



Wellington North Power Inc.

290 Queen Street West, PO Box 359, Mount Forest, ON N0G 2L0

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ESA # 7012854

Meeting: **Wellington North Power Inc.**
Annual Shareholders Meeting

Date: **Tuesday, May 25th 2021**

Time: **6:00 pm to 7:00 pm**

Location: **Video Conference**

AGENDA

	Item	Presenter	Action
1	Opening Remarks	Chair	
2	Appointment of Recording Secretary	Chair	
3	Appointment of Scrutineers	Chair	
4	Notice of Meeting	Chair	
5	Quorum of Representatives: <ul style="list-style-type: none"> ○ Township of Wellington North (3) ○ Township of Southgate (2) 	Chair	
6	Approval of 2020 Shareholder Meeting minutes	Chair	Resolution
7	Approval of the 2020 Audited Financial Statements	Chair	Resolution
8	Appointment of Auditor	Chair	Resolution
9	Dividend payment to Shareholders	Chair	
10	Message from CEO / President	CEO	
11	Other Business	Chair	
12	Closing Remarks	Chair	
13	Adjournment	Chair	Resolution



Minutes from

Wellington North Power Inc.'s

2020 Annual Shareholder Meeting



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ESA # 7012854

Wellington North Power Inc.

Annual Shareholders' Meeting

Tuesday, May 26th 2020 at 6:00 pm.

GUESTS:

Representing the Township of Southgate	Mayor John Woodbury
	CAO David Milliner
Representing the Township of Wellington North	Councillor Lisa Hern
	Councillor Dan Yake
	CAO Mike Givens

PRESENT:

Chair	Andy Lennox
Board Director	Paul Smith
Board Director	Mark Hillis
CEO / President	Jim Klujber
Manager of Finance	Raymond Petersen
Corporate Secretary	Richard Bucknall

APOLOGIES:

Township of Wellington North	Councillor Sherry Burke
Township of Wellington North	Councillor Steve McCabe

The meeting was conducted by video conference so as to adhere to social distancing requirements under the current COVID-19 pandemic situation and Public Health guidelines.

Shareholder representatives were e-mailed the Shareholder package and meeting Resolutions on May 12th 2020. Resolutions were read by the Chair and Scrutineers provided a verbal vote of "Yes" or "No" for support of each Resolution.

WELCOME AND OPENING REMARKS:

The Chair of the Board of Directors of Wellington North Power Inc., Andy Lennox, welcomed everyone to the 2020 Shareholders' Meeting hosted by video conference.
Andy Lennox will facilitate the meeting.

**APPOINTMENT OF
RECORDING SECRETARY:**

Richard Bucknall of Wellington North Power Inc. was appointed as recording secretary for the meeting.

**APPOINTMENT OF
SCRUTINEERS:**

Mayor John Woodbury was appointed as Scrutineer for the Township of Southgate.
Councillor Lisa Hern was appointed as Scrutineer for the Township of Wellington North.

[As the meeting is hosted by video conference, a verbal vote for each Resolution will be recorded. Scrutineers will sign the paper Resolutions provided in the Shareholder package and mail them to Wellington North Power Inc.]

NOTICE OF MEETING:

The Shareholders were notified by e-mail on April 30th 2020.

QUORUM:

The Chair called for a quorum of the representatives of the Shareholder, namely:

- The Township of Southgate (being 2) and;
- The Township of Wellington North (being 3).

Attendees constituting the quorum were members of council or staff from the Townships of Southgate and Wellington North.

The meeting was called to order.

**CONSTITUTION OF
THE MEETING:**

The Chair of the Board of Directors of Wellington North Power Inc., Andy Lennox, declared the meeting had been properly called and duly constituted for the transaction of business.

**APPROVAL OF 2019 SHAREHOLDER
MEETING MINUTES:**

The minutes of the Annual Shareholders Meeting held Tuesday, May 28th 2019 were circulated electronically to the Shareholder representatives on May 12th 2020.

Resolution: 2020-0526-101

WHEREAS the Shareholders have determined that the minutes of the Annual Shareholders' Meeting held May 28th 2019 have been duly reviewed and accepted for the Corporation;

IT IS RESOLVED THAT the minutes of the Annual Shareholders' Meeting held Tuesday, May 28th 2019 at the Township of

Wellington North, in the County of Wellington have been reviewed and accepted.

The foregoing resolution is hereby signed by all the Shareholders of the Corporation entitled to vote thereon, in accordance with the provisions of the *Business Corporations Act* (Ontario).

Dated this day, the 26th of May 2020.

Recorded Vote		
Shareholder	Yes	No
The Corporation of the Township of Southgate	X	
The Corporation of the Township of Wellington North	X	

**APPROVAL OF 2018 AUDITED
FINANCIAL STATEMENTS:**

2019 Audited Financial Statements for Wellington North Power Inc. were circulated electronically to Shareholder representatives on May 12th 2020.

There were no questions asked by attendees.

Resolution: 2020-0526-102

WHEREAS the Shareholders are required to determine that the audited Financial Statements as prepared by the firm of KPMG LLP Canada are accepted for the Corporation;

IT IS RESOLVED THAT the 2019 Audited Financial Statements as presented, have been reviewed and accepted for the Corporation.

The foregoing resolution is hereby signed by all the Shareholders of the Corporation entitled to vote thereon, in accordance with the provisions of the *Business Corporations Act* (Ontario).

Dated this day, the 26th of May 2020.

Recorded Vote		
Shareholder	Yes	No
The Corporation of the Township of Southgate	X	
The Corporation of the Township of Wellington North	X	

**APPOINTMENT OF
AUDITOR:**

Resolution: 2020-0526-103

WHEREAS the Shareholders are required to determine the auditing firm for the Corporation;

IT IS RESOLVED THAT the following firm is to be retained to act as auditor for the Corporation until the next annual meeting.

KPMG LLP Canada

The foregoing resolution is hereby signed by all the Shareholders of the Corporation entitled to vote thereon, in accordance with the provisions of the *Business Corporations Act* (Ontario).

Dated this day, the 26th of May 2020.

Recorded Vote		
Shareholder	Yes	No
The Corporation of the Township of Southgate	X	
The Corporation of the Township of Wellington North	X	

DIVIDEND PAYMENT:

Andy Lennox advised Shareholders that the Board of Wellington North Power Inc. had recommended there is no dividend payment this year, not because of 2019 net income, but instead to use the cash to help weather the current uncertainty that WNP and many businesses are experiencing.

There were no questions raised.

APPOINTMENT OF DIRECTORS:

Andy Lennox announced that Paul Smith, Mark Hillis and Mike Givens have been re-appointed as Directors for Wellington North Power Inc. Thank you for your on-going participation.

There were no questions raised.

MESSAGE FOR CEO/PRESIDENT:

Jim Klujber, CEO/President of Wellington North Power Inc., gave a brief message which included the following:

- Over the past few years, WNP has delivered strong financial performances, good customer engagement and maintained good working relationships with Township employees, both outside and office staff.
- WNP has been reaching out to seniors during the COVID-19 pandemic as friendly call, not chasing payment, but to offer a person for them to talk to. The company continues to take an active role in the community including hanging Christmas decorations as well as banners for Remembrance Day.
- Like many other businesses, WNP is facing uncertainty this year. The company is making prudent decisions including making no dividend payments, reducing capital expenditure as well as other cost-conscious decisions to help cash-flow.

- This year, WNP is focusing on filing a Cost of Service rate application to rebase operating costs and seek approval for 2021 electricity rates.
- WNP is continuing to receive an influx of projects from Developers and we continue to support the growth in our community.
- WNP remains positive about its future, serving our community and I wish to thank the Townships and Shareholders for their continued support.

There were no questions asked by attendees.

OTHER BUSINESS:

There was no other business items raised or discussed.

CLOSING REMARKS:

Andy Lennox gave closing remarks noting Wellington North Power Inc. had delivered solid results for 2019 and asked to pass on thanks to all staff at the utility.

Andy Lennox thanked the Shareholder representatives, directors and staff for attending the meeting.

ADJOURNMENT:

Resolution: 2020-0526-104

WHEREAS the Shareholders have determined that the business of the annual Shareholders' Meeting is concluded for the Corporation;

IT IS RESOLVED THAT the Annual Shareholders' Meeting held Tuesday, May 26th 2020 is adjourned.

The foregoing resolution is hereby signed by all the Shareholders of the Corporation entitled to vote thereon, in accordance with the provisions of the *Business Corporations Act* (Ontario).

Dated this day, the 26th of May 2020.

Recorded Vote		
Shareholder	Yes	No
The Corporation of the Township of Southgate	X	
The Corporation of the Township of Wellington North	X	

Chairman

Corporate Secretary



Wellington North Power Inc.'s

2020 Audited Financial Statements

Financial Statements of

**WELLINGTON NORTH
POWER INC.**

And Independent Auditors' Report thereon

Year ended December 31, 2020



KPMG LLP
 115 King Street South
 2nd Floor
 Waterloo ON N2J 5A3
 Canada
 Tel 519-747-8800
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Wellington North Power Inc.

Opinion

We have audited the financial statements of Wellington North Power Inc. (the Entity), which comprise:

- The statement of financial position as at December 31, 2020
- 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, 2020, 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 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.



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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 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.



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- 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'. The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

April 22, 2021

WELLINGTON NORTH POWER INC.

Statement of Financial Position

December 31, 2020, with comparative information for 2019

	Note	2020	2019
Assets			
Current assets			
Accounts receivable	4	\$ 1,424,885	\$ 1,340,978
Unbilled revenue		1,352,617	1,367,195
Income taxes receivable		3,396	—
Materials and supplies	5	111,625	122,569
Prepaid expenses		145,572	139,485
Total current assets		3,038,095	2,970,227
Non-current assets			
Property, plant and equipment	6	10,769,741	10,193,073
Intangible assets	7	824,185	791,785
Other assets		2,145	2,145
Deferred tax assets	8	—	5,783
Total non-current assets		11,596,071	10,992,786
Total assets		\$ 14,634,166	\$ 13,963,013
Regulatory debit balances			
	9	1,228,850	881,737
Total assets and regulatory balances		\$ 15,863,016	\$ 14,844,750

See accompanying notes to the financial statements.

WELLINGTON NORTH POWER INC.

Statement of Financial Position

December 31, 2020, with comparative information for 2019


	Note	2020	2019
Liabilities			
Current liabilities			
Bank indebtedness	10	\$ 1,173,536	\$ 401,467
Accounts payable and accrued liabilities	11	2,317,260	2,506,440
Current portion of notes payable	12	524,045	199,238
Customer deposits		105,837	146,856
Total current liabilities		4,120,678	3,254,001
Non-current liabilities			
Long-term notes payable	12	5,867,475	6,074,850
Post-employment benefits	13	213,305	178,948
Deferred revenue		161,741	142,177
Deferred tax liability	8	25,144	—
Total non-current liabilities		6,267,665	6,395,975
Total liabilities		10,388,343	9,649,976
Equity			
Share capital	14	1,634,404	1,634,404
Retained earnings		3,251,850	3,017,595
Accumulated other comprehensive loss		(23,953)	(3,565)
Total equity		4,862,301	4,648,434
Total liabilities and equity		\$ 15,250,644	\$ 14,298,410
Regulatory credit balances	9	612,372	546,340
Total liabilities, equity and regulatory balances		\$ 15,863,016	\$ 14,844,750

See accompanying notes to the financial statements.

On behalf of the Board:



Director



Director

WELLINGTON NORTH POWER INC.

Statement of Comprehensive Income

Year ended December 31, 2020, with comparative information for 2019

	Note	2020	2019
Revenue			
Sale of energy		\$ 12,517,782	\$ 12,263,304
Distribution revenue		2,728,149	2,717,303
Other	15	126,814	170,644
		15,372,745	15,151,251
Operating expenses			
Cost of power purchased		12,761,253	12,418,466
Operations and maintenance		623,749	621,325
Billing and collections		414,736	409,630
Administrative and general		828,774	784,856
Amortization and depreciation		474,694	470,150
Property taxes		15,532	15,831
		15,118,738	14,720,258
Income from operating activities		254,007	430,993
Finance costs	17	262,803	272,437
Income (loss) before income taxes		(8,796)	158,556
Income tax expense	8	23,377	44,050
Net income (loss) for the year		(32,173)	114,506
Net movement in regulatory balances, net of tax	9	266,428	200,108
Net income for the year and net movement in regulatory balances		234,255	314,614
Other comprehensive income (loss)			
Remeasurement of post-employment benefits		(20,388)	—
Other comprehensive loss for the year		(20,388)	—
Total comprehensive income for the year		\$ 213,867	\$ 314,614

See accompanying notes to the financial statements.

WELLINGTON NORTH POWER INC.

Statement of Changes in Equity

Year ended December 31, 2020, with comparative information for 2019

	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance at January 1, 2019	\$1,634,404	\$ 2,760,376	\$ (3,565)	\$ 4,391,215
Net income and net movement in regulatory balances	—	314,614	—	314,614
Dividends	—	(57,395)	—	(57,395)
Balance at December 31, 2019	\$1,634,404	\$ 3,017,595	\$ (3,565)	\$ 4,648,434
Balance at January 1, 2020	\$1,634,404	\$ 3,017,595	\$ (3,565)	\$4,648,434
Net income and net movement in regulatory balances	—	234,255	—	234,255
Other comprehensive loss	—	—	(20,388)	(20,388)
Balance at December 31, 2020	\$1,634,404	\$ 3,251,850	\$ (23,953)	\$ 4,862,301

See accompanying notes to the financial statements.

WELLINGTON NORTH POWER INC.

Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Operating activities		
Net Income and net movement in regulatory balances	\$ 234,255	\$ 314,614
Adjustments for:		
Depreciation and amortization	546,446	521,427
Amortization of deferred revenue	(3,243)	(2,309)
Post-employment benefits	13,969	3,523
Loss on disposal of property, plant and equipment	25,506	41,692
Income tax expense	23,377	44,050
	840,310	922,997
Change in non-cash operating working capital:		
Accounts receivable	(83,907)	204,712
Unbilled revenue	14,578	(124,918)
Materials and supplies	10,944	3,078
Prepaid expenses	(6,087)	32,407
Accounts payable and accrued liabilities	(189,178)	(306,196)
Customer deposits	(41,020)	(48,674)
	(294,670)	(239,591)
Regulatory balances	(281,081)	(206,580)
Income tax refunded	4,153	896
Net cash from operating activities	268,712	477,722
Investing activities		
Purchase of property, plant and equipment	(760,757)	(631,904)
Proceeds on disposal of property, plant and equipment	2,438	10,182
Purchase of intangible assets	(106,031)	(32,207)
Contributions received from customers	22,807	25,840
Net cash used by investing activities	(841,543)	(628,089)
Financing activities		
Repayment of long-term debt	(199,238)	(191,425)
Dividends paid	-	(57,395)
Net cash used by financing activities	(199,238)	(248,820)
Change in cash	(772,069)	(399,187)
Bank indebtedness, beginning of year	(401,467)	(2,280)
Bank indebtedness, end of year	\$ (1,173,536)	\$ (401,467)

See accompanying notes to the financial statements.

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

1. Reporting entity:

Wellington North Power Inc. (the "Company") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Company is located in the Township of Wellington North. The address of the Company's registered office is 290 Queen Street West, Mount Forest, Ontario.

The Company delivers electricity and related energy services to residential and commercial customers in the urban areas of Mount Forest, Arthur, and Holstein. The Company is owned by the Township of Wellington North (97% share) and the Township of Southgate (3% share).

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

2. Basis of presentation:

(a) Statement of compliance:

The Company'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 22, 2021.

(b) Basis of measurement:

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

The financial statements have been prepared on the historical cost basis except for the following:

- (i) Where held, financial instruments at fair value through profit or loss
- (ii) Contributed assets are initially measured at fair value.

(c) Functional and presentation currency:

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

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

2. Basis of presentation (continued):

(d) Use of estimates and judgments:

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) Note 3(b) – Determination of the performance obligation for contributions from customers and the related amortization period
- (ii) Note 3(b) – measurement of unbilled revenue
- (iii) Notes 6, 7 – estimation of useful lives of its property, plant and equipment and intangible assets
- (iv) Note 9 – recognition and measurement of regulatory balances
- (v) Note 13 – measurement of defined benefit obligations: key actuarial assumptions
- (vi) Note 18 – recognition and measurement of provisions and contingencies

(e) Rate regulation:

The Company 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 Company, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The Company is required to bill customers for the debt retirement charge set by the province. The Company may file to recover uncollected debt retirement charges from Ontario Electricity Financial Company ("OEFC") once each year.

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

2. Basis of presentation (continued):

(e) Rate regulation (continued):

Rate setting:

Distribution revenue

For the distribution revenue included in sale of energy, the Company 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 Company's business. The Company 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 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 Company 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 Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers.

The Company last filed a COS application in November 2015 for rates effective May 1, 2016 to April 30, 2021. The GDP IPI-FDD for 2020 is 2.00%, the Company's productivity factor is nil% and the stretch factor is 0.45%, resulting in a net adjustment of 1.55% to the previous year's rates.

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. All remaining consumers pay the market price for electricity. The Company 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.

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

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:

At initial recognition, the Company measures its financial assets at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of the financial asset depends on the classification determined on initial recognition. Financial assets are classified as either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets.

Financial liabilities are initially measured at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost using the effective interest rate method; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as an adjustment to interest expense over the period of the borrowings.

The Company has not entered into derivative instruments.

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:

Sale and distribution of electricity

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Company 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 Company has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

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

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

3. Significant accounting policies (continued):

(b) Revenue recognition:

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

Certain customers are also required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. These contributions fall within the scope of IFRS 15 *Revenue from Contracts with Customers*. The contributions are received to obtain a connection to the distribution system in order receive ongoing access to electricity. The Company 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 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 are consumed by the Company in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

(d) Property, plant and equipment:

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2015 are measured at the deemed cost (carrying value as elected under IFRS 1) 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.

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

3. Significant accounting policies (continued):

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

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 Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct.

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

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

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

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Company 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 Company 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.

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

3. Significant accounting policies (continued):

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

The estimated useful lives are as follows:

Buildings	15-60 years
Distribution stations	20-55 years
Distribution lines	45-65 years
Distribution transformers	40 years
Distribution meters	5-30 years
Distribution services	40-60 years
Computer equipment	5 years
Transportation equipment	5-8 years
System supervisory equipment	10 years
Other	5-10 years

(e) Intangible assets:

Intangible assets used in rate-regulated activities and acquired prior to January 1, 2015 are measured at deemed cost (carrying value as elected under IFRS 1) established on the transition date, less accumulated amortization. All other intangible assets are measured at cost.

Computer software that is acquired or developed by the Company after January 1, 2015, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

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

Distribution rights	25 years
Computer software	5 years

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

3. Significant accounting policies (continued):

(f) 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 Company'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.

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.

(g) 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 Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

(h) Provisions:

A provision is recognized if, as a result of a past event, the Company 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.

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

3. Significant accounting policies (continued):

(i) 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 Company.

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 Company is required to refund amounts to ratepayers in the future, the Company 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.

(j) Post-employment benefits:

(i) Pension plan:

The Company 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.

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

3. Significant accounting policies (continued):

(j) Post-employment benefits (continued):

(i) Pension plan (continued):

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 Company to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The Company 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 Company provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

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

(k) Leased assets:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- (i) The contract involves the use of an identified asset;
- (ii) The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- (iii) The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - a) The Company has the right to operate the asset; or
 - b) The Company designed the asset in a way that predetermines how and for what purposes it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

3. Significant accounting policies (continued):

(k) Leased assets (continued):

Short-term leases and low value assets

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

(l) Finance income and finance costs:

Finance income is recognized as it accrues in profit or loss, using the effective interest method.

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

(m) 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 Company 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 Company makes payments in lieu of corporate taxes to the Ontario Electricity Financial Company ("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 Company 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.

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

4. Accounts receivable:

	2020	2019
Trade customer receivables	\$ 1,372,755	\$ 1,281,657
Other trade receivables	47,880	10,517
Billable work	4,250	48,804
	<u>\$ 1,424,885</u>	<u>\$ 1,340,978</u>

5. Materials and supplies:

The amount written down due to obsolescence in 2020 was \$nil (2019 - \$nil).

6. Property, plant and equipment:

	Land and buildings	Distribution equipment	Other fixed assets -in-Progress	Construction	Total
<i>Cost or deemed cost</i>					
Balance at January 1, 2020	\$ 476,849	\$ 10,664,768	\$ 1,263,805	\$ 8,033	\$ 12,413,455
Additions	4,515	695,487	377,425	—	1,077,427
Transfers	—	—	—	—	—
Disposals/retirements	—	(39,574)	—	(3,414)	(42,988)
Balance at December 31, 2020	\$ 481,364	\$ 11,320,681	\$ 1,641,230	\$ 4,619	\$ 13,447,894
Balance at January 1, 2019	\$ 475,634	\$ 10,234,098	\$ 1,165,316	\$ 747	\$ 11,875,795
Additions	1,215	505,698	117,705	7,286	631,904
Transfers	—	—	—	—	—
Disposals/retirements	—	(75,028)	(19,216)	—	(94,244)
Balance at December 31, 2019	\$ 476,849	\$ 10,664,768	\$ 1,263,805	\$ 8,033	\$ 12,413,455
<i>Accumulated depreciation</i>					
Balance at January 1, 2020	\$ 85,150	\$ 1,321,025	\$ 814,207	\$ —	\$ 2,220,382
Depreciation	15,315	314,251	143,249	—	472,815
Disposals/retirements	—	(15,044)	—	—	(15,044)
Balance at December 31, 2020	\$ 100,465	\$ 1,620,232	\$ 957,456	\$ —	\$ 2,678,153
Balance at January 1, 2019	\$ 69,882	\$ 1,045,818	\$ 688,728	\$ —	\$ 1,804,428
Depreciation	15,268	298,361	144,695	—	458,324
Disposals/retirements	—	(23,154)	(19,216)	—	(42,370)
Balance at December 31, 2019	\$ 85,150	\$ 1,321,025	\$ 814,207	\$ —	\$ 2,220,382
<i>Carrying amounts</i>					
At December 31, 2020	\$ 380,899	\$ 9,700,449	\$ 683,774	\$ 4,619	\$ 10,769,741
At December 31, 2019	\$ 391,699	\$ 9,343,743	\$ 449,598	\$ 8,033	\$ 10,193,073

For the year ended December 31, 2020, depreciation expense in the amount of \$71,752 (2019 - \$54,058) related to other fixed assets was allocated to project costs and either expensed to operations and maintenance, or capitalized into construction-in-progress.

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

7. Intangible assets:

	Distribution rights	Computer software	Total
<i>Cost or deemed cost</i>			
Balance at January 1, 2020	\$ 838,765	\$ 314,935	\$ 1,153,700
Additions	—	106,031	106,031
Disposals/retirements	—	—	—
Balance at December 31, 2020	\$ 838,765	\$ 420,966	\$ 1,259,731
Balance at January 1, 2019	\$ 838,765	\$ 327,468	\$ 1,166,233
Additions	—	32,207	32,207
Disposals/retirements	—	(44,738)	(44,738)
Balance at December 31, 2019	\$ 838,765	\$ 314,937	\$ 1,153,702
<i>Accumulated amortization</i>			
Balance at January 1, 2020	\$ 117,427	\$ 244,488	\$ 361,915
Amortization	33,551	40,080	73,631
Disposals/retirements	—	—	—
Balance at December 31, 2020	\$ 150,978	\$ 284,568	\$ 435,546
Balance at January 1, 2019	\$ 83,877	\$ 259,675	\$ 343,552
Amortization	33,551	29,552	63,103
Disposals/retirements	—	(44,738)	(44,738)
Balance at December 31, 2019	\$ 117,428	\$ 244,489	\$ 361,917
<i>Carrying amounts</i>			
At December 31, 2020	\$ 687,787	\$ 136,398	\$ 824,185
At December 31, 2019	\$ 721,337	\$ 70,448	\$ 791,785

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

8. Income tax expense:

	2020	2019
Current year	\$ -	\$ -
Adjustment for prior years	(7,549)	(896)
Current tax expense (recovery)	\$ (7,549)	\$ (896)
Origination and reversal of temporary differences	\$ 31,275	\$ 44,946
Impact of change in tax rate	(349)	-
Deferred tax expense	\$ 30,926	\$ 44,946
Income tax expense	\$ 23,377	\$ 44,050

Reconciliation of effective tax rate

	2020	2019
Income (loss) before taxes	\$ (8,796)	\$ 158,556
Canada and Ontario statutory Income tax rates	12.2%	13.5%
Expected tax provision on income at statutory rates	(1,073)	21,405
Increase (decrease) in income taxes resulting from:		
Permanent differences	11	79
Adjustment for prior years	(6,087)	(2,448)
Net movement in regulatory balances	28,731	25,014
Other	1,795	-
Income tax expense	\$ 23,377	\$ 44,050

Significant components of the Company's deferred tax balances

	2020	2019
Deferred tax assets:		
Post-employment benefits	\$ 26,023	\$ 22,369
Deferred revenue	51,355	55,563
Non-capital loss carryforwards	53,197	11,583
	\$ 130,575	\$ 89,515
Deferred tax liabilities:		
Property, plant and equipment	\$ (155,719)	\$ (83,732)
	\$ (155,719)	\$ (83,732)

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

9. Regulatory balances:

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

Regulatory deferral account debit balances	January 1, 2020	Additions/ activity	Recovery/ reversal	December 31, 2020
Retail settlement variance accounts	\$ 726,231	\$ 302,444	\$ —	\$ 1,028,675
Disposition accounts	51,828	683	—	52,511
Other regulatory accounts	102,852	48,306	—	151,158
Deferred income tax	826	(4,320)	—	(3,494)
	\$ 881,737	\$ 347,113	\$ —	\$ 1,228,850

Regulatory deferral account debit balances	January 1, 2019	Additions/ activity	Recovery/ reversal	December 31, 2019
Retail settlement variance accounts	\$ 579,394	\$ 146,837	\$ —	\$ 726,231
Disposition accounts	50,711	1,117	—	51,828
Other regulatory accounts	100,830	2,022	—	102,852
Deferred income tax	7,917	(7,091)	—	826
	\$ 738,852	\$ 142,885	\$ —	\$ 881,737

Regulatory deferral account credit balances	January 1, 2020	Additions/ activity	Recovery/ reversal	December 31, 2020
Retail settlement variance accounts	\$ 539,648	\$ 63,311	\$ —	\$ 602,959
Disposition accounts	—	—	—	—
Other regulatory accounts	—	37,967	—	37,967
Deferred income tax	6,692	(35,246)	—	(28,554)
	\$ 546,340	\$ 66,032	\$ —	\$ 612,372

Regulatory deferral account credit balances	January 1, 2019	Additions/ activity	Recovery/ reversal	December 31, 2019
Retail settlement variance accounts	\$ 551,306	\$ (11,658)	\$ —	\$ 539,648
Disposition accounts	—	—	—	—
Other regulatory accounts	—	—	—	—
Deferred income tax	58,729	(52,037)	—	6,692
	\$ 610,035	\$ (63,695)	\$ —	\$ 546,340

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

9. Regulatory balances (continued):

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 Company has received approval from the OEB to establish its regulatory balances.

Settlement of the Group 1 deferral accounts is done on an annual basis through application to the OEB. Once approval is received, the approved account balance is moved to the regulatory settlement account. An application has not been made to the OEB to recover or dispose of any of these accounts in the 2020 IRM as the Company did not meet the threshold test for the Group 1 deferral accounts. The OEB requires the Company to estimate its income taxes when it files a COS application to set its rates. As a result, the Company 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 Company'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 2020, the rate ranged from 0.57% to 2.18%.

10. Bank indebtedness:

In September 2020, the Company obtained an operating loan with Toronto-Dominion Bank ("TD"). The operating loan has a maximum borrowing of \$1,500,000. As at December 31, 2020, the Company has drawn \$1,180,678 (2019 - \$458,396).

The operating loan is secured by a general security agreement representing a first charge on all the Company's present and after acquired personal property. Interest is based on prime rate plus 0.25% per annum. The operating loan contain certain customary representation, warranties and guarantees, and covenants. As at December 31, 2020, the Company was in violation of certain covenants. TD is aware of the breach by the Company and has provided a waiver subsequent to year-end.

11. Accounts payable and accrued liabilities:

	2020	2019
Accounts payable – energy purchases	\$ 1,126,559	\$ 1,254,139
Other	1,190,701	1,252,301
	<u>\$ 2,317,260</u>	<u>\$ 2,506,440</u>

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

12. Long-term debt:

	2020	2019
Township of Wellington North promissory note, interest only at 4.54%, payable quarterly in arrears	\$ 985,015	\$ 985,015
Ontario Infrastructure loan, interest at 4.42%, payable in monthly instalments, due 2026 secured by a General Security Agreement	526,951	611,200
Ontario Infrastructure loan, interest at 4.49%, payable in monthly instalments, due 2043 secured by a General Security Agreement	966,042	989,658
Ontario Infrastructure loan, interest at 3.28%, payable in monthly instalments, due 2045 secured by a General Security Agreement	1,007,417	1,034,182
Ontario Infrastructure loan, interest at 3.69%, payable in monthly instalments, due 2048 secured by a General Security Agreement	803,699	820,597
Ontario Infrastructure loan, interest at 3.96%, payable in monthly instalments, due 2048 secured by a General Security Agreement	816,572	832,356
Ontario Infrastructure loan, interest at 3.47%, payable in monthly instalments, due 2041 secured by a General Security Agreement	481,301	497,235
Ontario Infrastructure loan, interest at 3.27%, payable in monthly instalments, due 2041 secured by a General Security Agreement	487,850	503,845
TD Equipment Finance Canada, interest at 2.53%, payable in monthly instalments, due 2027 secured by the equipment	316,673	—
	6,391,520	6,274,088
Less current portion of long-term debt	524,045	199,238
	<u>\$ 5,867,475</u>	<u>\$ 6,074,850</u>

On June 3, 2013, the Council of the Township of Wellington North passed a resolution to defer all future principal payments on the existing promissory note and that interest will continue to be payable at 4.54%.

The TD Equipment Finance Canada loan has all be classified as current. The loan includes certain customary representation, warranties and guarantees, and covenants. As at December 31, 2020, the Company was in violation of certain covenants. TD is aware of the breach by the Company and has provided a waiver subsequent to year-end.

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

12. Long-term debt:

Principal repayments for the next five years and thereafter are as follows:

2021	\$ 524,045
2022	215,850
2023	224,677
2024	233,870
2025	243,445
Thereafter	4,949,633
	<u>\$ 6,391,520</u>

13. Post-employment benefits:

(a) OMERS pension plan:

The Company provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2020, the Company made employer contributions of \$113,002 OMERS (2019 - \$109,103), of which \$12,204 (2019 - \$11,008) has been capitalized as part of PP&E and the remaining amount of \$100,798 (2019 - \$98,095) has been recognized in profit or loss. The Company estimates that a contribution of \$117,656 (2019 - \$109,180) to OMERS will be made during the next fiscal year.

As at December 31, 2020, OMERS had approximately 500,000 members, of whom 12 are current employees of the Company. The most recently available OMERS annual report is for the year ended December 31, 2020, which reported that the plan was 97% funded, with an unfunded liability of \$3.2 billion. This unfunded liability is likely to result in future payments by participating employers and members.

(b) Post-employment benefits other than pension:

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

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

13. Post-employment benefits (continued):

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

Reconciliation of the obligation	2020	2019
Defined benefit obligation, beginning of year	\$ 178,948	\$ 175,425
Included in profit or loss		
Current service cost	18,786	7,742
Interest cost	5,856	6,630
	203,590	189,797
Included in OCI		
Actuarial loss arising from:		
changes in financial assumptions	20,388	—
	223,978	189,797
Benefits paid	(10,673)	(10,849)
Defined benefit obligation, end of year	\$ 213,305	\$ 178,948

Actuarial assumptions	2020	2019
Discount (interest) rate	3.20%	3.90%
Salary levels	2.25%	2.25%
Medical Costs	7.00%	6.40%
Dental Costs	4.60%	4.60%

A 1% increase or decrease in the assumed discount rate would have an insignificant effect on the defined benefit obligation.

14. Share capital:

	2020	2019
Authorized:		
Unlimited number of common shares		
Unlimited number of special shares, issuable in series		
Issued:		
1,557 common shares	\$ 1,634,404	\$ 1,634,404

15. Other revenue:

	2020	2019
Rendering of services	\$ 60,288	\$ 63,265
Other	66,526	107,379
	\$ 126,814	\$ 170,644

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

16. Employee salaries and benefits:

	2020	2019
Salaries, wages and benefits	\$ 1,318,311	\$ 1,278,275
CPP and EI remittances	52,149	46,317
Contributions to OMERS	113,002	109,103
	<u>\$ 1,483,462</u>	<u>\$ 1,433,695</u>

17. Finance costs:

	2020	2019
Finance costs		
Interest expense on long-term debt	\$ 180,756	\$ 187,390
Other	82,047	85,047
	<u>\$ 262,803</u>	<u>\$ 272,437</u>

18. Commitments and contingencies:

General Liability Insurance:

The Company 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, 2020, no assessments have been made.

19. Related party transactions:

(a) Parent and ultimate controlling party:

The Company is owned by the Township of Wellington North (97% share) and the Township of Southgate (3% share). The Townships produces consolidated financial statements that are available for public use.

(b) Outstanding balances with related parties:

	2020	2019
Township of Wellington North - receivable	\$ 38,090	\$ 49,616
Township of Wellington North - payable	(815,483)	(853,182)
Township of Wellington North - note payable (note 12)	(985,015)	(985,015)
	<u>\$ (1,762,408)</u>	<u>\$ (1,788,581)</u>

WELLINGTON NORTH POWER INC.

Notes to Financial Statements
Year ended December 31, 2020

19. Related party transactions (continued):

(c) Transactions with the Township of Wellington North:

The Company delivers electricity to the Township of Wellington North throughout the year for the electricity needs of the Township of Wellington North and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The Company also provides additional services to the customers of the communities of Mount Forest and Arthur within the Township of Wellington North, including streetlight maintenance services and water and waste water billing and collection services. Revenue from these services was \$101,174 (2019 - \$100,609).

(d) Key management personnel:

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

	2020	2019
Directors' fees	\$ 27,101	\$ 27,101
Salaries and other benefits	463,804	433,502
	\$ 490,905	\$ 460,603

20. Financial instruments and risk management:

Fair value disclosure:

The carrying values of cash, 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 approximates fair value because the amounts are payable on demand.

The fair value of the Ontario Infrastructure and TD Equipment Finance Canada long-term debt at December 31, 2020 is \$6,210,259. The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2020 ranged from 1.16% to 2.41%.

Financial risks:

The Company understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Company'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.

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Year ended December 31, 2020

20. Financial instruments and risk management (continued):

(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 Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the urban areas of Mount Forest, Arthur, and Holstein. At December 31, 2020, two customers represented 25% (2019 - 30%) of trade 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, 2020 is \$21,081 (2019 - \$18,583). An impairment loss of \$14,839 (2019 - \$13,749) was recognized during the year.

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2020, approximately \$3,407 (2019 - \$19,468) is considered 60 days past due. The Company has over 3,700 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 and through credit insurance on accounts billed over \$10,000 per month. As at December 31, 2020, the Company holds security deposits in the amount of \$105,837 (2019 - \$146,857).

(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 Company currently does not have any material commodity or foreign exchange risk. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company'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, 2020 would have increased interest expense on the long-term debt by \$63,328 (2019 - \$63,699), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

(c) Liquidity risk:

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a \$1,500,000 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, 2020, \$1,180,678 had been drawn under the Company's credit facility (2019 - \$458,396).

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Notes to Financial Statements
Year ended December 31, 2020

20. Financial instruments and risk management (continued):

(c) Liquidity risk (continued).

The Company also has a facility for \$558,879 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the Independent Electricity System Operator ("IESO"), of which \$nil has been drawn and posted with the IESO (2019 - \$nil).

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

(d) Capital disclosures:

The main objectives of the Company, 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 Company's definition of capital includes equity and long-term debt. As at December 31, 2020, equity amounts to \$4,862,301 (2019 - \$4,648,434) and long-term debt amounts to \$6,391,520 (2019 - \$6,274,088).

21. Revenue from contracts with customers:

The Company generates revenue primarily from the sale and distribution of electricity to its customers. Other sources of revenue include performance incentive payments under CDM programs.

	2020	2019
Revenue with Contracts with Customers	\$ 15,245,931	\$ 14,980,607
Other revenue	126,814	170,644
	<u>\$ 15,372,745</u>	<u>\$ 15,151,251</u>

In the following table, revenue from contracts with customers is disaggregated by type of customer.

	2020	2019
Residential	\$ 5,521,930	\$ 4,393,606
General Service	4,215,851	4,134,468
Large Users	5,330,623	6,204,563
Other	177,527	247,970
	<u>\$ 15,245,931</u>	<u>\$ 14,980,607</u>

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Notes to Financial Statements
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22. Impact of COVID-19 pandemic:

On March 11, 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak a pandemic. This has resulted in significant financial, market and societal impacts in Canada and around the world.

During the year, the Corporation has experienced the following in relation to the pandemic:

- Mandatory working from home requirements for those able to do so

The situation is evolving and the ultimate duration and magnitude of the impact on the economy is not known at this time. The outbreak has not had any material impacts on the operation of the Corporation to date, and management does not expect any material impacts given the nature and scope of the business, and management will continue to actively monitor the situation.