CAMBRIDGE AND NORTH DUMFRIES ENERGY PLUS INC.

Consolidated Financial Statements

Year Ended December 31, 2019

(Expressed in thousands of dollars)

Energy+

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Consolidated Financial Statements
Year Ended December 31, 2019

Contents

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cambridge and North Dumfries Energy Plus Inc.

Opinion

We have audited the consolidated financial statements of Cambridge and North Dumfries Energy Plus Inc. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

April 6, 2020

CAMBRIDGE AND NORTH DUMFRIES ENERGY PLUS INC.

Consolidated Statements of Financial Position
As at December 31, 2019, with comparative information for 2018
(in thousands of Canadian dollars)

	December 31, 2019	December 31, 2018
Assets		
Current Assets:		
Cash and cash equivalents (note 4)	$ -	$ 4,168
Accounts receivable	19,010	20,946
Unbilled revenue	20,166	18,656
Inventories (note 5)	2,404	2,540
Recoverable payments in lieu of taxes	218	-
Other assets	458	665
Total current assets	**42,256**	**46,975**
Non-current assets:		
Property, plant & equipment (note 6)	181,121	171,646
Goodwill (note 7)	18,965	18,965
Investment in associate (note 8)	743	842
Total non-current assets	**200,829**	**191,453**
Total Assets	**243,085**	**238,428**
Regulatory deferral account debit balances (note 9)	4,978	6,765
Deferred tax asset (liability) associated with regulatory deferral account balances	(2,393)	(1,856)
	2,585	4,909
Total Assets and Regulatory Deferral Account Debit Balances	**$ 245,670**	**$ 243,337**

CAMBRIDGE AND NORTH DUMFRIES ENERGY PLUS INC.

Consolidated Statements of Financial Position (continued)
As at December 31, 2019, with comparative information for 2018
(in thousands of Canadian dollars)

	December 31, 2019	December 31, 2018
Liabilities		
Current Liabilities:		
Bank indebtedness	$ 940	$ -
Accounts payable and accrued liabilities	25,351	24,687
Payable in lieu of corporate taxes	-	35
Intercompany debt (note 16)	3,020	3,020
Current portion of long-term debt (note 10)	35,000	-
Customer deposits (note 13)	8,173	7,452
Lease liabilities – current (note 14)	130	-
Current liabilities	**72,614**	**35,194**
Non-Current Liabilities		
Long-term debt (note 10)	49,554	84,536
Customer deposits (note 13)	3,049	3,007
Employee future benefit costs (note 12)	2,514	3,318
Deferred revenue	19,418	15,773
Deferred tax liability (note 11)	6,616	5,148
Lease liabilities (note 14)	97	-
Total non-current liabilities	**81,248**	**111,782**
Total Liabilities	**153,862**	**146,976**
Shareholders' Equity		
Share capital (note 15)	41,034	41,034
Accumulated other comprehensive gain (loss)	175	(220)
Retained earnings	55,687	52,754
Total shareholders' equity	**96,896**	**93,568**
Total Liabilities and Shareholders' Equity	**250,758**	**240,544**
Regulatory deferral account credit balances (note 9)	3,941	9,780
Deferred tax (asset) liability associated with regulatory deferral account balances	(9,029)	(6,987)
	(5,088)	2,793
Total Liabilities, Equity and Regulatory Deferral Account Credit Balances	**$ 245,670**	**$ 243,337**

See accompanying notes to financial statements.

CAMBRIDGE AND NORTH DUMFRIES ENERGY PLUS INC.

Consolidated Statements of Comprehensive Income
Year Ended December 31, 2019, with comparative information for 2018
(in thousands of Canadian dollars)

	2019	2018
Revenues:		
Energy sales (note 17)	$ 196,662	$ 190,139
Distribution revenue (note 17)	34,773	34,471
Other income from operations (note 18)	2,748	1,930
Total revenues	234,183	226,540
Expenses:		
Energy purchases	201,047	192,506
Operating expenses	19,204	18,295
Depreciation and amortization and related costs	6,600	6,109
Total expenses	226,851	216,910
Income from operating activities	7,332	9,630
Other expenses:		
(Gain)/loss on disposal of property, plant, and equipment	438	(113)
Finance income (note 19)	(317)	(295)
Finance charges (note 19)	4,355	4,160
Income before payments in lieu of corporate taxes	2,856	5,878
Income tax expense (note 11)	1,940	2,071
Income for the year before net movements in regulatory deferral account balances	916	3,807
Net movements in regulatory deferral account balances, net of tax	5,541	3,156
Net income for the year after net movements in regulatory deferral account balances	6,457	6,963
Net (loss) from equity investment in associate	(99)	(189)
Net income before other comprehensive loss	6,358	6,774
Other comprehensive income (loss), net of tax:		
Actuarial gain on employee future benefits (note 12)	538	155
Income tax recovery (expense) on other comprehensive income (loss)	(143)	(41)
Other comprehensive income (loss), net of tax	395	114
Total comprehensive income, for the year	**$ 6,753**	**$ 6,888**

See accompanying notes to financial statements.

CAMBRIDGE AND NORTH DUMFRIES ENERGY PLUS INC.

Consolidated Statements of Changes in Equity
Year Ended December 31, 2019, with comparative information for 2018
(in thousands of Canadian dollars)

	Share Capital	Acc. Other Comprehensive Gain (Loss)	Retained Earnings	Total
Balance, January 1, 2018	**$ 41,034**	**$ (334)**	**$ 49,986**	**$ 90,686**
Net income			6,774	6,774
Other comprehensive gain		114		114
Dividends			(4,006)	(4,006)
Balance, December 31, 2018	**$ 41,034**	**$ (220)**	**$ 52,754**	**$ 93,568**
Net income			6,358	6,358
Other comprehensive gain		395		395
Dividends			(3,425)	(3,425)
Balance, December 31, 2019	**$ 41,034**	**$ 175**	**$ 55,687**	**$ 96,896**

See accompanying notes to financial statements.

CAMBRIDGE AND NORTH DUMFRIES ENERGY PLUS INC.

Consolidated Statements of Cash Flows
Year Ended December 31, 2019, with comparative information for 2018
(in thousands of Canadian dollars)

	2019	**2018**
Cash provided by (used in):		
Operating activities		
Total comprehensive income	$ 6,753	$ 6,888
Items not affecting cash:		
Depreciation and amortization	6,748	6,199
Amortization on right-of-use assets	123	-
Interest on lease liabilities	11	-
Amortization of deferred revenue	(426)	(364)
Amortization of deferred financing costs	18	18
(Gain)/loss on disposal of capital assets	438	(113)
Net loss from equity investment in associate	99	189
Increase (decrease) in non-current customer deposits	42	1,425
Income tax expense	2,083	2,112
Post-employment benefits	(804)	(56)
	15,085	16,298
Income taxes (paid)	(868)	(1,459)
Capital contributions received	4,071	5,263
Net change in non-cash operating working capital (note 23)	2,154	(5,013)
	20,442	**15,089**
Financing activities		
Dividends paid (note 15)	(3,425)	(4,006)
Payments of lease liabilities	(127)	-
	(3,552)	**(4,006)**
Investing activities		
Purchase of property, plant and equipment	(16,597)	(15,683)
Investment in associate	-	(1,000)
Proceeds on disposal of property, plant and equipment	53	1,468
Net movements in regulatory balances	(5,454)	(3,066)
	(21,998)	**(18,281)**
(Decrease) increase in cash and cash equivalents	(5,108)	(7,198)
Cash and cash equivalents beginning of year	4,168	11,366
(Bank indebtedness) cash and cash equivalents, end of year	**$ (940)**	**$ 4,168**

See accompanying notes to financial statements.

1. Reporting entity

Cambridge and North Dumfries Energy Plus Inc. (the "Corporation") was incorporated under the Business Corporations Act (Ontario) on January 1, 2000. The Corporation is an investment holding company with a 100% ownership interest in Energy+ Inc. (Energy+) and Cambridge and North Dumfries Energy Solutions Inc. (“Energy Solutions”). The Corporation (through Energy Solutions) owns a 1/3 interest in Grand River Energy Solutions Corp. (“GRE”).

The City of Cambridge and the Township of North Dumfries are the sole shareholders of Energy Plus with a shareholding of 92.1% and 7.9% respectively. The address of the Corporation’s registered office is 1500 Bishop St., Cambridge, Ontario, Canada.

Energy+ is a rate regulated, municipally owned electricity distribution company that delivers electricity and related utility services to approximately 67,000 customers in the City of Cambridge, the Township of North Dumfries, and within the County of Brant.

Energy Solutions is an unregulated services company; the scope of which currently comprises streetlight maintenance and business development activities.

GRE is an unregulated generation and renewable energy solutions company. GRE is jointly owned by the Corporation, Kitchener Power Corp., and Waterloo North Hydro Holding Corporation.

2. Basis of presentation:

(a) **Statement of compliance:**

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

(b) **Approval of the financial Statements:**

The financial statements were approved by the Board of Directors on April 2, 2020.

(c) **Basis of measurement:**

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

i. Financial instruments, where held, are measured at fair value and any change in value is recorded through profit or loss.

ii. Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 24.

2. Basis of presentation (continued):

(d) **Functional and presentation currency:**

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

(e) **Use of estimates and judgments:**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

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

i. Note 3 (l) Revenue recognition: determination of the performance obligation for contributions from customers and the related amortization period.

ii. Note 3 (m) Leases: measurement of leases, including term and discount rate.

iii. Note 6 - Property, plant and equipment: estimation of useful lives of its property, plant and equipment and intangible assets.

iv. Note 12 - Employee future benefits: estimation provided by third party Actuarial firm.

(f) **Rate regulation:**

The Corporation is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Corporation, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

2. Basis of presentation (continued):

(f) Rate regulation (continued):

Distribution revenue

For the distribution revenue included in electricity sales, the Corporation files a “Cost of Service” (“COS”) rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenses, debt and shareholder’s equity required to support the Corporation’s business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and intervenors and rates are approved based upon this review, including any revisions resulting from that review.

Rate setting:

In the intervening years an Incentive Rate Mechanism application (“IRM”) is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year’s rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand (“GDP IPI-FDD”) net of a productivity factor and a “stretch factor” determined by the relative efficiency of an electricity distributor.

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

In April 2018, the Corporation filed a 2019 COS application requesting new rates effective January 1, 2019. On August 1, 2019, the OEB issued a Decision to approve the Corporation’s 2019 rates. The approved rates were effective January 1, 2019, and implemented on August 1, 2019.

In August 2019, the Corporation filed a 2020 IRM application seeking approval for an increase in rates effective January 1, 2020. The GDP IPI-FDD for 2020 was 2.00%, the Corporation’s productivity factor was nil and the stretch factor was 0.15%, resulting in a net adjustment of 1.85% to rates effective January 1, 2020. On January 2, 2020, the OEB issued a Decision and rate order approving the 2020 rates and providing for other deferral and variance account dispositions.

2. Basis of presentation (continued):

(f) Rate regulation (continued):

Electricity rates

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The 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 to all years presented in these consolidated financial statements, except for (m) Leases which the Corporation adopted effective January 1, 2019. The details of the changes in accounting policies are disclosed in note 26.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries: (i) Energy+; and (ii) Energy Solutions. The Corporation's investment in GRE is accounted for in the consolidated financial statements using the equity method of accounting.

Subsidiaries are entities controlled by the Corporation. The financial statements of the subsidiaries are included in these consolidated financial statements from the date on which control commences until the date on which control ceases.

Associates are investments over which the Corporation has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee. Equity accounting involves recording the investment in associates initially at cost, and adjusting the carrying value of the investment from the date of acquisition based on the Corporation's share of the profit or loss of the associates included in the consolidated income statement.

All significant inter-company accounts and transactions have been eliminated.

(b) Financial instruments

Financial assets are classified into one of three primary categories depending on the Corporation's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets: (i) amortized costs; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL").

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

At the time of initial recognition, financial assets included in the categories of amortized cost or FVOCI are measured at fair value plus transaction costs, and financial assets included in the category of FVTPL are measured at fair value with transaction costs expensed in profit or loss.

Subsequent measurement of the financial asset depends on the classification determined at initial recognition. Financial assets are not reclassified subsequent to their initial recognition, unless the Corporation changes its business model for managing financial assets.

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

The Corporation does not enter into derivative instruments. Hedge accounting has not been used in the preparation of these financial statements.

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

(c) Inventory

Inventory, which consists of parts and supplies acquired for internal construction or consumption for the maintenance of capital assets, is valued at the lower of cost and net realizable value. Cost is determined on a weighted moving average basis.

(d) Property, plant and equipment

Property, plant and equipment ("PP&E") are measured at historical cost or deemed cost, less accumulated depreciation and any accumulated impairment losses, if applicable.

If significant parts of an item of PP&E have different useful lives, then they are accounted for as separate major components of PP&E.

The cost of PP&E represents the original cost, consisting of direct materials and labour, contracted services, engineering costs, directly attributable overheads, and any other costs directly attributable to bringing the asset to a working condition for its intended use. Costs incurred to remove an existing asset from service that are not directly attributable to site preparation for the construction of new assets are expensed.

(in thousands of Canadian dollars)

3. Significant accounting policies (continued):

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

The carrying amount of a replaced item of PP&E is derecognized and the related loss is recorded within depreciation and amortization. The gain or loss on disposal of an item of PP&E is determined as the difference between the sale proceeds less the carrying amount of the asset and costs of removal and is recognized in the consolidated statements of income.

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

Construction in progress comprises capital assets under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

Depreciation is recognized in net income on a straight-line basis over the estimated useful life of each part or component of an item of PP&E. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follow:

	Estimated Service Life
Buildings	5 – 80 years
Transformer Station Equipment	15 – 60 years
Distribution Transformers	20 – 80 years
Distribution System	15 – 99 years
Meters	10 – 45 years
System Supervisory Equipment	15 years
Other Capital Assets	3 – 20 years

(e) Goodwill

Goodwill arising on the acquisition of subsidiaries or an amalgamation is measured at cost and is not amortized.

(f) Impairment

i. Financial assets measured at amortized cost:

Loss allowances for accounts receivable and unbilled revenue are measured at an amount equal to the lifetime expected credit losses that result from all possible default events over the expected life. Expected credit losses are recognized in profit or loss.

3. Significant accounting policies (continued):

(f) Impairment (continued):

ii. Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than 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 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 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. For assets other than goodwill, impairment recognized in prior periods is 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.

(g) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3. Significant accounting policies (continued):

(h) Regulatory deferral accounts:

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution 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 capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The debit balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

Regulatory deferral account credit balances are recognized if it is probable that future billings in an amount at least equal to the credit balance will be reduced as a result of rate-making activities. The offsetting amount is recognized in profit and loss. The credit balance is reduced by the amounts returned to customers as electricity is delivered to the customer at rates approved by the OEB for the return of the regulatory account credit balance.

The probability of recovery or repayment of the regulatory account balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover or repay the balance. Any resulting impairment loss is recognized in profit and loss in the year incurred.

Regulatory deferral accounts attract interest at OEB prescribed rates. In 2019 the rate was 2.45% until March 31, 2019 and 2.18% from April 1 ,2019 to December 31, 2019.

(i) Customer deposits

Customers may be required to post security to obtain electricity or other services. These amounts are recorded in the accounts as deposits, which are reported separately from the Corporation’s own cash and cash equivalents. Interest is paid in accordance with the OEB regulations with interest rates based on a variable rate of prime less 2.0%, updated quarterly.

3. Significant accounting policies (continued):

(j) Employee benefits

i. Pension plan

The Corporation provides a pension plan for its full-time employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards.

Participation in OMERS requires employers and employees to make contributions based on participating employee's contributory earnings.

OMERS is a defined benefit plan, however, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan as a defined benefit plan. Consequently, the plan has been accounted for as a defined contribution plan and the Corporation recognizes the expense related to this plan as an employee benefit expense in net income when contributions are due.

ii. Post-employment benefits other than pension

The Corporation pays certain medical, dental, and life insurance benefits under unfunded defined benefit plans on behalf of its retired employees.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and current service cost are actuarially determined by applying the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimates. The amount of the obligation is determined from actuarial valuations performed every three years. In the years between valuations, an extrapolation is used.

Actuarial gains and losses arising from defined benefit plans are recognized immediately in other comprehensive income and reported in retained earnings.

iii. Short-term employee benefits

The Corporation provides a short-term non-vesting sick-leave benefit to its employees. Actuarial gains and losses on accumulated sick leave credits are recognized in the consolidated statements of comprehensive income in the period in which they arise.

3. Significant accounting policies (continued):

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

(l) Revenue recognition

i. Energy sales and distribution revenue

The Corporation assesses each contract with the customer to identify the performance obligation. Revenue is recognized when the control of the goods or services has been transferred to the customer at a point in time or over time. The transaction price and the payment terms are agreed upon in the contract between the Corporation and the customer.

Revenues from energy sales and electricity distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. The performance obligation is satisfied over time when the electricity is simultaneously received and consumed by the customer. The majority of billing cycles and payment terms are on a monthly basis.

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and wholesale market service charges at current rates. Energy sales are presented on a gross basis as the Corporation has determined that it is acting as a principal for these electricity charges.

Distribution revenue is recorded based on OEB approved distribution tariff rates established to recover the costs incurred by the Corporation in delivering electricity to customers.

3. Significant accounting policies (continued):

(l) Revenue recognition (continued):

ii. Capital contributions

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 to 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.

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 do not meet the criteria 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.

iii. Other revenue

Other revenue, which includes revenue from services ancillary to the distribution of electricity, revenue from water billing services, and other billable services is recognized as the services are 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.

3. Significant accounting policies (continued):

(m) Leases:

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

i. The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

ii. The Corporation has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and

iii. The Corporation has the right to direct the use of the asset. The Corporation has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Corporation has the right to direct the use of the asset if either the Corporation has the right to operate the asset, or the Corporation designed the asset in a way that predetermines how and for what purpose it will be used.

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 life of a right-of-use asset is determined on the same basis as those for property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, plus any extensions to be exercised, 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 measured at amortized cost using the effective interest method.

3. Significant accounting policies (continued):

(m) Leases (continued):

At inception of a contract that contains a lease component, the Corporation allocates the consideration in the contract to each of the lease components based on their relative stand-alone prices. For the property leases, the Corporation has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(n) Finance income and finance charges

Finance income is recognized as it accrues in net income and comprises interest earned on cash and cash equivalents.

Finance charges are computed using the effective interest rate method and are recognized as an expense. Finance charges comprise: (i) interest on borrowings; (ii) interest on deposits; and (iii) standby fees.

(o) Payments in lieu of corporate taxes

Payments in lieu of corporate taxes expense, also referred to as income tax expense, comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the “Tax Acts”). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (“OEFC”). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the 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.

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.

3. Significant accounting policies (continued):

(p) Business combinations

The Corporation accounts for business combinations using the acquisition method when control is transferred to the Corporation. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

4. Cash and cash equivalents

Cash and cash equivalents consist of overnight deposits at a Canadian chartered bank.

5. Inventories

	2019	2018
Stores	$ 2,322	$ 2,439
Other	82	101
	$ 2,404	$ 2,540

(in thousands of Canadian dollars)

6. Property, plant & equipment

(a) Cost or Deemed Cost

	Land and Buildings	Distribution System	Other Assets	Right -of-Use Assets	Work -in- Progress	Total
Balance at January 1, 2019	$ 4,144	$173,070	$ 12,741	$ 343*	$ 4,138	$194,436
Additions	68	16,265	687	-	(423)	16,597
Disposals/retirements	(63)	(2,278)	(130)	-	-	(2,471)
Balance at December 31, 2019	$4,149	$187,057	$ 13,298	$ 343	$ 3,715	$208,562
Balance at January 1, 2018	$ 5,323	$161,596	$ 11,930	$ -	$ 2,697	$181,546
Additions	15	13,190	1,037	-	1,441	15,683
Disposals/retirements	(1,194)	(1,716)	(226)	-	-	(3,136)
Balance at December 31, 2018	$ 4,144	$173,070	$ 12,741	$ -	$ 4,138	$194,093

* Effective, January 1, 2019 - right-of use assets were recognized for two building property leases. Refer to note 26 Change in Accounting Policies.

(b) Accumulated depreciation

	Land and Buildings	Distribution System	Other Assets	Right -of-Use Assets	Work -in- Progress	Total
Balance at January 1, 2019	$ 781	$ 14,474	$ 7,192	$ -	$ -	$ 22,447
Depreciation charge	198	4,788	1,613	123	-	6,722
Disposals/retirements	(41)	(1,558)	(129)	-	-	(1,728)
Balance at December 31, 2019	$ 938	$ 17,704	$ 8,676	$ 123	$ -	$ 27,441
Balance at January 1, 2018	$ 927	$ 11,280	$ 5,822	$ -	$ -	$ 18,029
Depreciation charge	184	4,442	1,573	-	-	6,199
Disposals/retirements	(330)	(1,248)	(203)	-	-	(1,781)
Balance at December 31, 2018	$ 781	$ 14,474	$ 7,192	$ -	$ -	$ 22,447

(c) Carrying amounts

	Land and Buildings	Distribution System	Other Assets	Right -of-Use Assets	Work -in- Progress	Total
At December 31, 2019	$ 3,211	$169,353	$ 4,622	$ 220	$ 3,715	$181,121
At December 31, 2018	3,363	158,596	5,549	-	4,138	171,646

(in thousands of Canadian dollars)

7. Goodwill

Management has determined that the Corporation's rate-regulated operations are one cash-generating unit. As the goodwill corresponds to the rate-regulated operations, the goodwill was allocated to that cash-generating unit. The Corporation performed an impairment test as at December 31, 2018 based on an estimate of the Corporation's fair value less selling costs. Fair value was determined using a multiple of regulated rate base approach, which is a valuation technique used in the industry for purchase and sale transactions. The recoverable amount of goodwill determined in the analysis was greater than the carrying value and no impairment was recorded.

8. Investment in associate

The investment in associate represents the Corporation's 1/3 ownership interest in GRE.

	2019	2018
Investment, opening balance	$ 842	$ 31
Purchase of common shares	-	1,000
Equity share of net comprehensive (loss)	(99)	(189)
Investment, closing balance	$ 743	$ 842

9. Regulatory deferral account balances

Regulatory deferral account balances can arise as a result of the rate-making process (note 2(f)).

(a) Regulatory deferral account debit balances consist of the following:

	2019	2018
Regulatory variances disposition	$ 2,312	$ 738
Retail settlement variances	1,238	675
Lost revenue adjustment mechanism variance account	781	1,985
Other regulatory assets	392	878
IFRS/CGAAP transitional amounts	178	1,966
Other	77	523
	$ 4,978	$ 6,765

(in thousands of Canadian dollars)

9. Regulatory deferral account balances (continued):

(b) Regulatory deferral account credit balances consist of the following:

	2019	2018
Retail settlement variances	$ 2,798	$ 6,014
Gain on sale of property	441	403
PILs and taxes – accelerated capital cost allowance	379	-
IFRS/CGAAP transitional amounts	105	2,414
Regulatory variances disposition	-	834
Other	218	115
	$ 3,941	$ 9,780

The regulatory deferral account balances are recovered or settled through rates set 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 deferral account balances.

The following is a reconciliation of the carrying amount for each class of regulatory deferral account balances:

	2018	Balances arising in the period	Recovery/ reversal	2019	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances					
Regulatory variances disposition	$ 738	$ 1,574	$ -	$ 2,312	<2
Retail settlement variances	675	563	-	1,238	<2
Lost revenue adjustment mechanism variance account	1,985	363	(1,567)	781	1
Other regulatory assets	878	48	(534)	392	5
IFRS/CGAAP transitional amounts	1,966	120	(1,908)	178	5
Other	523	88	(534)	77	5
Total amount related to regulatory deferral account debit balances	$ 6,765	$ 2,756	$ (4,543)	$ 4,978	

(in thousands of Canadian dollars)

9. Regulatory deferral account balances (continued):

(b) Regulatory deferral account credit balances consist of the following (continued):

	2018	Balances arising in the period	Recovery/ reversal	2019	Remaining Remaining recovery/ reversal period (years)
Regulatory deferral account credit balances					
Retail settlement variances	$ 6,014	$ (612)	$ (2,604)	$ 2,798	<2
Gain on sale of property	403	38	-	441	<2
PILs and taxes – accelerated capital cost allowance	-	379	-	379	5
IFRS/CGAAP transitional amounts	2,414	147	(2,456)	105	5
Regulatory variances disposition	834	(1,375)	541	-	<2
Other regulatory liabilities	115	126	(23)	218	5
Total amount related to regulatory deferral account credit balances	$ 9,780	$ (1,297)	$ (4,542)	$ 3,941	

Settlement of the retail settlement variance accounts is generally done on an annual basis through application to the OEB.

On August 1, 2019, the OEB approved the net disposition of retail settlement variances and regulatory variances disposition of $2,063 over a period of 5 months from August 1, 2019 to December 31, 2019. This application covered the retail settlement variance accounts accumulated to December 31, 2017.

On January 2, 2020, the OEB approved the net disposition of retail settlement variances of $2,364 over a period of 12 months from January 1, 2020 to December 31, 2020. This application covered the retail settlement variance accounts accumulated to December 31, 2018.

The OEB requires the Corporation to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates.

(in thousands of Canadian dollars)

10. Long-term debt

Long-term debt is comprised of:

	2019	2018
Sun Life Assurance Company of Canada 4.993% unsecured promissory note, interest payable quarterly and maturing November 2020	$ 35,000	$ 35,000
Series A, Senior Unsecured debentures 3.929%, interest payable semi-annually, and maturing January 27, 2045	50,000	50,000
Less: Unamortized cost of debt issuance	(446)	(464)
	$ 84,554	$ 84,536
Less: Current portion of long-term debt:		
Sun Life Assurance Company of Canada Promissory note due November 2020	$ (35,000)	$ -
	$ 49,554	$ 84,536

Interest expense on long-term debt:

	2019	2018
Sun Life Assurance Company of Canada	$ 1,737	$ 1,737
Series A Senior Unsecured Debentures	1,965	1,965

(in thousands of Canadian dollars)

11. Payments in lieu of corporate taxes ("PILs")

The provision for payments in lieu of corporate taxes recognized in income is as follows:

	2019	2018
Current PILs		
Current year	$ 615	$ 875
Deferred PILs		
Origination and reversal of temporary differences	1,325	1,196
Income tax expense	$ 1,940	$ 2,071

i. Reconciliation of effective tax rate

PILs varies from amounts which would be computed applying the Corporation's combined statutory income tax rate as follows:

	2019	2018
Basic rate applied to income before payments in lieu of corporate taxes	26.5%	26.5%
Increase (decrease) in PILs resulting from:		
Permanent differences	0.2%	0.0%
Adjustment of prior year taxes	(0.8)%	0.1%
Change in regulatory accounts impacting current tax	36.1%	8.7%
Other	6.0%	(0.1)%
Effective rate applied to income before payments in lieu of corporate taxes	68.0%	35.2%

ii. Deferred tax balances

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

	2019	2018
Deferred tax assets (liabilities):		
Property, plant and equipment	$ (12,228)	$ (9,888)
Deferred revenue – contributed capital	5,146	4,180
Intangible capital	(267)	(233)
Employee future benefits	666	879
Other	67	(86)
	$ (6,616)	$ (5,148)

(in thousands of Canadian dollars)

12. Employee future benefits

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability and the expense for the year were based on results and assumptions determined by actuarial valuation as at December 31, 2019.

Information about the present value of the defined benefit unfunded obligation and the accrued benefit liability are as follows:

	2019	2018
Defined benefit obligation, beginning of year	$ (3,318)	$ (3,374)
Current service gain (cost)	123	(152)
Interest cost	(109)	(95)
Past service gain (cost)	106	-
Benefits paid during the year	146	148
Actuarial gain (loss) recognized in other comprehensive income (loss)	538	155
Accrued benefit liability, end of year	$ (2,514)	$ (3,318)

Components of net benefit expense recognized are as follows:

	December 31, 2019	December 31, 2018
Current service gain (cost)	$ 123	$ (152)
Interest cost	(109)	(95)
Past service (gain) cost	106	-
Net benefit income (expense) recognized	$ 120	$ (247)

Actuarial gains and (losses) recognized in other comprehensive income:

	2019	2018
Cumulative amount at January 1	$ (220)	$ (334)
Recognized during the period (net of tax)	395	114
Cumulative amount at December 31	175	(220)
Net benefit gain (expense) recognized	$ 395	$ 114

(in thousands of Canadian dollars)

12. Employee future benefits (continued):

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

i. Discount (interest) rate - the discount rate used to determine the present value of future liabilities and the expense for the year ended December 31, 2019, was 3.0% (2018 – 3.9%);

ii. Salary levels - future general salary and wage levels were assumed to increase at 2.1% (2018 -2.1%) per annum; and

iii. Health care cost trends – the health care cost trend for prescription drugs is estimated to increase at an inclining rate of 4.20% in 2020 to 5.3% over five years. Other medical and dental expenses are estimated to increase at an inclining rate of 4.5% in 2020 to 5.6% over five years.

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:

	Defined Benefit Obligation	Periodic Benefit Cost
1% increase in health care trend rate	$ 2,626	$ 112
1% decrease in health care trend rate	2,413	101

13. Customer deposits

Customer deposits represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

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.

(in thousands of Canadian dollars)

13. Customer deposits (continued):

Customer deposits comprise:

	2019	2018
Current:		
Customer deposits	$ 1,544	$ 974
Construction deposits	6,629	6,478
	$ 8,173	$ 7,452
Non-Current:		
Customer deposits	$ 3,049	$ 3,007

14. Lease liabilities:

Effective January 1, 2019 the Corporation has recognized right-of-use assets (note 6) and corresponding lease liabilities for 2 separate property leases. The right-of-use assets are recognized at the present value of the minimum lease payments, plus any extensions estimated to be exercised, with a corresponding equivalent lease liabilities recognized. Certain leases held by the Corporation provide the Corporation with extension options and termination options that may impact the term of the Lease which can impact the finance lease liability recognized in the statement of financial position. The Corporation has determined the lease term for both contracts based on all available information as at the reporting date.

Maturity analysis – contractual undiscounted cash flows	2019
Less than one year	130
One to five years	106
Total undiscounted lease liabilities at December 31	236
Interest included on the liabilities included in the statement of financial position at December 31	(9)
Lease liabilities – current	130
Lease liabilities – non-current	97

(in thousands of Canadian dollars)

15. Share capital

	2019	2018
Authorized		
Unlimited common shares		
Issued		
3,000 common shares	$ 41,034	$ 41,034

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time. Dividends were paid out to its shareholders as follows:

	2019	2018
City of Cambridge	$ 3,154	$ 3,690
Township of North Dumfries	271	316
	$ 3,425	$ 4,006

16. Related party transactions

(a) Intercompany debt comprises:

	2019	2018
Township of North Dumfries		
4.993% unsecured promissory note, interest payable quarterly, principal due on two months demand notice	$ 3,020	$ 3,020

(in thousands of Canadian dollars)

16. Related party transactions (continued):

(b) Intercompany transactions:

i. Township of North Dumfries

During the year, interest of $151 (2018 - $151) was paid to the Township of North Dumfries.

ii. Street lighting maintenance

During the year, the Corporation provided street lighting maintenance to the following related parties:

	2019	2018
City of Cambridge	$ 298	$ 252
Township of North Dumfries	10	8
	$ 308	$ 260

iii. Key management personnel

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members.

Key management compensation comprises:

	2019	2018
Directors' fees	$ 133	$ 133
Salaries, incentives and other short-term benefits	1,939	1,951
Post-employment benefits	(15)	31
	$ 2,057	$ 2,115

(c) Other Intercompany transactions:

The Corporation has provided a guarantee of up to $6,000 (2018 - $3,000) to a financial institution on behalf of its associate GRE in the event of a default under the terms of GRE's credit facility.

(in thousands of Canadian dollars)

17. Revenue from contracts with customers

The Corporation generates revenue primarily from the sale and distribution of electricity to its customers. Other sources of revenue include services ancillary to the electricity distribution, pole and duct rentals, other regulatory service charges, and capital contributions.

	2019	2018
Revenue from contracts with customers		
Energy sales	$ 196,662	$ 190,139
Distribution revenue	34,773	34,471
	$ 231,435	$ 224,610
Other revenue	2,748	1,930
Total revenues	$ 234,183	$ 226,540

Energy sales and distribution revenue by customer class comprise:

	2019	2018
Residential service	$ 67,468	$ 64,026
General service	132,604	131,568
Large users	17,526	17,179
Embedded distributors	11,915	10,006
Other	1,922	1,831
Total revenue	$ 231,435	$ 224,610

(in thousands of Canadian dollars)

18. Other income from operations

Other income comprises:

	2019	2018
Regulated service charges	$ 826	$ 808
Pole and other rental income	532	286
Amortization of deferred revenue	426	364
Street lighting maintenance services	354	307
Water and sewer billing services	308	287
Late payment charges	157	160
Scrap sales	57	75
Regulatory adjustments	(110)	(511)
Miscellaneous	198	154
Total other income	$ 2,748	$ 1,930

19. Finance income and charges

	2019	2018
Interest income on cash and cash equivalents	$ (317)	$ (295)
Finance income	(317)	(295)
Interest expense on long-term debt	3,790	3,773
Interest expense on intercompany debt	151	151
Interest expense	414	236
Finance charges	4,355	4,160
Net finance costs recognized in profit or loss	$ 4,038	$ 3,865

20. Commitments

(i) *Credit Facility*

Effective April 1, 2019, the Corporation entered into a new Credit Facility Agreement ("Credit Facility") with a Canadian chartered bank which matures on April 1, 2022. The Corporation may borrow up to $30,000 to finance general corporate requirements, capital investment, and working capital requirements with the ability to borrow an additional $20,000 under an accordion with additional approval. Borrowings may be in the form of Bankers' Acceptances ("BAs"), prime rate loans, letters of credit, and/or current account overdrafts. Interest rates payable on the Credit Facility are based on a margin relative to the prime or BA rate. A standby fee is paid on any unutilized portion of the Credit Facility.

(ii) *Memorandum of Understanding*

In 2017, the Corporation entered into a Memorandum of Understanding to enter into a Joint Use Agreement for the construction and lease of a portion of a shared operations facility to service the Brant County service territory. The Agreement was subsequently amended and restated on May 9, 2019. As of December 31, 2019, a deposit of $350 has been paid.

(iii) *Purchase and Sale Agreement – Land for new Transformer Station in Cambridge, Ontario*

On August 22, 2018, the Corporation entered into a Purchase and Sale Agreement to purchase land for a new transformer station in Cambridge, Ontario. The Agreement was subsequently amended on January 31, 2020. The closing date to purchase the land is subject to the satisfaction of certain conditions being met, with a closing date 30 days after the registration date. As at December 31, 2019, a deposit of $100 has been paid.

(iv) *Purchase and Sale Agreement – New Administrative Office*

On November 20, 2017 the Corporation entered into a Purchase and Sale Agreement to purchase land and to renovate an existing building into an administrative office in Cambridge, Ontario. The agreement was subsequently amended in May 2019. The Purchase and Sale Agreement was completed on June 6, 2019. As part of the renovation plans, in 2020 the Corporation entered into agreements for project management and construction management services. The renovations are currently planned for mid-2020 and 2021 at an estimated total cost of $8,100.

(in thousands of Canadian dollars)

20. Commitments (continued):

(v) *Obligations under Capital Cost Recovery Agreement*

The Corporation is party to a connection and a cost recovery agreement ("CCRA") with Hydro One Network Inc. (HONI) whereby HONI agreed to build 115kV Switching Facilities at the Brant Transformer Station ("Brant TS") to provide additional capacity to meet the existing and future load growth expected on the transmission circuits. The Switching Facilities were placed into service on April 26, 2019. The Brant TS is jointly owned by the Corporation and Brantford Power Inc.

Under the terms of the CCRA, the Corporation has agreed to an allocation of the costs of the project based on the expected future load growth. Annually, at the anniversary of the In-Service Date, if the expected future load growth does not meet an agreed upon load level, the Corporation may be subject to an allocation of a true-up adjustment based on the difference between the total capital cost of construction and the projected network revenue to be earned by HONI. The difference would represent a debt obligation of the Corporation based on the extent that the actual and forecast HONI revenue through the CCRA term is less than the amount of HONI revenue projected at the time the project was constructed. The Corporation's commitment is estimated at approximately $5,688.

In general terms, investments in regulated electricity distribution assets are recoverable from customers in future rate applications based on the rate-making policies of the OEB.

21. Pension plan:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2019, the Corporation made employer contributions of $1,280 to OMERS (2018 - $1,354). The Corporation estimates that a contribution of $1,292 to OMERS will be made during the next fiscal year.

22. Employee benefits

		2019		2018
Salaries, wages and benefits	$	13,732	$	13,854
Contributions to OMERS		1,280		1,354
CPP and EI remittances		525		502
Expenses related to defined benefit plans		(119)		215
	$	15,418	$	15,925

(in thousands of Canadian dollars)

23. Cash flow information

Net change in non-cash operating working capital comprises:

	2019	2018
Accounts receivable	$ 1,936	$ 808
Unbilled revenue	(1,510)	505
Inventories	136	(180)
Other assets	207	(142)
Accounts payable and accrued liabilities	664	(3,285)
Customer deposits	721	(2,719)
	$ 2,154	$ (5,013)

24. Financial instruments and risk management:

Fair value disclosure

Cash and cash equivalents are measured at fair value. The carrying values of receivables, and accounts payable and accrued charges approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

The fair value of the long-term debt (Series A Senior Unsecured Debentures) at December 31, 2019 is $55,619 (2018 – $48,831). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2019 was 3.36% (2018 – 4.19%).

Financial risks

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

24. Financial instruments and risk management (continued):

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Cambridge, Township of North Dumfries and within the County of Brant. One customer in the City of Cambridge accounts for a balance in excess of 8.1% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of a loss allowance and the amount of the related credit loss is recognized in net income. Subsequent recoveries of receivables previously provisioned are credited to net income. The balance of the loss allowance at December 31, 2019 is $1,063 (2018 - $532). A credit loss of $207 (2018 - $79) was recognized during the year.

At December 31, 2019, approximately $802 (2018 - $677) is considered 60 days past due. One customer in the City of Cambridge accounts for a balance of $501 of the accounts receivable over 60 days, of which an amount of $474 has been included in the loss allowance. The Corporation has over 67,000 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2019, the Corporation holds security deposits in the amount of $4,593 (2018 - $3,981).

(b) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

A 1% increase in the interest rate at December 31, 2019 would have increased interest expense on the long-term debt, including the current portion, by $850 (2018 - $850), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

24. Financial instruments and risk management (continued):

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a $30,000 (2018 - $30,000) revolving credit facility with the ability to borrow an additional $20,000 with approval. The Corporation monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due. Borrowings under the credit facilities may be in the form of prime rate loans; current account overdrafts, Bankers' Acceptances; or Letters of Credit and/or Letters of Guarantee in Canadian currency. As at December 31, 2019, $1,062 had been drawn under the credit facility (2018 - NIL).

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

(d) Capital disclosures:

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholders' equity and long-term debt. As at December 31, 2019, shareholders' equity amounts to $96,896 (2018 - $93,568) and long-term debt amounts, including the current portion, to $84,554 (2018 - $84,536).

25. Emerging accounting changes:

Certain new standards, amendments and interpretations are effective for annual periods beginning after December 31, 2019, and as such, have not yet been applied in preparing these financial statements. The Corporation is currently assessing the impact of these standards on its results of operations, financial position and disclosures.

The following amended standards and interpretations are not expected to have a significant impact on the Corporation's financial statements.

i. Amendments to References to Conceptual Framework in IFRS Standards.
ii. Definition of a Business (Amendments to IFRS 3).
iii. Definition of Material (Amendments to IAS 1 and IAS 8).
iv. Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

26. Changes in accounting policies:

Effective January 1, 2019, the Corporation has adopted new IFRS standards and applied the new accounting policies in preparing the financial statements:

Leases (" IFRS 16")

The Corporation has applied IFRS 16 *Leases* effective January 1, 2019 using the modified retrospective approach. Refer to note 3 (m) Significant accounting policies.

Prior to IFRS 16, the Corporation assessed whether a contract was or contained a lease at the inception of the agreement by applying the definition in IFRIC 4. The definition of a lease was amended under IFRS 16, and is described in note 3 (m). On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of the contracts determined to be leases. Contracts that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether they contained a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee, the Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for all leases.

26. Changes in accounting policies (continued):

Leases (“ IFRS 16”) (continued)

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation’s incremental borrowing rate as at January 1, 2019. The weighted-average rate applied was 4.00%. Right -of-use assets were measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Effective January 1, 2019, the Corporation recognized $343 in right-of-use assets and $343 of lease liabilities, with no impact to retained earnings.

Uncertainty over income tax treatments

The Corporation has adopted the IFAIC 23 that the IASB issued to clarify how to apply the recognition and measurement requirements in IAS12 Income Taxes effective January 1, 2019. The accounting policy change did not result in a significant impact to the financial statements. As a result, the Corporation was not required to make any adjustments to the financial statements.

The accounting policies are further described in note 3.

27. Subsequent Event – COVID-19 Pandemic:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian, Ontario and Municipal governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses in Ontario resulting in an economic slowdown. The Federal and Provincial Governments, as well as the Bank of Canada, have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The success of these interventions is not currently determinable.

The current challenging economic climate may lead to adverse changes in cash flows, working capital and debt requirements, which may also have a direct impact on the Company’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.

CAMBRIDGE AND NORTH DUMFRIES ENERGY PLUS INC.

Corporate Directory

Year Ended December 31, 2018

Directors

Anita Davis, Chair
Martyn Champ
Susan Foxton
Kathryn McGarry
Ian Miles
Lynn Woeller

Officers

Ian Miles, President and CEO
Sarah Hughes, CPA, CA, Chief Financial Officer