(in thousands of dollars)

11. Regulatory balances (continued):

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
Group 1 deferred accounts	$ 7,418	$ 2,059	$ (3,076)	$ 6,401	1-2
Regulatory transition to IFRS	–	148	–	148	3
Regulatory settlement account	4,572	3,295	(759)	7,108	1-2
Other regulatory accounts	233	232	(228)	237	3
Income tax	1,198	89	–	1,287	3
	$ 13,421	$ 5,823	$ (4,063)	$ 15,181	

Regulatory deferral account debit balances	January 1, 2019	Additions/ transfers	Recovery/ reversal	December 31, 2019	Remaining years
Group 1 deferred accounts	$ 5,435	$ 1,983	$ –	$ 7,418	–
Regulatory settlement account	5,151	107	(686)	4,572	1-3
Other regulatory accounts	295	(62)	–	233	–
Income tax	39	1,159	–	1,198	–
	$ 10,920	$ 3,187	$ (686)	$ 13,421	

Regulatory deferral account credit balances	January 1, 2020	Additions/ transfers	Recovery/ reversal	December 31, 2020	Remaining years
Group 1 deferred accounts	$ (1,602)	$ (627)	$ –	$ (2,229)	1-2
Regulatory transition to IFRS	(607)	-	607	–	3
Regulatory settlement account	(1,584)	(3,499)	3,220	(1,863)	1-2
Other regulatory accounts	(238)	(149)	112	(275)	3
Income tax	–	–	–	–	3
	$ (4,031)	$ (4,275)	$ 3,939	$ (4,367)	

Regulatory deferral account credit balances	January 1, 2019	Additions/ transfers	Recovery/ reversal	December 31, 2019	Remaining years
Group 1 deferred accounts	$ (2,807)	$ 1,205	$ –	$ (1,602)	–
Regulatory transition to IFRS	(2,429)	–	1,822	(607)	–
Regulatory settlement account	(1,315)	(269)	–	(1,584)	1-3
Other regulatory accounts	(161)	(77)	–	(238)	–
Income tax	–	–	–	–	–
	$ (6,712)	$ 859	$ 1,822	$ (4,031)	

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 to recover. Recoveries and reversals occur as a result of the approval of an application. There were no reversals of regulatory balances for the year ended December 31, 2020.

(in thousands of dollars)

12. Accounts payable and accrued liabilities:

		2020		2019
Accounts payable – energy purchases	$	5,800	$	4,665
Payroll payable		375		435
Other accounts payable and accrued liabilities		2,026		2,563
	$	8,201	$	7,663

13. Long-term debt:

		2020		2019
Related party long-term loan payable is repayable as approved by the Board of Directors not to exceed 20% of the principal lending amount if funds are available as determined each March. Interest is payable at a stated interest rate of 3.8%. The agreement expires December 31, 2022. The debt is owing to two of the four shareholders as follows:				
Municipality of Leamington	$	2,150	$	2,150
Town of Tecumseh		1,545		1,545
		3,695		3,695
Fixed rate loan - TD Canada Trust is a 10 year term loan with a 10 year amortization schedule, repayable in blended monthly payments of $36, bearing an interest rate of 3.25% due November, 2029		3,386		3,708
Fixed rate loan - TD Canada Trust is a 5 year term loan with a 17 year amortization schedule, repayable in blended monthly payments of $10, bearing an interest rate of 2.47%, repaid during the year		–		1,362
Fixed rate loan - TD Canada Trust is a 5 year term loan with a 19 year amortization schedule, repayable in blended monthly payments of $10, bearing an interest rate of 2.47%, repaid during the year		–		1,571
Fixed rate Loan - TD Canada Trust is a 5 year term loan with a 20 year amortization schedule, repayable in blended monthly payments of $16, bearing an interest rate of 2.42%, repaid during the year		–		2,489

(in thousands of dollars)

13. Long-term debt (continued):

Fixed rate Loan - TD Canada Trust is a 5 year term loan with a 20 year amortization schedule, repayable in blended monthly payments of $5, bearing an interest rate of 2.19% due December, 2021	833	876
Fixed rate Loan - TD Canada Trust is a 10 year term loan with a 20 year amortization schedule, repayable in blended monthly payments of $17, bearing an interest rate of 3.18% due August, 2027	2,623	2,740
Fixed rate Loan - TD Canada Trust is a 10 year term loan with a 20 year amortization schedule, repayable in blended monthly payments of $18, bearing an interest rate of 3.73% due July, 2028	2,744	2,852
Fixed rate Loan - TD Canada Trust is a 10 year term loan with a 20 year amortization schedule, repayable in blended monthly payments of $18, bearing an interest rate of 3.73% due July, 2028	2,744	2,852
Fixed rate Loan - TD Canada Trust is a 10 year term loan with a 20 year amortization schedule, repayable in blended monthly payments of $18, bearing an interest rate of 3.90% due November, 2028	2,785	2,890
Fixed rate Loan - TD Canada Trust is a 10 year term loan with a 20 year amortization schedule, repayable in blended monthly payments of $39, bearing an interest rate of 2.95% due June, 2029	6,672	6,935
Floating rate loan - TD Canada Trust, repayable in monthly principal payments of $5 bearing a floating interest rate of prime plus 0.25%, repaid during the year.	–	388
Fixed rate loan - TD Canada Trust is a 5 year term loan with a 6.25 year amortization schedule, repayable in blended monthly payments of $13 bearing an interest rate of 3.882% due October, 2022	468	612
Floating rate loan - TD Canada Trust, repayable in monthly principal payments of $8 bearing a floating interest rate of prime plus 0.25%, repaid during the year.	–	716
Fixed rate loan - TD Canada Trust is a 5 year term loan with a 7 year amortization schedule, repayable in blended monthly payments of $3 bearing an interest rate of 3.882% due October, 2022	124	153
Fixed rate loan - TD Canada Trust is a 5 year term loan with a 7 year amortization schedule, repayable in blended monthly payments of $10 bearing an interest rate of 3.882% due October, 2022	455	561

(in thousands of dollars)

13. Long-term debt (continued):

Fixed rate loan - TD Canada Trust is a 5 year term loan with a 15 year amortization schedule, repayable in blended monthly payments of $11 bearing an interest rate of 4.22% due February, 2023		1,284		1,363
Fixed rate loan - TD Canada Trust is a 50 year term loan with a 15 year amortization schedule, repayable in blended monthly payments of $11 bearing an interest rate of 4.22% due February, 2023		1,284		1,363
Fixed rate loan - TD Canada Trust is a 10 year term loan with a 20 year amortization schedule, repayable in blended monthly payments of $26 bearing an interest rate of 2.00% due November, 2030		5,157		–
Fixed rate loan - TD Canada Trust is a 10 year term loan with a 20 year amortization schedule, repayable in blended monthly payments of $31 bearing an interest rate of 2.079% due December, 2030.		6,000		–
Fixed rate loan - TD Canada Trust is a 5 year term loan with a 5.9 year amortization schedule, repayable in blended monthly payments of $5 bearing an interest rate of 2.47% due September, 2025		334		–
Fixed rate loan - TD Canada Trust is a 5 year term loan with a 6.4 year amortization schedule, repayable in blended monthly payments of $9 bearing an interest rate of 2.47% due September, 2025		610		–
Fixed rate loan - TD Canada Trust is a 5 year term loan with a 14.5 year amortization schedule, repayable in blended monthly payments of $10 bearing an interest rate of 2.50% due September, 2025		1,433		–
		42,631		37,126
Less: Current portion of long-term debt		6,003		11,729
	$	36,628	$	25,397

(in thousands of dollars)

13. Long-term debt (continued):

As at December 31, 2020, the Corporation is no longer in violation of this covenant and so the principal payments required on long-term debt are due as follows:

2021	$	6,003
2022		3,460
2023		2,024
2024		2,083
2025		2,355
Thereafter		26,706
	$	42,631

The loans are secured by a General Security Agreement over the assets of the Corporation.

14. Post-employment benefits:

(a) OMERS pension plan:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2020, the consolidated group made employer contributions of $617 to OMERS (2019 - $674), of which $121 (2019- $117) has been capitalized as part of PP&E and the remaining amount of $496 (2019 - $557) has been recognized in profit or loss. The Corporation estimates that a contribution of $630 to OMERS will be made during the next fiscal year.

(b) 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. As a strategy to reduce sick time costs and promote employee retention, the Corporation granted additional post-employment benefits to employees.

(in thousands of dollars)

14. Post-employment benefits:

As a result of the strategy adopted by the Corporation during the year, plan amendments were recognized immediately in profit or loss in the amount of $586 (2019 - $nil).

Reconciliation of the obligation	2020	2019
Defined benefit obligation, beginning of year	$ 2,915	$ 2,795
Included in profit or loss		
Current service cost	86	72
Interest cost	105	102
Plan amendments	586	–
	3,692	2,969
Included in OCI		
Actuarial (gains) losses arising from:		
Demographic changes	(171)	–
Premium experience	(314)	–
Trend rate assumption	40	–
Discount rate change	239	45
	(206)	45
Benefits paid	(159)	(99)
Defined benefit obligation, end of year	$ 3,327	$ 2,915

Actuarial assumptions	2020	2019
General inflation	2.00%	2.00%
Discount (interest) rate	2.25%	3.00%
Medical Costs	6.25%	7.42%
Dental Costs	4.5%	4.50%

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $317. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by $373.

A 1% increase in the assumed trend rate would result in the defined benefit obligation increasing by $324. A 1% decrease in the assumed trend rate would result in the defined benefit obligation decreasing by $281.

(in thousands of dollars)

15. Share capital:

		2020		2019
Authorized:				
Unlimited number of common shares, Class A, voting				
Unlimited number of common shares, Class B, non-voting				
Unlimited number of special shares, Class A, non-voting, redeemable at the issued value of $1 per share				
Issued:				
10,712,716 common shares, Class A, voting	$	10,713	$	10,713
8,073,035 common shares, Class B, non-voting		8,073		8,073
881,549 special shares, Class A, non-voting		881		881
	$	19,667	$	19,667

Dividends:

The holders of the common and special shares are entitled to receive dividends as declared from time to time. The Corporation paid aggregate dividends in the year on the shares as follows:

Common $1,740 (2019- $1,740), special $62 (2019 - $62) which amounts to total dividends paid in the year of $1,802 (2019 - $1,802).

16. Revenue:

Revenue consist of the following:

		2020		2019
Revenue from contracts with customers				
Sale of Energy	$	77,342	$	66,529
Distribution revenue		13,161		11,551
Meter data and settlement services		7,204		7,035
Solar Generation		2,317		2,214
Streetlight maintenance services to ultimate shareholders		182		133
Billing services to Municipal shareholders		570		680
Joint use pole rentals		293		271
Other regulatory service charges		223		341
PV System sales		520		–
Miscellaneous		569		–
Revenue from other sources				
Deferred revenue recognized from capital contributions		162		144
	$	102,543	$	88,898

(in thousands of dollars)

16. Revenue (continued):

Sale of energy and Distribution revenue consist of the following:

	2020	2019
Residential service	$ 58,566	$ 45,686
General service less than 50KW	8,550	7,234
General service 50 to 4,999KW	22,590	24,493
Intermediate and Embedded distributor	355	330
Unmetered and other	442	337
	$ 90,503	$ 78,080

17. Operating expenses:

	2020	2019
Contract/consulting	$ 2,827	$ 2,851
Materials and supplies	1,353	1,218
Salaries, wages and benefits	8,202	8,077
Cost of billing services for ultimate shareholders	519	622
Post-employment benefit plans	162	162
Vehicles	153	154
Bad debts	208	81
Amortization of deferred charges	72	175
Solar expenses	671	364
Other	828	643
	$ 14,995	$ 14,347

18. Net finance costs:

	2020	2019
Finance income		
Interest income on bank deposits	$ 230	$ 227
Foreign exchange	9	69
	239	296
Finance costs		
Interest expense on long-term debt	(1,250)	(1,090)
Interest expense on customer deposits	(11)	(22)
Finance lease interest obligations	(67)	(205)
Other	(123)	(134)
	(1,451)	(1,451)
Net finance costs recognized in profit or loss	$ (1,212)	$ (1,155)

(in thousands of dollars)

19. Commitments and contingencies:

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 subscribes for liability insurance coverage under a self-insurance pool administered by the Municipal Electric Association Reciprocal Insurance Exchange. Under the terms of this co-operative venture, the Corporation as a pool member, in addition to its regular premiums, is contingently liable for any retroactive reassessment if a deficit originates in a year in which they are a member. The contingent liability for reassessment in respect of any year in which the Corporation is a pool member continues even where the Corporation subsequently withdraws from the self-insurance pool. The Corporation will not, however, be subject to reassessment for claims incurred in years in which they are not members of this self-insurance pool. As at December 31, 2020 no assessments have been made.

Letter of Credit:

A letter of credit in the amount of $2,900 has been issued by TD Canada Trust to the credit of the Independent Electricity System Operator for the commodity purchases and market services provided. This letter of credit has no term of expiry and is normally renewed annually.

20. Related party transactions:

(a) Parent and jointly controlling shareholders:

The sole shareholders of the Corporation are the Towns of Amherstburg, LaSalle and Tecumseh, and the Municipality of Leamington. The Towns and Municipality produce financial statements that are available for public use.

(b) Outstanding balances with related parties:

	2020	2019
Balances due to:		
Town of Amherstburg	$ 1,432	$ 1,342
Town of Tecumseh	1,072	830
Municipality of Leamington	1,670	1,575
	$ 4,174	$ 3,747

(in thousands of dollars)

20. Related party transactions (continued):

(b) Outstanding balances with related parties (continued):

		2020		2019
Balances due from:				
Town of Amherstburg	$	16	$	35
Town of LaSalle		3		1
Town of Tecumseh		17		49
Municipality of Leamington		62		80
	$	98	$	165

All balances due from and due to related parties listed above are included within accounts receivable and accounts payable respectively. Amounts are non-interest bearing with repayment terms similar to other trade accounts receivable and accounts payable.

(c) Dividends payable to jointly controlling shareholders:

As at December 31, 2020 dividends payable to the jointly controlling shareholders amounted to $1,802 (2019 - $1,802).

(d) Transactions with jointly controlling shareholders:

The Corporation had the following significant transactions with its ultimate parents, government entities:

The Towns of Amherstburg, LaSalle and Tecumseh, and the Municipality of Leamington.

The Corporation delivers electricity to these entities throughout the year for the electricity needs of the Towns and Municipality. Electricity delivery charges are at prices and under terms approved by the OEB. The Corporation also provides additional services to the Towns and Municipality, including billing and customer care services. The total revenues related to these services for 2020 were $570 (2019 - $680).

(e) Key management personnel:

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

		2020		2019
Directors' fees	$	91	$	80
Salaries, bonuses and other short-term benefits		1,452		1,244
	$	1,543	$	1,324

21. Financial instruments and risk management:

Fair value disclosure:

The carrying values of cash and cash equivalents, accounts receivable, unbilled revenue, bank indebtedness 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. The fair value of the long-term debt at December 31, 2020 is $41,797 (2019 - $30,857). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2020 was 3% (2019 – 4.0%). All financial instruments are considered level 1 on the fair value hierarchy.

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 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 in different classes and as such, the Corporation does not rely on any one single customer for a significant amount of its revenues. As of December 31, 2020, there were no significant balances of accounts receivable owing from any single customer.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment 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 loss allowance at December 31, 2020 is $222 (2019 - $144). An impairment loss of $207 (2019 - $80) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from its electricity distribution customers. As a result of the COVID-19 pandemic, certain of the Corporation's customers have experienced loss of employment, business shut-downs and other disruptions. 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").

21. Financial instruments and risk management (continued):

Financial risks (continued):

(a) Credit risk:

The Corporation was allocated a portion of this funding and actively participated in the program. The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2020, approximately $ 1,658 (2019 - $876) is considered 60 or more days past due. The Corporation has 33,000, the majority of whom are residential. Credit risk 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 $845 (2019 - $1,168).

(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.

(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 $9,500 in credit facilities 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, $1,240 had been drawn under the Corporation's credit facilities.

Essex Powerlines also has a bilateral facility for $2,900 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which none has been drawn and posted with the IESO during 2020 or 2019.

The majority of accounts payable, as reported on the statement of financial position, are due within 30 days. Customer deposits are due on demand. Scheduled repayments associated with long-term debt is described within note 13.

(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, compliance with covenants related to its credit facilities, prudent management of 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 long-term debt. As at December 31, 2020, shareholder's equity amounts to $ 41,370 (2019 - $39,567) and long-term debt amounts to $42,631 (2019 - $37,126).

22. 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 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 during the year, the Corporation has continued to provide 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.