Non-Consolidated Financial Statements of

E.L.K. ENERGY INC.

And Independent Auditors' Report thereon

Year ended December 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of E.L.K. Energy Inc.

Opinion

We have audited the non-consolidated financial statements of E.L.K. Energy Inc. (the Entity), which comprise:

- the non-consolidated statement of financial position as at December 31, 2021
- the non-consolidated statement of comprehensive income for the year then ended
- the non-consolidated statement of changes in equity for the year then ended
- the non-consolidated statement of cash flows for the year then ended
- and notes to the non-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 non-consolidated financial position of the Entity as at December 31, 2021, and its non-consolidated financial performance and its non-consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Financial Reporting 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 International Financial Reporting 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.

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- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Windsor, Canada
April 28, 2022

E.L.K. ENERGY INC.

Non-Consolidated Statement of Financial Position

December 31, 2021, with comparative information for 2020

	Note	2021	2020
Assets			
Current assets			
Cash and cash equivalents	5	$ 5,934,555	$ 6,226,867
Accounts receivable	6	3,682,283	3,877,087
Due from related parties	22	103,680	306,582
Income taxes receivable		64,710	-
Unbilled revenue		2,524,095	3,441,309
Inventory	7	531,392	375,996
Prepaid expenses		259,580	90,708
Total current assets		13,100,295	14,318,549
Non-current assets			
Investments	8	104,027	83,643
Property, plant and equipment	9	12,151,108	11,319,229
Deferred tax assets	10	-	19,682
Total non-current assets		12,255,135	11,422,554
Total assets		25,355,430	25,741,103
Regulatory balances	11	6,704,139	4,376,748
Total assets and regulatory balances		$ 32,059,569	$ 30,117,851
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	$ 3,391,620	$ 4,738,832
Due to related parties	22	597,218	589,999
Customer deposits		1,900,766	2,055,830
Deferred revenue		1,625,358	995,656
Income taxes payable		-	38,319
Bank debt	13	2,200,000	2,600,000
Total current liabilities		9,714,962	11,018,636
Non-current liabilities			
Post-employment benefits	14	517,575	423,785
Deferred tax liabilities	10	120,357	-
Total non-current liabilities		637,932	423,785
Total liabilities		10,352,894	11,442,421
Equity			
Share capital	15	2,000,100	2,000,100
Contributed surplus		4,402,375	4,402,375
Retained earnings		6,401,334	5,748,833
Accumulated other comprehensive income		110,523	196,657
Total equity		12,914,332	12,347,965
Total liabilities and equity		23,267,226	23,790,386
Regulatory balances	11	8,792,343	6,327,465
Commitments and contingencies	21		
Total liabilities, equity and regulatory balances		$ 32,059,569	$ 30,117,851

See accompanying notes to the non-consolidated financial statements.

On behalf of the Board:

Director

Director

E.L.K. ENERGY INC.

Non-Consolidated Statement of Comprehensive Income

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

	Notes	2021	2020
Revenue			
Sale of energy		$ 31,943,320	$ 36,926,113
Distribution revenue	16	3,731,585	3,763,721
Other	17	900,976	1,000,973
		36,575,881	41,690,807
Other expenses			
Cost of power purchased		31,917,448	40,148,609
Administration expenses		1,869,864	1,572,881
Distribution expenses	19	976,038	932,421
Depreciation and amortization		671,741	631,934
		35,435,091	43,285,845
Income (loss) from operating activities		1,140,790	(1,595,038)
Net finance income	20	158,142	121,162
Income (loss) before income taxes		1,298,932	(1,473,876)
Income tax expense	10	308,844	468,914
Net income (loss) for the year		**990,088**	**(1,942,790)**
Net movement in regulatory balances, net of tax	11	(137,487)	3,091,276
Net income for the year and net movement in regulatory balances		**852,601**	**1,148,486**
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefits	14	(117,189)	38,285
Tax on remeasurement	10	31,055	(10,070)
Other comprehensive income (loss) for the year		(86,134)	28,215
Total comprehensive income for the year		$ 766,467	$ 1,176,701

See accompanying notes to the non-consolidated financial statements.

E.L.K. ENERGY INC.

Non-Consolidated Statement of Changes in Equity

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

	Share Capital	Contributed Surplus	Retained Earnings	Accumulated other comprehensive income	Total
Balance at January 1, 2020	$ 2,000,100	$ 4,402,375	$ 4,600,347	$ 168,442	$ 11,171,264
Net income and net movement in regulatory balances	-	-	1,148,486	-	1,148,486
Other comprehensive income	-	-	-	28,215	28,215
Balance at December 31, 2020	$ 2,000,100	$ 4,402,375	$ 5,748,833	$ 196,657	$ 12,347,965
Balance at January 1, 2021	$ 2,000,100	$ 4,402,375	$ 5,748,833	$ 196,657	$ 12,347,965
Net income and net movement in regulatory balances	-	-	852,601	-	852,601
Other comprehensive loss	-	-	-	(86,134)	(86,134)
Dividends	-	-	(200,100)	-	(200,100)
Balance at December 31, 2021	$ 2,000,100	$ 4,402,375	$ 6,401,334	$ 110,523	$ 12,914,332

See accompanying notes to the non-consolidated financial statements.

E.L.K. ENERGY INC.

Non-Consolidated Statement of Cash Flows

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

	2021	2020
Operating activities		
Net income	$ 852,601	$ 1,148,486
Adjustments for:		
Depreciation and amortization	671,741	631,934
Amortization of deferred revenue	(358,415)	(328,061)
Post-employment benefits	23,399	8,487
Remeasurement of post-employment benefits	(117,189)	38,285
Gain on sale of property, plant and equipment	(5,000)	-
Unrealized (gain) loss on investments	(20,384)	3,852
Income tax expense	308,844	468,914
	1,355,597	1,971,897
Changes in non-cash operating working capital:		
Accounts receivable	194,804	(2,638,421)
Due to/from related parties	210,121	(125,184)
Unbilled revenue	917,214	1,703,055
Inventory	(155,396)	(19,075)
Prepaid expenses	(168,872)	70,021
Accounts payable and accrued liabilities	(1,347,212)	204,390
Customer deposits	(155,064)	172,885
	(504,405)	(632,329)
Regulatory balances	137,487	(1,078,362)
Income tax paid	(370,488)	(209,409)
Net cash from operating activities	618,191	51,797
Investing activities		
Purchase of property, plant and equipment, net	(1,513,620)	(1,757,039)
Proceeds on disposition of property, plant and equipment	15,000	-
Contributions received from customers	988,117	529,593
Net cash used by investing activities	(510,503)	(1,227,446)
Financing activities		
Repayment of bank debt	(400,000)	(500,000)
Net cash used by financing activities	(400,000)	(500,000)
Change in cash and cash equivalents	(292,312)	(1,675,649)
Cash and cash equivalents, beginning of year	6,226,867	7,902,516
Cash and cash equivalents, end of year	$ 5,934,555	$ 6,226,867

See accompanying notes to the non-consolidated financial statements.

1. Reporting entity:

E.L.K. Energy Inc. (the “Corporation”) is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the Town of Essex. The address of the Corporation’s registered office is 172 Forest Avenue, Essex, Ontario.

The Corporation delivers electricity and related energy services to residential and commercial customers in Essex, Harrow, Belle River, Comber, Kingsville and Cottam. The Corporation is wholly owned by the Municipality of the Town of Essex (“Town”). The Corporation also performs the billing function for the Town’s Water Department.

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

2. Basis of preparation:

(a) Statement of compliance:

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

(b) Approval of the financial statements:

The financial statements were approved by the Board of Directors on April 28, 2022.

(c) Basis of measurement:

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

(d) Functional and presentation currency:

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

(e) 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.

2. Basis of preparation (continued):

(e) Use of estimates and judgements:

(i) Assumptions and estimation uncertainty:

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

(i) Note 3 (b) – measurement of unbilled revenue

(ii) Note 9 – estimation of useful lives of its property, plant and equipment

(iii) Note 11 – recognition and measurement of regulatory balances

(iv) Note 14 – measurement of defined benefit obligations: key actuarial assumptions

(v) Note 21 – recognition and measurement of provisions and contingencies

(f) 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, and among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

(i) Rate setting:

The electricity distribution rates and other regulated charges of the Corporation are determined by the OEB. This regulated rate-setting provides LDCs with the opportunity to recover the revenue requirement associated with owning and operating the LDC. The revenue requirement represents the forecasted prudent costs, including the cost of capital that will be reasonably necessary for the LDC to invest in the electricity grid, and serve customers in its licenced service area.

2. Basis of preparation (continued):

(f) Rate regulation (continued):

(ii) Rate applications:

As set out in the OEB's Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, dated October 18, 2012, the OEB performs its rate-setting function using a combination of incentive rate-setting and cost of service rate-setting. Both rate-setting techniques are based on applications made by LDC's to the OEB. Provided an LDC meets OEB-specified performance parameters, the LDC can select from one of three rate-setting streams: 4th Generation Incentive Rate-setting, Custom Incentive Rate-setting, or Annual Incentive Rate-setting Index. Each of these streams entails different rate-setting schedules and substantive filing requirements. For all streams, the revenue requirement is established through a cost of service rate-setting application. The selection of stream determines the number of years that cost of service rate-setting application pertains to, and the number of years thereafter that the LDC is expected to file incentive rate-setting applications.

Cost of service rate-setting applications recalculate the revenue requirement through a comprehensive review of an LDC's forecasted prudently incurred costs. Incentive rate-setting applications mechanistically adjust the revenue requirement using an OEB-prescribed formula. That formula was established on November 21, 2013, in the OEB's Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors.

For the distribution revenue included in sale of energy, the Corporation files a "Cost of Service" ("COS") rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenditures, debt and shareholder's equity required to support the Corporation's business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and interveners and rates are approved based upon this review, 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 Inflator 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.

The Corporation last filed a COS application in 2016 for rates effective November 1, 2017. On November 2, 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 is 2.20%, the Corporation's productivity factor is 0.00% and the stretch factor is 0.60%, resulting in a net adjustment of 1.60% to the previous year's rates.

2. Basis of preparation (continued):

(f) Rate regulation (continued):

(iii) Electricity rates:

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. In 2017, the OEB set new lower Regulated Price Plan (RPP) prices established under the *Ontario Fair Hydro Act, 2017*.

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

In 2021, the OEB also adjusted the Regulated Price Plan (RPP) prices in January and February in response to the Government issued Emergency Orders under the *Emergency Management and Civil Protection Act* to assist Ontarians who were forced to stay home due to the COVID-19 pandemic.

All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

3. Significant accounting policies:

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

(a) Financial instruments:

All financial assets and liabilities of the Corporation are classified into one of the following categories: amortized cost, fair value through other comprehensive income, or fair value through profit or loss.

The Corporation has classified its financial instruments as follows:

Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Due from related parties	Amortized cost
Investment	Fair value through profit or loss
Accounts payable and accruals	Amortized cost
Due to related parties	Amortized cost
Long-term borrowings	Amortized cost

The Corporation does not enter into derivative instruments.

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

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

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

(b) Revenue recognition:

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.

Revenue for the Corporation is recognized when the Corporation satisfies the performance obligations within the contract(s) for conditions of service, which is when the distribution and delivery of electricity is achieved or specific services are performed.

Revenue includes an estimate of unbilled revenue. Unbilled revenue represents an estimate of electricity consumed by customers since the date of each customer’s last meter reading. Actual electricity usage could differ from those estimates.

Revenue is measured at the fair value of the consideration received or receivable, net of any taxes which may be applicable.

Other income for work orders is recorded on a net basis as the Corporation is acting as an agent for this revenue stream. All other amounts in other income are recorded on a gross basis and are recognized when services are rendered.

Certain customers and developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. Cash contributions 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.

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

3. Significant accounting policies (continued):

(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 first-in, first-out 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.

(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 nine months to construct.

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

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

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

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

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

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

3. Significant accounting policies (continued):

(d) Property, plant and equipment:

The estimated useful lives are as follows:

	Years
Buildings	50
Distribution and metering equipment	10 - 60
Other assets	5 – 15

(e) Impairment:

(i) Financial assets measured at amortized cost:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than materials and supplies and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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.

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

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

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.

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 its retired employees with life insurance and medical benefits.

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.

(j) 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 dividend income.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, net interest expense on post-employment benefits and impairment losses on financial assets. Finance costs are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

3. Significant accounting policies (continued):

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

(l) Investments:

The Corporation has designated its investment in the common shares of Sun Life Financial as fair value through the profit and loss and these instruments are recorded at market value as determined by quoted market prices. Realized and unrealized gains and losses as a result of disposition of shares and changes in fair value are recorded in the non-consolidated statement of comprehensive income in net finance income.

The investments in ELK Solutions Inc. and Gosfield North Communications are measured at cost.

4. Standards issued but not yet adopted:

The following standards, which are not yet effective for the year ended December 31, 2021, have not been applied in preparing these financial statements.

i) Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16):

On May 14, 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16).*

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

The amendments provide guidance on the accounting for sale proceeds and the related production costs for items a company produces and sells in the process of making an item of property, plant and equipment (PPE) available for its intended use. Specifically, proceeds from selling items before the related item of PPE is available for use should be recognised in profit or loss, together with the costs of producing those items.

ii) Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37):

On May 14, 2020, the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).*

The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted.

IAS 37 does not specify which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The IASB's amendments address this issue by clarifying that the 'costs of fulfilling a contract' comprise both:

the incremental costs – e.g. direct labour and materials; and

an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of PPE used in fulfilling the contract.

iii) Classification of Liabilities as Current or Non-Current (Amendments to IAS 1):

On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify the classification of liabilities as current or non-current. On July 15, 2020, the IASB issued an amendment to defer the effective date by one year.

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

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 Corporation has assessed the potential impacts on its financial statements, and determined that the future pronouncements will not have a material impact on the Corporation.

5. Cash and cash equivalents:

	2021	2020
Bank balances - unrestricted	$ 4,721,269	$ 4,833,275
Bank balance - restricted	1,213,286	1,393,592
Cash and cash equivalents in the statements of cash flows	$ 5,934,555	$ 6,226,867

Restricted cash relates to contractor security deposits.

6. Accounts receivable:

	2021	2020
Trade receivables	$ 3,846,420	$ 3,821,964
Other trade receivables	481,654	683,139
Allowance for doubtful accounts	(645,791)	(628,016)
	$ 3,682,283	$ 3,877,087

7. Inventory:

Inventory consists of parts and supplies acquired for capital, internal construction, maintenance or recoverable work.

The amount of inventory consumed by the Corporation during 2021 was $130,727 (2020 - $367,214).

Amounts written down due to obsolescence in 2021 was $nil (2020 - $nil).

8. Investments:

	2021	2020
Investment in the Class A common Shares of E.L.K. Solutions Inc., at cost	$ 100	$ 100
Investment in Gosfield North Communications, at cost	1	1
Investment in the common shares of Sun Life Financial, at market	103,926	83,542
	$ 104,027	$ 83,643

9. Property, plant and equipment:

	Land and buildings	Distribution equipment	Other fixed assets	Total
Cost or deemed cost				
Balance at January 1, 2021	$ 181,538	$14,108,849	$1,306,706	$15,597,093
Additions	8,954	1,025,476	479,190	1,513,620
Disposals	(10,000)	-	-	(10,000)
Balance at December 31, 2021	$ 180,492	$15,134,325	$1,785,896	$17,100,713
Balance at January 1, 2020	$ 159,260	$12,891,237	$ 789,557	$13,840,054
Additions	22,278	1,217,612	517,149	1,757,039
Balance at December 31, 2020	$ 181,538	$14,108,849	$1,306,706	$15,597,093
Accumulated depreciation				
Balance at January 1, 2021	$ 46,770	$ 3,686,135	$ 544,959	$4,277,864
Depreciation	12,329	534,036	125,376	671,741
Balance at December 31, 2021	$ 59,099	$ 4,220,171	$ 670,335	$4,949,605
Balance at January 1, 2020	$ 34,754	$ 3,160,422	$ 450,754	$3,645,930
Depreciation	12,016	525,713	94,205	631,934
Balance at December 31, 2020	$ 46,770	$ 3,686,135	$ 544,959	$4,277,864
Carrying amounts				
At December 31, 2021	$ 121,393	$ 10,914,154	$1,115,561	$12,151,108
At December 31, 2020	$ 134,768	$ 10,422,714	$ 761,748	$11,319,229

10. Income tax expense:

Current year tax expense:

	2021	2020
Current year	$ 308,844	$ 468,914
	$ 308,844	$ 468,914

Significant components of the Corporation’s deferred tax balances are as follows:

	2021	2020
Deferred tax assets (liabilities):		
Property, plant and equipment	$ (745,631)	$ (398,176)
Cumulative eligible capital	50,000	53,764
Post-employment benefits	162,012	112,303
Deferred revenue	430,720	263,849
Other	(17,458)	(12,058)
	$ (120,357)	$ 19,682

11. Regulatory balances:

Reconciliation of the carrying amount for each class of regulatory balances

Regulatory deferral account debit balances	January 1, 2021	Additions	Recovery/ reversal	December 31, 2021
Group 1 deferred accounts	$ 2,801,276	$14,246,700	$(11,301,246)	$ 5,746,730
Regulatory settlement account	176,494	38,333	-	214,827
Regulatory transition to IFRS	39,587	-	-	39,587
Regulatory settlement account	926,619	338,797	(855,154)	410,262
Income tax	432,772	-	(140,039)	292,733
	$ 4,376,748	$14,623,830	$(12,296,439)	$ 6,704,139

Regulatory deferral account debit balances	January 1, 2020	Additions	Recovery/ reversal	December 31, 2020
Group 1 deferred accounts	$ 717,490	$ 4,105,747	$ (2,021,961)	$ 2,801,276
Regulatory settlement account	221,767	-	(45,273)	176,494
Regulatory transition to IFRS	21,601	17,986	-	39,587
Regulatory settlement account	1,417,980	634,329	(1,125,690)	926,619
Income tax	-	432,772	-	432,772
	$ 2,378,838	$ 5,190,834	$ (3,192,924)	$ 4,376,748

Regulatory deferral account credit balances	January 1, 2021	Additions	Recovery/ reversal	December 31, 2021
Group 1 deferred accounts	$ 5,366,238	$20,778,499	$(18,389,252)	$ 7,755,485
Other regulatory account	149,534	65,269	(38,398)	176,405
Income tax	343,249	-	-	343,249
Regulatory settlement account	468,444	146,131	(97,371)	517,204
	$ 6,327,465	$20,989,899	$(18,525,021)	$ 8,792,343

Regulatory deferral account credit balances	January 1, 2020	Additions	Recovery/ reversal	December 31, 2020
Group 1 deferred accounts	$ 5,201,222	$36,132,736	$(35,967,720)	$ 5,366,238
Regulatory transition to IFRS	(17,986)	17,986	-	-
Other regulatory account	161,888	44,759	(57,113)	149,534
Income tax	62,793	280,456	-	343,249
Regulatory settlement account	-	530,251	(61,807)	468,444
	$ 5,407,917	$37,006,188	$(30,086,640)	$ 6,327,465

The regulatory balances are recovered or settled through rates approved by the OEB which are determined using estimates of future consumption of electricity by its customers. 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.

11. Regulatory balances (continued):

Settlement of the Group 1 deferral accounts is done on an annual basis through application to the OEB. An application was made to the OEB to dispose $338,797 of the Group 1 deferral accounts and approval was obtained. The account balance was moved to the regulatory settlement account. The OEB requires the Corporation to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates.

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In 2021, the rate was 0.57% for the period January to December (in 2020, the rate was 2.18% in the first quarter, 0.57% in the second through fourth quarters).

12. Accounts payable and accrued liabilities:

	2021	2020
Trade payables	$ 1,673,127	$ 3,019,085
Accrued expenses	1,718,493	1,719,747
	$ 3,391,620	$ 4,738,832

13. Bank debt:

(a) Bank debt consists of:

	2021	2020
One year term loan with interest rate of 1.127% (2020 – 1.36%) repayable in full on or before maturity of July 2022 secured by a general security agreement	$ 2,200,000	$ 2,600,000

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	2021	2020
Bank debt, balance at January 1	$ 2,600,000	$ 3,100,000
Repayment of borrowings	400,000	500,000
Balance, December 31	$ 2,200,000	$ 2,600,000

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 2021, the Corporation made employer contributions of $176,227 to OMERS (2020 - $171,986). The Corporation estimates that a contribution of $198,000 to OMERS will be made during the next fiscal year.

As at December 31, 2021, OMERS had over 541,000 members, of whom 14 are current employees of the Corporation. The most recently available OMERS annual report is for the year ended December 31, 2021, which reported that the plan was 97% funded (2020 - 97%).

(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 measurements recognized for post-employment benefit plans. The most recent valuation was completed December 31, 2021.

Reconciliation of the obligation	2021	2020
Defined benefit obligation, beginning of year	$ 423,785	$ 470,557
Included in profit or loss		
Current service cost	5,982	7,730
Interest cost	8,160	13,783
	14,142	21,513
Included in OCI		
Actuarial (gain) loss arising from:		
changes in demographic and financial assumptions	117,189	(38,285)
	117,189	(38,285)
Benefit payments	(37,541)	(30,000)
Defined benefit obligation, end of year	$ 517,575	$ 423,785

14. Post-employment benefits (continued):

(b) Post-employment benefits other than pension (continued):

Actuarial assumptions	2021	2020
General inflation	2.25%	2.25%
Discount (interest) rate	2.50%	2.00%
Medical costs	6.50%	6.50%
Dental costs	4.00%	4.00%

A 1% increase in the assumed medical trend rate would result in the defined benefit obligation increasing by $21,000. A 1% decrease in the assumed medical trend rate would result in the defined benefits obligation decreasing by $20,000.

15. Share capital:

	2021	2020
Authorized:		
Unlimited number of common shares		
Issued:		
30,000 common shares	$ 2,000,100	$ 2,000,100

16. Distribution revenue:

The Corporation generates revenue primarily from the sale and distribution of electricity to its customers. Other revenue consists of services provided to related parties and other income. Additional information is provided in note 17 with components of other income.

In the following table, distribution revenue is disaggregated by type of customer:

	2021	2020
Residential	$ 2,491,923	$ 2,623,003
Commercial	435,290	446,274
Large users	719,796	578,766
Other	84,576	115,678
Total distribution revenue	$ 3,731,585	$ 3,763,721

17. Other revenue:

	2021	2020
Rendering of services	$ 418,387	$ 400,925
Contributions received from customers	358,415	529,593
Government grants & incentives under CDM programs	58,620	4,092
Rental income	65,554	66,363
	$ 900,976	$ 1,000,973

18. Employee salaries and benefits:

	2021	2020
Salaries, wages and benefits	$ 1,674,880	$ 1,625,317
CPP and EI remittances	70,546	66,948
Contributions to OMERS	176,227	171,986
Post-employment benefit plans	20,984	21,513
	$ 1,942,637	$ 1,885,764

19. Distribution expenses:

	2021	2020
Labour	$ 241,750	$ 226,347
Materials, supplies, maintenance	668,849	637,352
Other	65,439	68,722
	$ 976,038	$ 932,421

20. Finance income and costs:

		2021		2020
Finance income				
Late payment charges	$	100,165	$	86,403
Unrealized gain on investments		20,384		-
Interest income on bank deposits		78,841		150,442
		199,390		236,845
Finance cost				
Interest expense on bank debt		34,536		54,642
Unrealized loss on investments		-		3,852
Other		6,712		57,189
		41,248		115,683
Net finance income recognized in profit or loss	$	158,142	$	121,162

21. 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.

22. Related party transactions:

(a) Parent and ultimate controlling party:

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

22. Related party transactions (continued):

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

	2021	2020
Parent company, included in accounts receivable	$ 34,987	$ 34,313
Subsidiary, included in accounts receivable	68,693	272,269
	$ 103,680	$ 306,582
Parent company payables	$ (597,218)	$ (589,999)

(c) Transactions with parent:

During the year, the Corporation paid provision of services fees to its parent in the amount of $597,218 (2020 - $589,999).

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

(d) Transactions with entity with significant influence:

In the ordinary course of business, the Corporation delivers electricity to the Town of Essex. Electricity is billed to the Town at prices and under terms approved by the OEB, if applicable.

(e) Key management personnel:

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

	2021	2020
Directors’ fees	$ 23,730	$ 23,381
Salaries and other short-term benefits	424,000	415,739
Post-employment benefits	5,086	5,088
	$ 452,816	$ 444,208

23. Financial instruments and risk management:

Fair value disclosure:

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

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 of Essex, Lakeshore and Kingsville. No single customer accounts for a balance in excess of 1% of total accounts receivable.

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 the allowance for impairment at December 31, 2021 is $645,791 (2020 - $628,016). An impairment loss of $17,775 (2020 – reversal of $24,354) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. As a result of the COVID-19 pandemic, certain of the Corporation's customers have experienced loss of employment, business shut-downs and other disruptions. The extension of the OEB's winter disconnection ban negatively impacted the Corporation's ability to exercise the full extent of its collection tools to manage the credit risk. To support residential and small business customers struggling to pay their energy bills, the Government of Ontario provided funding for the COVID-19 Energy Assistance Program ("CEAP"). The Corporation was allocated a portion of this funding and actively participated in the program. As at December 31, 2021, approximately $1,252,323 (2020 - $1,055,390) is considered 60 days past due. The Corporation has over 12,300 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, 2021, the Corporation holds security deposits in the amount of $1,900,766 (2020 - $2,055,830).

23. Financial instruments and risk management (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.

A 1% increase in the interest rate at December 31, 2021 would have increased interest expense on the long-term debt by $22,000 (2020 - $26,000), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

(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 $3.6 million 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.

The majority of accounts payable, as reported on the statement of financial position, are due within 30 – 60 days.

(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. As at December 31, 2021, shareholder's equity amounts to $12,914,332 (2020 - $12,347,965).