Ontario Energy Board
Commission de l'Énergie de l'Ontario

Application for Electricity Transmission Licence

Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4
Telephone: 1-888-632-6273
Facsimile: (416) 440-7656

Commission de l'Énergie de l'Ontario
2300 rue Yonge
C.P. 2319
Toronto, ON M4P 1E4
Téléphone: 1-888-632-6273
Télécopieur: (416) 440-7656

For Office Use Only	
Application Number	
Date Received	

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A. General information

1. Type of Application

New licence	☒
Renewal	☐
Amendment to an existing Licence	☐

2. Applicant

<table>
<tr><td colspan="4">Please provide the following information about the Applicant</td></tr>
<tr><td colspan="2">Full Legal Name of Applicant

PUC (Transmission) LP by its general partner PUC (Transmission) GP Inc.</td><td>Ontario Corporation Number, Canadian Corporation Number or Business Registration Number
PUC (Transmission) LP – BIN: 310046354
PUC (Transmission) GP Inc. – OCN: 002796304</td><td>Date of Formation or Incorporation
January 11, 2021</td></tr>
<tr><td colspan="4">Business Address:
500 Second Line East PO Box 9000</td></tr>
<tr><td>City

Sault Ste. Marie</td><td>Prov.

Ontario</td><td>Country

Canada</td><td>Postal/Zip Code

P6A 6P2</td></tr>
<tr><td>Phone Number

(705) 759-6522</td><td>FAX Number

(705) 759-6510</td><td colspan="2">E-Mail Address (if applicable)
regulatory@ssmpuc.com</td></tr>
</table>

3. Primary Contact for this Application

Please provide the following information about the Primary Contact for this Application:			
Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _________	Last Name: Faught	Full First Name: Mark	Initial:
	Position Held: Director, Finance		
Contact Address (if R.R., give Lot, Concession No. and Township): 500 Second Line East PO Box 9000			
City Sault Ste. Marie	Prov. Ontario	Country Canada	Postal/Zip Code P6A 6P2
Phone Number: 705-759-0105	FAX Number: 705-759-6510	E-Mail Address (if applicable): mark.faught@ssmpuc.com	

Primary Contact for this Application

Please provide the following information about the Primary Contact for this Application:			
Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _________	Last Name: Kasubeck	Full First Name: Tyler	Initial:
	Position Held: Regulatory Financial Analyst		
Contact Address (if R.R., give Lot, Concession No. and Township) 500 Second Line East PO Box 9000			
City: Sault Ste. Marie	Prov.: Ontario	Country: Canada	Postal/Zip Code: P6A 6P2
Phone Number: 705-759-3009	FAX Number: 705-759-6510	E-Mail Address (if applicable): tyler.kasubeck@ssmpuc.com	

4. Transmission Facilities

Please provide a description of the transmission facilities involved in this Application:

The Applicant does not currently own or operate transmission facilities in Ontario. The Applicant intends to bring a leave-to-construct application later for development of transmission facilities (as detailed in this application) ("Proposed Facilities"). The purpose of the Proposed Facilities is to provide additional transmission capacity to a group of industrial load customers, where there is insufficient capacity on the existing transmission facilities down stream of the Hydro One Third Line Station. The Proposed Facilities may also be utilized in the future to support PUC Distribution's infrastructure renewal.

The short-term and immediate need relates to an anticipated load increase in local industrial load, which would require substantially more capacity than is available on the existing transmission system. In the longer term, further increase in local industrial load is anticipated and will require substantial additional capacity. The Proposed Facilities will address the large load growth proposed in the Sault Ste. Marie area due to these industrial expansion projects and the required future PUC Distribution infrastructure renewal.

The Proposed Facilities will utilize an existing right of way that covers approximately 70% of the transmission line route, thereby avoiding the necessity of another transmitter having to route or secure a different right of way (likely at substantially higher costs) through the city of Sault Ste. Marie.

Based on the best information the Applicant has available at this time, the Proposed Facilities would consist of the following:

230 kV Transmission Line:

- 230 kV, double circuit, each circuit rated at 400 MVA
- Steel mono pole construction, average 140 feet tall
- Approximately 73 poles total, 180 m. average span length
- 10.1 km length, starting at Hydro One Third Line TS and ending at Applicant's new Transformer Station (described below)
- See proposed transmission line routing diagram attached at Attachment 1.

230 kV Transformer Station:

- Located at the easterly end of Yates Avenue
- 2 - 230 kV buses, 4 diameters in a breaker and a half configuration
- Phase 1 – two autotransformers at 230/115/34.5 kV, each rated 120/160/200 MVA
- Phase 2 – two additional autotransformers at 230/115 kV, each rated at approx. 165 MVA
- See proposed site location attached at Attachment 1 and station single line diagram attached at Attachment 2.

The installation of the transformers will be phased over time, to coincide to when the need occurs.

The estimated cost for the Proposed Facilities is approximately up to $120 million.

B. Corporate Information

Organizational

5. Business Classification

Please indicate the Applicant's Business Classification (check appropriate type below):

☐ Sole Proprietor

☐ Partnership

☐ Corporation

☒ Other (describe) ____Limited Partnership________________

6. Business Activities

Please provide a description of the Applicant's business activities:

PUC (Transmission) LP is a newly formed Ontario limited partnership. Through its general partner, PUC (Transmission) LP intends to engage in business activities associated with planning, development, financing, construction, ownership, operation and maintenance of electricity transmission facilities within Ontario, including the Proposed Facilities. PUC (Transmission) LP further intends to prepare and file a leave-to-construct application with the OEB for the Proposed Facilities.

PUC Inc. and PUC Services Inc. are wholly owned by The Corporation of the City of Sault Ste. Marie. PUC Distribution Inc., PUC (Transmission) LP Inc. and PUC (Transmission) GP Inc. are wholly owned by PUC Inc. PUC (Transmission) GP Inc. is the general partner of PUC (Transmission) LP. There is a letter of support in place for Axium Infrastructure Canada II Limited Partnership ("AIC II LP"), represented by Axium Infrastructure Inc., acting on behalf of Axium Canada II Partner Inc., the general partner of AIC II LP ("Axium"), pursuant to which Axium has agreed in principle to finance the costs incurred by PUC (Transmission) LP for the Proposed Facilities, subject to the satisfaction of certain conditions. If such conditions are met, it is anticipated that Axium or a newly-formed subsidiary of Axium will become an affiliate of the Applicant.

AIC II LP is a privately held infrastructure fund that has been established to complete and manage investments in infrastructure assets in Canada. The fund is a Canadian-domiciled limited partnership. The majority of limited partners that have committed capital to the fund comprise public and private pension plans and institutional investors.

Axium Infrastructure Inc. was established in 2008 as an independent portfolio management firm dedicated to generating long-term investment returns through investing in core infrastructure assets. Its management team comprises infrastructure investment specialists with decades of combined experience acquiring, developing, financing, operating and managing infrastructure assets. Axium Infrastructure Inc. manages three dedicated infrastructure funds with over Cdn. $5.2 billion in total assets under management, and investments in 130 assets across the energy, social, and transportation sectors in Canada and the U.S. A list of all Axium Infrastructure Inc.'s asset descriptions and locations is available on its website at www.axiuminfra.com/portfolio-assets/?lang=en

Please see the attached organization charts and list of Affiliates (Attachment 3).

7. Affiliates of the Applicant

<table>
<tr><td colspan="4">a) Please provide the following information for all Affiliates of the Applicant:</td></tr>
<tr><td colspan="4">Full Legal Name of Affiliate Company:

PUC (Transmission) GP Inc.</td></tr>
<tr><td colspan="4">Business Address:

500 Second Line East, PO Box 9000</td></tr>
<tr><td>City
Sault Ste. Marie</td><td>Prov.
Ontario</td><td>Country
Canada</td><td>Postal/Zip Code
P6A 6P2</td></tr>
<tr><td>Phone Number
705-759-6500</td><td>FAX Number
705-759-6510</td><td colspan="2">E-Mail Address (if applicable)
regulatory@ssmpuc.com</td></tr>
<tr><td colspan="4">Description of Business Activities:</td></tr>
<tr><td colspan="4">PUC (Transmission) GP Inc. is the general partner of PUC (Transmission) LP. PUC Inc. owns all of the issued and outstanding shares in the capital of PUC (Transmission) GP Inc..</td></tr>
<tr><td colspan="4">b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.
Please see the attached organization charts and list of Affiliates (Attachment 3).</td></tr>
</table>

Affiliates of the Applicant

<table>
<tr><td colspan="4">a) Please provide the following information for all Affiliates of the Applicant:</td></tr>
<tr><td colspan="4">Full Legal Name of Affiliate Company:

PUC Inc.</td></tr>
<tr><td colspan="4">Business Address:

500 Second Line East, PO Box 9000</td></tr>
<tr><td>City
Sault Ste. Marie</td><td>Prov.
Ontario</td><td>Country
Canada</td><td>Postal/Zip Code
P6A 6P2</td></tr>
<tr><td>Phone Number
705-759-6500</td><td>FAX Number
705-759-6510</td><td colspan="2">E-Mail Address (if applicable)
regulatory@ssmpuc.com</td></tr>
<tr><td colspan="4">Description of Business Activities:</td></tr>
<tr><td colspan="4">PUC Inc. is a private company registered under the Ontario Business Corporations Act and is wholly owned by the Corporation of the City of Sault Ste. Marie. It is the holding company that wholly owns PUC Distribution Inc. and Northern Waterworks Inc.</td></tr>
<tr><td colspan="4">b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.
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<table>
<tr><td colspan="4">a) Please provide the following information for all Affiliates of the Applicant:</td></tr>
<tr><td colspan="4">Full Legal Name of Affiliate Company:

PUC (Transmission) LP Inc.</td></tr>
<tr><td colspan="4">Business Address:

500 Second Line East, PO Box 9000</td></tr>
<tr><td>City
Sault Ste. Marie</td><td>Prov.
Ontario</td><td>Country
Canada</td><td>Postal/Zip Code
P6A 6P2</td></tr>
<tr><td>Phone Number
705-759-6500</td><td>FAX Number
705-759-6510</td><td colspan="2">E-Mail Address (if applicable)
regulatory@ssmpuc.com</td></tr>
<tr><td colspan="4">Description of Business Activities:</td></tr>
<tr><td colspan="4">PUC (Transmission) LP Inc. is wholly owned by PUC Inc.
PUC (Transmission) LP Inc. and PUC (Transmission) GP Inc. formed a limited partnership, PUC (Transmission) LP.</td></tr>
<tr><td colspan="4">b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.
Please see the attached organization charts and list of Affiliates (Attachment 3).</td></tr>
</table>

Affiliates of the Applicant

a) Please provide the following information for all Affiliates of the Applicant:			
Full Legal Name of Affiliate Company: Axium Infrastructure Canada II Limited Partnership			
Business Address: 120 Adelaide Street West, Suite 425			
City Toronto	Prov. Ontario	Country Canada	Postal/Zip Code M5H 1T1
Phone Number (514) 954-3710	FAX Number (514) 282-6478	E-Mail Address (if applicable) cvittecoq@axiuminfra.com	
Description of Business Activities:			

Axium is not currently an affiliate of the Applicant. However, there is a letter of support in place where Axium agrees in principle to finance the costs incurred by PUC (Transmission) LP for the Proposed Facilities, subject to the satisfaction of certain conditions. If such conditions are met, it is anticipated that Axium or a newly formed subsidiary of Axium would become an affiliate of the Applicant.

Axium Infrastructure Canada II Limited Partnership, represented by Axium Infrastructure Inc., acting on behalf of Axium Canada II Partner Inc., the general partner is a privately held infrastructure fund that has been established to complete and manage investments in infrastructure assets in Canada. The fund is a Canadian-domiciled limited partnership. The majority of limited partners that have committed capital to the fund comprise public and private pension plans and institutional investors.

Axium Infrastructure Inc. was established in 2008 as an independent portfolio management firm dedicated to generating long-term investment returns through investing in core infrastructure assets. Its management team comprises infrastructure investment specialists with decades of combined experience acquiring, developing, financing, operating and managing infrastructure assets. Axium manages three dedicated infrastructure funds with over Cdn. $5.2 billion in total assets under management, and investments in 130 assets across the energy, social, and transportation sectors in Canada and the U.S. A list of all Axium's asset descriptions and locations is available on its website at www.axiuminfra.com/portfolio-assets/?lang=en

b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.

Please see the attached organization charts and list of Affiliates (Attachment 3).

Affiliates of Applicant

a) Please provide the following information for all Affiliates of the Applicant:			
Full Legal Name of Affiliate Company: PUC Distribution Inc.			
Business Address: 500 Second Line East PO Box 9000			
City Sault Ste. Marie	Prov. Ontario	Country Canada	Postal/Zip Code P6A 6P2
Phone Number 705-759-6500	FAX Number 705-759-6510	E-Mail Address (if applicable) regulatory@ssmpuc.com	
Description of Business Activities:			
PUC Distribution Inc. owns the assets that are used to distribute electricity to residences and businesses within the boundaries of the City of Sault Ste. Marie as well as parts of Prince Township, Dennis Township and the Rankin Reserve. PUC Distribution Inc. is licensed by the OEB as an electricity distributor (Electricity Distribution Licence No. ED-2002-0546). PUC Distribution Inc. also owns transmission assets, such as 115kV lines and transformer stations, that are directly connected to the IESO controlled grid. PUC Distribution Inc.'s transmission assets (>50kV) have been deemed as distribution assets pursuant to Section 84(a) of the *Ontario Energy Board Act, 1998*. (See PUC Distribution Inc. EB-2017-0071 2018 Cost of Service Application, Exhibit 1, Page 26 of 106, dated March 29, 2018). PUC Distribution Inc.'s transmission assets primarily consist of four 115kV overhead transmission circuits totalling 15.4km in length and two 120MVA transformer stations. Each station includes transformation to step down to 34.5kV for distribution and all associated switchgear, protective systems, telecommunications and SCADA systems. Wholesale metering points and an underfrequency load shedding scheme are also installed at these two locations. As well as delivering electricity to PUC Distribution's 16 distribution substations and load customers, these transformer stations are host to just over 63MW of renewable generation and a 7MW/7MWh IESO contracted energy storage facility.			
b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate. **Please see the attached organization charts and list of Affiliates (Attachment 3).**			

Affiliates of Applicant

a) Please provide the following information for all Affiliates of the Applicant:

Full Legal Name of Affiliate Company:

PUC Services Inc.

Business Address:

500 Second Line East PO Box 9000

City	Prov.	Country	Postal/Zip Code
Sault Ste. Marie	Ontario	Canada	P6A 6P2

Phone Number	FAX Number	E-Mail Address (if applicable)
705-759-6500	705-759-6510	regulatory@ssmpuc.com

Description of Business Activities:

PUC Services Inc. is a utility services company operating as a wholly owned municipal corporation of the Corporation of the City of Sault Ste. Marie (the City). PUC Services Inc. manages, operates, and maintains the assets and business of PUC Distribution Inc., manages the City's Public Utilities Commission water treatment and water distribution system assets and operates the City's two wastewater treatment plants under multi-year contracts. PUC Services Inc. also provides billing and customer care services and manages the operations of Espanola Regional Hydro under multi-year contracts. Water and wastewater services are also provided to several communities and organizations in the Algoma District.

PUC Services Inc. provides the key operating and management services to PUC Distribution Inc. including the administration, operation and upkeep of transmission assets owned by PUC Distribution Inc. Many administrative functions are primarily provided by PUC Services Inc.'s experienced staff in Finance and Engineering. PUC Services Inc. ensures that assets are tested and maintained in accordance with the Transmission System Code requirements and that any associated compliance reporting is filed with the IESO. PUC Services Inc. is also involved in the operation of all switching activities and outage plans with the upstream transmitter and the IESO in accordance with provincially established processes and rules.

b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.

Please see the attached organization charts and list of Affiliates (Attachment 3).

Affiliates of Applicant

a) Please provide the following information for all Affiliates of the Applicant:

Full Legal Name of Affiliate Company:

The Corporation of the City of Sault Ste. Marie

Business Address:

99 Foster Drive

City	Prov.	Country	Postal/Zip Code
Sault Ste. Marie	Ontario	Canada	P6A 5X6

Phone Number	FAX Number	E-Mail Address (if applicable)
705-759-2500	705-759-2310	info@cityssm.on.ca

Description of Business Activities:

The Corporation of the City of Sault Ste. Marie is a municipal corporation in the Province of Ontario that promotes, encourages and leads economic and social growth within the Sault Ste. Marie community through effective provision of municipal services and the development of community partnerships.

b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.

Please see the attached organization charts and list of Affiliates (Attachment 3).

Affiliates of Applicant

a) Please provide the following information for all Affiliates of the Applicant:

Full Legal Name of Affiliate Company:

Northern Waterworks Inc.

Business Address:
104 Howey Street, P.O. Box 1160

City	Prov.	Country	Postal/Zip Code
Red Lake	Ontario	Canada	P0V 2M0

Phone Number	FAX Number	E-Mail Address (if applicable)
807-727-2424	807-727-3732	info@nwi.ca

Description of Business Activities:

Northern Waterworks Inc. provides water and wastewater operations, maintenance and management services to municipal, First Nation and Industrial clients and currently operates, maintains and manages 35 municipal water and wastewater subsystems. Further, NWI provides various consulting services, including a 24-7 hotline for technical support and emergency responses, to every First Nation in Ontario either directly or through the Government of Canada's Department of Indigenous Services Canada and the Ontario Ministry of the Environment, Conservation and Parks' Spills Action Centre.

b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.

Please see the attached organization charts and list of Affiliates (Attachment 3).

8. Energy Sector Activities

Has the Applicant or an Affiliate undertaken any energy sector activities in Ontario or any other jurisdiction? If yes, please provide the following information for each:	Yes ☒ No ☐
Full Legal Name of Company: PUC Distribution Inc.	Licence/Registration Number: ED-2002-0546
Jurisdiction: Ontario	Type of Business Activity (e.g. Generation, Transmission, Distribution): Distribution
PUC Distribution Inc. distributes electricity to residences and businesses within the boundaries of the City of Sault Ste. Marie as well as parts of Prince Township, Dennis Township and the Rankin Reserve. PUC Distribution Inc. is a provincially regulated Local Distribution Company (LDC) and must comply with requirements issued by the Ontario Energy Board (OEB) with respect to provision of services. As a participant in the Ontario electricity market, PUC Distribution Inc. must comply with the rules of the Independent Electricity System Operator (IESO). As an LDC, the company must adhere to the provisions under the *Electricity Act* and the *Ontario Energy Board Act.*	

Energy Sector Activities

Has the Applicant or an Affiliate undertaken any energy sector activities in Ontario or any other jurisdiction? If yes, please provide the following information for each:	Yes ☒ No ☐
Full Legal Name of Company: PUC Services Inc.	Licence/Registration Number: Exempt from Section 57(c) of the OEB Act, per section 4.0.3.3(1) of O. Reg 161/99
Jurisdiction: Ontario	Type of Business Activity (e.g. Generation, Transmission, Distribution): Generation
PUC Services Inc. is a utility services company operating as a wholly owned municipal corporation of the Corporation of the City of Sault Ste. Marie. PUC Services Inc. manages, operates, and maintains the assets and business of PUC Distribution Inc. PUC Services Inc. provides the key operating and management services to PUC Distribution Inc. including the administration, operation and upkeep of transmission assets owned by PUC Distribution Inc. PUC Services Inc. has entered into the following FIT contracts with the OPA/IESO: • Contract dated August 26, 2010 for Solar (PV) (Rooftop) with a gross nameplate capacity of 116.6 kW located at the Water Treatment Plant in Sault Ste. Marie; and • Contract dated June 21, 2011 for Solar (PV) (Rooftop) with a gross nameplate capacity of 159.3 kW located at George Leach Centre – Algoma University in Sault Ste. Marie. As these generation facilities have name plate capacities under 500 kW, PUC Services Inc. is exempt from obtaining a licence pursuant to Section 57(c) of the OEB Act.	

Technical Capability and Experience

9. Technical Ability

a) Please describe the applicant's technical ability to carry out the activities applied for including the Applicant's specific experience in Ontario and in other jurisdictions.

PUC (Transmission) LP and its general partner PUC (Transmission) GP Inc. are newly formed Ontario entities created to plan, develop, construct, own, operate and maintain transmission facilities in Ontario.

PUC Distribution Inc., PUC (Transmission) LP's affiliate, owns transmission assets and the administration, operation and upkeep of those transmission assets is primarily provided by PUC (Transmission) LP's other affiliate, PUC Services Inc. PUC Distribution Inc.'s transmission assets primarily consist of four 115kV overhead transmission circuits totalling 15.4km in length and two 120MVA transformer stations. Each station includes transformation to step down to 34.5kV for distribution and all associated switchgear, protective systems, telecommunications and SCADA systems. Wholesale metering points and an underfrequency load shedding scheme are also installed at these two locations. As well as delivering electricity to PUC Distribution's 14 distribution substations and load customers, these transformer stations are host to just over 63MW of renewable generation and a 7MW/7MWh IESO contracted energy storage facility.

PUC Services Inc.'s operational staff complete routine system maintenance and testing of transmission and distribution assets in accordance with regulatory requirements and industry best practices. Transmission assets are tested and maintained in accordance with the Transmission System Code requirements and associated compliance reporting is filed with the IESO. An installed underfrequency load shedding scheme is also operated, maintained and reported on in accordance with IESO, NERC and NPCC requirements. Wholesale metering points are operated, maintained and settled in-house with support of a third party MSP. A modern microprocessor based SCADA system allows operation of the transmission assets from two central system control rooms which are manned by a dedicated system operator. The system operator coordinates all switching activities and outage plans with the upstream transmitter and the IESO in accordance with provincially established processes and rules.

Many administrative functions are provided by PUC Services Inc. primarily by experienced staff in finance and engineering departments. All functions associated with registration and reporting of assets in accordance with OEB regulations are handled by finance. Asset management planning and the execution of renewal, enhancement or expansion projects is led by the engineering department. PUC Services Inc., on behalf of PUC Distribution Inc., also participates in other regulated activities including Emergency Preparedness Planning, IESO Blackout Restoration plans and workshops and actively contributes to regional planning as a member of the East Lake Superior regional planning group administered by the IESO.

PUC (Transmission) LP and its affiliates' combined expertise, experience and resources provides a very high level of technical capability, expertise and experience with respect to the activities associated with this application.

The key individuals on the team include those with over 40 years in the energy sector and possesses significant experience in Transmission, Operations and Development and being responsible for leading Ontario transmission development activities with respect to the East West Tie Transmission Project. Also on the team are engineers with 20-30 years of experience related to the energy field and have experience spanning the entire spectrum of electrical transmission and distribution, engineering, operations, maintenance and customer service. Various key individuals have previously been employed with Great Lakes Power Transmission/Great Lakes Power Limited and have gained extensive experience in asset management, operations and maintenance of transmission substations.

Third Party Contractors Experience

PUC Services Inc. manages, operates, and maintains the assets and business of PUC Distribution Inc., which include transmission assets owned by PUC Distribution Inc. These transmission assets primarily consist of four 115kV overhead transmission circuits totalling 15.4km in length and two 120MVA transformer stations. Each station includes transformation to step down to 34.5kV for distribution and all associated switchgear, protective systems, telecommunications and SCADA systems. Wholesale metering points and an underfrequency load shedding scheme are also installed at these two locations. As well as delivering electricity to PUC

Distribution’s 14 distribution substations and load customers, these transformer stations are host to just over 63MW of renewable generation and a 7MW/7MWh IESO contracted energy storage facility.

WSP Canada Inc. has extensive experience in high and extra high voltage substation design. Their expertise includes network studies; full secondary design; engineering design coordination and project management; environmental impact assessments; transport analysis; planning of electrical networks; architectural design services and fire engineering.

Chimax Inc. is an engineering company with over 20 years of experience in Canadian and international markets. They provide engineering services for transmission and distribution line engineering and substation civil and structural design.

Voltage Power, an Aecon Group Inc. company an electrical transmission and substation contractor based in Winnipeg, Manitoba. Its expertise is to perform medium to high-voltage transmission and distribution work. Voltage Power, with average annual revenue of approximately $60 million over the past three years has successfully completed over 20 projects in the past four years with an aggregate value of $200 million spanning Alberta, Saskatchewan, Manitoba, Ontario and Newfoundland. Key projects include Manitoba Hydro’s Keeyask 138 kV Switching Station and Bipole III 500 kV Transmission Line, Emera’s Maritime Link 230 kV Transmission Line and New Gold’s 230 kV Substation and Switching Station.

PowerTel is one of Canada’s leading high voltage contractors offering services in transmission lines, substations and distribution systems including all phases from development to commissioning. It has constructed 1000s of kilometers of powerline in Canada and the United States for licensed transmitters, local distribution companies, First Nations communities, industrial facilities, and private installations.

b) If the Applicant intends to utilize the capability of others by contracting transmission activities, please indicate below which activities and to whom they will be contracted:

☒ Design	Contracted to: PUC (Transmission) LP anticipates procuring services from design and engineering contractors, for example: WSP Global Inc., Chimax Inc., etc.
☒ Construction	Contracted to: PUC (Transmission) LP anticipates procuring services from construction contractors, for example, Voltage Power, an Aecon Group Inc. company.
☒ Customer Connection	Contracted to: To be determined.
☒ Inspection & Maintenance	Contracted to: PUC (Transmission) LP anticipates procuring services from inspection & maintenance contractors, for example: PUC Services Inc., PowerTel, etc.
☒ Operation	Contracted to: PUC (Transmission) LP anticipates procuring services from operation contractors, for example, PUC Services Inc.
☐ Other (describe)	Contracted to:

`

10. Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _________	Last Name: Brewer	Full First Name: Rob	Initial:
	Position Held: President and Chief Executive Officer, PUC Services Inc. PUC Distribution Inc. and PUC Inc.		

Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]

a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the *Ontario Energy Board Act*, 1998.

Yes No

[redacted]

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

[redacted]

b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?

Yes No

[redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

[redacted]

c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?

Yes No

[redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

[redacted]

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _________	Last Name: McPhee	Full First Name: Andrew	Initial: L.
	Position Held: PUC Inc. and PUC Services Inc. Vice Chair and PUC (Transmission) LP Board Chair		

Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]

a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the *Ontario Energy Board Act*, 1998.

Yes No
[redacted]

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

[redacted]

b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?

Yes No
[redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

[redacted]

c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?

Yes No
[redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

[redacted]

Information About Each Key Individual

<table>
<tr><td>Mr. ☒ Mrs. ☐
Miss ☐ Ms. ☐
Other: _________</td><td>Last Name: Stefano</td><td>Full First Name: Claudio</td><td>Initial:</td></tr>
<tr><td></td><td colspan="3">Position Held: Chief Operating Officer, PUC Services Inc.</td></tr>
<tr><td colspan="4">Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]</td></tr>
<tr><td colspan="4">a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the Ontario Energy Board Act, 1998. Yes No [redacted]

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

[redacted]</td></tr>
<tr><td colspan="4">b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes No [redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

[redacted]</td></tr>
<tr><td colspan="4">c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes No [redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

[redacted]</td></tr>
</table>

Information About Each Key Individual

Mr. ☐ Mrs. ☐ Miss ☐ Ms. ☒ Other: _________	Last Name: McLellan	Full First Name: Kelly	Initial:
	Position Held: Vice President, Finance & Corporate Support, PUC Services Inc.		

Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]

[redacted]

a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the *Ontario Energy Board Act*, 1998.
If yes, provide business names and licence number(s) and describe the individuals specific related experience.

Yes No [redacted]

[redacted]

b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?

Yes No [redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

[redacted]

c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?

Yes No [redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

[redacted]

Information About Each Key Individual

Mr. ☐ Mrs. ☐ Miss ☐ Ms. ☒ Other: _________	Last Name: Gartshore	Full First Name: Janis	Initial:
	Position Held: Manager, Safety and Operational Support, PUC Services Inc.		

Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]

a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the *Ontario Energy Board Act*, 1998.

Yes No [redacted]

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

[redacted]

b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?

Yes No [redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

[redacted]

c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?

Yes No [redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

[redacted]

Information About Each Key Individual

<table>
<tr><td rowspan="2">Mr. ☒ Mrs. ☐
Miss ☐ Ms. ☐
Other: ________</td><td>Last Name:
Bell</td><td>Full First Name:
Kevin</td><td>Initial:</td></tr>
<tr><td colspan="3">Position Held: Vice President, Business Development/Vice President, Customer Engagement & Business Development, PUC Services Inc.</td></tr>
<tr><td colspan="4">Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]</td></tr>
</table>

a)	Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the Ontario Energy Board Act, 1998. If yes, provide business names and licence number(s) and describe the individuals specific related experience.	Yes No [redacted]
[redacted]		
b)	Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.	Yes No [redacted]
[redacted]		
c)	Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.	Yes No [redacted]
[redacted]		

Information About Each Key Individual

<table>
<tr><td rowspan="2">Mr. ☒ Mrs. ☐
Miss ☐ Ms. ☐
Other: __________</td><td>Last Name:
Faught</td><td>Full First Name:
Mark</td><td>Initial:</td></tr>
<tr><td colspan="3">Position Held: Director, Finance, PUC Services Inc.</td></tr>
<tr><td colspan="4">Please explain the person's experience in the electrical transmission business and in the energy field in general.

[redacted]

[redacted]</td></tr>
<tr><td colspan="4">a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the Ontario Energy Board Act, 1998. Yes No [redacted]

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

[redacted]</td></tr>
<tr><td colspan="4">b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes No [redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

[redacted]</td></tr>
<tr><td colspan="4">c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes No [redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

[redacted]</td></tr>
</table>

Information About Each Key Individual

<table>
<tr><td rowspan="2">Mr. ☒ Mrs. ☐
Miss ☐ Ms. ☐
Other: _________</td><td>Last Name:
Johnston</td><td>Full First Name:
Phillip</td><td>Initial:</td></tr>
<tr><td colspan="3">Position Held: Manager, Line Operations, PUC Services Inc.</td></tr>
<tr><td colspan="4">Please explain the person’s experience in the electrical transmission business and in the energy field in general.

[redacted]

[redacted]

[redacted]</td></tr>
<tr><td colspan="4">a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the Ontario Energy Board Act, 1998.   Yes   No [redacted]

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

[redacted]</td></tr>
<tr><td colspan="4">b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?   Yes   No [redacted]

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual’s specific related experience.

[redacted]</td></tr>
<tr><td colspan="4">c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?   Yes   No [redacted]

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

[redacted]</td></tr>
</table>

11. Financial Information

Please attach financial statements of the Applicant for each of the past two fiscal years. This may include audited financial statements, annual reports, prospectuses or other such information. As newly created entities there are no financial results available for PUC (Transmission) LP at this time. Financial statements of PUC Inc., PUC Distribution Inc. and PUC Services Inc. are attached as Attachment 4. Financial statements of Axium Infrastructure Canada II Limited Partnership are attached as Attachment 5 and marked as "**CONFIDENTIAL**".

Transmission Facilities Information

12. Facilities

Please indicate whether the Applicant's transmission facilities are:	
☒ New assets to be constructed?	Proposed In-service date: To be determined - please see attached cover letter to this application.
☐ Existing assets presently owned by the Applicant?	
☐ Existing assets not presently owned by the applicant (i.e. to be purchased)?	Please indicate from whom assets will be purchased:
☐ Other (describe)	

13. Purpose of Facilities

Please indicate the intended purpose(s) of the Applicant's transmission facilities:

☐ To provide a connection between a generator and a transmission system

☒ To provide a connection between a transmission system and a load customer

☐ To provide a connection between a generator and a load customer

☐ To provide a connection between one transmission system and another

☐ To import or export power

☒ Other (please describe): The Proposed Facilities may be able to provide additional capacity to PUC Distribution Inc. if required in the future and may be able to serve other load customers in the area.

If parties other than the Applicant are involved, please indicate the specific names of the participants (generator, load customer, transmission system(s):

- A number of different transmission connected industrial load customers
- PUC Services Inc. (Transmission, Generation)
- PUC Distribution Inc. (Distribution)
- Hydro One Networks Inc. (Transmitter)
- Independent Electricity System Operator (Regional Transmission Operator)

and other potential loads in the area.

`

14. Location of Facilities

Please indicate the location (township or other such description as appropriate) of the Applicant's transmission facilities and attach a single-line diagram indicating the length (km), capacity (MW) and operating voltage (kV) of each element.

The 230 kV transmission line will be 10.1 km in length and will cross the northerly and westerly areas of the city of Sault Ste. Marie, starting at Hydro One Third Line TS and ending at the new 230 kV Autotransformer Station located at the easterly limit of Yates Avenue, Sault Ste. Marie.

Please see the attached transmission line routing map attached at Attachment 1 and the single-line diagram attached at Attachment 2.

15. Licensing History

Has the Applicant obtained Ontario Energy Board, National Energy Board, Federal Energy Regulatory Commission or any other regulatory approvals required for the acquisition, construction, or operation of the transmission facilities?

Yes ☐ No ☒

If no, please indicate the status and plans for seeking these approvals.

The Applicant intends to file a section 92 application for leave to construct with the Ontario Energy Board upon successfully obtaining a transmission licence. The Applicant currently expects the application to be filed in or around fourth quarter of 2021 (estimated).

16. Service to other parties

If the transmission facilities are to be used to deliver electricity to a party other than the Applicant please attach the following:

a) a summary of business plans relating to the Applicant's proposed transmission business for the next five years. This should include the following:
   - a forecast of annual peak demand (MW) and energy (MWH) transmitted and/or transformed.
   - annual pro forma financial statements including forecasts of costs, revenues and project financing indicating the underlying assumptions on which the forecasts are based.

b) estimates of net annual cash flows for subsequent periods to demonstrate financial feasibility and security.

c) indication of the Applicant's plans to seek Ontario Energy Board approval for rates for transmission services.

a) Please see Table 1 below, showing a forecast of annual peak demand and energy transmitted.

Table 1:

Load Forecast	2024	2025	2026	2027	2028
Station Total Demand (MW)	135	135	470	620	620
Station Total Energy Transmitted (MWh)	389,667	935,200	2,033,676	3,302,559	3,302,559

a) and b) Annual Pro Forma Financial Statement with estimates of net annual cash flows included as Attachment 6 marked as "CONFIDENTIAL".

c) The Applicant intends to file a Section 78 application for Ontario Energy Board approval of just and reasonable rates for transmission services for the year that the Proposed Facilities is anticipated to be in-service.

17. Proposed business transactions impact

Please provide a brief summary of the expected impact of the proposed business transactions on the Ontario electricity market under the following headings:

- Facilitate competition and enhance access to transmission services
- Improve reliability and quality of supply
- Promote economic and efficient electrical energy supply

Facilitate competition and enhance access to transmission services
The introduction of competition into the transmission business in Ontario is consistent with provincial policy. The introduction of new entrants will promote timely development of new resources, bring additional resources to the provincial transmission business and drive economic efficiency by introducing competition.
Development of the Applicant's Proposed Facilities will enhance access to transmission services for load customers in the Sault Ste. Marie area in a cost effective and timely way.

Improve reliability and quality of supply
There is a considerable amount of incremental load being considered for connection within the city boundaries of Sault Ste. Marie, resulting in the need for new local transmission facilities in order to provide the required capacity and improve reliability and quality of supply of electricity in the area.

Given the magnitude of load growth being discussed, potentially in the order of 650 MW, Hydro One upgrades would be required from Sudbury to Sault Ste. Marie and would be very expensive. Developing the Proposed Facilities would help balance costs.
The Proposed Facilities can provide alternate supply to the PUC Distribution Inc. distribution system to facilitate replacement of its aging transformer stations in the near future, thereby increasing reliability of distribution services by PUC Distribution Inc. The Proposed Facilities may also be able to serve other load customers in the area in the future.

The resulting diversity of transmission supply in the Sault Ste. Marie area would improve reliability and quality of supply for all customers in the area.

Promote economic and efficient electrical energy supply
By developing new transmission facilities, the Applicant can assist in balancing the cost of the Proposed Facilities and the ultimate rates paid by the proponents. The Applicant will provide a cost effective and timely solution for the anticipated substantial load growth, utilizing existing transmission line right-of-way, for the bulk of the line construction, combined with an extended municipal road right-of-way. This approach would result in a "Community Energy Centre" being developed to supply the several new industrial energy users with a highly reliable 230 kV service that would be part of the Provincial Transmission Connection pool.

Pursuant to the OEB's Decision in EB-2006/0189/EB-2006-0200 all 230kV transmission systems and 230kV autotransformers are considered network assets. Anything downstream from the new 230kV station would be treated as an expansion in accordance with the Transmission System Code. The Proposed Facilities would be treated as network assets.

Other Information

18. Ontario market activities

Please indicate whether the Applicant intends to be involved with other electricity sector activities in the Ontario market?

		Yes	No
☐	Buy or Sell (Wholesale) electricity	☐	☒
☐	Distribute electricity	☐	☒
☐	Retail electricity	☐	☒
☐	Generate electricity	☐	☒

If yes to any of the above:

a) If affiliates have not yet been established, please indicate when this is planned ________________________________

	Yes	No
b) Has Applicant or an affiliate applied for an Ontario Energy Board Licences? - If no, when planned? ___________________________________ See above re Distribution Licence number ED-2002-0546 for PUC Distribution Inc.	☒	☐

C. Notice and Consent

AS REQUIRED BY THE FREEDOM OF INFORMATION AND PROTECTION OF INDIVIDUAL PRIVACY ACT

In order to complete or verify the information provided on this form, it may be necessary for the Ontario Energy Board to collect additional information from some or all of the following sources: federal, provincial/state and municipal governments; licensing bodies; banks; professional and industry associations; and former and current employers. **Only information relevant to your application will be collected.**

The public official who can answer questions about the collection of information is:

Board Secretary
Ontario Energy Board
2300 Yonge Street, P.O. Box 2319
Toronto, Ontario M4P 1E4

Note: The issuance of an electricity transmitter licence does not guarantee accreditation by the IESO, or connection to a transmission or distribution system.

NOTE: This application must be signed by the proprietor or by at least one partner, officer or director of the organization.

WARNING: It is an offence to knowingly provide false information on this application.

I/We consent to the collection of this information as authorized under the *Ontario Energy Board Act, 1998.* Yes ☒

I/We understand that this information will be used to determine whether I am/we are and remain qualified for the licence for which I am/we are applying Yes ☒

Print Name and Title	Signature of Applicant(s)	Date Signed
Rob Brewer, President and Secretary		Feb 17, 2021

D. Acknowledgement

NOTE: This acknowledgement must be signed by the proprietor or by at least one partner, officer or director of the organization.

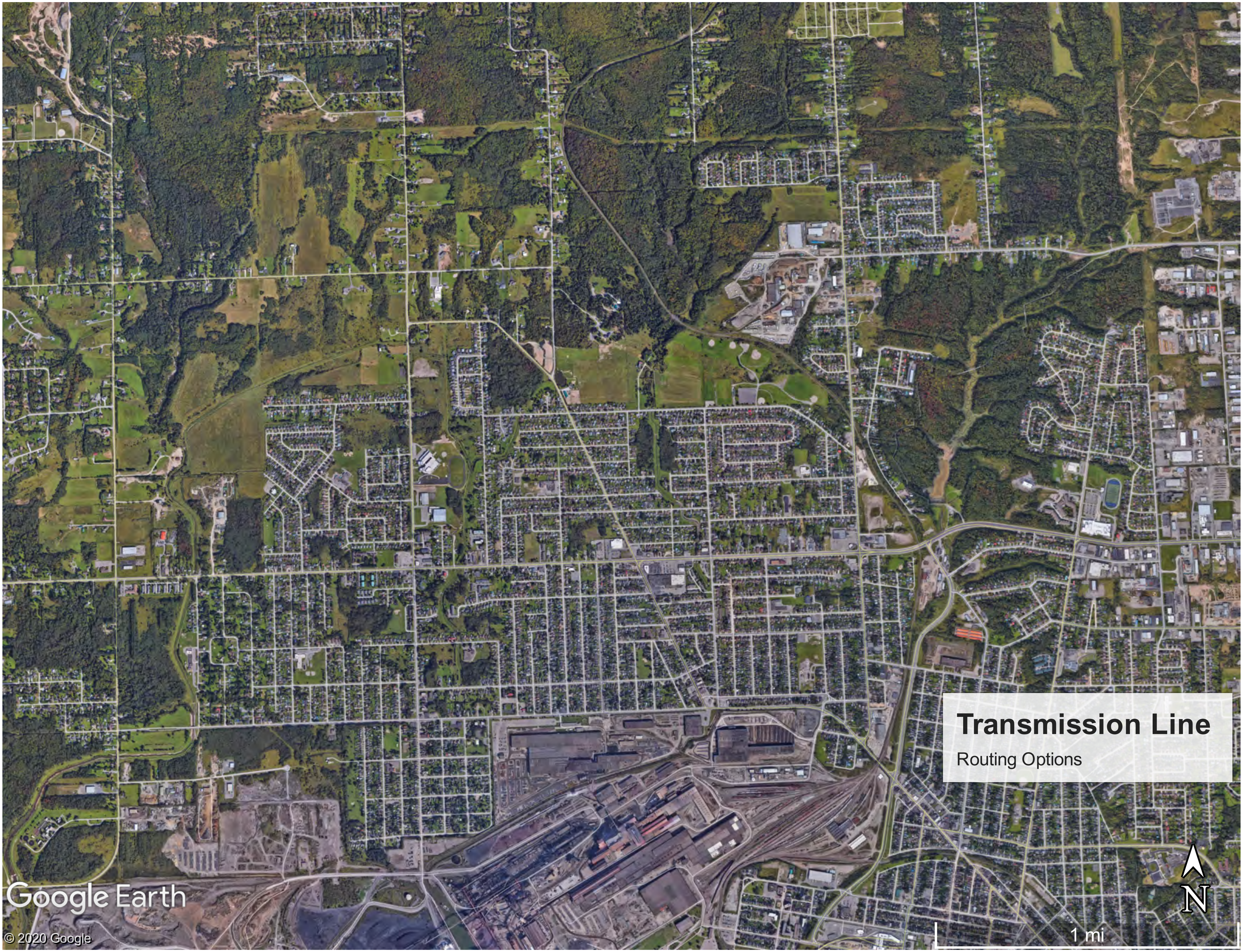
I understand and acknowledge that, as a licenced electricity transmitter, I will be required, unless otherwise exempted:

- To provide non-discriminatory access to all persons wishing to connect to the transmission system.
- To comply with all licence conditions including the provisions of:
  - The Ontario Energy Board Affiliate Relationships Code for Electricity Distributors and Transmitters
  - The Ontario Energy Board Transmission System Code
  - The Market Rules made under section 32 of the Electricity Act.

Print Name and Title	Signature of Applicant(s)	Date Signed
Rob Brewer, President and Secretary		Feb 17, 2021

Attachment 1

Transmission Line Routing Map and Station Location


Transmission Line
Routing Options
Google Earth
© 2020 Google
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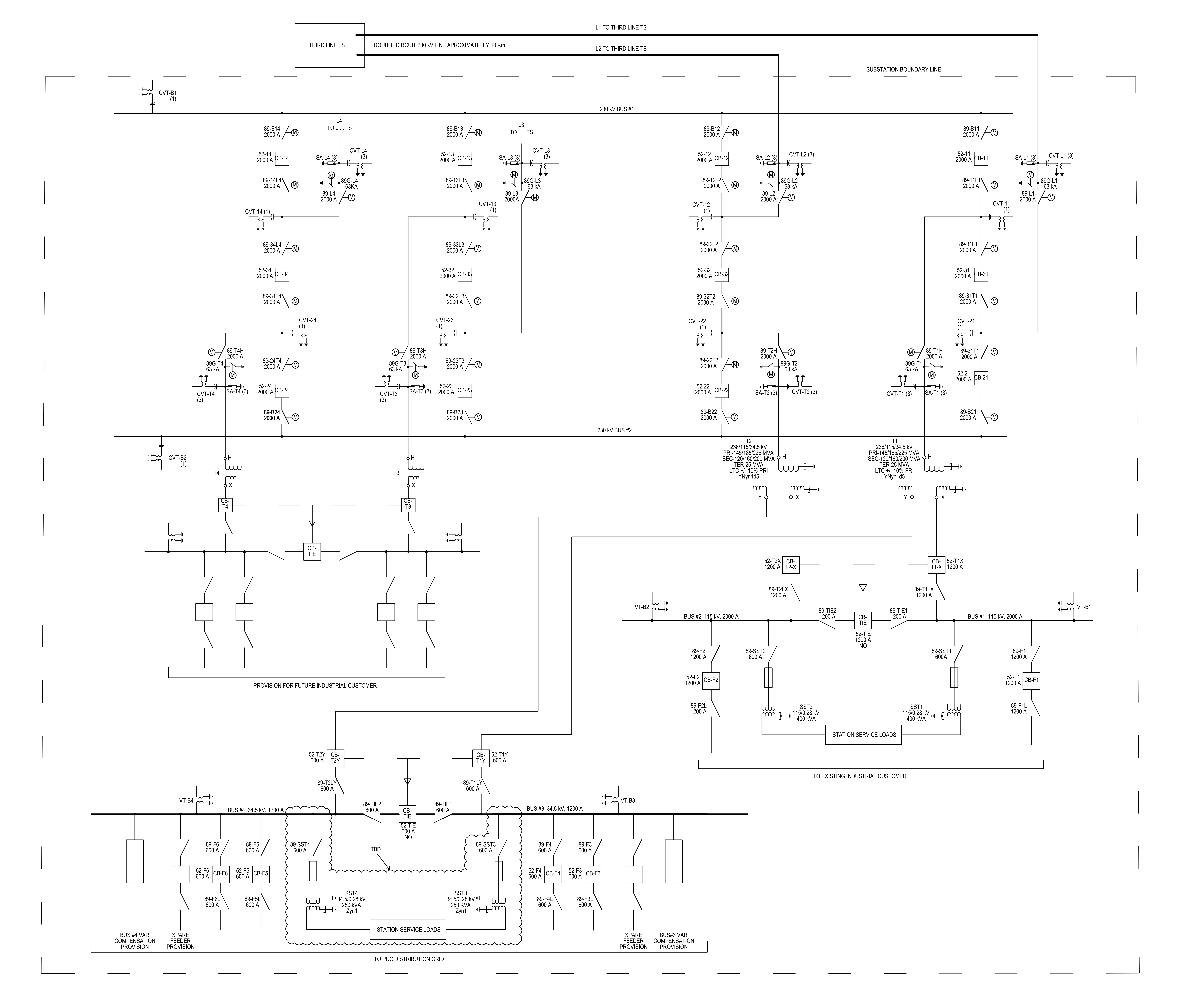
Attachment 2

230kV Transformer Station Single Line Diagram



wsp
600 COCHRANE DRIVE, 5th FLOOR
MARKHAM ONTARIO CANADA L3R 5K3
TEL.: 905-475-7270 | FAX: 905-475-5994 | WWW.WSP.COM

SEAL:

CLIENT:

PUC SERVICES

CLIENT REF. #:

PROJECT:

PUC SERVICES TRANSMISSION PROJECT

KEY PLAN:

NOTE:

PRELIMINARY

ISSUED FOR - REVISION:

IS.	RV.	DATE	DESCRIPTION
IFR	B	Dec. 09, 2020	ISSUED FOR REVIEW
IFR	A	Aug. 17, 2020	ISSUED FOR REVIEW

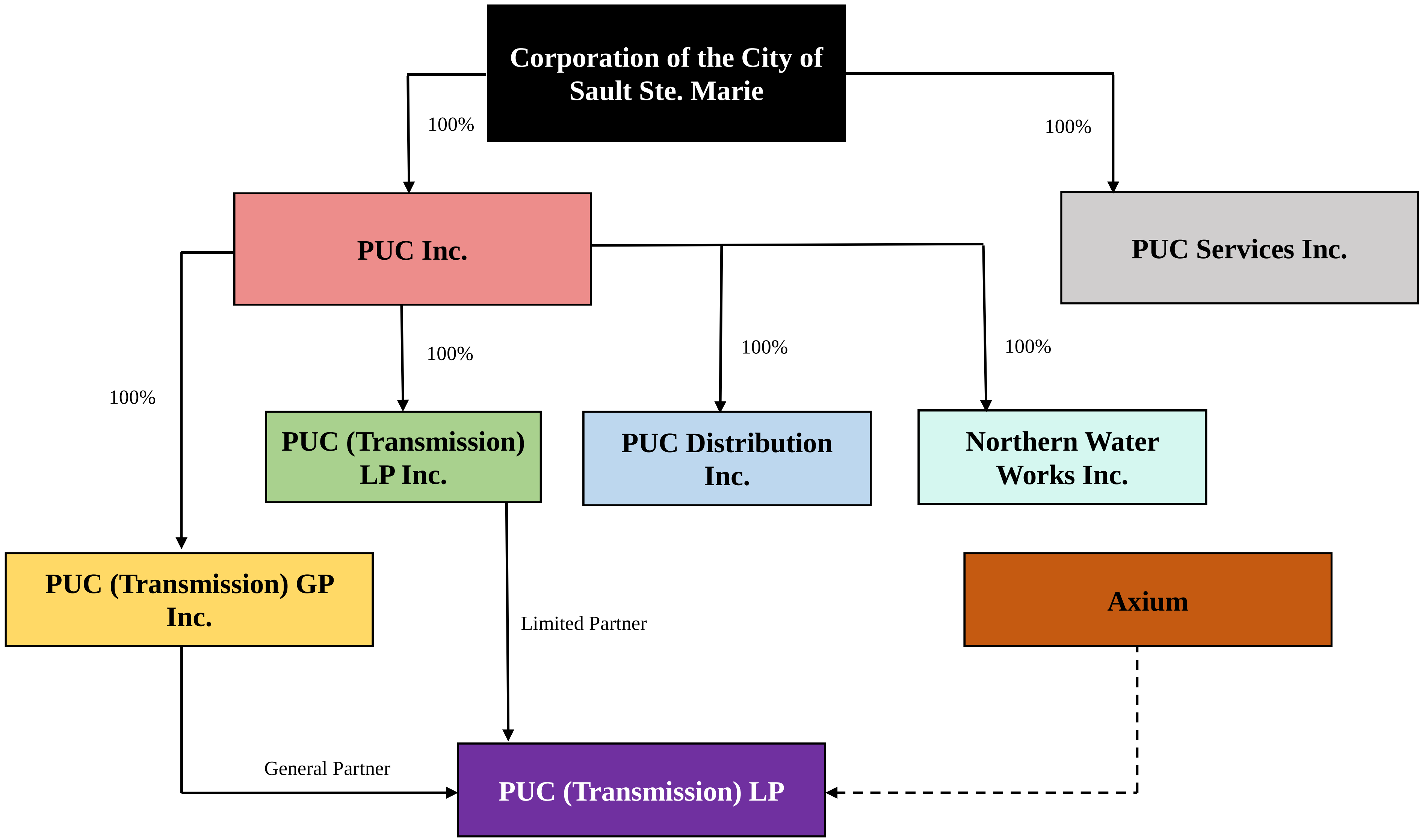
PROJECT NO: 201-07342-01
DATE:
ORIGINAL SCALE: NTS
IF THIS BAR IS NOT 25 mm LONG, ADJUST YOUR PLOTTING SCALE.
25 mm
DESIGNED BY: A. SABER
DRAWN BY: M. GHEORGHIADE
CHECKED BY: D. KRAUSE
DISCIPLINE: ELECTRICAL

TITLE:
PUC SERVICES
230 kV TRANSFORMER STATION AND LINE
SINGLE LINE DIAGRAM
ULTIMATE PLAN

SHEET NUMBER: 201-07342-01-E-0102
SHEET #: 1 OF 1
ISSUE: FOR REVIEW
RV. #: B
DATE OF: Dec. 09, 2020

Attachment 3

Organizational Chart Showing Affiliates of PUC (Transmission) LP



<u>List of Affiliates of PUC (Transmission) LP</u>

- **Corporation of the City of Sault Ste. Marie**
- **PUC Inc.**
- **PUC Services Inc.**
- **PUC Distribution Inc.**
- **Northern Waterworks Inc.**
- **PUC (Transmission) GP Inc.**
- **PUC (Transmission) LP Inc.**

Attachment 4

PUC Inc., PUC Distribution Inc., and PUC Services Inc.

Consolidated Financial Statements for Year Ended December 31, 2019

Non-Consolidated Financial Statements of

PUC INC.

And Independent Auditors' Report thereon

Year ended December 31, 2019

KPMG LLP
111 Elgin Street, Suite 200
Sault Ste. Marie ON P6A 6L6
Canada
Telephone (705) 949-5811
Fax (705) 949-0911

INDEPENDENT AUDITORS' REPORT

To the Shareholder of PUC Inc.

Opinion

We have audited the accompanying non-consolidated financial statements of PUC Inc. (the Company), which comprise:

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

(Hereinafter referred to as the "financial statements")

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

Basis for Opinion

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

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

Emphasis of Matter – Basis of Preparation

We draw attention to Note 2 to the financial statements which describes the basis of preparation used in these financial statements.

The financial statements are prepared for income tax and shareholder purposes.

Our opinion is not modified in respect of this matter.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibility for the Audit of the Non-Consolidated Financial Statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

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

KPMG

- 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 Company'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 Company 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 represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Ontario
May 13, 2020

PUC INC.

Non-Consolidated Statement of Financial Position

As at December 31, 2019, with comparative information for 2018

		2019		2018
Assets				
Current assets:				
Accounts receivable	$	1,152,395	$	1,975
Receivable from PUC Services Inc. (note 9)		2,180,876		6,330,987
Payment in lieu of taxes recoverable		22,258		4,288
Total current assets		3,355,529		6,337,250
Non-current assets:				
Notes receivable from related company (note 4)		8,310,000		8,310,000
Investments in subsidiaries and associates (note 5)		50,801,477		46,601,477
Total non-current assets		59,111,477		54,911,477
Total Assets	$	62,467,006	$	61,248,727
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	810,526	$	25
Long-term debt (note 6)		31,720,000		31,720,000
Total liabilities		32,530,526		31,720,025
Shareholder's equity:				
Share capital:				
Authorized:				
Unlimited Special shares, non-voting, non-cumulative, redeemable at $10,000 per share				
100,000 Common shares				
Issued and outstanding:				
1,462 Special shares		14,620,000		14,620,000
21,632 Common shares		14,618,248		14,618,248
Retained earnings		698,232		290,454
		29,936,480		29,528,702
Commitment (note 7)				
Total Liabilities and Shareholder's Equity	$	62,467,006	$	61,248,727

See accompanying notes to non-consolidated financial statements.

On behalf of the Board:

Director

Director

PUC INC.

Non-Consolidated Statement Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Interest	$ 2,244,299	$ 2,281,626
Dividend income	1,245,126	-
	3,489,425	2,281,626
Expenses:		
Interest on long-term debt	1,934,920	1,934,920
Administrative	80,654	105,236
Business development	264,047	192,217
	2,279,621	2,232,373
Income before payment in lieu of taxes	1,209,804	49,253
Payment in lieu of taxes (note 8)		
Current	(8,054)	14,145
Net income, being total comprehensive income for the year	$ 1,217,858	35,108

See accompanying notes to non-consolidated financial statements.

PUC INC.

Non-Consolidated Statement of Changes in Shareholders' Equity

Year ended December 31, 2019, with comparative information for 2018

	Share Capital	Retained Earnings	Total
Balance, January 1, 2018	$ 29,238,248	1,475,506	$ 30,713,754
Net income, being total comprehensive income	-	35,108	35,108
Dividends on common shares		(1,220,160)	(1,220,160)
Balance, December 31, 2018	29,238,248	290,454	29,528,702
Net income, being total comprehensive income	-	1,217,858	1,217,858
Dividends on common shares	-	(810,080)	(810,080)
Balance, December 31, 2019	$ 29,238,248	698,232	$ 29,936,480

See accompanying notes to non-consolidated financial statements.

PUC INC.

Non-Consolidated Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

		2019		2018
Cash flows from operating activities:				
Net income, being total comprehensive income	$	1,217,858	$	35,108
Changes in non-cash operating working capital items:				
Accounts receivable		(1,150,420)		(64)
Payment in lieu of taxes recoverable		(17,970)		20,042
Account payable and accrued liabilities		810,501		25
		859,969		55,111
Cash flows from financing activities:				
Dividends on common shares		(810,080)		(1,220,160)
Cash flows from investing activities:				
Receivable from subsidiary, PUC Services Inc.		4,150,111		1,165,049
Investment in subsidiary, Northern Waterworks Inc.		(3,000,000)		-
Issuance of note receivable		(3,000,000)		-
Repayment of note receivable		2,000,000		-
Investment in associate, 17 Trees Inc.		(200,000)		-
		(49,889)		1,165,049
Cash, beginning and end of year	$	-	$	-
Supplemental cash flow information:				
Cash paid during the year for interest	$	1,934,920	$	1,934,920
Cash received during the year for interest		2,244,299		2,281,626

See accompanying notes to non-consolidated financial statements.

1. Reporting entity:

PUC Inc. (the "Company"), is incorporated under the under the Ontario Business Corporations Act and a successor of the former City of Sault Ste. Marie Public Utilities Commission Electric Utility. The Company's head office is located at 500 Second Line East Sault Ste. Marie, Ontario.

The non-consolidated financial statements are for the Corporation as at and for the year ended December 31, 2019 and reflect the following significant accounting policies:

2. Basis of preparation:

(a) Statement of compliance:

The non-consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

These non-consolidated financial statements have been authorized for issue by the Board of Directors on May 13, 2020

(b) Basis of measurement:

The non-consolidated financial statements have been prepared on the historical cost basis, except for the following:

- Derivative instruments, if any, are measured at fair value.

(c) Functional and presentation currency:

These non-consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(d) Use of estimates and judgments:

The preparation of the non-consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in note 13.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these non-consolidated financial statements.

(a) Payment in lieu of taxes:

As a municipally owned Company holding an investment in a municipal utility, the Company is exempt from corporate income and capital taxes. However, under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income and capital taxes to Ontario Electricity Financial Company ("OEFC"). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Company's Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

The Company uses the asset and liability method of accounting for payment in lieu of income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(b) Interest income and expense:

Interest income and expense are recognized in the non-consolidated statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received and transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(c) Investments in subsidiaries and associates:

The investments in subsidiaries and associates, which are non-marketable equity investments and not traded on an active market, are measured at amortized cost and recorded at cost.

(d) Dividends:

Dividends are recognized as revenue when the Company has a right to receive the dividend.

3. Significant accounting policies (continued):

(e) Financial instruments:

i) Financial assets and liabilities:

All financial assets and liabilities under IAS 39 were classified as loans and receivables and all financial liabilities were classified as other liabilities. These financial instruments were recognized initially at fair value plus any directly attributable transactions costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. Upon transition to IFRS 9 all financial assets and liabilities are classified as amortized cost. The Company does not enter into derivative instruments.

ii) Share capital:

Common shares:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Special shares:

Special shares are classified as equity. Incremental costs directly attributable to the issue of special shares are recognized as a deduction from equity, net of any tax effects.

4. Notes receivable from related company:

	2019	2018
Note receivable from PUC Services Inc., unsecured, bears interest at 7.62% per annum and is receivable one year after demand	$ 6,990,000	$ 6,990,000
Note receivable from PUC Services Inc., unsecured and without interest and is receivable one year after demand	1,320,000	1,320,000
	$ 8,310,000	$ 8,310,000

5. Investment in subsidiaries and associates:

The Company holds 8,612 common shares of PUC Distribution Inc., an incorporated entity in Ontario, representing 100% equity interest. The investment is carried at cost. The note receivable from PUC Distribution Inc. bears interest at 6.1%, is unsecured and is repayable one year after demand. In 2019, the Company received interest income on this note receivable in the amount of $1,618,575 (2018 - $1,618,575). During the year the Company received dividends in the amount of $900,000 (2018 - $NIL).

The Company holds 1 Class A share and 33,058 Class B shares of Customer First Inc, an incorporated entity in Ontario, representing 21% equity interest. The investment is carried at cost. During the year the Company received dividends in the amount of $345,126 (2018 - $NIL).

On May 31, 2019, the Company purchased 100 common shares of Northern Waterworks Inc, an incorporated entity in Ontario, representing 100% equity interest. The investment is carried at cost. The note receivable from Northern Waterworks Inc. bears interest at 6.1%, is unsecured and is repayable one year after demand. In 2019, the Company received interest income on this note receivable from Northern Waterworks Inc. in the amount of $20,333 (2018 - $NIL). PUC Inc. has waived the right to demand repayment of any portion of the note during the next fiscal year.

On May 31, 2019, the Company purchased 100 common shares of 17 Trees Inc, an incorporated entity in Ontario, representing 50% equity interest. The investment is carried at cost.

5. Investment in subsidiaries and associates (continued):

2019

	PUC Distribution Inc.	Northern Waterworks Inc.	17 Trees Inc.	Customer First Inc.	Total
Investments, at cost, January 1, 2019	$ 20,062,106	$ -	$ -	$ 5,331	$ 20,067,437
Investment during the year	-	3,000,000	200,000	-	3,200,000
Total investment at cost	20,062,106	3,000,000	200,000	5,331	23,267,437
Notes receivable	26,534,040	1,000,000	-	-	27,534,040
Balances at December 31, 2019	$ 46,596,146	$ 4,000,000	$ 200,000	$ 5,331	$ 50,801,477

2018

	PUC Distribution Inc.	Customer First Inc.	Total
Investments, at cost, January 1, 2018	$ 20,062,106	$ 5,331	$ 20,067,437
Investment during the year	-	-	-
Total investment at cost	20,062,106	5,331	20,067,437
Notes receivable	26,534,040	-	26,534,040
Balances at December 31, 2018	$ 46,596,146	$ 5,331	$ 46,601,477

6. Long-term debt:

	2019	2018
Note payable to shareholder. The Corporation of the City of Sault Ste. Marie, unsecured, with 6.1% (2018 - 6.1%) interest payable quarterly and principal payable one year after demand	$ 6,720,000	$ 6,720,000
Note payable to shareholder. The Corporation of the City of Sault Ste. Marie, unsecured, with interest payable quarterly at rates periodically negotiated and principal payable one year after demand, rate for 2019 was 6.1% (2018 – 6.1%)	25,000,000	25,000,000
	$ 31,720,000	$ 31,720,000

7. Commitment:

The Company is the guarantor on the $2,000,000 TD Bank loan held by its subsidiary Northern Waterworks Inc.

8. Payment in lieu of taxes:

Payment in lieu of taxes differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 26.5% (2018 - 26.5%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	2019	2018
Income before payment in lieu of taxes	$ 1,209,804	$ 49,253
Tax at applicable tax rate	$ 320,598	13,052
Nontaxable intercompany dividend tax affect	(329,958)	–
Other	1,306	1,093
Payment in lieu of taxes - current	$ (8,054)	$ 14,145

9. Related party transactions:

The following entities are related parties to the Company:

- The Corporation of the City of Sault Ste. Marie (City) - 100% shareholder of PUC Inc.
- PUC Distribution Inc. (Distribution) - 100% owned by PUC Inc.
- PUC Services Inc. (Services) - 100% owned by the Corporation of the City of Sault Ste. Marie.
- Public Utilities Commission of the City of Sault Ste. Marie (Utility) - 100% owned by the Company of the City of Sault Ste. Marie.
- Northern Waterworks Inc. (NWI) - 100% owned by PUC Inc.

The Company has a management, operations and maintenance agreement with Services until November 30, 2022 under which PUC Services Inc. manages, controls, administers and operates the business of the Company.

The Company receives interest income on its receivable balance from Services at the Ontario Energy Board Deemed Rate on its average monthly balance. Interest of $72,751 (2018 - $130,412) was received during the year. The Company receives interest income on its notes receivable from Services. Interest of $532,638 (2018 - $532,638) was received during the year.

The Company receives interest income on its note receivable balance from Distribution which bears interest at a rate of 6.1% (2018 - 6.1%). Interest of $1,618,576 (2018 - $1,618,576) was received during the year. The note is unsecured and is repayable one year after demand. There has been no demand on the note at December 31, 2019.

The Company receives interest income on its note receivable balance from Northern Waterworks Inc. which bears interest at a rate of 6.1% (2018 – nil%). Interest of $20,333 (2018 - $nil) was received during the year. The Company also paid for expenses on behalf of Northern Waterworks Inc. amounting to $3,950 (2018 - $nil), which has since been repaid.

The Company has purchased services relating to business development costs from Services in the amount of $264,047 (2018 - $192,217). The Company incurred interest of $1,934,920 (2018 - $1,934,920) payable to its shareholder. The Company paid a dividend of $810,080. (2018 - $1,220,160) to its shareholder. The Company received a dividend from Distribution in the amount of $900,000 (2018 - $nil).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties.

10. Contingency:

In 2007, the Ontario Provincial Government proposed amendments affecting the calculation of payments-in-lieu (PILs) for municipal electricity utilities. The Company has determined the proposed amendments are not substantively enacted. The proposed amendments will limit the allowable interest based on the regulatory deemed debt rate and debt to equity ratio. Interest paid to municipalities, after March 27, 2007, in excess of the allowable amounts will not be deductible in calculating PILs. The Company has determined these proposed amendments will result in incremental PILs totaling approximately $180,000 for the period from March 28, 2007 to December 31, 2008. The incremental PILs, if any, will be recorded in the period the proposed amendments become enacted.

11. Fair value of financial instruments:

The carrying value of accounts receivable approximate fair value because of the short maturity of these instruments.

It is not practicable to determine the fair values of the investment in subsidiaries, notes receivable from related company, receivable from subsidiaries and notes payable as the companies are not publicly traded and the notes payable have no principal repayment terms.

12. Capital disclosures:

The Company's objective with respect to its capital structure is to maintain effective access to capital on an ongoing basis at reasonable rates while achieving appropriate rates of financial return for its shareholder.

The Company considers its capital structure to consist of shareholder's equity and notes payable held by the Company's shareholder which has been outlined below.

	2019	2018
Note payable to shareholder – 6.1% (2018 - 6.1%)	$ 6,720,000	$ 6,720,000
Note payable to shareholder – 6.1% (2018- 6.1%)	25,000,000	25,000,000
Special shares	14,620,000	14,620,000
Common shares	14,618,248	14,618,248
Retained earnings	698,232	290,454
	$ 61,656,480	$ 61,248,702

The Company is subject to a shareholder's agreement which has restrictive covenants typically associated with such an agreement. At December 31, 2019, the Company is in compliance with all of the restrictive covenants and restrictions.

13. Financial risk management:

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk

This note presents information about the Company's risk management framework, its operational risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

Management has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk management

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

14. Comparative information:

Certain 2018 comparative information has been reclassified to conform with the financial statement presentation adopted for 2019. These changes do not have an impact on the statement of comprehensive income.

Financial Statements of

PUC DISTRIBUTION INC.

And Independent Auditors' Report thereon

Year ended December 31, 2019

KPMG LLP
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Sault Ste. Marie ON P6A 6L6
Canada
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of PUC Distribution Inc.

Opinion

We have audited the financial statements of PUC Distribution Inc. (the "Company"), which comprise:

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

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

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

Basis for Opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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 Company 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 represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada

March 25, 2020

PUC DISTRIBUTION INC.

Statement of Financial Position

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 585,387	$ 614,613
Accounts receivable (note 4)	5,433,776	5,421,130
Unbilled revenue	12,098,244	8,557,604
Inventory (note 5)	1,729,484	1,610,428
Prepaid expenses	65,217	445,680
Total current assets	19,912,108	16,649,455
Non-current assets:		
Property, plant and equipment (note 6)	100,099,858	97,231,587
Total assets	120,011,966	113,881,042
Regulatory balances (note 8)	3,713,593	655,380
Total assets and regulatory balances	$ 123,725,559	$ 114,536,422

See accompanying notes to financial statements.

PUC DISTRIBUTION INC.

Statement of Financial Position (continued)

December 31, 2019, with comparative information for 2018

	2019	2018
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 10,127,802	$ 8,110,734
Customer deposits (note 11)	1,067,552	1,099,333
Payment in lieu of taxes	45,036	-
Dividends payable	900,000	-
Due to related parties	9,041,731	3,281,448
Current portion of long-term debt (note 10)	1,366,680	1,312,680
Total current liabilities	22,548,801	13,804,195
Non-current liabilities:		
Deferred revenue (note 9)	4,294,948	3,284,967
Deferred tax liability	710,000	72,000
Long-term debt (note 10)	60,006,988	61,373,667
Total non-current liabilities	65,011,936	64,730,634
Total liabilities	87,560,737	78,534,829
Shareholder's equity:		
Share capital (note 12)	20,062,107	20,062,107
Retained earnings	14,663,658	12,523,445
Total shareholder's equity	34,725,765	32,585,552
Total liabilities and shareholder's equity	122,286,502	111,120,381
Regulatory balances (note 8)	1,439,057	3,416,041
Commitments and contingences (note 15)		
Total liabilities, regulatory balances and shareholder's equity	$ 123,725,559	$ 114,536,422

See accompanying notes to financial statements.

Approved on behalf of the Board:

__________________ Director __________________ Director

PUC DISTRIBUTION INC.

Statement of Income and Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Electricity sales	$ 74,373,612	$ 67,033,504
Distribution revenue	19,071,168	16,960,991
Cost of electricity sold	(76,035,021)	(67,990,141)
	17,409,759	16,004,354
Other operating revenue (note 13)	6,747,157	3,917,583
Net operating revenue	24,156,916	19,921,937
Expenses:		
Operations and maintenance	6,302,246	6,009,813
General and administrative	3,172,654	3,615,160
Billing and collection	1,354,435	1,381,283
Depreciation and amortization	4,010,672	3,864,131
Community relations	4,680,636	1,334,845
	19,520,643	16,205,232
Income from operating activities	4,636,273	3,716,705
Net finance costs (note 14)	3,130,511	3,133,507
Income before tax and regulatory items	1,505,762	583,198
Income tax expense (recovery):		
Current (note 7)	126,958	8
Deferred (note 7)	638,000	217,000
	764,958	217,008
Income for the year before movements in regulatory deferral account balances	740,804	366,190
Net movement in regulatory deferral account balances related to income or loss	(1,661,409)	(956,636)
Income tax	(638,000)	(217,000)
	(2,299,409)	(1,173,636)
Net income, being total comprehensive income for the year	$ 3,040,213	$ 1,539,826

See accompanying notes to financial statements.

PUC DISTRIBUTION INC.

Statement of Changes in Shareholder's Equity

Year ended December 31, 2019, with comparative information for 2018

	Share Capital	Retained Earnings	Total
Balance as at January 1, 2018	$ 20,062,107	$ 10,983,619	$ 31,045,726
Net income and comprehensive income	-	1,539,826	1,539,826
Balance at December 31, 2018	20,062,107	12,523,445	32,585,552
Net income and comprehensive income	-	3,040,213	3,040,213
Dividends on common shares	-	(900,000)	(900,000)
Balance at December 31, 2019	$ 20,062,107	$ 14,663,658	$ 34,725,765

See accompanying notes to financial statements.

PUC DISTRIBUTION INC.

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in)		
Cash flows from operating activities:		
Total comprehensive income for the year	$ 3,040,213	$ 1,539,826
Items not involving cash:		
Depreciation and amortization	4,010,672	3,864,131
Amortization of deferred revenue	(101,862)	(82,576)
Gain on disposal of property, plant and equipment		(80,256)
Net finance costs	3,130,511	3,133,507
Income tax expense	764,958	217,008
	10,844,492	8,591,640
Changes in non-cash working capital:		
Accounts receivable	(12,646)	(898,356)
Unbilled revenue	(3,540,640)	3,188,241
Inventory	(119,056)	(164,636)
Prepaid expenses	380,463	(363,093)
Due from related parties	-	202,800
Due to related parties	5,763,202	3,281,448
Accounts payable and accrued liabilities	1,976,290	(2,404,496)
Customer deposits	(31,781)	(45,112)
Deferred revenue	-	(21,558)
Income tax paid	(41,144)	27,798
Net movements in regulatory balances	(5,035,197)	(2,247,703)
Net cash from operating activities	10,183,983	9,146,973
Cash flows from financing activities:		
Repayment of long-term debt	(1,312,679)	(1,260,844)
Interest paid	(3,133,430)	(3,143,658)
Net cash from financing activities	(4,446,109)	(4,404,502)
Cash flows from investing activities:		
Proceeds from disposal of property, plant and equipment	-	113,000
Purchase of property, plant and equipment	(5,767,100)	(5,339,291)
	(5,767,100)	(5,226,291)
Change in cash and cash equivalents	(29,226)	(483,820)
Cash and cash equivalents, beginning of year	614,613	1,098,433
Cash and cash equivalents, end of year	$ 585,387	$ 614,613

See accompanying notes to financial statements.

1. Reporting entity:

PUC Distribution Inc. (the “Company”) is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Company is located in the City of Sault Ste. Marie. The address of the Company’s registered office is 500 Second Line East, Sault Ste. Marie, Ontario Canada.

The Company delivers electricity and related energy services to residential and commercial customers in Sault Ste. Marie. The Company is wholly owned by PUC Inc., which is itself wholly owned by The Corporation of the City of Sault Ste. Marie.

2. Basis of presentation:

(a) Statement of compliance:

The Company'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 March 25, 2020.

(c) Basis of measurement:

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

(d) Functional and presentation currency:

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

(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 6 - Property, plant and equipment
(ii) Note 15 - Commitments and contingencies

2. Basis of presentation (continued):

(f) Rate regulation:

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

(g) Rate setting:

i) Distribution revenue:

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

In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price 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 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 filed a COS rate application in 2018 for rates effective October 1, 2018 to April 30, 2019 for which a Decision and Rate order was issued September 27, 2018.

The Company filed an IRM in 2018 requesting a 1.45% inflationary increase to distribution rates effective May 1, 2019 to be implemented July 1, 2019 for the period of May 1, 2019 to April 30, 2020. The IRM was approved on July 9 2019

The Company filed an IRM and ICM requesting a 1.45% inflationary increase to distribution rates and a substation upgrade rate rider effective May 1, 2020. No decision has yet been issued by the OEB.

2. Basis of presentation (continued):

(g) Rate setting (continued):

ii) Electricity rates:

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

On May 9, 2019, the Government of Ontario enacted Bill 87, the Fixing the Hydro Mess Act, 2019. The legislation amended the Ontario Rebate for Electricity Consumers Act, 2016, and the Ontario Fair Hydro Plan Act, 2017.

Effective November 1, 2019, the OEB set electricity prices under the RPP based on the estimated cost to supply the province with electricity. The Ministry of Energy, Northern Development and Mines set the amount of the rebate under the Ontario Rebate for Electricity Consumers Act, 2016 such that the monthly bill for a typical customer increased by the rate of inflation.

All remaining consumers pay the market price for electricity.

The Corporation is billed for the cost of the electricity that its customers use by the Independent Electricity System Operator and passes this cost on to the customer at cost without a mark-up.

3. Significant accounting policies:

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

(a) Financial instruments:

All financial assets and financial liabilities are measured at amortized cost. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(e). The Company 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.

(b) Revenue recognition:

i) Electricity sales:

Electricity sales are recognized as the electricity is delivered to customers and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution, and any other regulatory charges. Electricity revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

3. Significant accounting policies (continued):

(b) Revenue recognition (continued):

i) Electricity sales (continued):

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

The difference between the amounts charged by the Company to customers, based on regulated rates, and the corresponding cost of electricity and related electricity service costs billed monthly by the Independent Electricity System Operator (“IESO”) is recorded as a settlement variance. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the balance sheets and within net movements in regulatory balances, net of tax on the statement of income and comprehensive income.

ii) Capital contributions:

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

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

iii) Rendering of services:

Revenue earned from the provision of services is recognized as the service is rendered.

iv) Conservation programs:

Incentive payments to which the Company is entitled from the IESO are recognized as revenue in the period when they are determined by the IESO and the amount is communicated to the Company.

3. Significant accounting policies (continued):

c) Inventory:

Inventories consist of parts, supplies and materials held for the future capital expansion and are valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

(d) Property, plant and equipment:

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take a substantial period of time to construct.

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

Gains and losses on the disposal of an item of PP&E are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of PP&E and are recognized net within other income in profit or loss.

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

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

Depreciation is calculated over the depreciable amount and is recognized in income on a straight-line basis over the estimated useful life of each part or component of an item of PP&E. The depreciable amount is cost. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and in service.

The estimated useful lives are as follows:

Buildings	25 – 50 years
Transmission and distribution	15 – 60 years
Machinery and equipment	5 – 40 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

3. Significant accounting policies (continued):

(e) Impairment:

(i) Financial assets:

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its current carrying amount (using prevailing interest rates), and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company'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.

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.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

3. Significant accounting policies (continued):

(f) Provisions:

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

(g) Regulation:

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unrelated environment and regulated entities that have not adopted IFRS 14, Regulatory Deferral Accounts (IFRS 14).

(h) Regulatory deferral accounts:

The Company has determined that certain asset and liability balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electricity Distributors. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Company's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory asset and liability balances on the Company's statement of financial position, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB.

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 Company.

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.

3. Significant accounting policies (continued):

h) Regulatory deferral accounts (continued):

The probability of recovery or repayment of the regulatory account balances are 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% for the first quarter of the year and 2.18% for the remainder of the year. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable.

In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, the balances are recorded in the Company's statement of income and comprehensive income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the statement of financial position and on the statement of income and comprehensive income as net movements in regulatory balances, net of tax. The netting of regulatory debit and credit balances is not permitted.

The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

(i) Credit support for service delivery:

Credit support for service delivery represents cash deposits from electricity distribution customers as well as construction deposits.

Deposits from electricity distribution customers are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. Customer deposits are also refundable to residential electricity distribution customers demonstrating an acceptable level of credit risk, as determined by the Company.

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

(j) Deferred revenue and assets transferred from customers:

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. 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 within non-current liabilities. Deferred revenue represents the Company'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.

3. Significant accounting policies (continued):

(k) Leased assets:

Under IAS 17

In the comparative period, assets held under leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease.

Policy applicable from January 1, 2019

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

(i) The contract involves the use of an identified asset;

(ii) The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(iii) The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:

a) The Company has the right to operate the asset; or

b) The Company designed the asset in a way that predetermines how and for what purposes it will be used.

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

Short-term leases and low value assets

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

3. Significant accounting policies (continued):

(l) Payment in lieu of taxes:

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations' Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Company makes payments in lieu of corporate taxes to the Ontario Electricity Financial Company ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Company's Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Company was not subject to income or capital taxes.

PILs comprises current and deferred payments in lieu of income tax. PILs recognized in income and loss except to the extent that it relates to items recognized directly in either comprehensive income or equity, in which case, it is recognized in comprehensive income or in equity.

Current PILS is the expected amount of 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 PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective 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 PILs 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 PILs 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.

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Changes in accounting policies:

Effective January 1, 2019, the Company has adopted new IFRS standards and applied the following new accounting policies in preparing the Financial Statements:

i) Leases:

The Company adopted IFRS 16, Leases effective January 1, 2019. The adoption of IFRS 16 did not impact the Company's statement of financial position as all lease agreements are for low-value assets.

3. Significant accounting policies (continued):

(n) Critical accounting estimates and judgments:

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of financial instruments:

The Company determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods, and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 16.

Payment in lieu of taxes:

The Company periodically assesses its liabilities and contingencies related to PILs for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current PILs provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome that the amount included in the PILs liabilities.

Useful lives of depreciable assets:

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2019, management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are analyzed in note 6. Actual results, however, may vary due to technical obsolescence, particularly for software and electronic equipment.

3. Significant accounting policies (continued):

(n) Critical accounting estimates and judgments (continued):

Impairment:

An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances.

4. Accounts receivable:

	2019	2018
Trade receivables	$ 5,104,625	$ 4,879,479
Other receivables	329,151	541,651
	$ 5,433,776	$ 5,421,130

Included in the receivables balance is an allowance for doubtful accounts in the amount of $353,384 (2018 - $355,521)

5. Inventory:

The amount of inventories consumed by the Company and recognized as an expense during 2019 was $326,444 (2018 - $311,156).

	2019	2018
Stores	$ 951,738	$ 831,125
Wire and cable	499,695	564,038
Poles	278,051	215,265
	$ 1,729,484	$ 1,610,428

6. Property, plant and equipment:

(a) Cost or deemed cost:

	Land and buildings	Transmission & distribution	Plant & equipment	Construction -in- Progress	Total
Balance at January 1, 2019	$ 25,883,626	$ 68,540,300	$20,470,714	$232,287	$115,126,927
Additions	192,115	5,026,704	616,719	1,043,405	6,878,943
Balance at December 31, 2019	$ 26,075,741	$ 73,567,004	$21,087,433	$1,275,692	$122,005,870

	Land and buildings	Transmission & distribution	Plant & equipment	Construction -in- Progress	Total
Balance at January 1, 2018	$ 25,897,510	$ 63,680,242	$19,773,921	$ 37,675	$109,389,348
Additions	18,860	4,860,058	696,793	194,612	5,770,323
Disposals/retirements	(32,744)	–	–	–	(32,744)
Balance at December 31, 2018	$ 25,883,626	$ 68,540,300	$20,470,714	$ 232,287	$115,126,927

(b) Accumulated depreciation:

	Land and buildings	Transmission & distribution	Plant & equipment	Construction -in- Progress	Total
Balance at January 31, 2019	$ 3,400,451	$ 9,987,386	$ 4,507,503	$ –	$ 17,895,340
Depreciation charge	686,763	2,348,287	975,622	–	4,010,672
Balance at December 31, 2019	$ 4,087,214	$12,335,673	$ 5,483,125	$ –	$ 21,906,012

	Land and buildings	Transmission & distribution	Plant & equipment	Construction -in- Progress	Total
Balance at January 1, 2018	$ 2,717,413	$ 7,762,714	$ 3,551,082	$ –	$ 14,031,209
Depreciation charge	683,038	2,224,672	956,421	–	3,864,131
Balance at December 31, 2018	$ 3,400,451	$ 9,987,386	$ 4,507,503	$ –	$ 17,895,340

Contributed tangible assets:

Contributed tangible assets have been recognized at a fair market value at the date of contribution. The value of contributed assets at the end of the year is $4,294,948 (2018 - $3,284,967), comprised of distribution infrastructure.

6. Property, plant and equipment (continued):

(c) Carrying amounts:

		Land and buildings	Transmission & distribution	Plant & equipment	Construction -in- Progress	Total
At December 31, 2019	$	21,987,527	61,231,331	15,604,308	1,275,692	100,099,858
At December 31, 2018	$	22,483,175	58,552,914	15,963,211	232,287	97,231,587

(d) Security:

At December 31, 2019, properties with a carrying amount of $100,099,858 (2018 - $97,231,587) are subject to a general security agreement.

7. Payments in lieu of income taxes:

Payment in lieu of taxes expense (recovery):

Current PILs Expense:

		2019		2018
Current payments in lieu of income tax	$	85,514	$	8
Adjustment to prior years		41,444		–
Payment in lieu of income tax expense	$	126,958	$	8

Deferred PILs Expense:

		2019		2018
Origination and reversal of timing differences	$	638,000	$	217,000
Payment in lieu of income tax expense	$	764,958	$	217,008

7. Payments in lieu of income taxes (continued):

Reconciliation of effective tax rate:

	2019	2018
Net income being total comprehensive income for the year	$ 3,167,171	$ 1,539,834
Statutory rate	26.5%	26.5%
Income tax	839,300	408,056
Increase (decrease) resulting from:		
Permanent difference	1,584	1,662
Adjustment to prior year's recovery	(76,000)	(163,000)
Other	74	(29,710)
	$ 764,958	$ 217,008

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

	2019	2018
Deferred tax assets (liabilities):		
Plant and equipment	$ (1,882,000)	$ (1,305,000)
Donations	–	10,000
Reserves	94,000	–
CMT credit	290,000	163,000
Non-capital loss carry forward	788,000	1,060,000
	$ (710,000)	$ (72,000)

8. Regulatory deferral account balance:

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

	January 1, 2019	Balances arising in the period	Recovery/ reversal	December 31, 2019	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances					
Settlement Variance	$ (672,655)	$ 84,433	$3,028,206	$2,439,984	<1
Deferred taxes	150,000	–	816,000	966,000	
LRAMVA	426,609	11,159	(130,159)	307,609	<1
Total amount related to regulatory deferral account debit balances	$ (96,046)	$ 95,592	$3,714,047	$3,713,593	
Regulatory deferral account credit balances					
Deferred Taxes	$ (78,000)	$ –	$(178,000)	$ (256,000)	
Stranded Meters	(34)	–	–	(34)	<1
Smart Meter Entity Charges	(29,071)	412	4,837	(23,822)	<1
Regulatory Asset Recovery Account Phase 5-9	(2,557,512)	–	1,990,065	(567,447)	<1
Regulatory Asset Recovery Account Phase 10	–	70,846	(662,602)	(591,756)	<1
CGAAP Accounting Changes	2	–	–	2	1
Total amount related to regulatory deferral account credit balances	$ (2,664,615)	$ 71,258	$1,154,300	$ (1,439,057)	

	January 1, 2018	Balances arising in the period	Recovery/ reversal	December 31, 2018	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances					
Regulatory Asset recovery Account Phase 6	$ 35,801	$ (13,136)	$ –	$ 22,665	<1
Regulatory Asset recovery Account Phase 8	56,026	–	80	56,106	1
Deferred taxes	52,000	–	98,000	150,000	
LRAMVA	(105,489)	3,120	528,978	426,609	<1
Total amount related to regulatory deferral account debit balances	$ 38,338	$ (10,016)	$ 627,058	$ 655,380	
Regulatory deferral account credit balances					
Settlement Variance	$ (4,788,706)	$ 44,156	$4,071,895	$ (672,655)	<1
Deferred Taxes	(197,000)	–	119,000	(78,000)	
Stranded Meters	3,786	(67)	(3,753)	(34)	<1
Smart Meter Entity Charges	24,916	(1,447)	(52,540)	(29,071)	3
Regulatory Asset Recovery Account Phase 5	(30,634)	–	–	(30,634)	<1
Regulatory Asset Recovery Account Phase 7	(59,066)	(16)	59,082	–	<1
Regulatory Asset Recovery Account Phase 9	–	(32,584)	(2,573,065)	(2,605,649)	<1
CGAAP Accounting Changes	2	–	–	2	1
Total amount related to regulatory deferral account credit balances	$ (5,046,702)	$ 10,042	$1,620,619	$ (3,416,041)	

8. Regulatory deferral account balance (continued):

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

Group 1 deferral and variance accounts (Group 1 accounts) track the differences between the costs that a distributor is billed for certain IESO and host distributor services (including the cost of power) and the associated revenues that the distributor receives from its customers for these services. The total net difference between these costs and revenues is disposed to customers through a temporary charge or credit known as a rate rider.

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

9. Deferred revenue:

	Distribution assets	Construction in-Progress	Total
Cost or deemed cost			
Balance at January 1, 2019	$ 3,518,564	$ –	$ 3,518,564
Additions	1,111,843	–	1,111,843
Balance at December 31, 2019	$ 4,630,407	$ –	$ 4,630,407
Balance at January 1, 2018	$ 3,087,531	$ –	$ 3,087,531
Additions	431,033	–	431,033
Balance at December 31, 2018	$ 3,518,564	$ –	$ 3,518,564

	Distribution assets	Construction in-Progress	Total
Accumulated depreciation			
Balance at January 1, 2019	$ 233,597	$ –	$ 233,597
Depreciation	101,862	–	101,862
Balance at December 31, 2019	$ 335,459	$ –	$ 335,459
Balance at January 1, 2018	$ 151,021	$ –	$ 151,021
Depreciation	82,576	–	82,576
Balance at December 31, 2018	$ 233,597	$ –	$ 233,597
Carrying amounts			
At December 31, 2019	$ 4,294,948	$ –	$ 4,294,948
At December 31, 2018	3,284,967	–	3,284,967

9. Deferred revenue (continued):

Deferred revenue relates to capital contributions received from customers and others. The amount of deferred revenue received from customers during the year is $1,111,843 (2018 - $431,033). Deferred revenue is recognized as revenue on a straight-line basis over the life of the related asset for which the contribution was received.

10. Long-term debt:

	2019	2018
Notes payable:		
(i) Ontario Infrastructure smart meter loan	$ 3,331,997	$ 3,636,943
(ii) Ontario Infrastructure building loan	17,946,697	18,534,697
(iii) Ontario Infrastructure construction loan	13,560,934	13,980,667
(iv) Note payable to parent company, PUC Inc.	26,534,040	26,534,040
	61,373,668	62,686,347
Current portion of long-term debt	(1,366,680)	(1,312,680)
	$ 60,006,988	$ 61,373,667

i) Smart Meter Loan with Ontario Infrastructure and Lands Corporation (OILC): Reducing Debenture Facility, amortization period of 15 years to July 17, 2028. The loan interest rate of 3.82%. Interest of $131,193 (2018 - $142,696) was paid and expensed during the year. The loan is payable in the amount of $220,496 semi-annual principal and interest. Security is in the form of a second ranking general security agreement.

ii) Land and Building Loan with OILC: Reducing Debenture Facility, amortization period of 25 years to October 1, 2038. The loan interest rate of 4.57%. Interest of $834,821 (2018 - $861,039) was paid and expensed during the year. The loan is payable in the amount of $118,568 monthly principal and interest. Security is in the form of a first charge over the Company's land and building and a third ranking general security agreement.

iii) Electric Distribution Infrastructure Loan with OILC: The construction loan was converted to long term debt in 2016, at an interest rate of 3.47%, repayable over 25 years by a blended principal and interest payment of $74,852 monthly maturing on May 16, 2041. Interest of $478,495 (2018 - $492,790) was paid and expensed during the year. Security is in the form of a fourth ranking general security agreement and a guarantee and assignment of shares from the company's shareholder, PUC Inc.

iv) Note payable to parent company, PUC Inc., bears interest payable quarterly at rates periodically negotiated and principal payable one year after demand. The average interest rate for 2019 was 6.1% (2018 – 6.1%). The balance outstanding for 2019 is $26,534,040 (2018 - $26,534,040).

10. Long-term debt (continued):

Principal payments on the long-term debt are as follows:

2020	$ 1,366,680
2021	1,422,937
2022	1,481,545
2023	1,542,604
2024	1,606,219
2025 - 2042	53,953,683
	$ 61,373,668

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

	2019	2018
Long term debt - beginning	$ 62,686,347	$ 63,947,191
Less: cash outflows for principal repayments	(1,312,679)	(1,260,844)
	$ 61,373,668	$ 62,686,347

11. 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 Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service. The balance at December 31, 2019 is $1,067,552 (2018 - $1,099,333).

12. Share capital:

	2019	2018
Authorized:		
Unlimited number of special shares, non-voting, non-cumulative		
Redeemable at $10,000 per share		
10,000 Common shares		
Issued and outstanding:		
8,612 common shares	$ 20,062,107	$ 20,062,107

13. Other operating revenue:

Other income comprises:

	2019	2018
Rendering of services	$ 6,494,808	$ 3,614,085
Other	149,987	140,666
Amortization of deferred revenue	101,862	82,576
Gain on disposal of property, plant and equipment	500	80,256
Total other income	$ 6,747,157	$ 3,917,583

14. Finance income and expense:

	2019	2018
Interest income	$ 2,919	$ 10,151
Interest expense on long-term debt	3,063,085	3,115,102
Other interest and carrying charges	70,345	28,556
	3,133,430	3,143,658
Net finance costs recognized in profit or loss	$ 3,130,511	$ 3,133,507

15. Commitments and contingencies:

i) General:

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Company's financial position, results of operations or its ability to carry on any of its business activities.

ii) General Liability Insurance:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2019, no assessments have been made.

iii) Letter of Guarantee:

The Company maintains a $5,000,000 letter of guarantee with its Bank in favor of the IESO.

16. Related party transactions:

(a) Parent, ultimate controlling party, and other related parties:

The sole shareholder of the Company is PUC Inc., which in turn is wholly-owned by the Corporation of the City of Sault Ste. Marie. The City produces financial statements that are available for public use. Other related parties include PUC Services Inc. (Services), Public Utilities Commission of the City of Sault Ste. Marie (Utility), and Northern Waterworks Inc (NWI).

(b) Key management personnel:

The key management personnel of the Company have been defined as members of its board of directors and is summarized below:

	2019	2018
Directors' fees	$ 9,870	$ 9,534

(c) Transactions with ultimate parent (the City):

In the year, the Company had the following significant transactions with its ultimate parent, a government entity:

The Company delivers electricity to the City throughout the year for the electricity needs of the City and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The amount charged to the City for electricity consumed by streetlights is $635,219 (2018 - $811,058) and for other electricity consumption is $4,277,141 (2018 - $4,019,843).

(d) Transactions with Services:

The Company has a management, operation and maintenance agreement with Services, which has been extended to November 30, 2022, under which Services manages, controls, administers and operates the business of the Company. During the year, management fees were paid to Services in the amount of $4,655,272 (2018 - $4,618,259).

The Company receives interest on its receivable balance to Services at the OEB prescribed short-term borrowing rate on its average monthly balance. Interest of $(68,363) (2018 – $946) was (paid)/received during the year.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration agreed to by the related parties.

(e) Transactions with NWI:

The Company is related to NWI through common ownership group. There were no transactions with NWI during the year (2018 - $NIL).

17. Financial instruments and risk management:

(a) 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.

(b) Financial risks:

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

i) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the City. No single customer accounts for a balance in excess of 2.53% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously provisioned are credited to net income. The balance of the allowance for impairment at December 31, 2019 is $353,384 (2018 - $355,521).

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has over 33 thousand 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 Company holds security deposits in the amount of $1,067,552 (2018 - $1,099,333).

ii) Market risk:

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

17. Financial instruments and risk management (continued):

(b) Financial risks (continued):

iii) Liquidity risk:

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due. As at December 31, 2019, no amounts had been drawn under the Company's credit facilities.

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

iv) Capital disclosures:

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

The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2019, shareholder's equity amounts to $34,725,765 (2018 - $32,585,552) and long-term debt amounts to $61,373,668 (2018 - $62,686,347).

18. Comparative information:

Certain 2018 comparative amounts have been reclassified to conform to the financial statement presentation adopted for 2019.

Financial Statements of

PUC SERVICES INC.

And Independent Auditors' Report thereon

Year ended December 31, 2019

KPMG LLP
111 Elgin Street, Suite 200
Sault Ste. Marie ON P6A 6L6
Canada
Telephone (705) 949-5811
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of PUC Services Inc.

Opinion

We have audited the accompanying financial statements of PUC Services Inc. (the Company), which comprise:

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

(Hereinafter referred to as the "financial statements")

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

Basis for Opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibility for the Audit of the Financial Statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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 Company 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 represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Ontario
March 25, 2020

PUC SERVICES INC.

Statement of Financial Position

As at December 31, 2019, with comparative information for 2018

		2019		2018
Assets				
Current assets:				
Cash	$	3,166,749	$	10,906,171
Accounts receivable (note 5)		7,594,050		2,456,275
Due from related party (note 18)		9,305,879		3,281,448
Inventories (note 6)		397,326		360,359
Prepaid expenses		69,990		704,460
Total current assets		20,533,994		17,708,713
Non-current assets:				
Deferred taxes (note 9)		430,000		630,000
Property, plant and equipment (note 7)		17,194,358		17,052,065
Intangible assets (note 8)		447,070		172,200
Total non-current assets		18,071,428		17,854,265
Total assets	$	38,605,422	$	35,562,978
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	4,586,074	$	3,470,627
Dividends payable		200,000		-
Payment in lieu of taxes		235,871		61,210
Due to related parties (note 18)		8,429,941		8,086,432
Current portion of long-term debt (note 10)		85,656		85,656
Total current liabilities		13,537,542		11,703,925
Non-current liabilities:				
Long-term debt (note 10)		9,143,530		9,229,186
Deferred revenue		10,766,518		10,887,407
Employee future benefit obligations (note 11)		2,095,366		1,796,238
Total non-current liabilities		22,005,414		21,912,831
Total liabilities		35,542,956		33,616,756
Shareholder's equity:				
Share capital (note 14)		1,943,300		1,943,300
Accumulated other comprehensive income		251,025		403,227
Surplus (deficit)		868,141		(400,305)
Total shareholder's equity		3,062,466		1,946,222
Commitments and contingences (note 17)				
Total liabilities and shareholder's equity	$	38,605,422	$	35,562,978

See accompanying notes to financial statements.

Approved on behalf of the Board:

_______________ Director _______________ Director

PUC SERVICES INC.

Statement of Income and Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Management fees	$ 10,032,484	$ 10,045,376
Contract services	10,229,457	5,492,457
Other operating revenue (note 15)	1,740,801	1,548,559
	22,002,742	17,086,392
Expenses:		
Contract service	8,021,317	4,497,868
Administrative	4,585,062	3,740,542
Facilities	2,211,990	2,906,702
Depreciation and amortization	1,902,332	1,866,576
Billing and collection	1,087,607	1,175,980
Customer service	1,018,113	859,677
Street lights	304,806	320,373
New business development	264,047	192,217
Other business and maintenance	122,339	125,410
	19,517,613	15,685,345
Income from operating activities	2,485,129	1,401,047
Net finance costs (note 16)	454,183	477,591
Income before provision for payment in lieu of taxes	2,030,946	923,456
Payment in lieu of taxes (note 9):		
Current	307,625	70,300
Deferred (recovery)	254,875	(9,546)
	562,500	60,754
Income for the year	1,468,446	862,702
Other comprehensive income (loss): items that will not be classified to profit or loss, net of income tax:		
Remeasurement of employee future benefits (note 11)	(207,077)	556,778
Income tax (recovery) on other comprehensive income (note 9)	54,875	(147,546)
Other comprehensive income (loss) for the year, net of income tax	(152,202)	409,232
Net income and comprehensive income for the year	$ 1,316,244	$ 1,271,934

See accompanying notes to financial statements.

PUC SERVICES INC.

Statement of Changes in Shareholders' Equity

Year ended December 31, 2019, with comparative information for 2018

	Share Capital	Acc. other comprehensive income (loss)	Net Income (Deficit)	Total
Balance, January 1, 2018	$ 1,943,300	$ (6,005)	$ (1,263,007)	$ 674,288
Net income for the year	-	-	862,702	862,702
Remeasurement of employee future benefit obligation	-	409,232	-	409,232
Balance, December 31, 2018	1,943,300	403,227	(400,305)	1,946,222
Net Income for the year	-	-	1,468,446	1,468,446
Dividends on common shares	-	-	(200,000)	(200,000)
Remeasurement of employee future benefit obligation	-	(152,202)	-	(152,202)
Balance, December 31, 2019	$ 1,943,300	$ 251,025	$ 868,141	$ 3,062,466

See accompanying notes to financial statements.

PUC SERVICES INC.

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash flows from operating activities:		
Net income and comprehensive income	$ 1,316,244	$ 1,271,934
Item not involving cash:		
Depreciation and amortization	1,902,332	1,866,576
Amortization of deferred revenue	(505,428)	(486,206)
Gain on disposal of property, plant and equipment	(4,390)	(36,310)
Net finance costs	454,183	477,591
Income tax expense	562,500	60,754
	3,725,441	3,154,339
Changes in non-cash working capital:		
Decrease (increase) in accounts receivables	(5,137,775)	2,101,966
Increase in balances with related entities	(5,561,700)	(1,153,360)
Increase in inventories	(36,967)	(37,104)
Decrease (increase) in prepaid expenses	634,470	(11,781)
Increase (decrease) in accounts payable and accrued liabilities	1,115,447	(92,726)
Increase (decrease) in employee future benefit obligation	244,253	(296,626)
Income tax recovered (paid)	(132,964)	772
Net cash from operating activities	(5,149,795)	3,665,480
Cash flows from financing activities:		
Principal payments on long-term debt	(85,656)	(85,656)
Contributions relating to property, plant and equipment	384,539	640,628
Interest paid	(573,405)	(578,776)
Net cash from financing activities	(274,522)	(23,804)
Cash flows from investing activities:		
Proceeds from disposal of property, plant and equipment	4,390	36,310
Purchase of property, plant and equipment	(1,891,877)	(2,596,941)
Purchase of intangible assets	(427,618)	(52,583)
	(2,315,105)	(2,613,214)
Increase (decrease) in cash	(7,739,422)	1,028,462
Cash, beginning of year	10,906,171	9,877,709
Cash, end of year	$ 3,166,749	$ 10,906,171

See accompanying notes to financial statements.

1. Reporting entity:

PUC Services Inc. (the “Company”), is incorporated under the Ontario Business Corporations Act and provides management, operations and maintenance services related to water, waste water and electrical services to its related entities and other organizations. The Company’s head office is located at 500 Second Line East Sault Ste. Marie, Ontario.

The Company is wholly owned by The Corporation of the City of Sault Ste. Marie.

2. Basis of preparation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Approval of the financial statements:

The financial statements have been approved and authorized for issue by the Board of Directors on March 25, 2020.

(c) Basis of measurement:

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

(d) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the functional currency of the Company. All financial information is presented in Canadian dollars.

(e) Use of estimates and judgments:

The preparation of the 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.

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in the following note:

(i) Note 7 – Property, plant and equipment: estimation of useful lives
(ii) Note 11 – Employee future benefits: key actuarial assumptions
(iii) Note 17 – Commitments and contingencies

3. Significant accounting policies:

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

(a) Financial instruments:

All financial assets and financial liabilities are measured at amortized cost. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(f). The Company 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.

(b) Revenue recognition:

Management fee revenue:

The Company provides management services to related parties and recognizes revenues as services are rendered.

Streetlight revenue:

The Company is contracted by the City of Sault Ste. Marie to provide electricity for street lights to the city and provide maintenance services on the lights. Revenue is recognized in the period the billing services are rendered and as services are provided.

Contract revenue:

The Company is contracted by the City of Sault Ste. Marie to operate the water and wastewater plants. Revenue is recognized as services are rendered.

CDM Revenue:

Performance incentive payments under conservation and demand management ("CDM") programs are recognized by the Company when there is reasonable assurance that the program conditions have been satisfied and the incentive payments will be received.

(c) Inventory:

Inventories consist of parts, supplies and materials held for the future capital expansion and operations and are valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

3. Significant accounting policies (continued):

(d) Property, plant and equipment:

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take a substantial period of time to construct.

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

Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of property, plant and equipment and are recognized net within other income in profit or loss.

Major spare parts and standby equipment are recognized as items of property, plant and equipment.

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

Depreciation is calculated over the depreciable amount and is recognized in profit or loss on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. The depreciable amount is cost. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and in service.

The estimated useful lives are as follows:

Buildings	25 – 50 years
Plant and equipment	4 – 40 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

3. Significant accounting policies (continued):

(e) Intangible assets:

(i) Computer software:

Computer software that is acquired or developed by the Company, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated depreciation and accumulated impairment losses.

(ii) Amortization:

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

Computer software	2 – 5 years

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

(f) Impairment:

(i) Financial assets:

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its current carrying amount (using prevailing interest rates), and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company'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").

3. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets (continued):

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.

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.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Provisions:

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

(h) 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 Company's obligation to continue to provide customers services related 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.

(i) Employee future benefits:

(i) Pension plan:

The Company provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under- funded position, additional contribution rates may be assessed to participating employers and members.

3. Significant accounting policies (continued):

(i) Employee future benefits (continued):

(i) Pension plan (continued):

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

(ii) Post-employment benefits, other than pension:

The Company provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and the current service costs are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Actuarial gains and losses arising from defined benefit plans are recognized immediately in other comprehensive income and reported in retained earnings. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in net income on a straight-line basis over the average period until the benefits become vested. In circumstances where the benefits vest immediately, the expense is recognized immediately in net income.

(j) Net finance costs:

Net finance costs consist of finance income and finance charges.

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

Finance charges comprise interest expense on borrowings. Finance charges are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

(k) Leased assets:

Under IAS 17

In the comparative period, assets held under leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease.

3. Significant accounting policies (continued):

(k) Leased assets (continued):

Policy applicable from January 1, 2019

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

(i) The contract involves the use of an identified asset;

(ii) The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(iii) The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:

(a) The Company has the right to operate the asset; or

(b) The Company designed the asset in a way that predetermines how and for what purposes it will be used.

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

Short-term leases and low value assets

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

(l) Payment in lieu of taxes:

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations' Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Company makes payments in lieu of corporate taxes to the Ontario Electricity Financial Company ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Company's Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Company was not subject to income or capital taxes.

PILs comprises current and deferred payments in lieu of income tax. PILs are recognized in income and loss except to the extent that it relates to items recognized directly in either comprehensive income or equity, in which case, it is recognized in comprehensive income or in equity.

Current PILS is the expected amount of 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.

3. Significant accounting policies (continued):

(l) Payment in lieu of taxes (continued):

Deferred PILs comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective 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 PILs 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 PILs 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.

A deferred PILs asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred PILs assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Changes in accounting policies:

Effective January 1, 2019, the Company has adopted new IFRS standards and applied the following new accounting policies in preparing the Financial Statements:

i) Leases:

The Company adopted IFRS 16, Leases effective January 1, 2019. The adoption of IFRS 16 did not impact the Company’s statement of financial position as all lease agreements are for low-value assets.

4. Critical accounting estimates and judgments:

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of financial instruments:

The Company determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods, and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 19.

4. Critical accounting estimates and judgments (continued):

Payment in lieu of taxes:

The Company periodically assesses its liabilities and contingencies related to PILs for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current PILs provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the PILs liabilities.

Useful lives of depreciable assets:

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2019, management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are analyzed in notes 7 and 8. Actual results, however, may vary due to technical obsolescence, particularly for software and electronic equipment.

Impairment:

An impairment loss is recognized for the amount by which an asset’s carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances.

Employee retirement benefits:

The Company estimates the present value of employee retirement benefits, which depends on a number of assumptions including discount rates, expected salary and other cost increases, and mortality rates. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Refer to note 11 for information relating to these estimates.

5. Accounts receivable:

	2019	2018
Trade receivables	$ 6,204,692	$ 2,378,411
Other receivables	1,389,358	77,864
	$ 7,594,050	$ 2,456,275

6. Inventories:

	2019	2018
Stores	$ 99,544	$ 88,674
Fuel	45,640	40,829
Street lights	252,142	230,856
	$ 397,326	$ 360,359

The amount of inventories consumed by the Company and recognized as an expense during 2019 was $138,870 (2018 - $123,253).

7. Property, plant and equipment:

(a) Cost or deemed cost:

		Land		Buildings		Plant and Equipment		Construction -in- Progress		Total
Balance, January 1, 2018	$	-	$	262,704	$	38,604,880	$	-	$	38,867,584
Additions		447,169		-		2,149,772		-		2,596,941
Disposals/retirements		-		-		(278,269)		-		(278,269)
Balance, December 31, 2018		447,169		262,704		40,476,383		-		41,186,256
Additions		-		-		1,888,835		3,042		1,891,877
Disposals/retirements		-		-		(92,853)		-		(92,853)
Balance, December 31, 2019	$	447,169	$	262,704	$	42,272,365	$	3,042	$	42,985,280

(b) Accumulated depreciation:

		Land		Buildings		Plant and Equipment		Construction -in- Progress		Total
Balance, January 1, 2018	$	-	$	113,132	$	22,608,003	$	-	$	22,721,135
Depreciation charges		-		5,254		1,686,071		-		1,691,325
Disposals/retirements		-		-		(278,269)		-		(278,269)
Balance, December 31, 2018		-		118,386		24,015,805		-		24,134,191
Depreciation charges		-		5,254		1,744,330		-		1,749,584
Disposals/retirements		-		-		(92,853)		-		(92,853)
Balance, December 31, 2019	$	-	$	123,640	$	25,667,282	$	-	$	25,790,922

(c) Carrying amounts:

		Land		Buildings		Plant and Equipment		Construction -in- Progress		Total
At December 31, 2018	$	447,169	$	144,318	$	16,460,578	$	-	$	17,052,065
At December 31, 2019		447,169		139,064		16,605,083		3,042		17,194,358

7. Property, plant and equipment (continued):

(d) Security:

At December 31, 2019, properties with a carrying amount of $17,194,358 (2018 - $17,052,065) are subject to a general security agreement.

(e) Contributed Capital:

Contributed tangible assets have been recognized at a fair market value at the date of contribution. The value of contributed assets at the end of the year is $10,766,518 (2018 - $10,887,407), comprised of streetlights.

8. Intangible assets:

(a) Cost:

	Computer software
Balance at January 1, 2019	$ 2,114,523
Additions	427,618
Balance at December 31, 2019	$ 2,542,141
Balance at January 1, 2018	$ 2,061,940
Additions	52,583
Balance at December 31, 2018	$ 2,114,523

(b) Accumulated amortization:

	Computer software
Balance at January 1, 2019	$ 1,942,323
Amortization charges in 2019	152,748
Balance at December 31, 2019	$ 2,095,071
Balance at January 1, 2018	$ 1,767,072
Amortization charges in 2018	175,251
Balance at December 31, 2018	$ 1,942,323

8. Intangible assets (continued):

(c) Carrying amounts:

	Computer software
December 31, 2019	$ 447,070
December 31, 2018	$ 172,200

9. Payments in lieu of income taxes:

Payment in lieu of taxes (“PILs”):

	2019	2018
Current PILs:		
Expense (recovery)	$ 306,173	$ 70,300
Adjustment to prior period	1,452	–
	307,625	70,300
Deferred PILs:		
Origination and reversal of timing differences	200,000	138,000
Net impact of Tax on other comprehensive income (OCI)	54,875	(147,546)
	$ 254,875	$ (9,546)
Payment in lieu of taxes expense	562,500	60,754
Payment in lieu of taxes expense excluding OCI	$ 507,625	$ 208,300

Reconciliation of effective tax rate:

	2019	2018
Earnings before payments in lieu of income taxes	$ 2,030,946	$ 923,456
Statutory rate	26.5%	26.5%
Income tax	538,201	244,716
Increase (decrease) resulting from:		
Permanent difference	8,048	3,546
Tax credits	(37,887)	(47,776)
Other	(737)	7,814
	$ 507,625	$ 208,300

9. Payments in lieu of income taxes (continued):

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

	2019	2018
Deferred tax assets (liabilities):		
Plant and equipment	$ (124,000)	$ 160,000
Employee benefits	555,000	476,000
Apprenticeship tax credit	(1,000)	(6,000)
	$ 430,000	$ 630,000

10. Long-term debt:

	2019	2018
Notes payable:		
(i) PUC Inc.	$ 6,990,000	$ 6,990,000
(ii) PUC Inc.	1,320,000	1,320,000
(iii) Ontario Infrastructure and Lands Corporation	466,667	520,000
(iv) Federation of Canadian Municipalities	452,519	484,842
	9,229,186	9,314,842
Less: current portion of long-term debt	(85,656)	(85,656)
	$ 9,143,530	$ 9,229,186

(i) Note payable to related company, PUC Inc., unsecured, bears interest at 7.62% per annum and is payable one year after demand. Interest of $532,638 (2018 - $532,638) was paid and expensed during the year.

(ii) Note payable to related company, PUC Inc., unsecured and without interest and is payable one year after demand.

(iii) Note payable to Ontario Infrastructure and Lands Corporation (OILC), bears interest at 4.22% per annum and is payable in monthly principal payments of $4,444, due September 16, 2028. Interest of $20,911 (2018 - $23,162) was paid and expensed during the year.

10. Long-term debt (continued):

(iv) Note payable to Federation of Canadian Municipalities (FCM), unsecured, bears interest at 4.21% per annum and is payable in semi-annual principal payments of $16,161, due October 30, 2033. Interest of $19,856 (2018 - $21,205) was paid and expensed during the year.

Principal payments on the long-term debt are as follows:

2020	$ 85,656
2021	85,656
2022	85,656
2023	85,656
2024	85,656
2025 - 2034	8,800,906
	9,229,186
Less: current portion	(85,656)
Long-term portion	$ 9,143,530

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

	2019	2018
Long term debt – beginning of year	$ 9,314,842	$ 9,400,498
Less: cash outflows for principal repayments	(85,656)	(85,656)
Long term debt – end of year	$ 9,229,186	$ 9,314,842

11. Employee future benefits:

The Company pays certain medical and life insurance benefits on behalf of some of its retired employees. The Company recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2019 of $2,095,366 was based on an actuarial valuation completed in 2019 using a discount rate of 3.10%.

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

	2019	2018
Defined benefit obligation, beginning of year	$ 1,796,238	$ 2,240,410
Current service cost	122,245	126,704
Interest cost	69,848	74,665
Benefits paid during the year	(100,042)	(88,763)
Actuarial (gain)/loss recognized in other comprehensive income	207,077	(556,778)
Accrued benefit liability, end of year	$ 2,095,366	$ 1,796,238

Components of net benefit expense recognized are as follows:

	2019	2018
Current service cost	$ 122,245	$ 126,704
Interest cost	69,848	74,665
Net benefit expense recognized	$ 192,093	$ 201,369

11. Employee future benefits (continued):

The significant actuarial assumptions used in the valuation are as follows (weighted average):

	2019	2018
Accrued benefit obligation:		
Discount rate	3.10%	4.00%
Benefit cost for the year:		
Withdrawal rate	0.50%	0.50%
Assumed health care cost trend rates:		
Cost trend rate estimated to decline to 4.5% over 8 years	4.00%	6.00%

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	$ 252,900	$ 35,200
1% decrease in health care trend rate	212,900	29,100

12. Pension agreement:

The Company provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2019, the Company made employer contributions of $1,666,549 to OMERS (2018 - $1,609,321). The Company's net benefit expense has been charged to income.

13. Employee benefits:

	2019	2018
Salaries, wages and benefits	$ 16,448,198	$ 15,916,022
CPP and EI remittances	698,432	651,837
Contributions to OMERS	1,666,549	1,609,321
	$ 18,813,179	$ 18,177,180

14. Share capital:

	2019	2018
Authorized:		
Unlimited special shares, non-voting, non-cumulative, redeemable at $10,000 per share		
10,000 Common shares		
Issued and outstanding:		
105 special shares	$ 1,050,000	$ 1,050,000
4,000 common shares	893,300	893,300
	$ 1,943,300	$ 1,943,300

15. Other operating revenue:

	2019	2018
Streetlights	$ 438,079	$ 433,344
Miscellaneous	626,563	442,019
Amortization of deferred revenue	505,428	486,206
Generation revenue	170,731	186,990
Total other income	$ 1,740,801	$ 1,548,559

16. Finance income and finance charges:

	2019	2018
Interest income	$ 119,222	$ 101,185
Interest expense on amounts due to related party	532,638	532,638
Interest expense on long-term debt	40,767	46,138
	573,405	578,776
Net finance costs recognized in comprehensive income	$ 454,183	$ 477,591

17. Commitments and contingencies:

General:

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Company's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance:

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2019, no assessments have been made.

18. Related party transactions:

(a) Parent, ultimate controlling party, and other related parties:

The sole shareholder of the Company is the Corporation of the City of Sault Ste. Marie (the "City"). The City produces financial statements that are available for public use. Other related parties include; PUC Inc. also owned 100% by the City and PUC Distribution Inc. owned 100% by PUC Inc.; and the Public Utilities Commission of the City of Sault Ste. Marie (Water Utility).

(b) The key management personnel of the Company have been defined as members of its board of directors and executive management team members and is summarized below.

	2019	2018
Directors' fees	$ 18,885	$ 36,010
Salaries and other short-term benefits	803,936	825,974
Post-employment benefits	10,606	10,712
	$ 833,427	$ 872,696

(c) Transactions with ultimate parent (the City):

In the year, the Company had the following significant transactions with its ultimate parent, a government entity:

The Company provides streetlight services and water and waste water services to the City. The amount charged to the City for streetlight maintenance is $438,079 (2018 - $433,344) and water and waste water services is $3,519,733 (2018 - $3,386,282).

18. Related party transactions (continued):

(d) Transactions with other related parties:

The Company has agreements which expire November 30, 2022, with the Utility, and with its other related entities, to manage, control, administer and operate the business of these entities. The Company charged the following management fees to the related parties:

	2019	2018
PUC Distribution Inc.	$ 4,655,272	$ 4,618,259
Public Utilities Commission of the City of Sault Ste. Marie	5,088,197	5,143,447
PUC Inc.	289,015	283,670
	$ 10,032,484	$ 10,045,376

The Company pays interest on payable balances at the Ontario Energy Board Deemed Rate on the average payable balance for the month. Interest was paid to PUC Inc., and the Public Utilities Commission of the City of Sault Ste. Marie of $72,751 and $102,122 (2018 - $130,412, and $45,682 respectively). Interest was (received from)/paid to PUC Distribution Inc. of ($68,363) (2018 - $946).

The Company paid interest on its long-term debt to PUC Inc. of $532,638 (2018 - $532,638).

New business development costs of $264,047 (2018 - $192,217) were charged to PUC Inc.

19. Financial instruments and risk management:

Fair value disclosure

Cash is 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.

Financial risks

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

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns in excess of 90% of its revenue from related parties and other municipal corporations.

19. Financial instruments and risk management (continued):

(b) Liquidity risk:

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

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

(c) Capital disclosures:

The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2019, shareholder's equity amounts to $3,062,466 (2018 - $1,946,222) and long-term debt amounts to $9,143,530 (2018 - $9,229,186).

Attachment 5

<u>Letter of Support from Axium Infrastructure Canada II Limited Partnership</u>

<u>and</u>

<u>Axium Infrastructure Canada II Limited Partnership</u>

<u>Consolidated Financial Statements for Year Ended June 30, 2020</u>

FILED IN CONFIDENCE

Attachment 6

<u>Annual Pro Forma Financial Statements</u>

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