

Consolidated Financial Statements of

Essex Power Corporation

And Independent Auditor's Report thereon

Year ended December 31, 2022
(Expressed in thousands of dollars)



KPMG LLP
618 Greenwood Centre
3200 Deziel Drive
Windsor ON N8W 5K8
Canada
Tel 519-251-3500
Fax 519-251-3530

INDEPENDENT AUDITOR'S 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, 2022
- 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, 2022, 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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.



Page 3

- 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 26, 2023

ESSEX POWER CORPORATION

Consolidated Statement of Financial Position

As at December 31, 2022, with comparative information for 2021

(in thousands of dollars)

	Note	2022	2021
Assets			
Current assets			
Cash and cash equivalents		\$ 2,919	\$ 4,442
Accounts receivable	4 and 22	8,384	7,682
Due from related parties	20	193	144
Unbilled revenue		6,657	5,711
Income taxes receivable		649	196
Materials and supplies	5	1,254	1,007
Prepaid expenses		890	508
Current portion of note receivable	6	89	83
Total current assets		21,035	19,773
Non-current assets			
Property, plant and equipment	7	79,593	76,379
Intangible assets	8	5,186	5,521
Right-of-use assets	9	1,771	1,950
Goodwill		1,623	1,623
Deferred assets		294	130
Note receivable	6	2,250	2,339
Deferred tax assets	10	167	215
Total non-current assets		90,884	88,157
Total assets		111,919	107,930
Regulatory balances	11	11,605	14,119
Total assets and regulatory balances		\$ 123,524	\$ 122,049

See accompanying notes to the consolidated financial statements.


ESSEX POWER CORPORATION

Consolidated Statement of Financial Position
As at December 31, 2022, with comparative information for 2021
(in thousands of dollars)

	Note	2022	2021
Liabilities			
Current liabilities			
Bank indebtedness		\$ 3,221	\$ —
Accounts payable and accrued liabilities	12	7,738	8,004
Long-term debt due within one year	13	4,980	6,577
Due to related parties	20	2,915	2,596
Obligation under finance lease due within one year	9	306	236
Income taxes payable	22	33	358
Deferred revenue		854	759
Customer deposits		1,559	1,420
Dividend payable		1,828	1,802
Total current liabilities		23,434	21,752
Non-current liabilities			
Long-term debt	13	35,694	36,980
Obligation under finance lease	9	1,337	1,526
Post-employment benefits	14	2,592	3,162
Deferred revenue		8,594	7,181
Deferred tax liabilities	10	5,334	4,793
Total non-current liabilities		53,551	53,642
Total liabilities		76,985	75,394
Equity			
Share capital	15	19,667	19,667
Retained earnings	22	20,281	19,906
Net assets attributable to external Limited Partners		1,995	2,162
Accumulated other comprehensive income		2,157	1,752
Total equity		44,100	43,487
Total liabilities and equity		121,085	118,881
Regulatory balances	11	2,439	3,168
Total liabilities, equity and regulatory balances		\$ 123,524	\$ 122,049

See accompanying notes to the consolidated financial statements.

 Director

 Director

ESSEX POWER CORPORATION

Statement of Comprehensive Income

Year ended December 31, 2022, with comparative information for 2021

(in thousands of dollars)

	Note	2022	2021
Revenue			
Sale of energy	16	\$ 69,709	\$ 69,438
Distribution revenue	16	17,616	14,864
Other	16	14,029	11,748
		101,354	96,050
Operating expenses			
Cost of energy purchased		71,030	70,766
Operating expenses	17	18,084	14,488
Depreciation and amortization		5,814	5,645
Research and development SR&ED ITC reversed (received)		43	(126)
		94,971	90,773
Income from operating activities		6,383	5,277
Net finance costs	18	(1,132)	(1,244)
Income before income taxes		5,251	4,033
Current tax expense	10	397	726
Deferred tax expense	10	413	112
Net income for the year		4,441	3,195
Net movement in regulatory balances, net of tax	11	(1,785)	137
Net income and net movement in regulatory balances		2,656	3,332
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits	14	551	184
Tax on remeasurements	10	(146)	(49)
Other comprehensive income for the year		405	135
Total comprehensive income for the year		\$ 3,061	\$ 3,467

See accompanying notes to the consolidated financial statements.

ESSEX POWER CORPORATION

Consolidated Statement of Changes in Equity
 Year ended December 31, 2022, with comparative information for 2021
 (in thousands of dollars)

	Share capital	Retained earnings	Net assets attributable to external Limited Partners	Accumulated other comprehensive income	Total
Balance at January 1, 2021	\$ 19,667	\$ 18,504	\$ 2,322	\$ 1,617	\$ 42,110
(Decrease) in net assets attributable to external Limited Partners	–	–	(288)	–	(288)
Net income and net movement in regulatory balances	–	3,332	–	–	3,332
Income allocated to External Limited Partners	–	(128)	128	–	–
Other comprehensive income	–	–	–	135	135
Dividends	–	(1,802)	–	–	(1,802)
Balance at December 31, 2021	\$ 19,667	\$ 19,906	\$ 2,162	\$ 1,752	\$ 43,487
Balance at January 1, 2022	\$ 19,667	\$ 19,906	\$ 2,162	\$ 1,752	\$ 43,487
Prior period adjustment (Note 22)	–	(333)	–	–	(333)
(Decrease) in net assets attributable to external Limited Partners	–	–	(287)	–	(287)
Net income and net movement in regulatory balances	–	2,656	–	–	2,656
Income allocated to External Limited Partners	–	(120)	120	–	–
Other comprehensive income	–	–	–	405	405
Dividends	–	(1,828)	–	–	(1,828)
Balance at December 31, 2022	\$ 19,667	\$ 20,281	\$ 1,995	\$ 2,157	\$ 44,100

See accompanying notes to the consolidated financial statements.

ESSEX POWER CORPORATION

Consolidated Statement of Cash Flows
Year ended December 31, 2022, with comparative information for 2021
(in thousands of dollars)

	2022	2021
Operating activities		
Net Income and net movement in regulatory balances	\$ 2,656	\$ 3,332
Adjustments for:		
Depreciation and amortization	5,814	5,645
Amortization of deferred revenue	(221)	(185)
Post-employment benefits	(19)	19
Loss on disposal of property, plant and equipment	—	82
Payment of operating leases	(331)	(259)
(Increase) in deferred assets	(164)	(69)
Net finance costs	1,132	1,244
Income tax expense	810	838
	<u>9,677</u>	<u>10,647</u>
Changes in non-cash operating working capital:		
Accounts receivable	(1,155)	765
Unbilled revenue	(946)	559
Materials and supplies	(247)	(340)
Due to/from related parties	270	(1,624)
Customer deposits	139	390
Prepaid expenses	(382)	(26)
Accounts payable and accrued liabilities	(266)	(197)
Deferred revenue	95	194
	<u>(2,492)</u>	<u>(279)</u>
Net movement in regulatory balances	1,785	(137)
Income tax paid	(1,129)	(550)
Income tax (paid) received	104	(91)
Interest paid and foreign exchange	(1,331)	(1,385)
Interest received and foreign exchange	125	151
Net interest accrued included in Net movement	146	56
Net cash from operating activities	<u>6,885</u>	<u>8,412</u>
Investing activities		
Purchase of property, plant and equipment and intangibles	(8,350)	(7,824)
Proceed on disposal of property, plant and equipment and intangibles	69	34
Government assistance for purchase of intangibles	—	153
Contributions in aid of construction	1,634	1,201
Payments received on notes receivable	83	76
Net cash used by investing activities	<u>(6,564)</u>	<u>(6,360)</u>
Financing activities		
Proceeds from long-term debt	—	4,000
Repayment of long-term debt	(2,883)	(4,155)
Increases in finance leases	—	83
Repayment of obligation under finance lease	(93)	(213)
Repayments to external limited partner	(287)	(288)
Dividends paid	(1,802)	(1,802)
Net cash used by financing activities	<u>(5,065)</u>	<u>(2,375)</u>
Change in cash, cash equivalents and bank indebtedness	(4,744)	(323)
Cash, cash equivalents and bank indebtedness, beginning of year	4,442	4,765
Cash and cash equivalents and bank indebtedness, end of year	<u>\$ (302)</u>	<u>\$ 4,442</u>

See accompanying notes to the consolidated financial statements.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

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 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

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

1. Reporting entity (continued):

The consolidated financial statements are for the Corporation as at and for the year ended December 31, 2022.

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 26, 2023.

(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), 11 – recognition and measurement of regulatory balances
- (iii) Notes 3 (l), 14 – measurement of defined benefit obligations: key actuarial assumptions
- (iv) Notes 3 (m), 9 – measurement of leases: discount rate
- (v) Notes 3 (j) and 19 – recognition and measurement of provisions and contingencies

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

2. Basis of presentation (continued):

(d) Use of estimates and judgements (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), 11 – recognition of regulatory balances

(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.

(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 Inflation 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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

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 November 3, 2021, the Corporation submitted an IRM Application to the OEB requesting approval to change distribution rates effective May 1, 2022. The IRM Application, which provided a mechanistic and formulaic adjustment to distribution rates and charges, was approved by the OEB on April 7, 2022. The GDP IPI-FDD for 2021 is 3.30%, the Corporation's stretch factor is 0.15% and the productivity factor determined by the OEB is 0%, resulting in a net adjustment of 3.15% 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.

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.

(ii) *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.

(iii) *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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

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) Utilismart Corporation (100%)
- (viii) 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.

On January 1, 2022, the Corporation's subsidiaries Essex Power Services Corporation and Essex Energy Corporation were amalgamated by a horizontal short-form amalgamation and continue to carry on business as Essex Energy Corporation. The assets and liabilities of Essex Power Services Corporation at book value were combined with those of Essex Energy Corporation as at the date of amalgamation.

(a) 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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

3. Significant accounting policies (continued):

(c) Revenue recognition (continued):

Other revenue (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.

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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

3. Significant accounting policies (continued):

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

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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

3. Significant accounting policies (continued):

(f) Intangible assets (continued):

The estimated useful lives are:

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

(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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

3. Significant accounting policies (continued):

(h) Impairment:

(ii) Non-financial assets:

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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

3. Significant accounting policies (continued):

(k) Regulatory balances:

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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

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, and foreign exchange gains. 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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(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.

(r) Accounting standards issued but not yet effective:

(i) Classification of Liabilities as Current or Non-current (Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"))

On January 23, 2020, the International Financial Standards Board ("IASB") issued the amendments to IAS 1 to clarify the classification of liabilities as current or non-current. For the purposes of non-current classification, the amendments 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 amendments also clarify how a company classifies a liability that includes a counterparty conversion option.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

The Corporation intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2023. The extent of the impact on adoption of the amendments has not yet been determined.

(ii) Definition of Accounting Estimates (Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors ("IAS 8"))

On February 12, 2021, the IASB issued the amendments to IAS 8. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

The Corporation intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2023. The extent of the impact on adoption of the amendments has not yet been determined.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
 Year ended December 31, 2022
 (in thousands of dollars)

4. Accounts receivable:

	2022	2021
Trade receivables (Note 22)	\$ 7,661	\$ 6,769
Billable work	49	51
Accrued miscellaneous receivables	817	1,006
	<u>8,527</u>	<u>7,826</u>
Less:		
Loss allowance	(143)	(144)
	<u>\$ 8,384</u>	<u>\$ 7,682</u>

5. Materials and supplies:

Amount written down due to obsolescence in 2022 was \$nil (2021 - \$96).

6. Note receivable:

	2022	2021
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.	\$ 1,554	\$ 1,612
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.	785	810
	<u>2,339</u>	<u>2,422</u>
Less: Current portion of long-term note receivable	89	83
	<u>\$ 2,250</u>	<u>\$ 2,339</u>

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

2023	\$ 89
2024	97
2025	105
2026	114
2027	122
Thereafter	1,812
	<u>\$ 2,339</u>

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

7. Property, plant and equipment:

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in-Progress	Total
<i>Cost or deemed cost</i>					
Balance at January 1, 2022	\$ 2,998	\$ 76,444	\$ 18,752	\$ 639	\$ 98,833
Additions	225	5,989	856	110	7,180
Disposals/retirements	–	(91)	(77)	–	(168)
Balance at December 31, 2022	\$ 3,223	\$ 82,342	\$ 19,531	\$ 749	\$ 105,845
Balance at January 1, 2021	\$ 2,718	\$ 71,208	\$ 18,954	\$ 296	\$ 93,176
Additions	280	5,334	2,345	359	8,318
Transfer	–	–	12	(12)	–
Disposals/retirements	–	(98)	(2,559)	(4)	(2,661)
Balance at December 31, 2021	\$ 2,998	\$ 76,444	\$ 18,752	\$ 639	\$ 98,833
<i>Accumulated depreciation</i>					
Balance at January 1, 2022	\$ 342	\$ 14,140	\$ 7,972	\$ –	\$ 22,454
Depreciation	59	2,376	1,462	–	3,897
Disposals/retirements	–	(34)	(65)	–	(99)
Balance at December 31, 2022	\$ 401	\$ 16,482	\$ 9,369	\$ –	\$ 26,252
Balance at January 1, 2021	\$ 288	\$ 11,943	\$ 7,473	\$ –	\$ 19,704
Depreciation	54	2,230	1,443	–	3,727
Disposals/retirements	–	(33)	(944)	–	(977)
Balance at December 31, 2021	\$ 342	\$ 14,140	\$ 7,972	\$ –	\$ 22,454
<i>Carrying amounts</i>					
At December 31, 2022	\$ 2,822	\$ 65,860	\$ 10,162	\$ 749	\$ 79,593
At December 31, 2021	\$ 2,656	\$ 62,304	\$ 10,780	\$ 639	\$ 76,379

At December 31, 2022 property, plant and equipment with a carrying amount of \$79,593 (2021 - \$76,379) are subject to a general security agreement.

There were no borrowing costs capitalized as part of the cost of property, plant and equipment in 2022 and 2021.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
 Year ended December 31, 2022
 (in thousands of dollars)

8. Intangible assets:

	Computer Software	Customer Relationships	Land Rights	Other	Total
<i>Cost</i>					
Balance at January 1, 2022	\$ 11,466	\$ 5,338	\$ 238	\$ 1,127	\$ 18,169
Additions	1,170	–	–	–	1,170
Balance at December 31, 2022	\$ 12,636	\$ 5,338	\$ 238	\$ 1,127	\$ 19,339
Balance at January 1, 2021	\$ 10,716	\$ 5,338	\$ 238	\$ 1,181	\$ 17,473
Additions	991	–	–	–	991
Grants	(153)	–	–	–	(153)
Disposal	(88)	–	–	(54)	(142)
Balance at December 31, 2021	\$ 11,466	\$ 5,338	\$ 238	\$ 1,127	\$ 18,169
<i>Accumulated amortization</i>					
Balance at January 1, 2022	\$ 8,315	\$ 3,971	\$ 36	\$ 326	\$ 12,648
Amortization - current year	1,167	282	5	51	1,505
Balance at December 31, 2022	\$ 9,482	\$ 4,253	\$ 41	\$ 377	\$ 14,153
Balance at January 1, 2021	\$ 8,199	\$ 3,499	\$ 31	\$ 321	\$ 12,050
Amortization	204	472	5	59	740
Disposal	(88)	–	–	(54)	(142)
Balance at December 31, 2021	\$ 8,315	\$ 3,971	\$ 36	\$ 326	\$ 12,648
<i>Carrying amounts</i>					
At December 31, 2022	\$ 3,154	\$ 1,085	\$ 197	\$ 750	\$ 5,186
At December 31, 2021	\$ 3,151	\$ 1,367	\$ 202	\$ 801	\$ 5,521

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

9. Leases:

	Buildings	Computer Equipment	Total
Right-of-use assets			
Cost			
Balance at January 1, 2022	\$ 2,387	\$ 1,440	\$ 3,827
Additions	233	–	233
Balance at December 31, 2022	\$ 2,620	\$ 1,440	\$ 4,060
Balance at January 1, 2021	\$ 2,108	\$ 1,357	\$ 3,465
Additions	279	83	362
Balance at December 31, 2021	\$ 2,387	\$ 1,440	\$ 3,827
Accumulated amortization			
Balance at January 1, 2022	\$ 816	\$ 1,061	\$ 1,877
Amortization	289	123	412
Balance at December 31, 2022	\$ 1,105	\$ 1,184	\$ 2,289
Balance at January 1, 2021	\$ 551	\$ 888	\$ 1,439
Amortization	265	173	438
Balance at December 31, 2021	\$ 816	\$ 1,061	\$ 1,877
Carrying amounts			
At December 31, 2022	\$ 1,515	\$ 256	\$ 1,771
At December 31, 2021	\$ 1,571	\$ 379	\$ 1,950
Lease liability			
Balance at January 1, 2022	\$ 1,603	\$ 159	\$ 1,762
Additions	233	–	233
Interest	69	–	69
Lease payments	(328)	(93)	(421)
Balance at December 31, 2022	\$ 1,577	\$ 66	\$ 1,643
Balance at January 1, 2021	\$ 1,522	\$ 278	\$ 1,800
Additions	279	83	362
Interest	64	6	70
Lease payments	(262)	(208)	(470)
Balance at December 31, 2021	\$ 1,603	\$ 159	\$ 1,762

Total cash outflows with respect to leasing arrangements during the year was \$421 (2021 - \$470) consisting of principal and interest of \$352 and \$69, respectively (2021 - \$400 and \$70).

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

9. 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 \$109 (2021 - \$88) as an expense in profit or loss relating to variable lease payments. The Corporation expects to recognize \$109 as expense within the next 12 months in profit or loss relating to variable payments.

10. Income tax expense:

Income tax expense is comprised of:

	2022	2021
Current tax expense	\$ 397	\$ 726
Deferred tax expense (recovery)	413	112
	<u>\$ 810</u>	<u>\$ 838</u>

Reconciliation of effective tax rate

	2022	2021
Income before taxes	\$ 5,251	\$ 4,033
Canada and Ontario statutory Income tax rates	26.5%	26.5%
Expected tax on income at statutory rates	1,391	1,069
Increase (decrease) in income taxes resulting from:		
Non-taxable amounts	(423)	142
Net movement in regulatory balances	(656)	(597)
Recapture of Capital Cost Allowance for tax purposes	-	411
Other items	498	(187)
Income tax expense	<u>810</u>	<u>838</u>
Effective income tax rate	<u>15.4%</u>	<u>20.8%</u>

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

10. Income tax expense (continued):

Significant components of the Corporation's deferred tax balances:

	2022	2021
Deferred tax assets (liabilities) consist of the following:		
Property, plant and equipment and Intangible assets (regulated)	\$ (3,812)	\$ (3,137)
Post-employment benefits	579	709
Total deferred tax liabilities to be realized by customers	(3,233)	(2,428)
Property, plant and equipment and Intangible assets	(2,065)	(2,206)
R&D credits	-	(11)
Post-employment benefits	108	129
Other items	23	(62)
Total deferred tax liabilities on non-regulatory	(1,934)	(2,150)
	\$ (5,167)	\$ (4,578)

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 \$11,605, (2021 - \$14,119) and regulatory credit balances of \$2,439 (2021 - \$3,168) for a net regulatory asset of \$9,166 (2021 - \$10,951).

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 2022, the rate was 0.57% for the period January to March, 1.02% for the period April to June, 2.20% for the period July to September and 3.87% for the period October 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.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

11. Regulatory balances (continued):

(b) Regulatory settlement accounts:

Regulatory settlement accounts include those settlement variances for which the OEB has approved for disposition. On April 7, 2022, the OEB issued a final rate order approving 2022 rates effective May 1, 2022.

(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.

Reconciliation of the carrying amount for each class of regulatory balances

Regulatory deferral account debit balances	January 1, 2022	Additions/ transfers	Recovery/ reversal	December 31, 2022	Remaining years
Group 1 deferred accounts	\$ 6,220	\$ 1,524	\$ (1,869)	\$ 5,875	1-2
Regulatory transition to IFRS	148	—	—	148	3
Regulatory settlement account	5,738	34	(2,893)	2,879	1-2
Other regulatory accounts	129	34	—	163	3
Income tax	1,884	656	—	2,540	3
	\$ 14,119	2,248	(4,762)	\$ 11,605	

Regulatory deferral account debit balances	January 1, 2021	Additions/ transfers	Recovery/ reversal	December 31, 2021	Remaining years
Group 1 deferred accounts	\$ 4,494	\$ 1,446	\$ 279	\$ 6,220	1-2
Regulatory transition to IFRS	148	—	—	148	3
Regulatory settlement account	7,108	34	(1,404)	5,738	1-2
Other regulatory accounts	229	1	(101)	129	3
Income tax	1,287	597	—	1,884	3
	\$ 13,266	\$ 2,078	\$ (1,226)	\$ 14,119	

Regulatory deferral account credit balances	January 1, 2022	Additions/ transfers	Recovery/ reversal	December 31, 2022	Remaining years
Group 1 deferred accounts	\$ (234)	\$ (104)	\$ 94	\$ (244)	1-2
Regulatory settlement account	(2,506)	(273)	1,109	(1,670)	1-2
Other regulatory accounts	(428)	(97)	—	(525)	3
	\$ (3,168)	\$ (474)	\$ 1,203	\$ (2,439)	

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
 Year ended December 31, 2022
 (in thousands of dollars)

11. Regulatory balances (continued):

(d) Other (continued):

Regulatory deferral account credit balances	January 1, 2021	Additions/ transfers	Recovery/ reversal	December 31, 2021	Remaining years
Group 1 deferred accounts	\$ 393	\$ (627)	\$ –	\$ (234)	1-2
Regulatory transition to IFRS	(607)	–	607	–	3
Regulatory settlement account	(2,227)	(3,499)	3,220	(2,506)	1-2
Other regulatory accounts	(390)	(149)	111	(428)	3
	\$ (2,831)	(4,275)	3,938	\$ (3,168)	

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, 2022.

12. Accounts payable and accrued liabilities:

	2022	2021
Accounts payable – energy purchases	\$ 5,488	\$ 5,357
Payroll payable	429	393
Other accounts payable and accrued liabilities	1,821	2,254
	\$ 7,738	\$ 8,004

13. Long-term debt:

	2022	2021
--	------	------

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 4.0% (2021 - 3.8%).

The agreement expires December 31, 2027. 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
Balance carryforward	3,695	3,695

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

13. Long-term debt (continued):

	2022	2021
Balance carryforward	3,695	3,695
Fixed rate Loan - TD Canada Trust is a 10 year term loan with a 20 year amortization schedule, repayable in blended monthly payments of \$36, bearing an interest rate of 3.25% due November, 2029	2,710	3,053
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	2,376	2,502
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	2,514	2,631
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	2,514	\$ 2,631
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	2,561	2,676
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	6,124	6,403
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% repaid during the year	-	317
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% repaid during the year	-	94
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% repaid during the year	-	345
Balance carryforward	22,494	24,347

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

13. Long-term debt (continued):

	2022	2021
Balance carryforward	22,494	24,347
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	1,116	1,202
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	1,116	1,202
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	4,711	4,927
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	5,505	\$ 5,755
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	240	288
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	420	516
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	1,261	1,347
Fixed rate loan - TD Canada Trust is a 5 year term loan with a 20 year amortization schedule, repayable in blended monthly payments of \$21 bearing an interest rate of 2.19% due October, 2026	3,811	3,973
	40,674	43,557
Less: Current portion of long-term debt	4,980	6,577
	\$ 35,694	\$ 36,980

Approximate long-term principal repayments over the next five years and thereafter are as follows:

2023	\$ 4,980
2024	2,804
2025	3,071
2026	5,896
2027	4,334
Thereafter	19,589
	\$ 40,674

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

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

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 2022, the consolidated group made employer contributions of \$589 to OMERS (2021 - \$595), of which \$117 (2021 - \$121) has been capitalized as part of PP&E and the remaining amount of \$472 (2021 - \$474) has been recognized in profit or loss. The Corporation estimates that a contribution of \$634 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.

Reconciliation of the obligation	2022	2021
Defined benefit obligation, beginning of year	\$ 3,162	\$ 3,327
Included in profit or loss		
Current service cost	94	102
Interest cost	87	75
	3,343	3,504
Actuarial gains included in OCI:		
Changes in demographic assumptions	–	(23)
Changes in discount rate	(551)	(161)
	(551)	(184)
Benefits paid	(200)	(158)
Defined benefit obligation, end of year	\$ 2,592	\$ 3,162
Actuarial assumptions	2022	2021
General inflation	2.0%	2.00%
Discount (interest) rate	5.0%	2.75%
Medical Costs	6.25%	6.25%
Dental Costs	4.5%	4.5%

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by \$197. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by \$290.

A 1% increase in the assumed trend rate would result in the defined benefit obligation increasing by \$253. A 1% decrease in the assumed trend rate would result in the defined benefit obligation decreasing by \$174.

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

15. Share capital:

	2022	2021
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 (2021- \$1,740), special \$62 (2021 - \$62) which amounts to total dividends paid in the year of \$1,802 (2021 - \$1,802).

16. Revenue:

Revenue consists of the following:

	2022	2021
Revenue from contracts with customers		
Sale of Energy	\$ 69,709	\$ 69,438
Distribution revenue	17,616	14,864
Meter data and settlement services	8,293	7,704
Solar Generation	2,231	2,294
Streetlight maintenance services to ultimate shareholders	178	146
Billing services to Municipal shareholders	320	403
Joint use pole rentals	162	308
Other regulatory service charges	247	219
PV System sales	1,704	149
Miscellaneous	673	340
Revenue from other sources		
Deferred revenue recognized from capital contributions	221	185
	\$ 101,354	\$ 96,050

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

16. Revenue (continued):

Sale of energy and Distribution revenue consist of the following:

	2022	2021
Residential service	\$ 55,903	\$ 54,634
General service less than 50KW	8,957	7,922
General service 50 to 4,999KW	21,732	21,238
Intermediate and Embedded distributor	357	367
Unmetered and other	376	141
	\$ 87,325	\$ 84,302

17. Operating expenses:

	2022	2021
Contract/consulting	\$ 3,371	\$ 2,667
Materials and supplies	1,369	1,420
Salaries, wages and benefits	9,167	8,152
Cost of billing services for ultimate shareholders	291	367
Post-employment benefit plans	183	181
Vehicles	206	52
Bad debts	74	5
Solar expenses	1,321	292
Other	2,102	1,352
	\$ 18,084	\$ 14,488

18. Net finance costs:

	2022	2021
Finance income		
Interest income on bank deposits	\$ 279	\$ 222
Foreign exchange gain	21	—
	300	222
Finance costs		
Interest expense on long-term debt	(1,262)	(1,286)
Interest expense on customer deposits	(7)	(3)
Finance lease interest obligations	(75)	(74)
Foreign exchange loss	—	(65)
Other	(88)	(38)
	(1,432)	(1,466)
Net finance costs recognized in profit or loss	\$ (1,132)	\$ (1,244)

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(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, 2022 no assessments have been made.

Letter of Credit:

Letters of credit totaling \$2,910 have been issued by TD Canada Trust to the credit of the Independent Electricity System Operator for the commodity purchases and market services provided, and for Capacity Prudential Obligations. These letters of credit have no term of expiry and are normally adjusted and 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:

	2022	2021
Balances due to:		
Town of Amherstburg	\$ 1,666	\$ 1,503
Town of Tecumseh	1,167	1,011
Municipality of Leamington	82	82
	<u>\$ 2,915</u>	<u>\$ 2,596</u>

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

20. Related party transactions (continued):

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

	2022	2021
Balances due from:		
Town of Amherstburg	\$ 71	\$ 29
Town of LaSalle	12	4
Town of Tecumseh	64	52
Municipality of Leamington	46	59
	\$ 193	\$ 144

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, 2022, dividends payable to the jointly controlling shareholders amounted to \$1,828 (2021 - \$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 2022 were \$990 (2021 - \$403).

(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:

	2022	2021
Directors' fees	\$ 97	\$ 119
Salaries, bonuses and other short-term benefits	1,741	1,500
	\$ 1,838	\$ 1,619

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

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, 2022 is \$29,301 (2021 - \$42,947). 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, 2022 was 4.5% (2021 – 3%). 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, 2022, 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, 2022 is \$143 (2021 - \$144). An impairment loss of \$74 (2021 - \$9) 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, 2022, approximately \$1,031 (2021 - \$644) is considered 60 or more days past due. The Corporation has 33,000 customers, 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, 2022, the Corporation holds security deposits in the amount of \$404 (2021 - \$717).

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

21. 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.

(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, 2022, \$3,173 had been drawn under the Corporation's credit facilities (2021 – \$nil) and is presented in bank indebtedness on the consolidated statement of financial position.

Essex Powerlines and Essex Energy also have bilateral "LC" facilities for \$2,910 (2021- \$2905) 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 2022 or 2021.

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, 2021, shareholder's equity amounts to \$44,100 (2021 - \$43,487) and long-term debt amounts to \$40,674 (2021 - \$43,557).

ESSEX POWER CORPORATION

Notes to the Consolidated Financial Statements
Year ended December 31, 2022
(in thousands of dollars)

22. Prior period adjustment:

During the year the Corporation identified an error regarding overstated distribution revenue whereby customers were overcharged because of an inaccurate daily flat fee calculated by our billing software. The customers were provided credits in 2023 for errors during the period 2018 through 2021 as approved by the Ontario Energy Board. The correction of these errors has been applied on a prospective basis. The Corporation recorded the cumulative correction covering errors for the years 2018 through 2021 on a prospective basis as a January 1, 2022 adjustment as follows:

	Previously reported January 1, 2022	Adjustments on January 1, 2021	Restated balance December 31, 2022
<i>Statements of Financial Position as at January 1, 2022</i>			
Accounts receivable			
Trade receivables	\$ 6,769	\$ (453)	\$ 6,316
Income taxes payable	358	(120)	238
Retained earnings	19,906	(333)	19,573
<i>Consolidated Statements of Changes in Equity (Retained earnings)</i>			
Retained earnings	19,906	(333)	19,573

The comparative year 2021 balances and amounts have not been restated as the effect on year 2021 net income is immaterial.