

Financial Statements of

**NIAGARA-ON-THE-LAKE
HYDRO INC.**

And Independent Auditors' Report thereon

Year ended December 31, 2021



KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton ON L8P 4W7
Canada
Tel 905-523-8200
Fax 905-523-2222

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Niagara-on-the-Lake Hydro Inc.

Opinion

We have audited the financial statements of Niagara-on-the-Lake Hydro Inc. (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2021
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the 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 financial position of the Entity as at December 31, 2021, and its financial performance and its 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 all 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.



Page 3

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

St. Catharines, Canada

April 21, 2022

NIAGARA-ON-THE-LAKE HYDRO INC.

Statement of Financial Position

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

	Note	2021	2020
Assets			
Current assets			
Accounts receivable	5	\$ 3,098,037	\$ 2,273,597
Unbilled revenue		2,629,403	3,141,187
Material and supplies	6	540,850	467,264
Prepaid expenses		107,448	105,819
Due from related parties	21	48,572	64,211
Income tax receivable		119,549	–
Total current assets		6,543,859	6,052,078
Non-current assets			
Property, plant and equipment	7	37,077,739	35,844,799
Deferred tax asset	8	1,729,851	1,581,212
Investment		100	100
Total non-current assets		38,807,690	37,426,111
Total assets		45,351,549	43,478,189
Regulatory balances	9	1,461,952	1,239,218
Total assets and regulatory balances		\$ 46,813,501	\$ 44,717,407

NIAGARA-ON-THE-LAKE HYDRO INC.

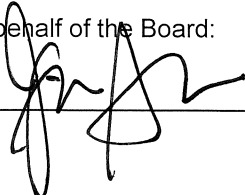
Statement of Financial Position

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

	Note	2021	2020
Liabilities			
Current liabilities			
Bank indebtedness	4	\$ 1,383,140	\$ 1,252,617
Current portion of long-term debt	11	7,530,432	5,860,654
Derivative liability	11	27,889	314,982
Accounts payable and accrued liabilities	10	3,694,997	3,433,057
Customer deposits		595,987	655,826
Due to related parties	21	756,281	749,151
Deferred revenue		128,368	128,368
Income tax payable		–	68,129
Total current liabilities		14,117,094	12,462,784
Non-current liabilities			
Long-term debt	11	3,468,440	4,233,798
Post-employment benefits	12	614,923	577,888
Deferred revenue		5,865,954	5,349,360
Deferred tax liability	8	2,748,661	2,282,893
Total non-current liabilities		12,697,978	12,443,939
Total liabilities		26,815,072	24,906,723
Equity			
Share capital	13	2,632,307	2,632,307
Paid-up capital		4,269,026	4,269,026
Retained earnings		12,695,580	12,146,393
Accumulated other comprehensive loss		(47,366)	(47,366)
Total equity		19,549,547	19,000,360
Total liabilities and equity		46,364,619	43,907,083
Regulatory balances	9	448,882	810,324
Total liabilities, equity and regulatory balances		\$ 46,813,501	\$ 44,717,407

See accompanying notes to the financial statements.

On behalf of the Board:


 _____ Director


 _____ Director

NIAGARA-ON-THE-LAKE HYDRO INC.

Statement of Comprehensive Income

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

	Note	2021	2020
Revenue			
Distribution revenue		\$ 5,565,393	\$ 5,254,249
Other operating revenue	14	515,651	427,371
		6,081,044	5,681,620
Sale of energy		25,803,219	30,890,307
Total revenues	17	31,884,263	36,571,927
Operating expenses			
Operations and maintenance		1,247,805	1,134,872
Billing and collection		618,632	630,976
General administration		1,350,252	1,246,801
Depreciation and amortization	19	1,227,391	1,043,226
	15	4,444,080	4,055,875
Cost of power purchased		26,183,615	30,183,104
Total expenses		30,627,695	34,238,979
Income from operating activities		1,256,568	2,332,948
Finance income	16	23,655	16,967
Finance costs	16	(127,550)	(677,266)
Income before income taxes		1,152,673	1,672,649
Income tax expense	8	(437,662)	(268,399)
Net income		715,011	1,404,250
Net movement in regulatory balances		377,602	(366,518)
Regulatory recovery on future tax		206,574	627,180
Net income for the year and net movement in regulatory balances	9	1,299,187	1,664,912
Other comprehensive (loss) income			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits	12	–	(14,669)
Tax on remeasurements	8	–	3,887
Other comprehensive loss for the year		–	(10,782)
Total comprehensive income for the year		\$ 1,299,187	\$ 1,654,130

See accompanying notes to the financial statements.

NIAGARA-ON-THE-LAKE HYDRO INC.

Statement of Changes in Equity

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

	Share capital	Paid-up capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance at January 1, 2021	\$ 2,632,307	\$ 4,269,026	\$12,146,393	\$ (47,366)	\$ 19,000,360
Comprehensive income	-	-	1,299,187	-	1,299,187
Dividends	-	-	(750,000)	-	(750,000)
Balance at December 31, 2021	\$ 2,632,307	\$ 4,269,026	\$ 12,695,580	\$ (47,366)	\$ 19,549,547
Balance at January 1, 2020	\$ 2,632,307	\$ 4,269,026	\$ 11,175,511	\$ (36,584)	\$ 18,040,260
Comprehensive income	-	-	1,664,912	(10,782)	1,654,130
Dividends	-	-	(694,030)	-	(694,030)
Balance at December 31, 2020	\$ 2,632,307	\$ 4,269,026	\$ 12,146,393	\$ (47,366)	\$ 19,000,360

See accompanying notes to the financial statements.

NIAGARA-ON-THE-LAKE HYDRO INC.

Statement of Cash Flows

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

	2021	2020
Operating activities		
Net Income and net movement in regulatory balances	\$ 1,299,187	\$ 1,664,912
Adjustments for:		
Depreciation and amortization	1,227,391	1,043,226
Amortization of deferred revenue	(139,925)	(123,958)
Post-employment benefits	37,034	28,433
Loss on disposal of property, plant and equipment	21,432	39,080
Change in derivatives	(287,093)	255,111
Net finance costs	390,988	405,188
Income tax expense	437,662	268,399
Contributions received from customers	656,519	293,079
	<u>3,643,195</u>	<u>3,873,470</u>
Change in non-cash operating working capital:		
Accounts receivable	(824,440)	(459,134)
Unbilled revenue	511,784	4,595
Due from related parties	15,639	(48,189)
Materials and supplies	(73,586)	(136,021)
Prepaid expenses	(1,629)	(17,484)
Accounts payable and accrued liabilities	278,343	(81,532)
Customer deposits	(59,839)	1,455
Due to related parties	7,130	(833)
Deferred revenue	-	(23,649)
	<u>3,496,597</u>	<u>3,112,678</u>
Regulatory balances	(584,176)	(260,662)
Income tax received	-	-
Income tax paid	(308,211)	(209,757)
Interest paid	(414,643)	(382,043)
Interest received	7,252	3,779
Net cash from operating activities	<u>2,196,819</u>	<u>2,263,995</u>
Investing activities		
Purchase of property, plant and equipment, net	(2,482,793)	(3,333,149)
Proceeds on disposal of assets	1,031	12,280
Net cash used by investing activities	<u>(2,481,762)</u>	<u>(3,320,869)</u>
Financing activities		
Dividends paid	(750,000)	(694,030)
Repayment of long-term debt	(1,095,580)	(973,921)
Proceeds from long-term debt	2,000,000	1,723,943
Net cash used in financing activities	<u>154,420</u>	<u>55,992</u>
Change in bank indebtedness	(130,523)	(1,000,882)
Bank indebtedness, beginning of year	(1,252,617)	(251,735)
Bank indebtedness, end of year	<u>\$ (1,383,140)</u>	<u>\$ (1,252,617)</u>

See accompanying notes to the financial statements.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

1. Reporting entity

Niagara-on-the-Lake Hydro Inc. (the "Corporation") is a wholly owned subsidiary of Niagara-on-the-Lake Energy Inc., which in turn is wholly owned by The Corporation of the Town of Niagara-on-the-Lake (the "Town") and incorporated under the Business Corporations Act (Ontario), in accordance with the Electricity Act. The Corporation is located in the Town of Niagara-on-the-Lake. The address of the Corporation's registered office is 8 Henegan Road, Virgil, Ontario, L0S 1T0.

The Corporation's principal activity is to distribute electricity to the residents and businesses in the Town of Niagara-on-the-Lake under a license issued by the Ontario Energy Board ("OEB"). The Corporation is regulated by the OEB and adjustments to the Corporation's distribution and power rates require OEB approval.

The financial statements are for the Corporation as at and for the year ended December 31, 2021.

2. Basis of presentation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors on April 21, 2022.

(b) Basis of measurement

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

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(d) 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.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

2. Basis of presentation (continued)

(d) Rate regulation (continued)

Rate setting

(i) *Distribution revenue*

The Corporation is required to file a “Cost of Service” (“COS”) rate application every five years, unless approved for a deferral, under which the OEB establishes the revenues required to recover the forecasted operating costs, including amortization and income taxes, of providing the regulated electricity distribution service and providing a fair return on the Corporation’s rate base. The Corporation estimates electricity usage and the costs to service each customer class in order 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 Rate 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 and a “stretch factor” determined by the relative efficiency of an electricity distributor.

As a licensed distributor, the Corporation is responsible for billing customers for 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 is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

In 2020 the Corporation submitted an IRM Application to the OEB requesting approval to change distribution rates effective May 1, 2021. The IRM Application, which provided a mechanistic and formulaic adjustment to distribution rates and charges, was approved by the OEB on March 25, 2021. The GDP IPI-FDD for 2021-22 rates is 2.2%, the Corporation’s stretch factor is 0.30% and the productivity factor determined by the OEB is 0%, resulting in a net adjustment of 1.90% to the previous year’s rates.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

2. Basis of presentation (continued)

(d) Rate regulation (continued)

(ii) *Electricity rates*

The OEB sets electricity prices for certain 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, 2020*. 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 in March and June in response to the Government issued Emergency Orders under the *Emergency Management and Civil Protection Act* to assist Ontarians who were forced to stay home due to the COVID-19 pandemic. Throughout 2021, the OEB continued to amend RPP prices as necessary due to the ongoing COVID-19 pandemic, including forgoing the RPP semi-annual price increase for November 1, 2021.

All remaining consumers pay the market price for electricity or the rate pursuant to their contract with a retailer. The Corporation is billed for the cost of the electricity that its customers use by the Independent Electricity System Operator and passes this cost on to the customer at cost without a mark-up.

(iii) *Retail transmission rates*

These are the costs of delivering electricity from generating stations across the Province to local distribution networks. These charges include the costs to build and maintain the transmission lines, towers, poles and operate provincial transmission systems. Revenues from retail transmission rates are passed through to the operators of transmission networks and facilities without a mark-up.

(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.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

2. Basis of presentation (continued)

(e) Use of estimates and judgments

(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(d), (e), 7 – estimation of useful lives of its property, plant and equipment and related impairment tests on long-lived assets
- (ii) Notes 3(h), 9 – recognition and measurement of regulatory balances
- (iii) Notes 3(i) 12 – measurement of defined benefit obligations: key actuarial assumptions
- (iv) Notes 3(g) 18 – recognition and measurement of provisions and contingencies

(ii) Judgments

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

- (i) Note 3(j) – leases: whether an arrangement contains a lease; lease term, underlying leased asset value
- (ii) Note 3(b) – determination of the performance obligation for contributions from customers and the related amortization period
- (iii) Notes 3(h) and 9 – recognition of regulatory balances

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

3. Significant accounting policies

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

(a) Financial instruments

All financial assets and all financial liabilities with the exception of derivatives are recognized initially at fair value plus any directly attributable transaction costs. Derivatives are classified as financial liabilities or financial assets at fair value through profit or loss and recognized at fair value. Subsequently, non-derivative financial instruments are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(e).

Hedge accounting has not been used in the preparation of these financial statements.

(b) 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 unbilled customer usage since the last billing date to the end of the year which 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.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

3. Significant accounting policies (continued)

(b) Revenue recognition (continued)

Capital contributions (continued)

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.

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.

(c) 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 basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

(d) 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 transition date, 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, overhead costs, 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.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

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

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

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

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

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

Asset	Years
Buildings	30 - 60
Transformer stations	45 - 55
Distribution lines – overhead	45 - 60
Distribution lines – underground	45 - 60
Distribution – transformers	45
Distribution – meters	15 - 40
Equipment and trucks	3 - 15

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

3. Significant accounting policies (continued)

(e) 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 materials and supplies, 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.

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.

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.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

3. Significant accounting policies (continued)

(f) Customer deposits

Customer deposits represent cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills. Interest is paid on customer 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.

(g) 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.

(h) Regulatory balances

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer. Regulatory deferral account credit balances represent amounts billed to the customer 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. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve 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 as a loss in the year incurred.

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. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

3. Significant accounting policies (continued)

(i) 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.

(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. Re-measurements of the net defined benefit obligations, including actuarial gains and losses and the return on plan assets (excluding interest), are recognized immediately in other comprehensive income. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

3. Significant accounting policies (continued)

(j) Leased assets

At inception of a contract, the Corporation assess whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Corporation with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

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

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Corporation has elected not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less or for leases of low value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(k) 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 balance and gain on derivatives.

Finance costs comprise interest expense on borrowings and realized losses on derivatives. Finance costs are recognized in profit or loss unless capitalized for qualifying assets.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

3. Significant accounting policies (continued)

(l) 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 is 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 Electricity Financial Corporation ("OEFEC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Tax Acts as modified by the *Electricity Act*, 1998, and related regulations. 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.

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. (Bank indebtedness) cash

	2021	2020
Cash balances	\$ 589,046	\$ 645,099
Bank overdrafts used for cash management purposes*	(1,972,486)	(1,898,016)
Petty cash	300	300
	<u>\$ (1,383,140)</u>	<u>\$ (1,252,617)</u>

*The Corporation's bank overdraft is executed by way of a demand operating revolving credit facility with a credit limit of \$3,000,000 and bears interest at prime plus 0.15% per annum and is secured by a general security agreement on the assets of the Corporation. As at December 31, 2021, \$1,349,198 (2020 - \$1,320,787) is drawn on the credit facility.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

5. Accounts receivable

	2021	2020
Customer trade receivables	\$ 3,137,087	\$ 2,342,322
Less: loss allowance	(39,050)	(68,725)
	<u>\$ 3,098,037</u>	<u>\$ 2,273,597</u>

6. Materials and supplies

The amount of inventory consumed by the Corporation and recognized as an expense during the year was \$10,155 (2020 - \$5,095). An amount of \$nil (2020 - \$27,718) was written down due to obsolescence.

7. Property, plant and equipment

	January 1, 2021	Additions/ Depreciation	Transfers	Disposals/ Retirements	December 31, 2021
<i>Cost</i>					
Land	\$ 307,134	\$ –	\$ –	\$ –	\$ 307,134
Buildings	874,597	359,932	–	–	1,234,529
Transformer stations	9,099,866	635,127	–	–	9,734,993
Distribution lines - overhead	8,652,655	768,409	–	(93,793)	9,327,271
Distribution lines – underground	12,062,875	478,413	–	–	12,541,288
Distribution - transformers	4,332,260	472,847	–	(46,352)	4,758,755
Distribution - meters	2,018,075	108,181	–	(9,627)	2,116,629
Equipment and trucks	2,560,935	289,296	–	(45,871)	2,804,360
Work in progress	998,037	2,498,828	(3,017,319)	–	479,546
	<u>40,906,434</u>	<u>5,611,033</u>	<u>(3,017,319)</u>	<u>(195,643)</u>	<u>43,304,505</u>
<i>Accumulated Depreciation</i>					
Buildings	133,760	23,737	–	–	157,497
Transformer stations	695,349	199,363	–	–	894,712
Distribution lines - overhead	(43,654)	265,171	–	(90,191)	131,326
Distribution lines - underground	1,691,255	297,789	–	–	1,989,044
Distribution - transformers	179,174	135,381	–	(31,576)	282,979
Distribution - meters	762,584	162,228	–	(5,542)	919,270
Equipment and trucks	1,643,167	254,642	–	(45,871)	1,851,938
Work in progress	–	–	–	–	–
	<u>5,061,635</u>	<u>1,338,311</u>	<u>–</u>	<u>(173,180)</u>	<u>6,226,766</u>
Carrying amount	<u>\$ 35,844,799</u>	<u>\$ 4,272,722</u>	<u>\$ (3,017,319)</u>	<u>\$ (22,463)</u>	<u>\$ 37,077,739</u>

As at December 31, 2021, the property, plant and equipment are subject to a general security agreement as described in note 11.

There were no borrowing costs capitalized as part of the cost of property, plant and equipment in 2021 or 2020.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

7. Property, plant and equipment

	January 1, 2020	Additions/ Depreciation	Transfers	Disposals/ Retirements	December 31, 2020
<i>Cost</i>					
Land	\$ 307,134	\$ –	\$ –	\$ –	\$ 307,134
Buildings	871,331	3,266	–	–	874,597
Transformer stations	6,765,054	2,334,812	–	–	9,099,866
Distribution lines - overhead	7,856,411	878,851	(37,400)	(45,207)	8,652,655
Distribution lines – underground	11,079,902	982,973	–	–	12,062,875
Distribution - transformers	4,104,697	349,926	(80,328)	(42,035)	4,332,260
Distribution - meters	2,076,059	148,999	–	(206,983)	2,018,075
Equipment and trucks	2,316,713	254,052	–	(9,830)	2,560,935
Work in progress	2,407,347	4,252,987	(5,662,297)	–	998,037
	37,784,648	9,205,866	(5,780,025)	(304,055)	40,906,434
<i>Accumulated Depreciation</i>					
Buildings	113,002	20,758	–	–	133,760
Transformer stations	523,501	171,848	–	–	695,349
Distribution lines - overhead	(236,327)	234,993	–	(42,320)	(43,654)
Distribution lines - underground	1,402,339	288,916	–	–	1,691,255
Distribution - transformers	190,197	(7,853)	28,508	(31,678)	179,174
Distribution - meters	785,855	155,426	–	(178,697)	762,584
Equipment and trucks	1,399,845	243,322	–	–	1,643,167
Work in progress	–	–	–	–	–
	4,178,412	1,107,410	28,508	(252,695)	5,061,635
Carrying amount	\$ 33,606,236	\$ 8,098,456	\$ (5,808,533)	\$ (51,360)	\$ 35,844,799

8. Income tax expense

Current tax expense

	2021	2020
Current period	\$ 86,995	\$ 190,041
Prior period true-up	33,538	20,251
	\$ 120,533	\$ 210,292

Income tax recovery of \$nil (2020 - \$3,887) has been recognized in other comprehensive loss at the Corporations statutory income tax rate related to remeasurement of the Corporation's post-employment benefits.

Deferred tax expense

	2021	2020
Origination and reversal of temporary differences	\$ 325,333	\$ 131,183
Prior period true-up	(8,204)	(73,076)
	\$ 317,129	\$ 58,107

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

8. Income tax expense (continued)

Reconciliation of effective tax rate

	2021	2020
Income before taxes	\$ 1,152,673	\$ 1,672,649
Canada and Ontario statutory Income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	305,458	443,252
Increase (decrease) in income taxes resulting from:		
Permanent differences	508	187
Under (over) provided in prior periods	25,333	(52,825)
Regulatory adjustments	100,065	(97,127)
CMT	6,298	(25,088)
Income tax expense	\$ 437,662	\$ 268,399

Significant components of the Corporation's deferred tax balances

	2021	2020
Deferred tax liabilities:		
Property, plant and equipment	\$ (2,748,661)	\$ (2,282,893)
Deferred tax assets:		
Deferred revenue – contributed capital	1,554,478	1,417,581
Post-employment benefits	162,955	153,140
Other	12,418	10,491
	1,729,851	1,581,212
Net deferred tax liability	\$ (1,018,810)	\$ (701,681)

9. Regulatory balances

Reconciliation of the carrying amount for each class of regulatory balances:

Regulatory deferral account debit balances	January 1, 2021	Additions/ transfers	Recovery/ reversal	December 31, 2021	Remaining recovery/ reversal years
Settlement variances	\$ 21,144	\$ 312,072	\$ (271,652)	\$ 61,564	2
Other regulatory accounts	403,768	(24,260)	–	379,508	1-5
Income tax	814,306	206,574	–	1,020,880	***
	\$ 1,239,218	\$ 494,386	\$ (271,652)	\$ 1,461,952	

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

9. Regulatory balances (continued)

	January 1, 2020	Additions/ transfers	Recovery/ reversal	December 31, 2020	Remaining recovery/ reversal years
Regulatory deferral account debit balances					
Settlement variances	\$ 269,903	\$ (25)	\$ (248,734)	\$ 21,144	2
Other regulatory accounts	773,551	(670,424)	300,641	403,768	1-5
Income tax	187,126	627,180	–	814,306	***
	\$ 1,230,580	\$ (43,269)	\$ 51,907	\$ 1,239,218	
Regulatory deferral account credit balances	January 1, 2021	Additions/ transfers	Recovery/ reversal	December 31, 2021	Remaining years
Settlement variances	\$ (614,557)	\$ (91,913)	\$ 517,875	\$ (188,595)	3
Other regulatory accounts	(195,767)	(64,520)	–	(260,287)	1-5
Income tax	–	–	–	–	***
	\$ (810,324)	\$ (156,433)	\$ 517,875	\$ (448,882)	
Regulatory deferral account credit balances	January 1, 2020	Additions/ transfers	Recovery/ reversal	December 31, 2020	Remaining years
Settlement variances	\$ (192,740)	\$ (369,911)	\$ (51,906)	\$ (614,557)	3
Other regulatory accounts	(869,608)	673,841	–	(195,767)	1-5
Income tax	–	–	–	–	***
	\$ (1,062,348)	\$ 303,930	\$ (51,906)	\$ (810,324)	

The regulatory balances are recovered or settled through rates approved by the OEB which are determined using historical data. Future consumption is impacted by various factors including the economy and weather. The Corporation has received approval from the OEB to establish its regulatory balances.

*** These balances will reverse as the related deferred tax balance reverses.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

9. Regulatory balances (continued)

The Corporation has determined that certain debit and credit balances arising from rate-regulated activities qualify for regulatory accounting treatment in accordance with IFRS 14 and the OEB's prescribed accounting procedures for electricity distributors. The regulatory balances are comprised of regulatory debit variances of \$1,461,952 (2020 - \$1,239,218) and regulatory credit balances for \$448,882 (2020 - \$810,324) for a net regulatory asset of \$1,013,070 (2020 - asset of \$428,894).

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 2021, the rate was 0.57%.

The regulatory balances for the Corporation consist of the following:

(a) Settlement variances:

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

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

In the Corporation's 2021 IRM application, submitted in 2020, the Corporation obtained OEB approval for the disposition of the 2019 audited balances as they were above the OEB's prescribed materiality level. The OEB authorized the Corporation to dispose of a net credit balance of \$276,471 through rate riders over a one-year period that took effect May 1, 2021.

(b) Income taxes:

The customer asset/liability for deferred taxes variance account relates to the expected regulatory asset or liability relating to deferred taxes arising from timing differences in the determination of income taxes as well as CCA acceleration.

(c) Lost revenue adjustment mechanism:

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

(d) Other:

This deferral account includes the amounts approved for disposition from settlement variances approved for disposition and recovery, allowable costs associated with cost assessments, retail charges and other miscellaneous regulatory accounts.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

10. Accounts payable and accrued liabilities

	2021	2020
Accounts payable – energy purchases	\$ 1,915,967	\$ 2,000,082
Trade payables	1,622,974	1,285,804
Payroll payable	147,037	141,680
Other liabilities	9,019	5,491
	\$ 3,694,997	\$ 3,433,057

11. Long-term debt

	2021	2020
Notes payable	\$ 3,305,213	\$ 3,959,872
Demand loans	7,276,992	5,617,913
Ontario Infrastructure debenture	416,667	516,667
	10,998,872	10,094,452
Current portion	(7,530,432)	(5,860,654)
Long-term portion	\$ 3,468,440	\$ 4,233,798

The notes payable consists of three notes payable to the Corporation's parent company. The first note bears interest at 7.25%. The outstanding principal is \$1,406,045 (2020 - \$1,548,786) as at December 31, 2021. This note is unsecured and is repayable annually in the aggregate principal and interest of \$250,346 (2020 - \$250,000). During the year, the Corporation paid \$142,740 (2020 - \$189,992) in principal on the note. The second note bears interest at 3.50% and is due on February 1, 2025 and is repayable in blended monthly payments of \$29,386. The outstanding balance is \$1,055,524 (2020 - \$1,365,314) at December 31, 2021. The third note bears interest at 3.50% and is due October 1, 2025 and is repayable in blended monthly payments of \$19,625. The outstanding balance is \$843,644 (2020 - \$1,045,772) at December 31, 2021. The second and third loans are due on demand to the Town. The Town has waived its right to demand payment until January 1, 2023. These loans are postponed in favour of the demand instalment loan described below.

The Corporation has a demand instalment loan for which repayment commenced April, 2019 with an outstanding balance at year-end of \$2,562,113 (2020 - \$2,730,667) bearing interest at prime plus 0.75% per annum, maturing March, 2034. The Corporation has elected to use a swap contract to exchange the variable rate for a fixed rate of 3.168% per annum. The term loan of the swap contract is 15 years. Under the terms of the term loan and swap contract, repayment of the loan is in monthly installments of \$21,052 of principal and interest. The swap contract is recorded at fair value and is in a net unfavorable position of \$88,739 (2020 - \$240,752). The loan is secured by a General Security Agreement over the assets of the Corporation and by guarantees of a related party.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

11. Long-term debt (continued)

In 2019, the Corporation had a \$3,000,000 revolving demand instalment loan with an outstanding balance of \$1,000,000 for which the loan would convert to non-revolving in June, 2020. The Corporation executed draws on the loan during 2020 up to \$3,000,000 and converted to a non-revolving facility under the terms of the agreement. The outstanding balance as at December 31, 2021 is \$2,714,879 (2020 - \$2,887,246) bearing interest at prime plus 0.75% per annum and matures February, 2035. The Corporation has elected to use a swap contract to exchange the variable rate for a fixed rate of 2.274% per annum. The term loan of the swap contract is 15 years. Under the terms of the term loan and swap contract, repayment of the loan is in monthly installments of \$19,686 of principal and interest. The swap contract is recorded at fair value and is in a net favorable position of \$60,850 (2020 - \$74,230). The loan is secured by a General Security Agreement over the assets of the Corporation and by guarantees of a related party.

The Corporation has available a \$3,000,000 revolving demand facility, which when drawn bears interest at prime plus 0.75%. The facility was drawn on twice in 2021, in May and September of 2021 for \$1,000,000 each, totalling \$2,000,000 as of December 31, 2021. In accordance with the agreement on this facility, repayment of principal does not begin until the full facility of \$3,000,000 is drawn. As of December 31, 2021, the entity paid \$13,275 in interest. Subsequent to year-end the entity drew the remaining \$1,000,000 on the facility.

The Corporation has an Ontario Infrastructure Projects Corporation ("OIPC") fixed term debenture due February 16, 2026. The debenture bears interest at a rate of 4.27% per annum. The loan is payable in monthly principal payments in the amount of \$8,333 plus interest. The loan is secured by a general security agreement over the assets of the Corporation.

12. 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 benefit pension plan with equal contributions by the employer and its employees. 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. The latest actuarial valuation as at December 31, 2021 reported a funding deficit of \$3.1 billion (2020 - \$3.2 billion). OMERS expects the contributions and policy changes made in response to the deficit to return the plan to a fully funded position by 2025. Contributions were made in the 2020 calendar year at rates ranging from 9.0% to 14.6% depending on the level of earnings. In 2021, the Corporation made employer contributions of \$185,098 to OMERS (2020 - \$178,706), of which \$50,302 (2020 - \$66,666) has been capitalized as part of PP&E and the remaining amount of \$43,068 (2020 - \$112,040) has been recognized in profit or loss. The Corporation estimates that a contribution of \$185,898 to OMERS will be made during the next fiscal year.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

12. Post-employment benefits (continued)

(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. The Corporation is recovering its post-employment benefits in rates based on the expense and re-measurements recognized for post-employment benefit plans.

Reconciliation of the obligation	2021	2020
Defined benefit obligation, beginning of year	\$ 577,888	\$ 534,786
Included in profit or loss		
Current service cost	40,523	25,836
Interest cost	14,787	18,440
	633,198	579,062
Included in OCI		
Actuarial loss arising from changes in assumptions	-	14,669
	633,198	593,731
Benefits paid	(18,275)	(15,843)
Defined benefit obligation, end of year	\$ 614,923	\$ 577,888

Actuarial assumptions	2021	2020
General inflation	3.40%	0.73%
Discount (interest) rate	2.60%	2.60%
Salary levels	3.30%	3.30%
Medical costs	4.70%	4.40%
Dental costs	4.90%	4.70%

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by approximately \$82,800. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by approximately \$108,600.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

13. Share capital

	2021	2020
Authorized:		
Unlimited number of common shares		
Issued:		
1,001 common shares	\$ 2,632,307	\$ 2,632,307

Dividends

The holders of the common shares are entitled to receive dividends as declared by the Corporation.

The Corporation paid dividends in the year on common shares of \$750 per share (2020 - \$694) which amount to total dividends paid in the year of \$750,000 (2020 - \$694,030).

14. Other revenue

	2021	2020
Pole rental	\$ 154,349	\$ 145,889
Late payment charges	34,255	16,564
Amortization of deferred revenue	139,925	123,958
Change of occupancy	35,130	30,840
Other	151,992	110,120
	\$ 515,651	\$ 427,371

15. Operating expenses

	2021	2020
Salaries and benefits	\$ 1,610,217	\$ 1,502,517
Depreciation and amortization	1,227,391	1,043,226
Contracted services/labour	860,093	733,108
Vehicle maintenance	96,317	82,779
Other	650,062	694,245
	\$ 4,444,080	\$ 4,055,875

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

16. Finance income and costs

	2021	2020
Finance income		
Interest income on bank deposits	\$ 23,655	\$ 16,967
Finance costs		
Change in net unrealized loss on swap adjustments	287,093	(255,111)
Interest expense on long-term debt	(414,643)	(422,155)
	(127,550)	(677,266)
Net finance costs recognized in profit or loss	\$ 103,895	\$ (660,299)

17. Revenue from contracts with customers and other sources

	2021	2020
Revenue from contracts with customers:		
Energy sales	\$ 25,803,219	\$ 30,890,307
Distribution revenue	5,565,393	5,254,249
	31,368,612	36,144,556
Revenue from other sources:		
Amortization of deferred revenue	139,925	123,958
Other	375,726	303,413
	\$ 31,884,263	\$ 36,571,927

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

	2021	2020
Revenue from contracts with customers:		
Residential	\$ 2,922,019	\$ 2,827,554
Commercial	2,420,185	2,202,292
Other customers	223,189	224,403
Energy	25,803,219	30,890,307
	\$ 31,368,612	\$ 36,144,556

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

18. 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 is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2021, no assessments have been made.

19. Amortization

	2021	2020
Amortization		
Amortization of capital assets charged to operations	\$ 1,227,391	\$ 1,043,226
Amortization of capital assets charged to capital assets through overhead capitalization	111,944	64,184
	\$ 1,339,335	\$ 1,107,410

20. Operating leases

The Corporation is committed to lease agreements for various low-dollar value leases.

The future minimum non-cancellable annual lease payments are as follows:

	2021	2020
Less than one year	\$ 2,159	\$ 1,583
Between one and five years	12,450	-
	\$ 14,609	\$ 1,583

During the year ended December 31, 2021, an expense of \$5,713 (2020 - \$5,112) was recognized in profit or loss in respect of operating leases.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

21. Related party transactions

(a) Parent and ultimate controlling party

The sole shareholder of the Corporation is Niagara-on-the-Lake Energy Inc., which in turn is wholly-owned by the Town of Niagara-on-the-Lake (the "Town"). The Town produces consolidated financial statements that are available for public use.

(b) Outstanding balances due from (to) related parties:

	2021	2020
Energy Niagara Services Inc.	\$ 5,893	\$ 25,952
Niagara-on-the-Lake Energy Inc.	42,679	38,259
Town of Niagara-on-the-Lake	(756,281)	(749,151)
	<u>\$ (707,709)</u>	<u>\$ (684,940)</u>

Amounts are non-interest bearing with no fixed terms of repayment.

(c) Transactions with companies under common control

The Corporation received \$203,361 (2020 - \$157,171) for operations, billing and administrative services from a company under common control.

(d) Transactions with ultimate parent (the Town)

The Corporation had the following significant transactions with its ultimate parent, a government entity, in addition to those described in note 11.

The Corporation delivers electricity to the Town throughout the year for the electricity needs of the Town and its related organizations in the amount of \$829,549 (2020 - \$1,012,163). Electricity delivery charges are at prices and under terms approved by the OEB.

(e) Key management personnel

The key management personnel of the Corporation have been defined as members of the Board of Directors and executive managerial team members:

The compensation paid or payable is as follows:

	2021	2020
Salaries and benefits	\$ 343,399	\$ 453,264
OMERS contributions	36,596	36,283
Directors' fees	24,499	24,924
	<u>\$ 404,494</u>	<u>\$ 514,471</u>

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

22. Financial instruments and risk management

Fair value disclosure

The carrying values of cash balances, accounts receivable, unbilled revenue, due from/to related parties, bank indebtedness, line of credit 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. Derivatives are recognized at fair value.

The fair value of the long-term debt at December 31, 2021 is \$10,677,000. The fair value is calculated based on the present value of future principal repayments, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2021 was 1.30% based upon the outstanding term of the loan.

Financial risks

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

(a) Credit risk

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

The carrying amount of accounts receivable is reduced through the use of an allowance for estimated credit losses and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2021 is \$39,050 (2020 - \$68,725). An impairment gain of \$22,000 (2020 - loss \$18,000) 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 business shut-downs and other disruptions. 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. The Corporation has continued to monitor the extent of the impact of the COVID-19 pandemic on accounts receivable.

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

22. Financial instruments and risk management (continued)

(a) Credit risk (continued)

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"). At December 31, 2021, \$80,175 (2020 - \$84,490) is considered 60 days past due. The Corporation has approximately 9,600 customers, the majority of whom are residential. Credit risk is mitigated through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2021, the Corporation holds security deposits in the amount of \$595,987 (2020 - \$655,826).

(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. The Corporation's demand loans have a variable interest rate based on prime plus a margin. As a result, the Corporation is exposed to interest rate risk due to fluctuations in the prime rate. The Corporation has mitigated this risk through fixed-rate swap contracts.

(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 a \$3,000,000 credit facility 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, 2021, \$1,349,198 (2020 - \$1,320,787) had been drawn under the Corporation's credit facility.

The Corporation also has a bilateral facility for \$1,550,000 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO with a limit of \$1,550,000, of which \$1,349,198 has been drawn and posted with the IESO (2020 - \$1,349,198).

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

NIAGARA-ON-THE-LAKE HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2021

22. Financial instruments and risk management (continued)

(d) Capital disclosures

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, 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 \$19,549,547 (2020 - \$19,000,360) and long-term debt amounts to \$10,998,872 (2020 - \$10,094,452).