

North Bay Hydro Distribution Limited
Financial Statements
For the year ended December 31, 2021

North Bay Hydro Distribution Limited
Financial Statements
For the year ended December 31, 2021

Contents

Independent Auditor's Report	2 - 3
Financial Statements	
Statement of Financial Position	4 - 5
Statement of Comprehensive Income	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to Financial Statements	9 - 39



Independent Auditor's Report

To the Shareholder of North Bay Hydro Distribution Limited

Opinion

We have audited the financial statements of North Bay Hydro Distribution Limited (the Entity), which comprise the statement of financial position as at December 31, 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our 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 these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's 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 auditor's 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 these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- 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 auditor's 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 auditor's 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.

We 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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

North Bay, Ontario

April 7, 2022

North Bay Hydro Distribution Limited
Statement of Financial Position
Expressed in Canadian Dollars

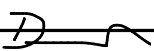
As of December 31	2021	2020
Assets		
Current assets		
Cash and cash equivalents (Note 20)	\$ 11,700,700	\$ 10,650,445
Accounts receivable (Note 7)	7,855,350	8,462,168
Unbilled service revenue	5,997,420	6,074,982
Inventory (Note 12)	772,004	670,420
Prepaid expenses	572,400	531,969
Payments in lieu of taxes receivable (Note 8)	-	123,130
Total current assets	26,897,874	26,513,114
Non-current assets		
Loans receivable from related corporation (Note 10)	1,584,876	904,196
Investment in associate (Note 6)	527,139	430,126
Financial instrument asset (Note 17)	42,135	-
Prepaid expenses - long-term	465,585	272,598
Deferred taxes (Note 8)	185,437	1,426,571
Property, plant and equipment (Note 4)	78,893,927	75,244,891
Total non-current assets	81,699,099	78,278,382
Total assets	108,596,973	104,791,496
Regulatory deferral accounts (Note 3)	226,731	1,276,624
Total assets and regulatory deferral account balances	\$ 108,823,704	\$106,068,120


North Bay Hydro Distribution Limited
Statement of Financial Position (continued)
Expressed in Canadian Dollars

As of December 31	2021	2020
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	\$ 10,495,824	\$ 9,587,989
Payments in lieu of taxes payable (Note 8)	122,714	-
Current portion of customer deposits (Note 7)	68,142	59,114
Deferred revenue	683,169	764,123
Current portion of long-term debt (Note 17)	4,667,100	4,437,830
Total current liabilities	16,036,949	14,849,056
Non-current liabilities		
Contributions in aid of construction (Note 5)	4,944,993	4,344,565
Customer deposits (Note 7)	602,546	626,741
Long-term debt (Note 17)	39,379,811	37,848,969
Financial instrument liability (Note 17)	-	1,589,397
Employee future benefits (Note 9)	4,645,846	4,828,071
Total non-current liabilities	49,573,196	49,237,743
Total liabilities	65,610,145	64,086,799
Shareholder's equity		
Share capital (Note 14)	19,511,601	19,511,601
Retained earnings	22,914,510	19,477,062
Accumulated other comprehensive income (loss)	(282,407)	(409,792)
Total shareholder's equity	42,143,704	38,578,871
Total liabilities and shareholder's equity	107,753,849	102,665,670
Regulatory deferral accounts (Note 3)	1,069,855	3,402,450
Total equity, liabilities and regulatory deferral account credit balances	\$ 108,823,704	\$ 106,068,120

Contingencies (Note 18), Loan Guarantees (Note 11) and Commitments (Note 19)
 Uncertainty due to COVID-19 (Note 23)

Signed on behalf of the Board of Directors by:


 _____ Director
[Dave Wolfe \(Apr 11, 2022 12:59 EDT\)](#)


 _____ Director

North Bay Hydro Distribution Limited
Statement of Comprehensive Income
Expressed in Canadian Dollars

For the year ended December 31	2021	2020
Revenue		
Electricity sales	\$ 69,503,009	\$ 78,496,465
Other	907,076	586,277
	<u>70,410,085</u>	<u>79,082,742</u>
Expenses		
Cost of power	56,532,997	66,077,676
Operating expenses (Note 15)	7,024,439	6,787,692
Depreciation and amortization	3,272,296	3,158,923
Loss on disposal of property, plant and equipment	254,278	44,768
Loss on foreign exchange	2,504	2,785
	<u>67,086,514</u>	<u>76,071,844</u>
Income from operating activities	3,323,571	3,010,898
Finance income (Note 16)	113,853	207,024
Finance costs (Note 16)	(1,118,684)	(1,182,392)
Earnings in associate (Note 6)	97,013	236,851
Change in interest rate swap (Note 17)	1,631,532	(2,102,924)
	<u>4,047,285</u>	<u>169,457</u>
Income before provision for payment in lieu of taxes	4,047,285	169,457
Provision for payment in lieu of taxes (Note 8)		
Current	143,236	-
Deferred	1,195,207	(27,452)
	<u>1,338,443</u>	<u>(27,452)</u>
Income for the year before net movements in regulatory deferral account balances	2,708,842	196,909
Net movement in regulatory deferral account balances related to profit or (loss)	292,944	(84,460)
Net movement in regulatory deferral account balances arising to deferred tax movement	1,195,207	(27,452)
	<u>4,196,993</u>	<u>84,997</u>
Net income for the year	4,196,993	84,997
Other comprehensive income (loss):		
Remeasurement of employee future benefits, net of tax (2021 - \$45,928) (2020 - \$73,693) (Note 9)	127,385	(204,393)
	<u>\$ 4,324,378</u>	<u>\$ (119,396)</u>
Total net and comprehensive income (loss) for the year	\$ 4,324,378	\$ (119,396)

North Bay Hydro Distribution Limited
Statement of Changes in Equity
Expressed in Canadian Dollars

For the year ended December 31

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2020	\$ 19,511,601	\$ (205,399)	\$ 19,862,835	\$ 39,169,037
Net income for the year	-	-	84,997	84,997
Other comprehensive income, net of tax	-	(204,393)	-	(204,393)
Dividends paid	-	-	(470,770)	(470,770)
Balance on December 31, 2020	\$ 19,511,601	\$ (409,792)	\$ 19,477,062	\$ 38,578,871
Net income for the year	-	-	4,196,993	4,196,993
Other comprehensive income, net of tax	-	127,385	-	127,385
Dividends paid	-	-	(759,545)	(759,545)
Balance on December 31, 2021	\$ 19,511,601	\$ (282,407)	\$ 22,914,510	\$ 42,143,704

North Bay Hydro Distribution Limited
Statement of Cash Flows
Expressed in Canadian Dollars

For the year ended December 31	2021	2020
Cash provided by (used in)		
Operating activities		
Net income for the year	\$ 4,196,993	\$ 84,997
Adjustments to reconcile income to net cash used in operating activities:		
Depreciation and amortization	3,272,296	3,158,923
Amortization of contributions in aid of construction	(121,564)	(104,192)
Loss on disposal of property, plant and equipment	254,278	44,768
Change in interest rate swap	(1,631,532)	2,102,924
Employee future benefit expense	239,229	270,702
Deferred income taxes	1,195,207	(27,452)
Earnings in associate	(97,013)	(236,851)
	<u>7,307,894</u>	<u>5,293,819</u>
Net change in non-cash working capital balances (Note 13)	<u>726,256</u>	<u>(2,074,575)</u>
Net cash flows from operating activities	<u>8,034,150</u>	<u>3,219,244</u>
Investing activities		
Proceeds on disposal of property, plant and equipment	7,670	3,899
Purchase of property, plant and equipment	(7,183,281)	(6,184,830)
Dividends received and accrued from associate	-	166,845
Changes in regulatory deferral account balances	(1,282,703)	522,507
	<u>(8,458,314)</u>	<u>(5,491,579)</u>
Net cash from/(used in) investing activities	<u>(8,458,314)</u>	<u>(5,491,579)</u>
Financing activities		
Dividends paid	(759,545)	(470,770)
Proceeds on contributions received in aid of construction	721,992	558,748
Advances of long-term debt	6,200,000	6,000,000
Repayment of long-term debt	(4,439,889)	(4,151,855)
Employee future benefits paid	(248,139)	(257,459)
	<u>1,474,419</u>	<u>1,678,664</u>
Net cash from financing activities	<u>1,474,419</u>	<u>1,678,664</u>
Increase (decrease) in cash and cash equivalents during the year	1,050,255	(593,671)
Cash and cash equivalents, beginning of year	<u>10,650,445</u>	<u>11,244,116</u>
Cash and cash equivalents, end of year	<u>\$ 11,700,700</u>	<u>\$ 10,650,445</u>

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

1. Corporate Information

North Bay Hydro Distribution Limited's (the "Company") main business activity is the distribution of electricity under authority of the Ontario Energy Board ("OEB") Act, 1998. The Company owns and operates an electricity distribution system, which delivers electricity to 24,516 customers located in North Bay, Ontario.

Operating in a regulated environment exposes the Company to regulatory and recovery risk.

Regulatory risk is the risk that the Province and its regulator, the OEB, could establish a regulatory regime that imposes conditions that restrict the electricity distribution business from achieving an acceptable rate of return that permits financial sustainability of its operations including the recovery of expenses incurred for the benefit of other market participants in the electricity industry such as transition costs and other regulatory balances. All requests for changes in electricity distribution charges require the approval of the OEB.

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect distribution rates and other permitted recoveries in the future. North Bay Hydro Distribution Limited is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The address of the Company's corporate office and principal place of business is 74 Commerce Crescent, North Bay, Ontario, Canada.

The sole shareholder of the Company is the Corporation of the City of North Bay.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

2. Basis of Preparation

i) Statement of compliance

The financial statements of North Bay Hydro Distribution Limited have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements were authorized for issue by the Board of Directors on March 29, 2022.

ii) Basis of measurement

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars (CDN\$), which is also the Company’s functional currency, and all values are rounded to the nearest dollar, unless when otherwise indicated.

iii) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The recognition and measurement of regulatory deferral account balances (Note 3);
- The determination of useful lives of property, plant and equipment (Note 4);
- The calculation of the impairment of accounts receivable (Note 7);
- The determination for the provision for Payment in Lieu of Taxes since there are many transactions and calculations for which the ultimate tax determination is uncertain (Note 8);
- The calculation of the net future obligation for certain unfunded health, dental and life insurance benefits for the Company’s retired employees (Note 9); and
- The assessment of the duration and severity of the developments related to the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the pandemic that may have a material adverse effect on the Company’s operations, financial results and condition in future periods, made by management in the preparation of the financial statements are also subject to significant uncertainty.

In addition, in preparing the financial statements the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

iv) Standards, amendments and interpretations

There are no other standards, interpretations or amendments issued, but not yet effective that the Company anticipates may have a material effect on the financial statements once adopted.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

3. Regulatory Deferral Account Balances

In accordance with IFRS 14, the Company continues to apply the accounting policies in accordance with the pre-changeover Canadian GAAP for the recognition, measurement and impairment of assets and liabilities arising from rate regulation. These are referred to as regulatory deferral account balances. Regulatory deferral account balances are recognized and measured initially and subsequently at cost. They are assessed for impairment on the same basis as other non-financial assets.

Regulatory deferral account credit balances are associated with the collection of certain revenues earned in the current period or in prior period(s) that are expected to be returned to consumers in future periods through the rate-setting process. Regulatory deferral account debit balances represent future revenues associated with certain costs incurred in the current period or in prior period(s) that are expected to be recovered from consumers in future periods through the rate-setting process.

Management continually assesses the likelihood of recovery of regulatory balances. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

On January 5, 2021, the Company filed a Cost of Service Application with the OEB (EB-2020-0043). Included in this application was the proposed disposition and recovery of regulatory deferral account balances as at December 31, 2019 with carrying charges estimated to April 30, 2021. The proposed disposition includes eligible Group 1 and Group 2 balances, recovery of lost revenues, as well as the residual balances of prior approved disposition and recovery amounts.

The balances and movements in the regulatory deferral account balances shown below are presented net of related deferred taxes.

All amounts deferred as regulatory deferral account balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered by customers (returned to customers) in future periods and as such, regulatory deferral account balances are comprised of:

Regulatory Deferral Account Debit Balances

	Remaining Recovery period (years)	2021		2020	
		\$	\$	\$	\$
Cost of Power	1-4	-	-	333,921	-
Cost of Power - Wholesale Market Service (i)	1-4	5,152	-	-	-
Cost of Power - Global Adjustment (i)	1-4	38,066	-	468,143	-
Disposition/rec - 2014 - 2018 (ii)	1-4	-	-	39,186	-
LRAMVA (iii)	1-4	183,513	-	220,862	-
Other (vi)	1-4	-	-	214,512	-
Total Regulatory Deferral Account Debit Balances		\$ 226,731	\$ -	\$ 1,276,624	\$ -

North Bay Hydro Distribution Limited Notes to Financial Statements Expressed in Canadian Dollars

December 31, 2021

3. Regulatory deferral account balances (continued)

Regulatory Deferral Account Credit Balances and related Deferred Tax

	Remaining Recovery period (years)	2021	2020
Cost of Power (i)	1-4	(214,848)	-
Cost of Power - Wholesale Market Service (i)	1-4	-	(1,022,332)
Disposition/rec - 2014 - 2021 (ii)	1-4	(575,779)	-
Retail cost variances (iv)	1-4	-	(168,137)
Other (vi)	1-4	(93,791)	(785,410)
Deferred income taxes (v)	5-25	(185,437)	(1,426,571)
Total Regulatory Deferral Accounts		\$ (1,069,855)	\$ (3,402,450)

In the absence of rate regulation, these rate regulated assets and liabilities would be recognized in income in the year in which they relate. As a result, the net effect on income for the period is as stated below.

Cost of Power

This account is comprised of the variances between amounts charged by the Company to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service charged to the Company for the operation of the wholesale electricity market and grid, including commodity and global adjustment, various wholesale market settlement charges and transmission charges. Under the OEB's direction, the Company has deferred the settlement variances that have occurred since May 1, 2002 in accordance with the AP Handbook. Carrying charges are calculated monthly on the opening balance of the applicable variance account using a specific interest rate as outlined by the OEB. The Company did not recognize carrying charge income related to the retail settlement variance accounts for external reporting purposes prior to December 31, 2003.

The OEB allows the variances to be deferred which would normally be recorded as revenue for unregulated businesses under Modified IFRS (MIFRS). Net cost of power variance accounts in 2021 were in a liability position of \$171,630 as compared to a liability position of \$220,268 in 2020. This change includes the effect of any dispositions.

As a component of the Cost of Service (COS) rate application process, "Group 1" account balances (which are composed of Low Voltage, Wholesale Market, Network, Connection, Power and the Smart Meter Entity charge) are reviewed for disposition through rates on what is typically a per kWh charge. As part of its 2021 Cost of Service Application, on September 23, 2021 the Company received approval for disposition of the Group 1 accounts in the net amount of (\$114,932) which includes calculated interest through April 30, 2021.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

3. Regulatory deferral account balances (continued)

Disposition/recovery - 2014, 2015, 2016, 2017, 2018, 2021

Disposition/recovery - 2014 On August 30, 2013, the Company filed an IRM application for 2014 distribution rates (EB20130157) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On March 6, 2014, the OEB approved the disposition of net regulatory assets of \$864,885 and net regulatory liabilities of \$1,594,828 over a one year period commencing May 1, 2014 and ending April 30, 2015. The amounts consisted of principal balances as of December 31, 2012 with carrying charges projected to April 30, 2014. As part of its 2021 Cost of Service Application, on September 23, 2021 the Company received approval for the disposition of the net residual balance of \$17,564.

Disposition/recovery - 2015 On December 18, 2014, the Company filed a COS application for 2015 distribution rates (EB20140099) with the OEB which included a request seeking disposition of the balances for regulatory assets and liabilities. On July 16, 2015, the OEB approved the disposition of net regulatory assets of \$1,554,186 and net regulatory liabilities of (\$4,662,850) which included Group 1 and 2 balances, CGAAP and LRAMVA accounts. The Group 1 and 2 amounts consisted of principal balances as of December 31, 2013 with carrying charges projected to April 30, 2015 for a net total of \$455,076 being collected from customers over a one year period commencing July 1, 2015 and ending June 30, 2016.

The PP&E - CGAAP and transitional amounts were refunded to customers over a two year period beginning July 1, 2015 and ending June 30, 2016. The amount owed to customers included the disposition of the regulatory liability of (\$3,793,377). The LRAMVA amount approved for disposition included the lost revenue for OPA programs up to December 31, 2013 plus carrying charges projected to April 30, 2015 for a total amount of \$229,637 being collected from customers over a one-year period commencing July 1, 2015 and ending June 30, 2016. As part of its 2021 Cost of Service Application, on September 23, 2021 the Company received approval for the disposition of the net residual balance of of the total 2015 disposition/recovery in the amount of (\$7,222).

Disposition/recovery - 2016 On March 23, 2016, the Company filed an IRM application for 2016 distribution rates (EB20150092) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On May 5, 2016, the OEB issued a decision approving the disposition of net regulatory assets of \$935,707. The amounts consisted of principal balances as of December 31, 2014 with carrying charges projected to April 30, 2016. The OEB approved disposition of \$950,051 over a one year period commencing May 1, 2016 and ending April 30, 2017 for the Global Adjustment amount. As part of its 2021 Cost of Service Application, on September 23, 2021 the Company received approval for the disposition of the net residual balance of \$61,028.

Disposition/recovery - 2017 On September 26, 2016, the Company filed an IRM application for 2017 distribution rates (EB20160214) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets, liabilities and LRAMVA accounts. On February 8, 2017, the OEB issued a decision approving the disposition of net regulatory liabilities of (\$691,352). The amounts consisted of principal balances as of December 31, 2015 with carrying charges projected to April 30, 2017.

North Bay Hydro Distribution Limited Notes to Financial Statements Expressed in Canadian Dollars

December 31, 2021

3. Regulatory deferral account balances (continued)

The OEB approved disposition and recovery of net regulatory liabilities over a one-year period commencing May 1, 2017 and ending April 30, 2018. The LRAMVA amount approved for disposition included the lost revenue for OPA programs up to December 31, 2014 plus carrying charges projected to April 30, 2017 for a total amount of \$191,584 being collected from customers over a one-year period commencing May 1, 2017 and ending April 30, 2018. As part of its 2021 Cost of Service Application, on September 23, 2021 the Company received approval for the disposition of the net residual balance of (\$25,053).

Disposition/recovery - 2018 On October 16, 2017, the Company filed an IRM application for 2018 distribution rates (EB2017-0065) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On March 22, 2018, the OEB issued a decision approving the disposition of net regulatory liabilities of (\$1,300,650). The amounts consisted of principal balances as of December 31, 2016 with carrying charges projected to April 30, 2018. The OEB approved disposition over a one-year period commencing May 1, 2018 and ending April 30, 2019. The Company will seek disposition of the net residual balance of (\$6,944) related to the 2018 disposition in a future rate application.

Disposition/recovery - 2021 On January 5, 2021, the Company filed a COS application for 2021 distribution rates (EB20200043) with the OEB which included a request seeking disposition of the balances for regulatory assets and liabilities. On Sept 23, 2021, the OEB approved the disposition of net regulatory assets of \$1,258,447 and net regulatory liabilities of (\$1,778,608) which included Group 1 and 2 balances, PILS variance, Smart Meter Capital variance and LRAMVA accounts. With the exception of the balances referred to in Note 3(iv) (which consisted of principal balances to December 31, 2020) the Group 1, Group 2, PILs and Smart Meter amounts consisted of principal balances as of December 31, 2019 with carrying charges projected to April 30, 2021 for a net total of (\$520,162) being refunded to customers over a one year period commencing October 1, 2021 and ending September 30, 2022.

Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

On April 26, 2012 the OEB released the *Guidelines for Electricity Distributor Conservation and Demand Management (EB20120003)* which included accounting direction on the treatment of lost revenues from forecasted/unforecasted Conservation and Demand Management (CDM) results on distribution revenue due to variances from forecasted throughput used to establish distribution rates.

The Board established an LRAM variance account (“LRAMVA”) to capture the differences between the results of actual, verified impacts of authorized CDM activities undertaken by electricity distributors between 2011-2014 for both Board Approved CDM programs and IESO Contracted Province Wide CDM programs in relation to activities undertaken by the distributor and/or delivered for the distributor by a third party under contract (in the distributor’s franchise area) and the level of CDM program activities included in the distributor’s load forecast (i.e. the level embedded into rates). At a minimum, distributors must apply for disposition of the balance in the LRAMVA at the time of their Cost of Service rate applications.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

3. Regulatory deferral account balances (continued)

In the 2014 COS application, the OEB approved disposition of LRAMVA amounts related to CDM programs up to December 31, 2013 in the amount of \$221,924; this is now included in the disposition/recovery - 2015 account. On February 8, 2017, the OEB approved disposition of LRAMVA amounts related to CDM programs up to December 31, 2014 in the amount of \$191,584; this is now included in the disposition/recovery - 2017 account.

Under the Conservation First Framework (“CFF”), for programs that take place from 2015 to 2020, distributors were to treat lost revenues in a similar manner as those from the 2010-2014 programs with respect to the impact of lost revenues. Distributors were to capture the differences between the results of actual, verified impacts of authorized CDM activities against the LRAMVA threshold included in the most recent Cost of Service application. On March 21, 2019 the OEB announced the discontinuation of the CFF and the establishment of a scaled down interim framework for the balance of 2019 and 2020, the delivery of which will be done centrally by the IESO. The cancellation of the CFF has the potential to limit or eliminate the Company’s ability to seek recovery for any future revenue variances caused by conservation programs beyond the current application.

In its IRM application for 2020 distribution rates (EB2019-0057), the Company requested and was approved for the recovery of \$274,497 for CDM programs from 2015-2018, which included carrying charges through to April 30, 2020. This recovery was originally slated to begin May 1, 2020, however, as part of the provincial response to the COVID-19 pandemic, the OEB allowed utilities the option to defer any approved May 1, 2020 rates increases. Subsequently, the Company began the recovery of this balance over a one-year period commencing November 1, 2020 and ending October 31, 2021. The residual balance as of December 31, 2021 for the 2020 LRAMVA is \$602.53.

In its COS application for 2021 rates (EB-2020-0043), the Company was approved for a further \$246,251 in LRAMVA recovery including carrying charges to April 30, 2021. This amount relates to the persistence of CDM programs from 2015-2018 as well as new programs from January 1, 2019 to April 30, 2021 and is approved to be recovered from October 1, 2021 to September 30, 2022. The balance as of December 31, 2021 is \$183,513.

Retail cost variances

Retail cost variances were established to record the difference between the amount billed and the incremental costs of providing retail services and to record the difference between the amount billed in relation to a service transaction request and the incremental costs of providing the initial screening and actual processing services for the service transaction request. Under the OEB’s direction, the Company has deferred the settlement variances that have occurred since May 1, 2002. Accordingly, the Company has deferred these recoveries in accordance with the AP Handbook.

The OEB allows the variances to be deferred which would normally be recorded as revenue for unregulated businesses under IFRS in the absence of rate regulation. In November 2018 the OEB issued its final report on Energy Retailer Service Charges which prompted the discontinuation and elimination of these variance accounts upon a distributor’s next rebasing period. In its 2021 COS Application (EB-2020-0043) NBHDL completed the final disposition of these accounts in the amount of (\$179,580), which included cumulative and forecasted carrying charges to April 30, 2021.

This final balance is included in the 2021 Group 2 Disposition (ii) 2021.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

3. Regulatory deferral account balances (continued)

Deferred Income Taxes

The recovery from, or refund to, customers of future income taxes through future rates is recognized as a regulatory deferral account balance. The Company has recognized a deferred tax asset of \$185,437 (2020 - \$1,426,571) arising from the recognition of regulatory deferral account balances and a corresponding regulatory deferral account credit balance of \$185,437 (2020 - \$1,426,571). The deferred tax asset balance is presented within the total regulatory deferral account balances presented in the statement of financial position.

Other

In 2016, in addition to an increase in the OEB's internal budget, the OEB also revised its Cost Assessment Model to reflect a change in the methodology used to apportion costs. These changes resulted in a material shift in the allocation of costs. The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates, and cost assessments that will result from the application of the new cost assessment model. In its 2021 COS application (EB-2020-0043), the Company was approved for recovery of this regulatory asset in the amount of \$172,586, which includes carrying charges forecasted to April 30, 2021. This recovery asset is now part of the Group 2 Disposition (ii) 2021.

In September 2018, January 2019, and again in January 2020, the OEB revised its approved pole attachment charges for distributors. The OEB established a variance account for electricity distributors to record the revenue difference between these new rates and previously approved rates. In 2020 NBHDL has recorded (\$247,640) as incremental revenue (2019 - \$235,866). These new rates and their annual inflationary adjustment are now incorporated into the Company's rate structure. Therefore, a pole attachment variance is no longer tracked. In its 2021 COS application (EB-2020-0043), the Company was approved for disposition of this regulatory liability in the amount of (\$513,262), which includes carrying charges forecasted to April 30, 2021. This disposition is now part of the Group 2 Disposition (ii) 2021.

In July 2019, the OEB established a variance account to record the effects of the Accelerated Investment Incentive (All). The All created new capital cost allowance (CCA) rules that translated to a material difference between taxes built into rates using the OEB Tax Model and taxes that the Company would pay. The OEB also established that this account should reflect the change dating back to the beginning of the All program start date (November 2018). In its 2021 COS application (EB-2020-0043), the Company was approved for disposition of this regulatory liability in the amount of (\$180,687), which includes the 2020 closing balance carrying charges forecasted to April 30, 2021. This disposition is now part of the Group 2 Disposition (ii) 2021. The 2021 closing balance of the account is (\$93,791). The Company will seek disposition of this balance in a future rate application. As part of the 2021 rebasing, the effects of the All was incorporated into the Company's current rate structure. Therefore, no variance will be tracked unless a material change is made to the current CCA rates.

North Bay Hydro Distribution Limited
Notes to Financial Statements
Expressed in Canadian Dollars

December 31, 2021

3. Regulatory deferral account balances (continued)

Future Applications

On Nov 24, 2021, NBHDL filed a IRM rate application (EB-2021-0046) for distribution rates commencing May 1, 2022. This application is subject to the approval of the OEB. The application includes an annual delivery rate adjustment of 3.0%.

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the regulator in determining the item's treatment for rate-setting purposes. Management continually assesses the likelihood of recovery of regulatory assets and realization of regulatory liabilities. If recovery and realization through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

4. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization. Costs may include direct material, labour, contracted services, overhead, engineering costs and interest on funds used during construction that are considered applicable to construction. Major spares such as spare transformers and other items kept as standby/back up equipment are accounted for as property, plant and equipment since they support the Company's distribution system reliability. Upon disposal the cost and accumulated amortization of assets are relieved from the respective accounts and any gain or loss is reflected in operations.

Depreciation of property, plant and equipment is recorded in the Statement of Comprehensive Income on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

The estimated useful lives are as follows:

Distribution Assets:

Building and fixtures	30 - 50 years
Substations	40 - 50 years
Poles, towers and fixtures	45 years
Overhead conductor and devices	60 years
Underground conduit and conductor	40 - 50 years
Distribution transformers	40 years
Overhead and underground services	40 - 60 years
Distribution meters	10 - 25 years

General Assets:

Buildings	25 - 50 years
Office equipment	10 years
Computer equipment	5 years
Transportation equipment	5 - 8 years
Small tools and miscellaneous equipment	10 years
Load management controls	6 years
System supervisory equipment	15 - 20 years

Land is not depreciated.

North Bay Hydro Distribution Limited
Notes to Financial Statements
Expressed in Canadian Dollars

December 31, 2021

4. Property, Plant and Equipment (continued)

	Electrical Distribution Assets	General Assets	Work in Progress	Total
Cost				
Balance at January 1, 2020	\$ 124,402,858	\$13,130,799	\$ 1,334,695	\$ 138,868,352
Additions	5,569,113	444,709	171,008	6,184,830
Disposals/Reallocation	(392,197)	(32,462)	(6,051)	(430,710)
Balance at December 31, 2020	129,579,774	13,543,046	1,499,652	144,622,472
Balance at January 1, 2021	129,579,774	13,543,046	1,499,652	144,622,472
Additions	5,575,988	1,304,731	302,562	7,183,281
Disposals/Reallocation	(1,018,847)	(60,326)	-	(1,079,173)
Balance at December 31, 2021	134,136,915	14,787,451	1,802,214	150,726,580
Depreciation and impairment losses				
Balance at January 1, 2020	56,945,897	9,654,804	-	66,600,701
Depreciation of the year	2,535,449	623,475	-	3,158,924
Disposals	(349,582)	(32,462)	-	(382,044)
Balance at December 31, 2020	59,131,764	10,245,817	-	69,377,581
Balance at January 1, 2021	59,131,764	10,245,817	-	69,377,581
Depreciation of the year	2,630,691	641,606	-	3,272,297
Disposals	(755,398)	(61,827)	-	(817,225)
Balance at December 31, 2021	61,007,057	10,825,596	-	71,832,653
Carrying Amounts				
At December 31, 2020	70,448,010	3,297,229	1,499,652	75,244,891
At December 31, 2021	\$ 73,129,858	\$ 3,961,855	\$ 1,802,214	\$ 78,893,927

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

5. Revenue Recognition

As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company has determined that they are acting as a principal for the electricity distribution and, therefore, have presented the electricity revenues on a gross basis. Revenues from the sale and distribution of electricity is recognized over time on an accrual basis upon delivery of electricity, including unbilled revenues accrued in respect of electricity delivered but not yet billed. Sale and distribution of electricity revenue is comprised of customer billings for provincial electricity costs and distribution service charges. Customer billings for distribution service charges are recorded based on meter readings, and are generally due within 30 days of the billing date.

Other revenues, which include revenues from pole use rental, collection charges and other miscellaneous revenues are recognized at the time services are provided. Where the Company has an ongoing obligation to provide services, revenues are recognized as the service is performed and amounts billed in advance are recognized as deferred revenue.

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions vary by project and are based on the criteria set forth in the Distribution System Code. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as contributions in aid of construction, recognized when they are billed and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

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 continuity of deferred contributions in aid of construction is as follows:

	December 31, 2021	December 31, 2020
Deferred contributions, net, beginning of year	\$ 4,344,565	\$ 3,890,009
Contributions in aid of construction received	721,992	558,748
Contributions in aid of construction recognized as distribution revenue	(121,564)	(104,192)
Deferred contributions, net, end of year	\$ 4,944,993	\$ 4,344,565

All contributions in aid of construction are cash contributions and are recognized when billed. There have not been any contributions of property plant and equipment.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

6. Investment in Associate

The Company has an equity interest in Ecobility; a company owned by five different shareholders all of whom own, operate, or are affiliated with, a local distribution company. The company operates out of Sudbury and Toronto and facilitates the management and delivery of Provincial conservation programs across the service territories of each owner and other locations throughout the Province.

Of the 143,860 shares issued, the company owned 16.66% at year end. Of the five voting shares, the Company holds one. This equity interest is measured on the balance sheet using the equity method of accounting. The Company's share of preliminary net earnings of \$566,289 for the year is \$97,013 (2020 - \$236,851). There were no dividends recorded against the investment throughout the year (2020 - \$166,845). The investee had total assets of \$3,232,035 and shareholders' equity of \$3,329,366 as at December 31, 2021.

7. Accounts Receivable, Unbilled Revenue and Customer Deposits

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Accounts receivable due from related parties	\$ 1,596,799	\$ 1,571,590
Customer accounts receivable	6,465,588	7,076,954
Loss allowance	(207,037)	(186,376)
Total accounts receivable	<u>\$ 7,855,350</u>	<u>\$ 8,462,168</u>

1. Recognition and initial measurement

The Company initially recognizes accounts receivable on the date on which they are originated and recognizes unbilled service revenue on the date on which the Company delivers the electricity but has not yet billed the customer. Similar to customer billings, unbilled revenue for distribution service charges are recorded based on meter readings. Accounts receivable and unbilled service revenue are initially measured at fair value.

2. Classification and subsequent measurement

Accounts receivable and unbilled service revenue are classified and subsequently measured at amortized cost because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The carrying amount is reduced through the use of a loss allowance and the amount of the related loss allowance is recognized in profit or loss. Subsequent recoveries of receivables and unbilled service revenue previously provisioned are credited to profit or loss.

3. Fair value measurement

Due to its short-term nature, the carrying amounts of accounts receivable and unbilled service revenue approximates their fair value.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

7. Accounts Receivable, Unbilled Revenue and Customer Deposits (continued)

4. Credit risk

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported separately from the Company's own cash and cash equivalents. Deposits to be refunded to customers within the next fiscal year are classified as a current liability. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2%.

Due to its short-term nature, the carrying amount of the accounts receivable due from related parties and other accounts receivable approximates its fair value. Unbilled service revenue reflects the electricity delivered but not yet billed to customers. Customer billings generally occur within 30 days of delivery. The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has 24,516 customers, the majority of which are residential. The Company considers an account receivable to be in default when the customer is unlikely to pay its credit obligations in full, without recourse by the Company, such as realizing security (if any is held). Accounts are past-due (in default) when the customers have failed to make the contractually requirements payments when due, which is generally within 30 days of the billing date.

Prior to 2020, the Company considered an account receivable to be credit-impaired when the customer had amounts more than 90 days past the billing date. In determining the allowance for doubtful accounts for 2020 and 2021, the Company reviewed commercial and industrial customer accounts on an individual basis and considered historical loss, payment experience, payment arrangements and economic conditions in light of COVID-19, as well as the aging and arrears status of the account in the determination of impairment. For residential accounts, the Company took a similar approach on an aggregate level as well as undertaking an overall analysis of historical write-offs, provisions, subsequent recoveries and payment patterns to determine the reasonability of the impairment. The Company considers the current economic and credit conditions to determine the loss allowance of its accounts receivable. Given the high degree of uncertainty caused by the COVID-19 outbreak, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to a high degree of estimation uncertainty. The Company continues to actively monitor its exposure to credit risk.

North Bay Hydro Distribution Limited Notes to Financial Statements Expressed in Canadian Dollars

December 31, 2021

7. Accounts Receivable, Unbilled Revenue and Customer Deposits (continued)

The following table provides information about the exposure to credit risk for accounts receivable by level of delinquency.

	December 31, 2021			December 31, 2020		
	Gross	Loss Allowance	Net	Gross	Loss Allowance	Net
Less than 30 days past billing date	\$ 5,057,972	\$ 30,043	\$ 5,027,929	\$ 5,369,538	\$ 20,059	\$5,349,479
30-60 days past billing date	457,336	34,454	422,882	423,573	18,356	405,217
61-90 days past billing date	74,686	13,212	61,474	104,234	16,636	87,598
More than 90 days past billing date	135,784	129,328	6,456	236,244	131,325	104,919
	\$ 5,725,778	\$ 207,037	\$ 5,518,741	\$ 6,133,589	\$186,376	\$5,947,213

The following tables present a summary of the activity related to the Company's accounts receivable loss allowances.

	2021	2020
Balance January 1	\$ 186,376	\$ 131,556
Additions (provision for Credits loss)	114,472	113,333
Accounts written off, net of recoveries	(93,811)	(58,513)
Other	-	-
Balance, December 31	\$ 207,037	\$ 186,376

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 contributions in aid of construction.

Customer deposits represents cash deposits from electricity distribution customers and retailers. Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

North Bay Hydro Distribution Limited
Notes to Financial Statements
Expressed in Canadian Dollars

December 31, 2021

7. Accounts Receivable, Unbilled Revenue and Customer Deposits (continued)

	Increase	Decrease
Customer Deposits - Current	\$ 68,142	\$ 59,114
Benefits Deposits - Long - Term	602,546	626,741
Total Customer Deposits	<u>\$ 670,688</u>	<u>\$ 685,855</u>

1. Recognition and initial measurement

The Company initially recognizes customer deposits on the date on which the Company received the deposit. Customer deposits are initially measured at fair value.

2. Classification and subsequent measurement

Customer deposits are classified and subsequently measured at amortized cost, using the effective interest rate method.

3. Fair value measurement

The fair value of customer deposits approximates their carrying amounts taking into account interest accrued on the outstanding balance.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

8. Payments in Lieu of Taxes Payable

The Company is a Municipal Electricity Utility ("MEU") for purposes of the PIL's regime contained in the Electricity Act, 1998. As a MEU the Company is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income taxes each year to Ontario Electricity Financial Corporation ("OEFC"), commencing October 1, 2001. These payments are calculated in accordance with the rules for computing taxable income and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. PILs expense comprises of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that it relates to items recognized directly in equity or regulatory deferral account balances.

Significant judgment is required in determining the provision for PILs. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

North Bay Hydro Distribution Limited
Notes to Financial Statements
Expressed in Canadian Dollars

December 31, 2021

8. Payments in Lieu of Taxes Payable (continued)

a. Expense

The Company's provision for PILs is calculated as follows:

	<u>2021</u>	<u>2020</u>
Income before provision for payment in lieu of income taxes	\$ 4,047,285	\$ 169,457
Regulatory assets/liabilities added (deducted) for tax purposes	(41,568)	421,363
Net change in reserves (EFB)	(8,910)	13,243
Capital cost allowance (greater than) less than amortization expense	(2,432,758)	(2,419,738)
Other Items	(186,795)	(332,017)
Change in interest rate swap	(1,631,532)	2,102,924
(Gain) loss on disposal of assets	<u>254,278</u>	<u>44,768</u>
Statutory Canadian federal and provincial tax rate	26.5 %	26.5 %
Provision for PILs	<u>143,236</u>	-
Total current tax provision	<u>\$ 143,236</u>	<u>\$ -</u>

b. Deferred taxes

	<u>2021</u>	<u>2020</u>
Property, plant and equipment	\$ (1,208,834)	\$ (459,360)
Financial instrument (asset) liability	(11,166)	421,190
Employee future benefits	1,231,149	1,279,439
Regulatory Assets / Liabilities	<u>174,288</u>	<u>185,302</u>
Total deferred tax assets	<u>\$ 185,437</u>	<u>\$ 1,426,571</u>

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

9. Employee Future Benefits

Employee future benefits other than pension provided by the Company include medical and insurance benefits. These benefit plans provide benefits to certain employees when they are no longer providing active service.

The cost of these benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the cost of these benefits are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The calculation is performed by a qualified actuary using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities. The valuation is performed every third year or when there are significant changes to workforce. A full valuation was performed in 2019.

Remeasurements of the defined benefit obligation are recognized directly within equity in other comprehensive income. The remeasurements include actuarial gains and losses.

Service costs are recognized in the Statement of Comprehensive Income in operating expenses, and include current and past service costs as well as gains and losses on curtailments.

Net interest expense is recognized on the Statement of Comprehensive Income in finance costs, and is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the balance of the net defined benefit obligation, considering the effects of benefit payments during the period. Gains or losses arising from changes to defined benefits or plan curtailment are recognized immediately in the Statement of Comprehensive Income. Settlements of defined benefit plans are recognized in the period in which the settlement occurs.

The plan is exposed to a number of risks, including:

Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation.

Longevity risk: changes in the estimation of mortality rates of current and former employees.

Health care cost risk: increases in cost of providing health, dental and life insurance benefits.

North Bay Hydro Distribution Limited
Notes to Financial Statements
Expressed in Canadian Dollars

December 31, 2021

9. Employee Future Benefits (continued)

The Company has a defined benefit life insurance and health care plan covering all active employees and most retirees. Information about the Company's defined benefit life insurance and health care plan is as follows:

	<u>2021</u>	<u>2020</u>
Prepaid benefit liability, beginning of year	\$ 4,828,071	\$ 4,536,742
Expense for the year	239,227	270,702
Benefits paid during the year	(248,139)	(257,459)
Actuarial gains/losses recognized	(173,313)	278,086
	<u>4,645,846</u>	<u>4,828,071</u>
Prepaid benefit liability, end of year		
Fair value of plan assets	<u>-</u>	<u>-</u>

Included in wages and employee benefits and finance costs respectively, is a net benefit expense as follows:

	<u>2021</u>	<u>2020</u>
Total service cost of the plan for the year	127,574	140,886
Interest on average liabilities	111,653	129,816
Total Expense for the year	<u>\$ 239,227</u>	<u>\$ 270,702</u>

The main actuarial assumptions employed for the valuations are based on the full actuarial report performed in 2019. In 2021, the Company hired an outside consulting firm to update the actuarial valuation report based on the changes noted below, including an update of employee and retiree status.

In addition to the above information, the consultant also provided sensitivity analysis at December 31, 2021 below. The sensitivity analysis shows the change in the present value of the defined benefit obligation at December 31, 2021 by increasing or decreasing the discount rate and claim cost trend rates by 1% increments. The sensitivity is done separately for each assumption, while keeping other assumptions the same.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

9. Employee Future Benefits (continued)

	Base	Discount Rate +1%	Discount Rate -1%	Trend +1%	Trend -1%
PV DBO Dec.31/21	\$ 4,408,400	\$ 3,998,000	\$ 4,892,100	\$ 4,870,000	\$ 4,011,500
% Difference		-9%	11%	10%	-9%
\$ difference		\$ (410,400)	\$ 483,700	\$ 461,600	\$ (396,900)

Expected average remaining service life of active employees 13 years.

a. General Inflation / Salary Levels

- b. In 2019, the actuarial report was based on salary scale assumption based on the Corporation's management of 2% per annum up to 2022 and 3% per annum for 2023 onwards. This change reflected the Corporation's bargaining agreements and consideration for increases in the salary scale in the long term. As such, in 2021 there was no inflation rate used in the valuation.

The obligation at year end, of the present value of future liabilities and the expense for the year ended, were determined using a discount rate of 2.9% (2020 2.5%). The discount rate for 2021 reflects the assumed long-term yield on high quality bonds as at December 31, 2021 (most recent valuation date).

c. Medical Costs

Medical costs reflect cost increase assumptions from the full valuation in 2019 and continue to be assumed to increase 4.40% from 2021-2024, 5.3% from 2025-2034, 4.6% from 2035-2039, and 4% thereafter.

d. Dental Costs

Dental costs reflect cost increase assumptions from the full valuation in 2019 and continue to be assumed to increase at 4.7% from 2021-2024, 5.60% from 2025-2029, 5.30% from 2030-2034, 4.60% from 2035-2039 and 4% thereafter.

The Company's sick accrual is included above in the amount of \$237,400 (2020 - \$237,900) and is the accumulation of non-vested sick leave benefits under IAS 19 standards for financial reporting purposes. The Company hired an outside consulting firm to assess the future payments to be made as a result of the Company's employees' sick leave bank hours in 2021. The discount rate used in 2021 was 2.90% (2020 - 2.50%). The Future general salary and wage levels were assumed to increase at 2.0% per annum up to 2022 and 3.0% per annum thereafter.

Other employee benefits that are expected to be settled wholly within 12 months after the end of the reporting period are presented as current liabilities.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

10. Related Party Transactions

The Company provides administrative and other services to an affiliated company, North Bay Hydro Services Inc. ("Services"). Electrical energy is also sold to Services at the same prices and terms as other electricity customers consuming equivalent amounts of electricity.

The Company also provides administrative services to an affiliated company, Espanola Regional Hydro Distribution Company ("ERHDC").

During the current year, the Company provided and maintained inter-company loans to both Services and ERHDC in the form of Promissory Notes.

The Corporation of the City of North Bay (the "City") is the 100% owner of North Bay Hydro Holdings Inc. which is the parent company of North Bay Hydro Distribution Limited, North Bay Hydro Services Inc. and Espanola Regional Hydro Distribution Corporation.

Electrical energy is sold to the City at the same prices and terms as other electricity customers consuming equivalent amounts of electricity. Streetlight maintenance services are provided at rates determined in relation to other service providers. Other construction services are provided at cost.

The loan to Services is in the amount of \$200,000 and the interest rate on this facility is equal to the prime rate as defined by the Bank of Canada, and cross referenced against TD Bank's rate, currently at 2.45%. Interest only payments were made in 2021 and will continue until the loan is due in 2025, however, Services may prepay any or all of the principal at any time. Interest is calculated, accrued and paid for monthly. The loan balance at December 31, 2021 was \$200,000.

The Company has four inter-company loan arrangements with ERHDC. The interest rate on all four facilities is equal to the prime rate as defined by the Bank of Canada, and cross referenced against TD Bank's rate, currently at 2.45%. Interest is calculated, and accrued, monthly. Promissory notes are in place for the original \$200,000 deposit that was made in relation to the acquisition of ERHDC and an additional two loans of \$265,000 (2020) and \$230,000 (2021) to cover interest payments on a loan that ERHDC has with TD Bank. The Company provided ERHDC with a credit facility with a maximum draw amount of \$1,100,000 to cover the costs associated with ERHDC's 2021 COS application; this loan carries a value of \$653,067 as of December 31, 2021 and there are no further draws to be made on this promissory note.

The following tables summarize the transactions that occurred between North Bay Hydro Distribution Limited and its affiliates.

North Bay Hydro Distribution Limited Notes to Financial Statements Expressed in Canadian Dollars

December 31, 2021

10. Related Party Transactions (continued)

	Sale of Goods		Purchase of Goods		Amounts owed to (from)	
	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2021	Year Ended December 31, 2020
NBHS						
Contract services and other	\$ 467,267	\$ 397,199	\$ -	\$ -	\$ -	\$ -
Electricity Sales	104,622	306,822	-	-	-	-
Contributed Capital Costs	-	30,592	-	-	-	-
Other Revenue	853	1,173	106,193	117,165	-	-
Total statement of earnings and retained earnings	\$ 572,803	\$ 735,786	\$ 106,193	\$ 117,165	\$ -	\$ -
Accounts receivable	\$ -	\$ -	\$ -	\$ -	\$ (920,384)	\$ (896,259)
Accounts payable	-	-	-	-	444,755	470,466
Loan Receivable	-	-	-	-	(200,000)	(200,000)
Total statement of financial position	\$ -	\$ -	\$ -	\$ -	\$ (675,629)	\$ (625,793)
ERHDC						
Accounts Receivable	\$ -	\$ -	\$ -	\$ -	\$ (421,985)	\$ (377,703)
Loan Receivable	-	-	-	-	(1,384,876)	(704,196)
ERHDC Total	\$ -	\$ -	\$ -	\$ -	\$ (1,806,861)	\$ (1,081,899)
Hydro Holdings						
Administration fees	-	-	12,000	12,000	-	-
Hydro Holdings Total	-	-	12,000	12,000	-	-
City of North Bay						
Electrical energy sales	\$ 2,888,154	\$ 3,108,795	\$ -	\$ -	\$ -	\$ -
Construction activity sales	169,585	6,669	-	-	-	-
Street light maintenance	11,474	4,587	-	-	-	-
Fuel / water / other	-	-	213,080	188,424	-	-
Total statement of earnings and retained earnings	3,069,212	3,120,051	213,080	188,424	-	-
Accounts receivable	-	-	-	-	(254,430)	(297,628)
Accounts payable	-	-	-	-	21,357	16,063
Total statement of financial position	\$ -	\$ -	\$ -	\$ -	\$ (233,073)	\$ (281,565)

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

11. Loan Guarantee

The company has a financial loan guarantee to a related company under common control; the guarantee covers the amount outstanding to two commercial lenders. The amount of debt outstanding, related to this financial guarantee at year end, was \$10,790,710. The guarantee would be triggered if the related party defaulted on its financial obligations, primarily with respect to monthly debt payments. There is no collateral held for this guarantee and no fees were charged during the year in relation to this financial guarantee.

12. Inventory

Cost of inventories comprised of direct materials, which typically consists of distribution assets not deemed as major spares, unless purchased for specific capital projects in process or as spare units. Costs, after deducting rebates and discounts, are assigned to individual items of inventory on the basis of weighted average cost. Decommissioned assets that are transferred to inventory are tested for impairment once they are removed from service and placed in inventory. Inventory is recognized at the lower of cost and net realizable value. The amount of inventories consumed by the Company and recognized as an expense during 2021 was \$99,673 (2020 - \$78,729).

Inventory consists of parts, supplies and materials held for future capital expansion or maintenance and are valued at the lower of cost, determined by the weighted average method, and replacement cost.

North Bay Hydro Distribution Limited
Notes to Financial Statements
Expressed in Canadian Dollars

December 31, 2021

13. Net Change in Non-cash Working Capital Balances

The net change in non-cash working capital balances consists of:

	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ (73,862)	\$ 707,766
Unbilled service revenue	77,562	(64,972)
Inventory	(101,584)	8,766
Prepaid expenses	(233,418)	(196,565)
Accounts payable and accrued liabilities	907,835	(2,152,456)
Payments in lieu of taxes	245,844	(210,848)
Customer deposits	(15,167)	(141,101)
Deferred revenue	(80,954)	(25,165)
	\$ 726,256	\$ (2,074,575)

14. Share Capital

Authorized:

Unlimited Common shares

The issued share capital is as follows:

	<u>2021</u>	<u>2020</u>
1,001 Common Shares	\$ 19,511,601	\$ 19,511,601

North Bay Hydro Distribution Limited
Notes to Financial Statements
Expressed in Canadian Dollars

December 31, 2021

15. Operating Expenses by Nature

	2021	2020
Repairs and maintenance	\$ 1,505,291	\$ 1,385,294
Staff Costs	4,632,093	4,428,416
General Administration, overhead and recoveries	679,276	768,248
Bad debts	114,473	113,333
Property Taxes	93,306	92,401
	\$ 7,024,439	\$ 6,787,692

Management Compensation

During the year the company compensated its senior management group \$1,226,488 (2020 - \$1,196,497), including salaries and benefits.

16. Finance Income and Finance Cost

	2021	2020
Finance Income:		
Interest income on receivables	\$ 57,762	\$ 86,939
Interest income on bank deposits	56,091	120,085
	\$ 113,853	\$ 207,024
Finance Cost:		
Interest on long term debt	\$ 1,007,031	\$ 1,052,576
Net interest on employee future benefits	111,653	129,816
	\$ 1,118,684	\$ 1,182,392

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

17. Long Term Debt

The Company negotiated a loan with the Ontario Infrastructure Projects Corporation to provide funding for the Smart Meter project. The loan is a 10 year serial loan at an interest rate of 3.90% calculated on a semiannual basis. The loan was repaid in 120 monthly installments which included both principal and interest. The loan payments were completed in 2021 with the final payment taking place in April 2021.

The Company has seven term loans in the amounts of \$4,000,000, \$4,500,000, \$5,500,000, two loans of \$5,000,000, and two loans valued at \$6,000,000 with a Canadian Financial Institution and has entered into interest rate derivative agreements to manage the volatility of interest rates on long-term debt for each. All of these loans are to be repaid over 120 months with combined repayments of \$340,209 per month principal and interest having fixed rates at 3.095%, 3.55%, 2.45%, 2.36%, 2.88%, 2.37%, and 1.56% respectively.

The Company entered into a term loan in the amount of \$19,500,000 to replace the existing loan agreement with the City of North Bay. This loan is to be repaid over 240 months with repayments of \$103,331 per month principal and interest at a rate of 2.5%.

In 2021 the Company entered into an additional term loan in the amount of \$6,200,000. This loan is to be repaid over 240 months with repayments of \$33,912.13 per month principal and interest at a rate of 2.85%.

The fair value of these loans are \$44,046,910 (2020- \$42,286,799) which is estimated by obtaining market-to-market quotes from the Toronto Dominion Bank resulting in an interest rate swap mark-to-market financial liability (asset) of \$(42,134) (2020 - \$1,589,398). The quoted prices generally reflect the estimated amount that the Company would pay (receive) to settle these agreements at the statement of financial position date.

The Company must maintain Debt Service Coverage (DSC) ratio of not less than 1.20:1 on to remain in compliance with outstanding debt obligations.

Estimated principal repayments required to settle long term obligations are as follows (excludes interest rate swap mark-to-market adjustment):

2022	\$ 4,667,100
2023	4,790,109
2024	4,836,486
2025	4,452,262
2026	3,946,439
Thereafter	<u>21,354,515</u>
	\$ 44,046,911

The interest rates on these financial instruments are fixed and therefore the Company is not exposed to fluctuations in short-term interest rates in relation to these debts.

North Bay Hydro Distribution Limited
Notes to Financial Statements
Expressed in Canadian Dollars

December 31, 2021

17. Long Term Debt (continued)

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an on-going basis. The Company strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

December 31, 2020	60 days	< 1 year	1 - 5 years	> 5 years
Accounts payable	\$ 9,587,989	-	-	-
Loans	769,376	3,669,628	21,452,915	16,391,137
December 31, 2021	60 days	< 1 year	1 - 5 years	> 5 years
Accounts payable	\$ 10,495,824	-	-	-
Loans	770,672	3,896,428	18,025,297	21,354,514

18. Contingencies

The Company belongs to the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a self insurance plan that pools the risks of all of its members. Any losses experienced by MEARIE are shared amongst its members. As at December 31, 2021, the Company has been made aware of three outstanding claims that will all be covered by MEARIE.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

19. Commitments

On October 9, 2009 the Company entered into a 15 year contract with Sensus Metering Systems Inc. to maintain and further develop the AMI system that meets the MEU functional specifications related to the Smart Meter Project. The contract contains 3 renewal terms of 5 years each. The Company elected to have the monthly fees billed in US dollars, instead of having the currency rate set on an annual basis in October of each year. Termination penalties apply if the Company cancels the contract without cause, the related fees are based on a sliding scale for the year this takes place and the fees associated with the service option selected. Annual fees in the amount of approximately \$206,000 are expected to be incurred under this contract, however can fluctuate based on several factors including performance. This contract exposes the Company to currency risk with fluctuations in currency prices when it purchases US dollars to meet the payable commitments.

20. Credit Facility/Letters of Credit

The Company has an authorized line of credit under a credit facility agreement with a Canadian chartered bank. The credit limit permitted under this agreement is \$7,000,000. At year end the Company had drawn \$Nil (2020 \$Nil) under this facility.

The Company has a \$3.6 million letter of credit with its bank provided to the IESO to secure the Company's hydro purchase obligations. The Company has provided its financial institution with a General Security Agreement as security for this obligation.

The Company's general banking agreement which encompasses the line of credit, revolving term facility and the letter of credit contains financial covenants which include a debt to capital ratio lower than 60% and a debt service coverage ratio of not less than 1:2 and positive free cash flow. Distributions in excess of free cash flow are permitted when financed by cash on hand. As at December 31, 2021 the Company was in compliance with these covenants.

The Company strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due while minimizing interest expense. The Company monitors cash balances regularly and has access to short-term borrowings, should they be required, under its credit facility agreement. If the Company were to utilize this facility it would be exposed to fluctuations in short-term interest rates.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

21. Pension Agreements

The Company makes contributions to the OMERS, which is a multiemployer pension plan, on behalf of all fulltime members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The Administration Corporation Board of Directors, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. OMERS provides pension services to almost half a million active and retired members and approximately 1,000 employers.

Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2021. The results of this valuation disclosed total actuarial liabilities of \$120,796 million in respect of benefits accrued for service with actuarial assets of \$117,665 million indicating actuarial deficit of \$3,131 million. Because OMERS is a multiemployer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Company does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2021 was \$475,649 (2020 \$406,921).

22. Capital Disclosures

The Company considers its capital to comprise its common share capital, retained earnings, and long-term debt.

In managing its capital, the Company's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and through the payment of periodic dividends to its common shareholders. The Company also seeks to ensure that access to funding is available in order to maintain and improve the equipment used in operations and maintain financial ratios within the recommended guidelines as prescribed by the OEB. In order to achieve these objectives, the Company develops detailed annual operating budgets and seeks to maintain distribution revenue levels and control costs to enable the Company to meet its working capital requirements and strategic investment needs. In making decisions to adjust its capital structure to achieve these objectives, the Company considers both its short-term position and longterm operational and strategic objectives.

As at December 31, 2021 the Company is party to debt agreements that contain various covenants and is restricted from offering loans or paying dividends that would cause a violation of those covenants.

North Bay Hydro Distribution Limited

Notes to Financial Statements

Expressed in Canadian Dollars

December 31, 2021

23. Uncertainty due to COVID-19

The assessment of the duration and severity of the developments related to the COVID-19 pandemic continue to be subject to significant uncertainty. The company has developed guidelines for its workforce that align with the Provincial Framework and prioritize the safety of employees, customers, and the public. These guidelines enable the company to pivot to appropriate work protections depending on the various orders that the local and provincial health authorities issue. The local and provincial directives have the ability to halt all non-essential work; the company provides an essential service to the community and work in the public domain continues under the above-mentioned guidelines and administrative staff have been transitioned to a hybrid work from home approach.

The pandemic has affected customers in different ways. Residential consumption has increased and the commercial and industrial customer base has seen a decrease in demand on the system, however, the continued impact of the pandemic on customer energy needs is difficult to predict and quantify. The pandemic can affect supply chains (delays, constraints, cost increases) and the collectability of accounts receivable; these areas of the business continue to be monitored and managed closely by the company, however, they are subject to continued uncertainty. At this time, the future impact of COVID-19 on the entity cannot be known with certainty.

24. Subsequent Events

Subsequent to year end the Ontario Energy Board approved the amalgamation of North Bay Hydro Distribution Limited and Espanola Regional Distribution Corporation. The effective date of this amalgamation is not certain as of the date of preparation of these financial statements.










North Bay Hydro Distribution Limited 12312021 - Financial Statements

Final Audit Report

2022-04-11

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