Financial Statements of

Festival Hydro Inc.

Year ended December 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Festival Hydro Inc.

Opinion

We have audited the accompanying financial statements of Festival Hydro Inc., which comprise:

- the statement of financial position as at December 31, 2021
- the statement of profit or loss and other 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 Festival Hydro Inc. as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

We are independent of Festival Hydro Inc. 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 Festival Hydro Inc.'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 Festival Hydro Inc. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Festival Hydro Inc.'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 Festival Hydro’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Festival Hydro’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 Festival Hydro Inc. 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

London, Canada

April 28, 2022

Festival Hydro Inc.

Statement of Financial Position
December 31, 2021, with comparative information for December 31, 2020

	Notes	2021	2020
Assets			
Accounts receivable	6, 22	$ 8,124,901	$ 7,020,471
Unbilled revenue	22	5,230,771	6,371,221
Inventories	7	163,443	172,612
Prepaid expenses		357,282	389,847
Income tax receivable		356,057	177,937
Due from corporations under common control	20	332,803	627,071
Total current assets		**14,565,257**	**14,759,159**
Non-current assets			
Property, plant and equipment	8	57,113,909	55,447,062
Intangible assets and goodwill	9	1,734,841	1,955,244
Total non-current assets		**58,848,750**	**57,402,306**
Total assets		**73,414,007**	**72,161,465**
Regulatory balances	13	4,527,854	2,806,457
Total assets and regulatory balances		**$ 77,941,861**	**$ 74,967,922**

The accompanying notes are an integral part of these financial statements.

Festival Hydro Inc.

Statement of Financial Position

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

	Notes	2021	2020
Liabilities and Equity			
Bank indebtedness	5	$ 15,768	$ 977,189
Accounts payable and accrued liabilities		9,902,642	8,587,712
Deferred revenue		194,274	131,851
Income tax payable		-	-
Dividend payable	15, 21	500,556	115,211
Current portion of long-term debt	14, 22	16,307,717	16,264,985
Customer deposits	11	1,169,542	1,054,198
Due to the Corporation of the City of Stratford	20	625,460	631,937
Total current liabilities		**28,715,959**	**27,763,083**
Non-current liabilities			
Deferred revenue		2,453,813	2,095,412
Customer deposits	11	594,311	439,796
Deferred tax liabilities	10	1,308,987	696,766
Employee future benefits	12	1,361,643	1,492,917
Unrealized loss on interest rate swap	22	938,948	1,585,033
Long-term debt	14, 22	10,540,477	11,112,654
Total non-current liabilities		17,198,179	17,422,578
Total liabilities		**45,914,138**	**45,185,661**
Share capital	15	15,568,388	15,568,388
Accumulated other comprehensive loss		(357,737)	(438,343)
Retained earnings		15,085,495	12,861,747
Total equity		**30,296,146**	**27,991,792**
Total liabilities and equity		76,210,284	73,177,453
Regulatory balances	13	1,731,577	1,790,469
Total liabilities, equity and regulatory balances		**77,941,861**	**74,967,922**

Commitments and contingencies (note 23)
Guarantee (note 24)

The accompanying notes are an integral part of these financial statements.

On behalf of the Board:

G L Guthrie
Director

Director

Festival Hydro Inc.

Statement of Comprehensive Income

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

	Notes	2021	2020
Revenues			
Sale of energy	16	$ 59,559,802	$ 72,097,769
Distribution revenue	16	11,582,698	11,607,063
Other income	17	1,195,884	982,356
		72,338,384	**84,687,188**
Cost of power purchased		60,698,856	72,593,372
Operating expenses	18	6,014,814	6,080,279
Depreciation and amortization	8,9	2,412,000	2,548,121
		69,125,670	**81,221,772**
Income from operating activities		**3,212,714**	**3,465,416**
Finance income	19	18,445	26,677
Finance costs	19	958,164	2,451,839
Income before income taxes		**2,272,995**	**1,040,254**
Income tax expense	10	917,289	403,821
Net income		**1,355,706**	**636,433**
Net movement in regulatory balances:			
Net movement in regulatory balances	13	1,168,069	491,675
Income tax	10,13	590,859	169,729
Net income and net movement in regulatory balances		**3,114,634**	**1,297,837**
Other comprehensive income (loss)			
Items that will not be reclassified to profit and loss:			
Remeasurements of employee future benefits	12	80,606	(79,899)
Tax on remeasurements	10	(21,361)	21,173
Net movement in regulatory balances	13	21,361	(21,173)
Other comprehensive loss		**80,606**	**(79,899)**
Total comprehensive income		**$ 3,195,240**	**$ 1,217,938**

The accompanying notes are an integral part of these financial statements.

Festival Hydro Inc.

Statement of Changes in Equity

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

	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance at January 1, 2020	**$15,568,388**	**$12,069,491**	**$ (358,444)**	**$ 27,279,435**
Net income after net movement in regulatory balances	–	1,297,837	–	1,297,837
Other comprehensive loss	–	–	(79,899)	(79,899)
Dividends, paid or payable	–	(505,581)	–	(505,581)
Balance at December 31, 2020	**$15,568,388**	**$12,861,747**	**$ (438,343)**	**$ 27,991,792**
Balance at January 1, 2021	**$15,568,388**	**$12,861,747**	**$ (438,343)**	**$ 27,991,792**
Net income after net movement in regulatory balances	–	3,114,634	–	3,114,634
Other comprehensive loss	–	–	80,606	80,606
Dividends, paid or payable	–	(890,886)	–	(890,886)
Balance at December 31, 2021	**$15,568,388**	**$15,085,495**	**$ (357,737)**	**$ 30,296,146**

The accompanying notes are an integral part of these financial statements.

Festival Hydro Inc.

Statement of Cash Flows

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

Cash provided by (used in)	Notes	2021	2020
Operating activities			
Net income after net movement in regulatory balances		$3,114,634	$ 1,297,837
Adjustments for			
Depreciation - property, plant and equipment	8	2,113,654	2,225,585
Amortization - intangible assets	9	298,348	322,536
Amortization of deferred revenue		(60,633)	(57,127)
Employee future benefits		(50,668)	(59,251)
Net finance costs	19	939,718	2,425,162
Income tax expense	10	917,289	403,820
		7,272,342	6,558,564
Changes in non-cash operating working capital			
Accounts receivable		(1,104,430)	(975,746)
Unbilled revenue		1,140,450	1,267,192
Inventories		9,169	(41,286)
Prepaid expenses		32,564	33,222
Accounts payable and accrued liabilities		1,314,930	263,061
Due from related parties		294,268	(89,089)
Due from the City of Stratford		(6,477)	24,765
Dividends Declared		385,345	(95,229)
Customer deposits		269,859	(168,196)
		2,335,678	218,694
Regulatory balances	13	(1,758,928)	(661,486)
Interest paid		(1,604,248)	(1,611,040)
Interest received		18,445	26,677
Income tax paid, net of refund		(888,101)	(304,204)
Net cash from operating activities		**5,375,188**	**4,227,203**
Investing activities			
Purchase of property, plant and equipment	8	(3,780,502)	(2,934,604)
Purchase of intangible assets	9	(77,945)	(249,987)
Net cash used in investing activities		(3,858,447)	(3,184,591)
Financing activities			
Contributions received from customers, net of repayments		479,666	465,542
Dividends	15	(505,541)	(505,581)
Proceeds from long-term debt		900,000	-
Repayment of long-term debt		(1,429,445)	(646,694)
Net cash used in financing activities		(555,320)	(686,733)
Decrease in bank indebtedness during the year		961,421	355,879
Bank indebtedness, beginning of the year		(977,189)	(1,333,068)
Bank indebtedness, end of the year		**$ (15,768)**	**$ (977,189)**

The accompanying notes are an integral part of these financial statements.

1. Reporting entity:

Festival Hydro Inc. (the "Corporation") is a wholly owned subsidiary of the City of Stratford. The Corporation was incorporated on July 11, 2000 under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act Laws of the Province of Ontario, Canada. The address of the Corporation's registered office is 187 Erie Street, Stratford, Ontario, Canada.

The principal activity of the Corporation is to distribute electricity to the residents and businesses in the City of Stratford and the towns of Brussels, Dashwood, Hensall, Seaforth, St. Marys and Zurich, under a license issued by the Ontario Energy Board ("OEB"). The Corporation is regulated by the Ontario Energy Board and adjustments to the Corporation's distribution and power rates require OEB approval.

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

2. Basis of preparation:

(a) Statement of compliance

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements were approved by the Board of Directors on April 28, 2022.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

Information about judgements made in applying accounting policies that have an effect on the amounts recognized in the financial statements is included in the following notes:

Note 3(l)	Determination of the performance obligation for contribution and the related amortization period
Note 3(m)	Whether an arrangement contains a lease
Note 6	Estimate for impairment for uncollected amounts, based on the lifetime expected credit losses
Note 8	Property, plant and equipment: useful lives and the identification of significant components of property, plant and equipment.
Note 9	Intangible assets: useful lives and goodwill impairment testing.
Note 12	Measurement of the defined benefit obligation – actuarial assumptions
Note 23	Recognition and measurement of commitments and contingencies.

2. Basis of preparation (continued)

(e) Rate regulation

The Corporation is regulated by the Ontario Energy Board, 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, amongst other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The Corporation is required to bill certain classes of customers for the debt retirement charges. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation (“OEFC”) once each year.

(f) Rate setting

Distribution revenue

For the distribution revenue included in sale of energy, the Corporation files a “Cost of Service” (“COS”) rate application with the OEB 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 class. The COS application is reviewed by the OEB and interveners on record. Rates are approved based upon this review, including any revisions resulting from that review.

In the intervening years, the Corporation has chosen to file a Price Cap Incentive Rate Mechanism (“IRM”) application. 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.

As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

On May 27, 2014, the Corporation filed its 2015 Cost of Service application. The OEB issued its final Decision and Order dated June 5, 2015. The decision allows for a total service revenue requirement of $11,210,828 based on a total rate base of $61,778,759. The deemed debt portion of the rate base (60%) at $27,067,256 earns a weighted average rate of 4.05%. The deemed equity portion of the rate base (40%) at $24,711,504 earns a deemed return on equity of 9.30%. The rates were effective May 1, 2015 with an implementation date of June 1, 2015.

2. Basis of preparation (continued)

(f) Rate setting (continued)

Distribution revenue (continued)

Festival filed its 2020 IRM application for distribution rates and was approved new rates by the OEB effective January 1, 2020. The Corporation's approved adjustment to distribution rates was 1.55%, as a result of an OEB approved inflation factor of 2.00%, less a stretch factor of 0.45% determined by the relative efficiency of the Corporation. The application included the approval of rate riders for the disposition of certain deferral and variance balances.

Festival filed its 2021 IRM application for distribution rates and was approved new rates by the OEB effective January 1, 2021. The Corporation's approved adjustment to distribution rates was 1.90%, as a result of an OEB approved inflation factor of 2.20%, less a stretch factor of 0.30% determined by the relative efficiency of the Corporation. The application included the approval of rate riders for the disposition of certain deferral and variance balances.

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 and the global adjustment. 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 for both years presented in these financial statements in accordance with IFRS.

(a) Regulatory balances

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

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

3. Significant accounting policies (continue):

(a) Regulatory balances (continued)

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.

(b) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts. On the statement of cash flows, cash and cash equivalents includes bank overdrafts (revolving credit facility) that are repayable on demand and form an integral part of the Corporation's cash management.

(c) Financial instruments

All financial assets are classified as loans and receivables, except for marketable securities which are classified as available for sale and derivatives which are measured as fair value through profit and loss. All financial liabilities are classified as other financial liabilities. These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs.

Loans and receivables and other financial liabilities are subsequently measured at amortized cost using the effective interest method less any impairment for the financial assets.

Available for sale financial assets are subsequently measured at fair value, within the changes therein recognized in other comprehensive income until the assets are sold. Upon sale of an available for sale asset, the Corporation has elected to record the accumulated unrealized change in value of the asset as a transfer through other comprehensive income into profit and loss.

The Corporation holds derivative financial instruments to manage its interest rate risk exposures. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein, are recognized in the statement of comprehensive income. Hedge accounting has not been used in the preparation of these financial statements.

(d) Inventories

Inventories are stated at lower of cost and net realizable value and consist of maintenance materials and supplies. Cost is determined on a weighted average basis, net of a provision for obsolescence, as applicable. The Corporation classifies all major construction related component of its electricity distribution infrastructure to property, plant and equipment.

(e) Property, plant and equipment ("PP&E")

Items of property, plant and equipment used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation and accumulated impairment losses. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

3. Significant accounting policies (continued):

(e) Property, plant and equipment ("PP&E")

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour 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 and are based on the Corporation's cost of borrowing. For construction projects of less than one year in length, borrowing costs are not capitalized unless specific identifiable loans are acquired for the express purpose of financing a specific construction activity.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount 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. The carrying amount of the replaced part is derecognized.

The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. Land is not depreciated. Construction in progress assets are not amortized until the project is complete and in service.

Depreciation begins when an asset becomes available for use. Depreciation is provided on a straight-line basis over the estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The estimated useful lives for the current and comparative years are as follows:

Buildings	10 to 60 years
Distribution substation equipment	30 to 60 years
Distribution system equipment	30 to 60 years
Transformers	35 to 40 years
Meters	15 to 40 years
Other capital assets	4 to 20 years

Other capital assets include vehicles, office and computer equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized within other income in the statement of comprehensive income.

3. Significant accounting policies (continued):

(f) Intangible assets

Intangible assets include goodwill, computer software and capital contributions paid under capital cost recovery agreements (“CCRAs”).

(i) Goodwill

Goodwill represents the excess of cost over fair value of net assets which arose upon amalgamation of the former electrical distribution entities. Goodwill is measured at cost less accumulated impairment losses.

(ii) Computer software

Computer software acquired prior to January 1, 2014, is measured at deemed cost less accumulated depreciation. All other software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Capital contributions paid under capital cost recovery agreements

Capital contributions paid under CCRAs are measured at cost less accumulated amortization and accumulated impairment losses.

(iv) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative years are:

Computer software	5 years
CCRAs	15 to 25 years

Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted if appropriate.

(g) 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.

3. Significant accounting policies (continued):

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than regulatory assets, inventories 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 goodwill, the recoverable amount is estimated as at December 31 of each year.

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"). The Corporation has determined that it has one cash generating unit. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

(h) 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.

(i) Employee 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 (“Fund”). 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.

3. Significant accounting policies (continued):

(i) Pension plan (continued)

OMERS is a defined benefit plan, however, as the plan assets and pension obligations are not segregated in separate accounts for each member entity, sufficient information is not available to enable the Corporation to directly account for the plan. As such, the plan has been accounted for as a defined contribution plan. The contribution payable is recognized as an employee benefit expense in the statement of comprehensive income in the period in which the service was rendered by the employee, since it is not practicable to determine the Corporation's portion of person obligations of the fair value of plan assets.

(ii) Employee future benefits, other than pension

The Corporation has an unfunded benefit plan providing post-employment benefits (other than pension) to its employees. The Corporation provides its retired employees (20 years service; less than age 65) with life insurance and medical benefits beyond those provided by government sponsored plans. Life insurance is provided for current retirees including those over age 65.

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, 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) Deferred revenue and assets transferred from customers

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. Cash contributions are initially recorded under current liabilities as customer deposits. Once the distribution system asset is completed or modified, as outlined in the terms of the contract, the contribution amount is transferred to deferred revenue.

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction. The contributions in aid of construction account, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is reported as deferred revenue, and is amortized to other income on a straight-line basis over the terms of the agreement with the customer or the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

(k) Customer deposits

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. The electricity customer security deposits liability includes related interest amounts, calculated using OEB prescribed interest rates, and owed to the customers with a corresponding amount charged to finance costs. Deposits that are refundable upon demand are classified as a current liability. Annually, accrued interest is applied directly to the customers' accounts.

3. Significant accounting policies (continued):

(k) Customer deposits (continued)

Security deposits on offers to connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits are classified as a current liability when the Corporation no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

(l) Revenue Recognition

(i) Sale and distribution of electricity

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Corporation has the right to bill. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

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

(ii) Capital contributions

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions are scoped out of IFRS 15 *Revenue from Contracts with Customers*. Cash contributions, received from developers are recorded as deferred revenue. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Certain customers are also required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. These contributions fall within the scope of IFRS 15 *Revenue from Contracts with Customers*. The contributions are received to obtain a connection to the distribution system in order receive ongoing access to electricity. The Corporation has concluded that the performance obligation is the supply of electricity over the life of the relationship with the customer which is satisfied over time as the customer receives and consumes the electricity. Revenue is recognized on a straight-line basis over the useful life of the related asset.

3. Significant accounting policies (continued):

(l) Revenue Recognition (continued)

(ii) Other revenue

Revenue earned from the provision of services is recognized as the service is rendered. Government grants and the related performance incentive payments under Conservation and Demand Management ("CDM") programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(m) Leased assets

At inception of a contract, the Corporation assess whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Corporation with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

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

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

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

3. Significant accounting policies (continued):

(n) Finance income and finance costs

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents.

Finance costs comprise interest expense on customer deposits, the demand notes payable, revolving credit facility and long-term borrowings.

Changes in the fair value of interest rate swap agreements are recorded either in finance income, or costs, depending on whether an unrealized gain or loss is required.

(o) Income taxes

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act. Pursuant to the Electricity Act, 1998 (Ontario), 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 Income Tax Act (Canada) and the Corporations Tax Act (Ontario) 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.

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 other comprehensive income or items recognized directly in equity, in which case, it is recognized in accumulated comprehensive income or retained earnings, respectively.

Current tax is the tax payable on the taxable income 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 using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded to or recovered from customers through future electricity distribution rates. A gross up to reflect the income tax benefits associated with reduced revenues resulting from the realization of deferred tax assets is recorded within regulatory credit or debt balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the statements of comprehensive income.

3. Significant accounting policies (continued):

(o) Income taxes (continued)

The benefits of the refundable and non-refundable apprenticeship and other ITCs are credited against the related expense in the statements of comprehensive income.

4. Standards issued but not yet adopted:

There are new standards, amendments to standards and interpretations which have not been applied in preparing these financial statements. These standards or amendments relate to the measurement and disclosure of financial assets and liabilities. The extent of the impact on adoption of these standards and amendments has not yet been determined.

i. Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
ii. Property, Plant and Equipment - Proceeds before Intended Use (Amendments to IAS 16)
iii. Annual Improvements to IFRS Standards 2018-2020

i. 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 amendments also clarify how a company classifies a liability that includes a counterparty conversion option.

The amendments state that settlement of a liability includes transferring a company's own equity instruments to the counterparty, and when classifying liabilities as current or non-current, a company can ignore only those conversion options that are recognized as equity.

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

ii. 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.

4. Standards issued but not yet adopted (continued):

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 available for its intended use. Specifically, proceeds from selling items before the related item of property, plant and equipment is available for use should be recognized in profit or loss, together with the costs of producing those items.

The Corporation intends to adopt this standard in its financial statements for the annual period beginning January 1, 2022. The extent of the impact of adoption of the standard has not yet been determined.

iii. Annual Improvements to IFRS Standards 2018-2020:

On May 14, 2020, the IASB issued Annual Improvements to IFRS Standards 2018-2020.

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

-IFRS 9 Financial Instruments: Clarifies which fees are included for the purpose of performing the '10 per cent test' for derecognition of financial liabilities.

- IFRS 16 Leases: Removes the illustration of payments from the lessor relating to leasehold improvements in the Illustrative Example 13.

- IAS 41 Agriculture: Removes the requirement to exclude cash flows for taxation when measuring fair value.

The Corporation intends to adopt these standards in its financial statements for the annual period beginning January 1, 2022. The Corporation does not expect these standards to have a material impact on the financial statements.

5. Bank indebtedness:

	2021	2020
Cash	$ 1,660	$ 1,660
Revolving credit facility	(17,428)	(978,849)
Bank indebtedness	**$ (15,768)**	**$ (977,189)**

6. Accounts receivable:

	2021	2020
Energy, water and sewer	$ 6,223,521	$ 5,496,498
Other	1,901,380	1,523,973
Total	**$ 8,124,901**	**$ 7,020,471**

Included in accounts receivable is $1,193,417 (2020 - $1,430,381) of customer receivables for water consumption and sewer (“water & sewer”) that the Corporation bills and collects on behalf of the City of Stratford and the Town of St. Marys. As the Corporation does not assume liability for collection of these amounts, any amount related to City of Stratford and Town of St. Marys water & sewer charges that are determined to be uncollectible are charged to the City of Stratford and Town of St. Marys, respectively. At year end, there is nil (2020 - nil) included in the provision for impairment for uncollectable amounts relating to water and sewer.

7. Inventories:

The amount of inventories consumed by the Corporation and recognized as an expense during 2021 was $166,873 (2020 - $126,663). During 2021, an amount of nil (2020 – nil) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

8. Property, plant and equipment:

a) Cost or deemed cost

	Land and buildings	Distribution substation equipment	Other distribution system equipment	Transformer station	Total
Balance at January 1, 2020	$2,506,431	$47,341,268	$2,974,242	$13,976,313	$66,798,254
Additions	156,731	2,658,073	86,987	72,697	2,974,488
Transfers	-	-	(39,884)	-	(39,884)
Disposals/retirements	-	(2,420,174)	(210,611)	-	(2,630,785)
Balance at December 31, 2020	**$2,663,162**	**$ 47,579,167**	**$ 2,810,734**	**$ 14,049,010**	**$ 67,102,073**
Balance at January 1, 2021	$2,663,162	$47,579,167	$2,810,734	$14,049,010	$67,102,073
Additions	477,555	2,698,194	326,676	143,417	3,645,842
Transfers	-	-	134,660	-	134,660
Disposals/retirements	(6,795)	(230,606)	(155,736)	-	(393,137)
Balance at December 31, 2021	**$3,133,922**	**$ 50,046,755**	**$ 3,116,334**	**$ 14,192,427**	**$ 70,489,438**

b) Accumulated depreciation

	Land and buildings	Distribution substation equipment	Other distribution system equipment	Transformer station	Total
Balance at January 1, 2020	$ 254,117	$ 8,851,881	$ 1,058,698	$ 1,895,515	$ 12,060,211
Depreciation	83,263	1,546,018	271,753	324,551	2,225,585
Disposals/retirements	-	(2,420,173)	(210,612)	-	(2,630,785)
Balance at December 31, 2020	**$ 337,380**	**$ 7,977,726**	**$ 1,119,839**	**$ 2,220,066**	**$ 11,655,011**
Balance at January 1, 2021	$ 337,380	$ 7,977,726	$ 1,119,839	$ 2,220,066	$ 11,655,011
Depreciation	96,716	1,413,877	268,888	334,173	2,113,654
Disposals/retirements	(6,795)	(230,605)	(155,736)	-	(393,136)
Balance at December 31, 2021	**$ 427,301**	**$ 9,160,998**	**$ 1,232,991**	**$ 2,554,239**	**$ 13,375,529**

c) Carrying amounts

	Land and buildings	Distribution substation equipment	Other distribution system equipment	Transformer station	Total
December 31, 2020	2,325,782	39,601,441	1,690,895	11,828,944	55,447,062
December 31, 2021	2,706,621	40,885,757	1,883,343	11,638,188	57,113,909

d) Borrowing costs

During the year, no borrowing costs (2021 – nil) were capitalized as part of the cost of property, plant and equipment.

9. Intangible assets and goodwill:

a) Cost or deemed cost

	Goodwill	Computer software	Land Rights	CCRA's	Total
Balance at January 1, 2020	$ 515,359	$ 1,650,805	$ 3,150	$ 966,935	$ 3,136,249
Additions	-	249,987	-	-	249,987
Disposals	-	(306,877)	-	-	(306,877)
Balance at December 31, 2020	**$ 515,359**	**$ 1,593,915**	**$ 3,150**	**$ 966,935**	**$ 3,079,359**
Balance at January 1, 2021	$ 515,359	$ 1,593,915	$ 3,150	$ 966,935	$ 3,079,359
Additions	-	77,945	-	-	77,945
Disposals	-	(252,888)	-	-	(252,888)
Balance at December 31, 2021	**$ 515,359**	**$ 1,418,972**	**$ 3,150**	**$ 966,935**	**$ 2,904,416**

b) Accumulated amortization

	Goodwill	Computer software	Land Rights	CCRA's	Total
Balance at January 1, 2020	$ -	**$ 788,910**	$ -	**$ 319,546**	**$ 1,108,456**
Amortization	-	268,063	-	54,473	322,536
Disposals	-	(306,877)	-	-	(306,877)
Balance at December 31, 2020	$ -	**$ 750,096**	$ -	**$ 374,019**	**$ 1,124,115**
Balance at January 1, 2021	**$ -**	**$ 750,096**	**$ -**	**$ 374,019**	**$ 1,124,115**
Amortization	-	243,875	-	54,473	298,348
Disposals	-	(252,888)	-	-	(252,888)
Balance at December 31, 2021	$ -	**$ 741,083**	$ -	**$ 428,492**	**$ 1,169,575**

c) Carrying amounts

	Goodwill	Computer software	Land Rights	CCRA's	Total
December 31, 2020	515,359	843,819	3,150	592,916	1,955,244
December 31, 2021	515,359	677,889	3,150	538,443	1,734,841

d) Goodwill impairment

Management has determined that the Corporation's rate regulated operations are one cash generating unit. Therefore, the goodwill was allocated to the Corporation as a whole. The annual impairment test is based on the Corporation's value in use. Value in use was determined by discounting the future cash flows of the Corporation and was based on the following key assumptions:

9. Intangible assets and goodwill:

d) Goodwill impairment (continued)

A detailed valuation of the Corporation was undertaken during 2021 based on financial results of the Corporation as at December 31, 2021. Cash flows were projected based on actual operating results and the cost of capital and rate of return as approved in the 2015 Cost of Service application. A discounted cash flow model was utilized based on free cash flows for 20 years, followed by a terminal value calculated based on a steady-state cash flow, with the terminal value within range of market-based terminal multiples. The recoverable amount of the Corporation was determined to be greater than the carrying value of goodwill and no impairment was recorded as at December 31, 2021 or December 31, 2020.

10. Income taxes:

Income tax expense	**2021**	**2020**
Current tax expense:		
Current year	$ 322,507	$ 234,092
Prior year	3,923	-
Total current tax expense	326,430	234,092
Deferred tax expense:		
Change in recognized deductible temporary differences	590,859	169,729
Total current and deferred income tax in profit or loss, before movement of regulatory balance	917,289	403,821
Other comprehensive income:		
Employee future benefits	(21,361)	(21,173)
Total current and deferred tax, before movement in regulatory balances	938,650	382,648
Net movement in regulatory balances	(612,220)	(148,556)
Income tax expense recognized in statement of comprehensive Income	**$326,430**	**$234,092**

Reconciliation of effective tax rate

	2021	**2020**
Income before taxes	$3,521,670	$1,452,030
Canada and Ontario statutory income tax rates	26.5%	26.5%
Expected tax provision on income tax at statutory rates	933,243	384,788
Increase (decrease) in income tax resulting from:		
Permanent differences	1,420	1,004
Recognized deductible temporary difference due from customers	(612,220)	(148,556)
Other	3,987	(3,144)
Income tax expense	**$ 326,430**	**$ 234,092**

10. Income taxes (continued):

	2021	2020
Deferred tax assets (liabilities):		
Property, plant, equipment and intangible assets	($1,968,063)	($1,554,949)
Employee future benefits	360,835	395,623
Other	298,241	462,560
	($1,308,987)	**($696,766)**

11. Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers as well as construction deposits. These customer deposits bear interest at the OEB's prescribed interest rate, which is the Bank of Canada's prime business rate less 2%.

Deposits from electricity distribution customers are refundable to customers demonstrating 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. Due to the demand nature of these deposits, they are classified as current liabilities.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, these deposits are transferred to deferred revenue.

Customer deposits comprise:

	2021	2020
Electricity deposits	$1,061,051	$ 979,437
Construction deposits	702,802	514,557
Total customer deposits	**$1,763,853**	**$1,493,994**
Consisting of:		
Short-term	$ 1,169,542	$ 1,054,198
Long-term	594,311	439,796

12. Employee future benefits:

(a) Employee future benefits, other than pension

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a group defined benefit plan. The Corporation has reflected its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements. The accrued benefit liability and the corresponding expense were based on results and assumptions determined by actuarial valuation as at December 31, 2021.

12. Employee future benefits (continued):

Changes in the present value of the defined benefit unfunded obligation and the accrued benefit liability:

	2021	2020
Defined benefit obligation, beginning of year	$ 1,492,917	$ 1,472,268
Included in profit or loss:		
Current service cost	39,189	34,138
Interest cost	37,165	42,136
	76,354	76,274
Included in OCI:		
Actuarial (gains) losses arising from changes in financial assumptions	(80,606)	79,899
Benefits paid during the year	(127,022)	(135,524)
Defined benefit obligation, end of year	**$1,361,643**	**$1,492,917**

The significant actuarial assumptions used in the valuation are as follows:

	2021	2020
Discount rate	3.00%	2.60%
Rate of compensation increase	2.50%	2.50%
Initial health care cost trend rate	4.70%	4.40%
Initial dental cost trend rate	4.90%	4.70%
Year that rate reaches the rate it is assumed to be	2040	2040
Cost trend rate declines to	4.00%	4.00%

Significant actuarial assumptions for benefit obligation measurement purposes are the discount rate and assumed medical and dental cost trend rates. The sensitivity analysis below has been determined based on reasonably possible changes in the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely these changes in assumptions would occur in isolation from each other. The approximate effect on the accrued benefit obligation of the entire plan and the estimated net benefit expense of the entire plan if the health care trend rate assumption was increased or decreased by 1%, and all other assumptions were held constant, is as follows:

	2021	2020
Benefit Obligation, end of year	$1,361,644	$1,492,917
1% increase in health care trend rate	50,156	46,183
1% decrease in health care trend rate	(44,744)	(41,417)
1% increase in discount rate	(167,544)	(185,717)
1% decrease in discount rate	215,456	241,083

(b) Pension plan

The Corporation provides a pension plan for its employees through the Ontario Municipal Employees Retirement System. The plan is a multi-employer, contributory defined benefit pension plan. In 2021, the Corporation made employer contributions of $353,752 to OMERS (2020 - $372,037). The Corporation’s net benefit expense has been allocated as follows:

- $134,426 (2020 - $141,374) capitalized as part of PP&E
- $180,413 (2020 - $189,739) charged to operating expenses
- $38,913 (2020 - $40,924) charged to CDM and billable work

12. Employee future benefits (continued):

(b) Pension plan (continued)

As at December 31, 2021, OMERS states that their plan was 97% funded (2020 – 97%). OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. The Corporation's contributions represent less than 1% of the total annual contributions to the OMERS plan.

13. Regulatory assets and liabilities:

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.

In the tables below, the "Additions" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts collected through rate riders or transactions reversing an existing regulatory balance. The "Other movements" column consists of reclassification between the regulatory debit and credit balances. For the years ended December 31, 2021 and 2020, the Corporation did not record any impairments related to regulatory debit balances.

	January 1, 2021	Additions	Recovery/ reversal	Other Movements	December 31, 2021	Notes
Regulatory deferral account debit balances						
Settlement (Group 1) variances	$ 1,605,348	$ 1,538,071	$ (203,135)	$ (345)	$ 2,939,939	(1)
Stranded meters	2,286	6	-	-	2,292	(2)
LRAM	494,049	(219,691)	(5,730)	-	268,628	(1)
Deferred Taxes	696,766	612,221	-	-	1,308,987	(4)
Rate application costs	8,008	-	-	-	8,008	(3)
	$ 2,806,457	**$1,930,607**	**$ (208,865)**	**$(345)**	**$ 4,527,854**	

	January 1, 2020	Additions	Recovery/ reversal	Other Movements	December 31, 2020	Notes
Regulatory deferral account debit balances						
Settlement (Group 1) variances	$ 301,257	$ 129,486	$ (153,653)	$ 1,328,258	$ 1,605,348	(1)
Stranded meters	2,271	15	-	-	2,286	(2)
LRAM	426,427	283,485	(215,863)	-	494,049	(1)
Deferred Taxes	548,210	148,556	-	-	696,766	(4)
Rate application costs	8,008	-	-	-	8,008	(3)
	$ 1,286,173	**$561,542**	**$ (369,516)**	**$1,328,258**	**$ 2,806,457**	

13. Regulatory assets and liabilities (continued):

	January 1, 2021	Additions	Recovery/ reversal	Other Movements	December 31, 2021	Notes
Regulatory deferral account credit balances						
Settlement (Group 1) variances	$ (1,507,500)	11,714	$ 208,865	$ 345	(1,286,576)	(1)
IFRS transition adjustments	(10,783)	-	-	-	(10,783)	(5)
PILS	(272,186)	(162,032)	-	-	(434,218)	
	$ (1,790,469)	**$ (150,318)**	**$ 208,865**	**$ 345**	**$ (1,731,577)**	

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	January 1, 2020	Additions	Recovery/ reversal	Other Movements	December 31, 2020	Notes
Regulatory deferral account credit balances						
Settlement (Group 1) variances	$ (759,239)	426,344	$ 153,653	$ (1,328,258)	(1,507,500)	(1)
IFRS transition adjustments	(10,783)	-	-	-	(10,783)	(5)
PILS	(140,394)	(131,792)	-	-	(272,186)	
	$ (910,416)	**$ 294,552**	**$ 153,653**	**$ (1,328,258)**	**$ (1,790,469)**	

1) The changes in settlement (Group 1) and LRAM balances outstanding from December 31, 2019 were approved for disposition as part of the 2021 IRM application with rates effective January 1, 2021 to be collected over a 12-month period.

2) As part of the 2015 COS application, the OEB approved the disposition of stranded meters through a rate rider effective May 1, 2015 (implemented June 1, 2015) with recovery over a 7-month period ending December 31, 2015. Since the residual balance is not material, it will remain in place until the next COS application.

3) The 2015 COS rate application costs were approved for recovery by the OEB and have been amortized over a forty-three-month period ending December 31, 2019.

4) Disposition is not requested for the deferred tax balance as it is being reversed through timing differences in the recognition of deferred tax assets. No carrying charges are calculated on this balance.

5) As part of the 2015 COS application, the OEB approved the disposition of the account 1575/76 IFRS transition account balance used to record the difference arising on adoption of new asset useful lives and overhead rates and write off of end-of-life assets. These account balances were included as a rate rider effective May 1, 2015 (implemented June 1, 2015) and were recovered over a 7-month period ended December 31, 2015. Since the residual balance is not material, it will remain in place until the next COS application.

Carrying charges are applied to all regulatory account balances at the OEB prescribed interest rates, with the exception of the deferred tax assets on which no carrying charges are applied.

As part of the Corporation's 2021 IRM application, the change in debit and credit balance settlement (Group 1) variance accounts occurring during fiscal 2019 were approved as part of 2020 distribution rates for recovery over a 12-month period commencing January 1, 2021. As such, the risk associated with the recovery of variance accounts is limited to the incremental value of non-settlement variances arising since 2019.

14. Long-term debt:

Long-term debt consists of the following:

	2021	2020
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 4.4% per annum, with payments of principal and interest of $100,585 due semi-annually, maturing June 15, 2025, secured by a general security agreement.	$ -	$813,214
Subordinate, secured loan advances from Infrastructure Ontario Projects Corporation (OIPC), bearing interest at 3.98% per annum, with payments of principal and interest of $13,733 due semi-annually, maturing October 1, 2025, secured by a general security agreement.	-	123,425
Royal Bank revolving term loan, bearing interest at 2.93%, plus a stamping fee of 0.42%, payable in monthly principal instalments of approximately $35,000 plus interest, increasing by $1,000 yearly until maturity on May 31, 2038, secured by a general security agreement.	10,366,000	10,841,000
Royal Bank loan, bearing interest at 2.62%, payable in monthly principal instalments of $19,768, maturing November 25, 2025, secured by a general security agreement.	882,194	-
Notes payable to shareholder, bearing interest at 7.25% per annum, with interest payments only, due on demand, unsecured.	15,600,000	15,600,000
	26,848,194	**27,377,639**
Less: current portion	16,307,717	16,264,985
Long-term debt	**$10,540,477**	**$11,112,654**

Interest rate swaps

The Corporation entered into an interest rate swap agreement on a notional principal of $14,000,000 effective May 31, 2013, which matures May 31, 2038. The swap is a receive-variable, pay-fixed swap with the Royal Bank. This agreement has effectively converted variable interest rates to an effective fixed interest rate of 2.93% plus stamping fee of 0.42% on the Royal Bank revolving term loan. The stamping fee is subject to change every 10 years, with the first maturity being May 31, 2023.

During the year, the Corporation entered into an interest rate swap agreement on a notional principal of $5,000,000. The Corporation has not yet made any draws on this available credit and is not required to do so until the effective date of December 31, 2024. This agreement has effectively converted variable interest rates to an effective fixed interest rate of 2.51% plus stamping fee of 0.42% on the Royal Bank revolving term loan.

The Corporation has determined these swaps do not meet the standard to apply hedge accounting. Since the standard is not met, the interest rate swap contracts have been recorded at their fair value at December 31, 2021 with the combined unrealized gain for the year of $646,085 (2020 – loss of $840,798) recorded as finance cost in the statement of comprehensive income.

14. Long-term debt continued:

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

	Current and long-term debt	Dividends payable	Retained earnings	Total (financing cash flows)
Balance at January 1, 2021	$ 27,377,639	$ 115,211	$ 12,861,747	
Dividends paid	-	(115,211)	(390,330)	$ (505,541)
Proceeds from long-term debt	900,000	-	-	900,000
Repayments of long-term debt	(1,429,445)	-	-	(1,429,445)
Total changes from financing cash flows	**$ (529,445)**	**$ (115,211)**	**$ (390,330)**	**$ (1,034,986)**
Dividend declared but not paid	-	500,556	(500,556)	-
Net income after net movements in regulatory balances	-	-	3,114,634	-
Balance at December 31, 2021	$ 26,848,194	$ 500,556	$ 15,085,495	$ -

15. Share capital:

	2021	2020
Authorized:		
Unlimited Class A special shares, non-cumulative, 5.0%		
Unlimited Class B special shares		
Unlimited Common shares		
Issued:		
6,100 Class A special shares	$ 6,100,000	$ 6,100,000
6,995 Common shares	9,468,388	9,468,388
	$ 15,568,388	**$15,568,388**

Dividends paid on the 6,100 class A special shares during the year totalled $152,500 (2020 - $152,500). Dividends paid on the 6,995 common shares during the year totalled $738,386 (2020 - $448,310). A common share dividend was declared on December 15, 2021 and is payable on all common shares on record at December 31, 2021, with the dividend to be paid in 2022. The dividend amount payable at December 31, 2021 is $500,556 (2020 - $115,211).

16. Revenue from Contracts with Customer:

The Corporation generates revenue primarily from the sale and distribution of electricity to its customers. Sources of revenue are as documented in the table below.

	2021 Sale of Energy	2021 Distribution Revenue	2020 Sale of Energy	2020 Distribution Revenue
Residential	$ 16,035,245	$ 6,695,809	$ 21,131,596	$ 6,543,961
Commercial	39,685,538	4,553,668	47,992,316	4,711,664
Large Users	2,653,924	321,241	2,657,490	316,735
Other	1,185,095	11,980	316,367	34,703
	$ 59,559,802	**$ 11,582,698**	**$ 72,097,769**	**$ 11,607,063**

17. Other income:

	2021	2020
Collection, late payment and other service charges	$ 187,699	$ 133,886
Pole attachment and other rental income	128,767	148,673
Miscellaneous	852,693	674,322
Solar generation	26,725	25,475
	$ 1,195,884	**$ 982,356**

Collection, late payment and other service charges are based on service charge rates and retailer rates as approved by the OEB. Pole attachment and other rentals consist primarily of pole attachment charges and charges for office and service centre space.

Miscellaneous includes revenues from City of Stratford and Town of St. Marys water and sewage billing services, street lighting services, management fees charged to Festival Hydro Services Inc. and other revenue sources.

18. Operating expenses:

	2021	2020
Salaries and benefits	$ 3,003,417	$ 3,334,933
External services	1,664,018	1,479,756
Materials and supplies	624,585	633,419
Other support costs	722,794	632,171
	$ 6,014,814	**$ 6,080,279**

19. Finance income and costs:

	2021	2020
Interest income on loan to corporation under common control	$ 13,587	$ 20,833
Interest on bank account	2,991	4,774
Interest on written off trade receivables	1,867	1,070
Finance income	**$ 18,445**	**$ 26,677**
Interest expense on demand notes payable	$1,131,000	$1,131,000
Interest expense on long-term debt	378,136	418,654
Interest on revolving credit facility	24,449	52,112
Interest expense on deposits	6,207	9,274
Unrealized (gain) loss on interest rate swap	(646,085)	840,799
Other interest expense	64,457	-
Finance costs	**$ 958,164**	**$2,451,839**
Net finance costs	**$ 939,719**	**$2,425,162**

Other interest expenses of $64,457 are related to accrued interest and discharge fees for the early payment of the Infrastructure Ontario Projects Corporation (OIPC) loans with a combined principal payout of $842,668.

20. Related party transactions:

a) *Parent and ultimate controlling party*

The parent and sole shareholder of the Corporation is the Corporation of the City of Stratford (the "City"). The City of Stratford produces financial statements that are available for public use.

b) *Key management personnel*

The key management personnel of the Corporation has been defined as members of its Board of Directors and executive management team members. Total compensation of key management in 2021 was $662,748 (2020 - $628,468).

20. Related party transactions (continued):

(b) Transactions with the Corporation of the City of Stratford

The following summarizes the Corporation's related party transactions, recorded at the exchange amounts, with the parent, the City of Stratford, for the years ended December 31:

	2021	2020
Revenues:		
Energy sales	$ 1,612,278	$ 1,807,165
Water and sewer administration fee	494,093	490,245
Street lighting services	34,878	36,327
Service centre space rental	27,638	29,942
Total revenues	$ 2,168,887	$ 2,363,679
Expenses:		
Interest on demand notes payable	$ 1,131,000	$ 1,131,000
Property taxes	118,062	126,361
Tree trimming	78,073	65,163
Total expenses	$ 1,327,135	$ 1,322,524

	December 31, 2020	December 31, 2020
Receivable balances:		
Accounts receivable	$ 370,838	$ 370,627
Payable balances:		
Accounts payable and accrued charges	$ 996,298	$ 1,002,564
Demand notes payable	15,600,000	15,600,000
Dividends payable	500,556	115,211
Total payables	$17,096,854	$16,717,775

The net amount owing to the Corporation of the City of Stratford for accounts receivable, accounts payable and accrued charges is $625,460 (2020 - $631,937).

Dividends paid or payable	$ 890,886	$ 600,810

20. Related party transactions (continued):

(c) Transactions with corporations under common control of the parent

The following summarizes the Corporation's related party transactions, recorded at the exchange amounts, with Festival Hydro Services Inc., a wholly-owned subsidiary of the City of Stratford, for the years ended December 31:

	2021	2020
Revenues:		
Operational services	$ 40,872	$ 36,333
Management fee	57,518	50,454
Office and fibre room rentals	1,225	7,304
Joint pole rentals	71,311	70,321
Interest earned	13,712	20,833
Energy sales	25,687	21,604
Water billing and collection services	73,410	71,980
Total revenues	$283,735	$278,829
Expenses:		
Fiber and WIFI services	$154,148	$154,148
Information technology and management services	128,117	174,047
Total expenses	$282,265	$328,195

Receivable balance:	December 31, 2021	December 31, 2020
Due from corporations under common control	$332,803	$627,071

21. Capital management:

The Corporation's main objectives when managing capital is to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system;
- ensure sufficient liquidity is available (either through cash and cash equivalents or committed credit facilities) to meet the needs of the business;
- ensure compliance with covenants related to its credit facilities; and
- prudent management of its capital structure with regard to recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios. The Corporation manages capital by preparing short-term and long-term cash flow forecasts, statements of financial position and comprehensive statements of income. In addition, the Corporation accesses its revolving credit facility to fund net periodic net cash outflows and to maintain available liquidity.

There have been no changes in the Corporation's approach to capital management during the year. As at December 31, 2021, the Corporation's definition of capital included borrowings under its revolving credit facility, long-term debt and obligations including the current portion thereof, and equity, and had remained unchanged from the definition as at December 31, 2020. As at December 31, 2021, equity amounted to $30,296,146 (2020 - $27,991,792), borrowings in the form of demand notes payable and long-term debt, including the current portion thereof, amounted to $26,848,194 (2020 - $27,377,639) and the revolving credit facility amounted to $17,428 (2019 - $978,849).

21. Capital management (continued):

The OEB regulates the amount of deemed interest on debt and rate of return that may be recovered by the Corporation, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure and finance costs for the Corporation may differ from the OEB deemed structure.

The Corporation is subject to debt agreements that contain various covenants. The Corporation's credit agreement with Royal Bank provides a revolving demand facility, letter of guarantee which is posted with the IESO as prudential support, and a long-term loan facility. These combined facilities are subject to a funded indebtedness debt to equity ratio of no more than 65%. Long term lending arrangements with Infrastructure Ontario ("OICP") are subject to meeting a debt to equity test of no greater than 75:25 and debt servicing ratio of no less than 1.30 times.

The Corporation has customary covenants typically associated with long-term debt. As at December 31, 2021 and December 31, 2020, the Corporation was in compliance with all with all credit agreement covenants and limitations associated with its long-term debt.

22. Financial instruments and risk management:

Fair value disclosure

The carrying values of accounts receivable, unbilled revenue, and the revolving term facility, accounts payable and accrued liabilities approximate their fair values due to the short maturity of these instruments. The fair values of customer deposits approximate their carrying amounts taking into account interest accrued on the outstanding balance. Cash is measured at fair value.

The swap agreements are measured at fair value, which is provided by a third-party, banking institution and is based on market rates at the date of the valuation. The valuation of the interest rate swaps resulted in an unrealized loss recorded on the statement of financial position at December 31, 2021 of $938,948 (2020 - $1,585,033).

The fair value of the long-term borrowings 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 carrying amounts and fair values of the Corporation's long-term loans consist of the following:

22. Financial instruments and risk management (continued):

	2021	2020
Carrying amounts:		
Demand notes payable, 7.25%	$15,600,000	$15,600,000
OIPC 4.4% maturing June 15, 2025	-	813,214
OIPC 3.98% maturing October 1, 2025	-	123,425
Term Loan 2.93% maturing May 1, 2038 plus stamping fee of 0.42% maturing May 1, 2023	10,366,000	10,841,000
Term Loan 2.62% maturing November 25, 2025	882,194	-
Total	**$26,848,194**	**$27,377,639**

	2021	2020
Fair values:		
Demand notes payable valued based on current revolving credit facility rate of 3.95%	$16,422,603	$16,886,583
OIPC 4.4% maturing June 15, 2025 using current OIPC 15-year rate of 3.20%	-	830,131
OIPC 3.98% maturing October 1, 2025, using current OIPC posted 15-year rate of 3.20%	-	125,074
Term Loan 2.93 % plus stamping fee of 0.42% maturing May 1, 2023, booked at market value	11,304,948	12,426,033
Term Loan 2.62% maturing November 25, 2025, booked at market interest rate of 2.95%	865,230	-
Total	**$28,592,781**	**$30,267,821**

Financial risks

The following is a discussion of financial risks and related mitigation strategies that have been identified by the Corporation for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed. The Corporation's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

a) *Credit risk*

The Corporation is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The Corporation's credit risk associated with accounts receivable and unbilled revenue is primarily related to electricity bill payments from electricity customers. The Corporation obtains security deposits from certain customers in accordance with direction provided by the OEB and as outlined in the Corporation's conditions of service. As of December 31, 2021, the Corporation held security deposits related to electricity receivables in the amount of $1,061,051 (2020 - $979,437).

22. Financial instruments and risk management (continued):

(a) *Credit risk (continued)*

As at December 31, 2021, there were no significant concentrations of credit risk with respect to any one customer. No single customer accounts for revenue in excess of 5% of total distribution revenue. The Corporation earns its revenue from a broad base of approximately 21,000 customers (2020 - 21,000 customers) located throughout its service territory.

The credit risk and mitigation strategies with respect to unbilled revenue are the same as for accounts receivable. The credit risk related to cash is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties.

Credit risk associated with electricity accounts receivable and unbilled revenue (electricity only) is as follows:

	2021	**2020**
Not more than 30 days	$4,578,967	$4,602,942
More than 30 but less than 90 days	273,450	430,049
More than 90 days	99,043	101,286
Less allowance for impairment	(178,684)	(152,434)
Unbilled revenue	5,230,771	6,371,221
	$10,003,547	**$11,353,064**

As at December 31, 2021, the Corporation's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional allowance for impairment was required for these balances.

Reconciliation between the opening and closing allowance for impairment is as follows:

	2021	**2020**
Balance, beginning of year	$ 152,435	$ 153,172
Provision for impairment	120,944	39,720
Write offs	(108,245)	(55,346)
Recoveries	13,550	14,889
Balance, end of year	**$ 178,684**	**$ 152,435**

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at year end. Unbilled revenue is considered current and no provision for impairment was established as at December 31, 2021 (2020 – nil).

(b) *Interest rate risk*

The Corporation is exposed to fluctuations in interest rates for the valuation of its employee future benefit obligations (note 12). The Corporation is also exposed to short-term interest rate risk on the net of cash position and short-term borrowings under its Revolving Credit Facility and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments and taking action as necessary to maintain an appropriate balance.

22. Financial instruments and risk management (continued):

(b) Interest rate risk (continued)

As at December 31, 2021, aside from the valuation of its employee future benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its revolving credit facility and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase in short-term interest rates, with all other variables held constant, would result in an increase of approximately $17,921 (2020 - $36,424) to annual finance costs. A decrease of 100 basis points would result in a reduction in financing costs of $17,921 (2020 – $36,424).

(c) Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. The Corporation has access to credit facilities and monitors cash balances daily. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs.

The Corporation has a revolving credit facility available of $10,000,000 with a Canadian chartered bank. As at December 31, 2021, $17,428 (2020 - $978,849) was drawn on this facility.

As a purchaser of electricity through the Independent Electricity System Operator ("IESO"), the Corporation is required to provide security to minimize the risk of default based on its expected activity in the market. The IESO may draw on this security if the Corporation fails to make payment required by a default notice issue by the IESO. The Corporation has a $3.6 million revolving term facility by way of a letter of guarantee with Royal Bank, of which $3,095,139 (2020 - $3,095,139) has been assigned to secure the prudential support required by the IESO.

The majority of accounts payable, as reported on the statement of financial position, is due within 30 days.
Liquidity risks associated with financial commitments are as follows:

22. Financial instruments and risk management (continued):

Contractual cash flows, including interest, at year end are:

December 31, 2021

	Carrying Amounts	Total	Due within 1 year	Due within 1 to 5 years	Due> 5 years
Revolving credit facility	$ 17,428	$ 17,428	$ 17,428	$ -	$ -
Accounts payable and accrued liabilities	9,902,642	9,902,642	9,902,642	-	-
Due to City of Stratford	625,460	625,460	625,460	-	-
Demand notes payable	15,600,000	15,600,000	15,600,000	-	-
Term Loan 2.93 % plus stamping fee of 0.42% maturing May 1, 2038	10,366,000	13,475,135	829,817	3,311,494	9,333,824
Term Loan 2.62% maturing November 25, 2025	882,194	929,115	237,221	691,894	-
	$ 37,393,724	$ 40,549,780	$ 27,212,568	$ 4,003,388	$ 9,333,824

December 31, 2020

	Carrying Amounts	Total	Due within 1 year	Due within 1 to 5 years	Due> 5 years
Revolving credit facility	$ 978,849	$ 978,849	$ 978,849	$ -	$ -
Accounts payable and accrued liabilities	8,587,712	8,587,712	8,587,712	-	-
Due to City of Stratford	631,937	631,937	631,937	-	-
Demand notes payable	15,600,000	15,600,000	15,600,000	-	-
OIPC 4.4% maturing June 15, 2025	813,214	905,261	201,169	704,092	-
OIPC 3.98% maturing October 1, 2025	123,425	137,333	27,467	109,866	-
Term Loan 2.93 % plus stamping fee of 0.42% maturing May 1, 2038	10,841,000	14,306,001	830,867	3,315,535	10,159,599
	$ 37,576,137	$ 41,147,093	$ 26,858,001	$ 4,129,493	$ 10,159,599

(d) Impact of COVID-19

The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. The Government of Ontario originally announced a state of emergency on March 17, 2020 which remained in effect until July 24, 2020 when the Reopening Ontario Act, 2020 was introduced provided for restrictive orders. A secondary state of emergency was declared effective January 14, 2021 until February 16, 2021 and third state of emergency was declared effective April 9, 2021 until May 6, 2021. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to businesses globally and in Ontario resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The OEB has informed the Corporation that it is to track COVID-19 related expenses including bad debt expenses through a deferral account for potential future recovery. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Corporation's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time.

23. Commitments and contingencies:

Operating leases

The Corporation entered into a non-cancellable operating lease for service centre space for a period of five years dated November 15, 2015. The contract is subject to an annual increase based on the Ontario Consumer Price Index. Minimum lease payments required are $943 per month for 2021.

Connection and cost recovery agreement - St. Mary's transformer station

The Corporation and Hydro One Networks Inc. entered into a twenty-five-year capital cost recovery agreement ("CCRA") in September 2002 relating to Hydro One Networks Inc. building new feeder positions at the existing St. Mary's Transformer Station. Under the terms of the agreement, the Corporation has guaranteed new load growth which, if not met, would require the Corporation to provide a financial contribution toward the capital investment of the transformer station.

The CCRA has been trued-up effective July 5, 2013. Since load growth had fallen below a target amount, a cumulative contribution in the amount of $550,200 has been paid to Hydro One Networks. This amount has been recorded as an intangible asset subject to 15-year amortization over the remaining life of the agreement. The agreement was subject to true up effective on the fifteenth year of the agreement in July 2018 however, this has not been completed by Hydro One Inc. It is possible that the Corporation may owe a further payment as a result of the agreement but an estimate of any amount owing is not possible at December 31, 2021 given the nature of the variables included in the calculation. The need for a contribution will be determined by Hydro One Networks Inc. based on actual new load growth.

Connection and cost recovery agreement-Stratford transformer station ("Festival Hydro MTS1")

The Corporation and Hydro One Networks Inc. entered into a twenty-five-year CCRA in November, 2012, relating to Hydro One Networks Inc. building a new 230kV line to connect Festival Hydro`s MTS1 to Hydro One`s 230kV circuit. Under the terms of the agreement, the Corporation has guaranteed new load growth which, if not met, would require the Corporation to provide a financial contribution toward the capital investment. The CCRA is trued-up (a) following the fifth and tenth anniversaries of the in-service date; and (b) following the fifteenth anniversary of the in-service date if the actual load is 20% higher or lower than the load forecast at the end of the tenth anniversary of the in-service date. The fifth anniversary of the in-service date was in November 2017. The need for a contribution will be determined by Hydro One Networks Inc. based on actual new load growth.

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 electrical utilities 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. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2021, no assessments had been made.

24. Guarantee:

The Corporation has guaranteed the bank loan of QR Fibre, a company related through common ownership, to the extent of $4,500,000. In addition, the Corporation has entered into a Guarantee Indemnification Agreement to ensure compliance with the Affiliation Relationships code for Electricity Distributors and Transmitters and mitigate its risk exposure. No amount has been recorded in these financial statements as the Corporation does not expect to have to honour its guarantee.