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January 31, 2022

Delivered by Email

Ms. Nancy Marconi
Acting Registrar
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON, M4P 1E4

Dear Ms. Marconi

Re: Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc. Application for leave to amalgamate pursuant to Section 86(1)(c) of the *Ontario Energy Board Act, 1998* and related relief.
OEB File No. EB-2022-0006

We have been retained as counsel to Kitchener-Wilmot Hydro Inc. ("**KWHI**") and Waterloo North Hydro Inc. ("**WNHI**") (collectively referred to as the "**Applicants**") in respect of the enclosed application to the Ontario Energy Board (the "**OEB**") for leave to amalgamate pursuant to Section 86(1)(c) of the *Ontario Energy Board Act, 1998* and related relief (the "**Application**").

If the relief sought in the Application is granted, the Applicants intend to amalgamate to form a consolidated local electricity distribution company with a name that is yet to be determined that will serve over 157,000 customers in the City of Kitchener, the City of Waterloo, the Township of Wellesley, the Township of Wilmot, and the Township of Woolwich.

This Application is the culmination of many months of negotiations and agreement between the Applicants and their respective shareholders. The Application is informed by a four-week public engagement effort undertaken by National Public Relations. No major community concerns arose relating to this proposed merger.

The Application follows the Filing Requirements contained in the OEB's January 19, 2016 *Handbook to Electricity Distributor and Transmitter Consolidations* (the "**Handbook**") and adheres to the principles of the OEB's March 26, 2015 *Report of the Board titled Rate-Making Associated with Distributor Consolidation* (the "**Consolidation Policy**").

Relevance and Confidentiality

The Application includes supporting material that is required to be filed pursuant to the Filing Requirements in the Handbook, including the "final legal documents to be used to implement the proposed transaction." In response to this requirement, the Applicants have included the Merger

Participation Agreement that has been entered into by the Applicants, their respective parent companies, and their municipal shareholders as Attachment I to the Application (the "**MPA**").

Certain elements of the MPA and the schedules thereto deal with matters that fall entirely outside of the scope of the OEB's considerations when assessing the "no harm" test as against the statutory objectives set out in Section 1 of the *Ontario Energy Board Act, 1998.* This information is therefore is not relevant to this Application. As such, certain sections of the MPA and attachments to it have been redacted given that they are beyond the scope of this proceeding.

In an effort to be as fully transparent as possible, the Applicants have taken a conservative approach to redactions. There are numerous sections and attachments to the MPA which have not been redacted which are not relevant for the purpose of the "no harm" test and the OEB's review of the Application. The fact that such sections have not been redacted does not constitute an admission that such sections are relevant.

Much of the information that is being redacted as not relevant is also commercially sensitive information that would meet the Board's test for confidential treatment under the OEB's *Practice Direction on Confidential Filings* last revised December 17, 2021 (the "**Practice Direction**"), due to the potential harm that could result from the disclosure of the information. For example, the Applicants have redacted the non-public financial statements of unregulated affiliates engaged in a competitive business activity on the basis that it is not relevant to the "no harm" test. This same information is deemed to be presumptively confidential pursuant to Appendix B of the Practice Direction.

The redactions made to the MPA because of relevance are:

Pinpoint	Title and Description	Rationale Supporting Redaction
Section 1.1	Defined Terms	The discrete redactions of defined terms and portions of defined terms in this Section are not relevant to the Board's no-harm test. In addition, the redacted terms are commercially sensitive as they relate to names, dates and monetary valuations.
Sections 2.5(a)(i)(B) & 2.5(b)(i)(E)	Calculation of adjustments.	The discrete redactions of specific calculations in this Section are not relevant to the Board's no-harm test. In addition, the specifics of the calculation of adjustments for the Applicants subsidiaries are commercially sensitive.
Section 2.5(c).	Valuations and net balances of the Applicants subsidiaries.	The discrete redactions of various monetary figures in this Section are not relevant to the Board's no-harm test. In addition the specifics surrounding the valuations and net

		balances of the Applicants subsidiaries are commercially sensitive.
Section 4.4	Legal and beneficial ownership of the Applicants subsidiaries.	The discrete redactions of the share structures in this section are not relevant to the Board's no-harm test. In addition, the redacted portions of this section refer to the beneficial ownership of the Applicants subsidiaries which are commercially sensitive in nature.
Sections 4.13(i) & 5.13(i)	ETA registration numbers of the Applicants	The discrete redactions of ETA registration numbers in these sections are not relevant to the Board's no-harm test. In addition, the specifics surrounding the Applicants ETA registration numbers are commercially sensitive in nature.
Sections 4.15 & 5.15	Indebtedness, liabilities or obligations owed to third parties.	The discrete redactions of monetary figures in these sections are not relevant to the Board's no-harm test. In addition, the redacted portions of the sections refer to specific monetary values that are commercially sensitive in nature.
Section 5.4(i), Section 5.4(g), Section 5.4(h)	Legal and beneficial ownership of the Applicants subsidiaries.	The discrete redactions of share structures in this section are not relevant to the Board's no-harm test. In addition, the redacted portion of this section refers to the beneficial ownership of the Applicants subsidiaries which is commercially sensitive in nature.
Sections 6.1(a)(ii)(A) & 6.2(a)(ii)(A)	Independent contractor engagements.	The discrete redactions of monetary figures in these sections are not relevant to the Board's no-harm test. In addition, the redaction portion of these sections refer to monetary values which are commercially sensitive.
Sections 8.4, 8.5 & 8.7(a)	Indemnities, limitations and time limitations for indemnity claims.	The discrete redactions of monetary figures and time periods in Sections 8.4 and 8.7(a), and the redaction of Section 8.5 in its entirety due to specifics surrounding indemnities are not relevant to the Board's no-harm test. The redactions are commercially sensitive in that they relate to monetary values, the

		Applicants indemnities and time periods which are commercially sensitive.
Schedule 1.1	Form of Shareholders Agreement	This schedule has been redacted in its entirety as it is not relevant to the Board's no-harm test. The form of Agreement speaks to the specific allocation of risk among the various shareholders, which is commercially sensitive.
Schedule 2.6(A)(IV)	Illustrative example of Adjustments	This schedule has been redacted in its entirety as it is not relevant to the Board's no-harm test. In addition, the redactions are commercially sensitive in that the schedule provides illustrative examples of financial adjustments of the Applicants.
Schedule 2.6(B), section B.3 & section C.3	Class A and B Special Share Redemption Processes and Redemption Amounts.	The redactions of these sections of this schedule have been redacted as they discuss special share redemption processes which are not relevant to the Board's no-harm test. The redactions are also commercially sensitive in that they discuss the procedures surrounding the redemption of the Class A and B Special Shares of the Applicants.
Schedule 4.1	KW Disclosure Schedule	See below.
Schedule 4.2	Waterloo North Disclosure Schedule	See below.

Those redactions made because they are commercially sensitive are as described below. The Applicants hereby request confidential treatment of these sections of the Application pursuant to the Rules and the Practice Direction for the reasons stated.

MPA: Schedule 4.1 has been redacted in its entirety with the following three exceptions. Sub-schedules 4.4 and 4.12 have been filed as Attachment M to the Application pursuant to Section 2.2.4 of the Filing Requirements for Consolidation Applications. The financial statements of KPC in sub-schedule 4.12 have been redacted in their entirety as they are not relevant to the Board's no-harm test, and are commercially sensitive. Sub-schedule 4.10 contains information surrounding the current corporate directors, which is readily available to the public with the exception of the discrete redactions to the list of directors for KESI. The balance of the redacted information is not relevant to the matters at issue in the Application. In addition, public release could cause harm to the Applicants or their affiliates. These redactions are consistent with those in EB-2021-0280.

Schedule 5.1 has been redacted in its entirety with the following three exceptions. Sub-schedule 5.4(j) is similar to the figure that is being filed as Attachment G pursuant to Section 2.2.2 of the Filing Requirements for Consolidated Applications. Sub-schedule 5.10(b) contains information surrounding the current corporate directors, which is readily available to the public, with the exception of the discrete redactions to the list of the directors of Alliance Metering Solutions Inc. Sub-schedule 5.12 are already being filed as Attachment N to the Application pursuant to Section 2.2.4 of the Filing Requirements for Consolidation Applications, with the exception of the initial list of attachments and the financial statements of Waterloo North Hydro Holding Corporation. The balance of the redacted information is not relevant to the matters at issue in the Application. In addition, public release could cause harm to the Applicants or their affiliates. These redactions are also consistent with those in EB-2021-0280.

The Applicants' approach to redactions have been guided by the OEB's Decision on Confidentiality dated January 18, 2022 in EB-2021-0280 as well as the approach to relevance and confidentiality that was used in EB-2018-0236.

All of the redactions are found in the MPA and its schedules. Since all of the redactions relate to relevance, no additional materials are required to be filed at this time.

The Applicants further confirm that the evidence filed in support of the Application does not include any personal information as defined in the Freedom of Information and Protection of Privacy Act that is not otherwise redacted in accordance with rule 9A.01 of the Ontario Energy Board's Rules of Practice and Procedure and in accordance with Section 10 of the OEB's Practice Direction on Confidential Filings.

Yours Truly,

BORDEN LADNER GERVAIS LLP

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/jv

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MAADs Application

EB-2022-0006

Filed: January 31, 2022

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1. Administrative

1.1 Application Overview

This is an application ("**Application**") to the Ontario Energy Board ("**OEB**" or the "**Board**") for the approvals and relief necessary to effect the amalgamation of Kitchener-Wilmot Hydro Inc. ("**KWHI**") and Waterloo North Hydro Inc. ("**WNHI**") (collectively referred to as the "**Applicants**" or the "**Parties**") to form a new single local distribution company ("**LDC**") (referred to as "**LDC MergeCo**") that will serve over 157,000 customers. The LDC amalgamation is referred to in the Application as the "**Proposed Transaction**" or "**merger**" further described in Section 3.1.

The Application is a culmination of many months of negotiations and agreement among the Applicants, as defined below, and their shareholders and is reflective of the terms of the merger approved by the five municipalities:

(i) The Corporation of the City of Kitchener;
(ii) The Corporation of the Township of Wilmot;
(iii) The Corporation of the City of Waterloo;
(iv) The Corporation of the Township of Wellesley; and
(v) The Corporation of the Township of Woolwich.

This Application follows the Filing Requirements contained in the Board's January 19, 2016 *Handbook to Electricity Distributor and Transmitter Consolidations* (the "**Handbook**") and adheres to the principles of the OEB's March 26, 2015 Report of the Board titled *Rate-Making Associated with Distributor Consolidation (*the "**Consolidation Policy**"). The mapping of the Application's contents to the Handbook's Filing Requirements is provided in Attachment A.

The details of the approvals and additional orders being sought through this Application are provided in Section 3.2 below. The Applicants are requesting a written hearing.

Upon completion of the Proposed Transaction, the share percentage ownership of the holding company of LDC MergeCo will be as follows:

- The Corporation of the City of Kitchener – 53.39%
- The Corporation of the Township of Wilmot – 4.49%
- The Corporation of the City of Waterloo – 30.83%
- The Corporation of the Township of Woolwich – 8.51%
- The Corporation of the Township of Wellesley – 2.78%

The licensed service area of LDC MergeCo will be comprised of the current service areas of KWHI and WNHI. This will result in a large contiguous service area within the Region of Waterloo. A combined service area map is provided as Attachment B.

LDC MergeCo will adopt a new corporate name and brand which, over time, will replace the current brand names: Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.

A public engagement effort was launched on October 6, 2021, which ran for four weeks. The holding companies retained the services of NATIONAL Public Relations (NATIONAL PR) to assist with the public engagement, which included an online public information meeting held on October 19, 2021, print advertisements, social media posts and the launch of a dedicated microsite (www.connectinglocalpower.com). The microsite provided details on the proposed merger, including a copy of the Memorandum of Understanding (MOU), frequently asked questions and the site was able to receive questions from the community.

At the conclusion of the dedicated public engagement period, NATIONAL PR wrote a report (Attachment R) summarizing the input received. The overall conclusion can be found on page 3, which reads: “All communications and public engagement activities have been met with relatively positive community feedback, as well as fair and factual media coverage. Based on interactions and questions received during the four-week public engagement effort, we conclude that there are no major community concerns related to this proposed merger.”

A key objective for the Proposed Transaction is ensuring levels of customer service, safety and reliability that either meet or exceed existing levels, while maintaining stable, competitive distribution rates. The Proposed Transaction will positively impact customers and provide the following customer benefits:

- Stable distribution rates over the course of the 10-year Deferred Rebasing Period, as provided under the Price Cap Incentive Regulation ("PCIR") methodology;
- A larger, local and municipally owned utility that will deliver cost synergies and operational efficiencies; and,
- A larger utility that will have the capacity to modernize and adapt to future changes in Ontario's electricity sector, with the ability to dedicate resources to invest in innovation and new technologies that address the needs of customers.

The merger of KWHI and WNHI demonstrates the benefits of voluntary consolidation within the electricity sector in Ontario. The Proposed Transaction supports the OEB's Renewed Regulatory Framework for Electricity Distributors and the focus on performance-based outcomes. This merger will promote the achievement of customer focus, operational effectiveness, public policy responsiveness, and financial performance. The merger will also promote a key element of the framework, which is to focus on continuous improvement and increased efficiency in the distribution sector.

1.2 Name of Applicants and Authorized Representatives

Applicant 1:	**Kitchener-Wilmot Hydro Inc.**
	301 Victoria Street South
	Kitchener ON N2G 4L2
Authorized Representative:	**Margaret Nanninga, MBA, CPA, CGA**
	VP Finance & CFO
	Kitchener-Wilmot Hydro Inc.
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	519.749.6177
	Email: mnanninga@kwhydro.ca

Applicant 2:	**Waterloo North Hydro Inc.**
	526 Country Squire Road
	Waterloo ON N2J 4G8
Authorized Representative:	**Albert Singh, MBA, CPA, CGA**
	VP Finance & CFO
	Waterloo North Hydro Inc.
	526 Country Squire Road
	Waterloo ON N2J 4G8
	519.888.5542
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Applicant 3:	**Kitchener Power Corp.**
	301 Victoria Street South
	Kitchener ON N2G 4L2
Authorized Representative:	**Jerry Van Ooteghem, P. Eng.**
	President & CEO
	Kitchener Power Corp.
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	Kitchener ON N2G 4L2
	519.749.6180
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Applicant 4:	**Waterloo North Hydro Holding Corporation**
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	Waterloo ON N2J 4G8
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1.3 Counsel to the Applicant(s) and Authorized Representative

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1.4 Description of Transaction

The Proposed Transaction involves the amalgamation of Kitchener Power Corp. ("**KPC**") and Waterloo North Hydro Holding Corporation ("**WNHHC**") (the current holding companies of the regulated utilities KWHI and WNHI) to form "**Merged Holdco**". Immediately following the amalgamation of Merged Holdco, KWHI and WNHI (the regulated utilities) will amalgamate to form LDC MergeCo.

The Proposed Transaction will result in the Corporation of the City of Kitchener, the Corporation of the Township of Wilmot, the Corporation of the City of Waterloo, the Corporation of the Township of Woolwich, and the Corporation of the Township of Wellesley collectively owning 100% of Merged Holdco, which in turn will own 100% of LDC MergeCo.

Subject to OEB approval, the Proposed Transaction is expected to occur on the first business day of the second calendar month following the later of the date the OEB issues its approval of the Application and the date the Competition Bureau issues its Competition Act approval of the Proposed Transaction (collectively the "**Approvals**") or if the Approvals are received after August 31, 2022, the Proposed Transaction is expected to occur on January 1, 2023.

This Application adheres to the principles of the Handbook and the Consolidation Policy.

The Consolidation Policy provides Board policy pronouncements pertaining to ratemaking for associated distributor consolidation transactions. These include:

(1) an extension to the rate rebasing deferral period for a period of up to ten years after the close of the transaction;

(2) a requirement for use of an earning sharing mechanism ("ESM") where an applicant seeks a deferral period greater than five years and up to ten years;

(3) utilization of the incremental capital investment module ("ICM") by the consolidating entity during the deferred rebasing period; and

(4) clarifications as to which incentive plan would apply to distributors who are party to a merger, amalgamation, acquisition, and divestiture ("MAADs") transaction during any deferred rebasing period.

The Applicants have considered the intent and rely on these reports in both supporting the merger and amalgamation of KWHI and WNHI and in developing this Application.

Section 3 provides a detailed description of the Proposed Transaction.

1.5 Certificates of Evidence

Please see Attachment C for the Certificates of Evidence from each of the Applicants.

2. Description of the Business of the Parties to the Transaction

2.1 Description of the Business

Filing Requirement: *Describe the business of each of the parties to the proposed transaction, including each of their electricity sector affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity.*

2.1.1 KWHI

KWHI is a municipally-owned electricity distribution company that provides electricity distribution and related services to approximately 99,000 customers in the City of Kitchener and the Township of Wilmot.

KWHI is 100% owned by KPC. KPC is a holding company owned 92.25% by the City of Kitchener and 7.75% by the Township of Wilmot.

KWHI is dedicated to its local community and makes its decisions with customers as its top priority. Below are the corporate mission and vision statements and the core values shared by all KWHI employees:

> Mission (this is who we are) - ***We care for our customers, community, employees and stakeholders and provide value through the distribution of safe, efficient and reliable power.***
>
> Vision (this is who we want to be) - ***Empowered by a dedicated and responsive team, we will be the preferred energy provider and trusted partner for our community.***
>
> Core Values - ***Financial responsibility, Safety, Customer Focus, Communication, Accountability, Trust***

KWHI has no electricity (generation, transmission or distribution) sector affiliates.

2.1.2 WNHI

WNHI is a municipally-owned electricity distribution company that provides electricity distribution and related services to approximately 58,000 customers within the City of Waterloo, the Township of Woolwich and the Township of Wellesley.

WNHI is 100% owned by WNHHC. WNHHC is a holding company owned 73.2% by the City of Waterloo, 20.2% by the Township of Woolwich and 6.6% by the Township of Wellesley.

WNHI's Purpose, Mission and Vision define the organization and guide strategic planning:

> Purpose – Why we exist (the anchor of why we were created) - ***Delivering electricity efficiently to our customers***
>
> Mission – What business are we in (may change over time but still anchored to purpose) - ***To be of service to our customers by delivering electricity to homes and businesses in our communities – reliably, safely, 24 x 7.***
>
> Vision – What we want to be like in the future - ***Our vision is to be the flexible, sustainable distribution platform for connecting consumers and producers of electricity and be the trusted energy advisor of choice for our customers.***
>
> Core Values - ***Respect, Safety and Environmental Stewardship, Service, Commitment to Excellence, Teamwork and Collaboration, and Responsible and Accountable***

WNHI has a Unit Sub-Metering Provider electricity affiliate – Alliance Metering Solutions. See section 2.5 for a description.

KWHI and WNHI's mission, vision and core values align very closely to the performance outcomes identified by the OEB on its Scorecard that each LDC should strive to achieve – Customer Focus, Operational Effectiveness, Public Policy Responsiveness, and Financial Performance.

2.2 Service Area

Filing Requirement: *Describe the geographic territory served by each of the parties to the proposed transaction, including each of their affiliates, if applicable, noting whether service area boundaries are contiguous or if not the relative distance between service boundaries.*

2.2.1 KWHI Service Area

KWHI's service territory covers the City of Kitchener and the Township of Wilmot with a combined service area of 425 square kilometres that is one-third urban and two-thirds rural. KWHI provides electrical distribution services to more than 99,000 residential and commercial customers in its service area. It encompasses more than 23,000 poles, approximately 1,000 km of overhead lines and 985 km of underground distribution system.

A map of KWHI's distribution service territory is provided in Attachment B.

KWHI's neighbouring utilities include Energy+, HONI and WNHI.

2.2.2 WNHI Service Area

WNHI's service territory covers the City of Waterloo, the Township of Wellesley, and the Township of Woolwich with a combined contiguous service area of 683 square kilometres that is ten percent urban and ninety percent rural. WNHI provides electrical distribution services to more than 58,000 residential and commercial customers in its service area. It encompasses more than 21,000 poles, approximately 1,100 km of overhead lines and 580 km of underground distribution system.

A map of WNHI's distribution service territory is provided in Attachment B.

WNHI's neighbouring utilities include Energy+, KWHI, and HONI.

KWHI and WNHI share a border in their current service territories. The new LDC MergeCo will have a contiguous service area.

2.3 Customer Information

Filing Requirement: *Describe the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.*

Table 1 and Table 2 below summarize the total number of metered customers and unmetered customers served by the Applicants as of December 31, 2020.

Table 1 - Customers by Rate Class

Customers by Rate Class	KWHI	WNHI
Residential	89,926	51,821
GS < 50 kW	8,134	5,863
GS > 50 kW	965	753
Large User	1	1
Embedded Distributor	1	1
Total (Stand Alone)	**99,027**	**58,439**
Combined Total		**157,466**

Table 2 - Connections by Rate Class

Connections by Rate Class	KWHI	WNHI
Unmetered Scattered Load	913	537
Street Lighting	25,355	14,867
Total (Stand Alone)	**26,268**	**15,404**
Combined Total		**41,672**

2.4 Geographic Service Area

Filing Requirement: *Describe the proposed geographic service area of each of the parties after completion of the proposed transaction.*

See Section 2.2 above and the Applicant's distribution licenses included as Attachment D and E for a detailed description of each of the parties' service territories. The proposed service territory of LDC MergeCo represents the combination of the above-described KWHI and WNHI service territories as shown in Attachment B.

Consistent with the nature of KWHI's and WNHI's service territory, LDC MergeCo's service territory will remain contiguous.

2.5 Corporate Relationship

Filing Requirement: *Provide a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.*

See Attachment F for KPC's corporate chart and Attachment G for WNHHC's corporate chart.

KWHI

KWHI is incorporated under the Ontario Business Corporations Act and is 100% owned by Kitchener Power Corp. KPC is a holding company that is owned 92.25% by The Corporation of the City of Kitchener and 7.75% by The Corporation of the Township of Wilmot.

KWHI is affiliated with Kitchener Energy Solutions Inc. (KESI). KESI is 100% owned by KPC and provides non-regulated energy services, including streetlight maintenance. KWHI provides certain corporate services, including accounting and the coordination of materials relating to streetlight maintenance to KESI.

KPC also owns a 33.3% interest in Grand River Energy Solutions Corp. (GRE). GRE is a generation and renewable energy solutions company who is focused on serving its' customers with distributed energy resource solutions by tapping into the benefits of clean energy technologies such as solar, combined heat and power, energy storage and electric vehicle integration. The other owners of GRE are Energy+ (33.3%) and WNHHC (33.3%).

WNHI

WNHI is incorporated under the Ontario Business Corporations Act and is 100% owned by Waterloo North Hydro Holding Corporation. WNHHC is a holding company that is owned 73.2% by The Corporation of the City of Waterloo, 20.2% by The Corporation of the Township of Woolwich, and 6.6% by The Corporation of the Township of Wellesley.

WNHI is affiliated with Alliance Metering Solutions Inc. (AMS). AMS is 100% owned by WNHHC and is licensed by the OEB to provide electricity sub-metering services in the province of Ontario. WNHI provides certain corporate services including accounting, billing, customer service and meter maintenance to AMS.

WNHHC owns 33.3% of GRE.

WNHHC also owns 23.7% of Eyedro Green Solutions Inc. (Eyedro). Eyedro is a non-regulated privately owned company with a focus on affordable energy management products.

After the merger, Merged Holdco will have a 66.6% stake in GRE. There are currently no shared service agreements between GRE and KWHI or WNHI.

2.6 Net Metering Threshold

Filing Requirement: *If the proposed transaction involves the consolidation of two or more distributors, please indicate the current net metering thresholds of the utilities involved in the proposed transaction. The OEB will, in the absence of exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Applicants must indicate if there are any special circumstances that may warrant the OEB using a different methodology to determine the net metering threshold for the new or remaining utility.*

The most recent (2020) net metering thresholds of KWHI and WNHI and the summation for the proposed combined entity are provided in Table 3. There are no special circumstances to the Applicants' knowledge that would warrant the OEB using a different methodology to determine the net metering threshold for each utility.

Table 3 – Net Metering Threshold

Utility	Average System Peak (kW)	Net Metering Threshold - 1% Rule (kW)
KWHI	347,643	3,476
WNHI	283,039	2,830
Combined Total	**630,681**	**6,307**

3. Description of the Proposed Transaction

3.1 Proposed Transaction

Filing Requirement: *Provide a detailed description of the proposed transaction.*

On January 12, 2022, The Corporation of the City of Kitchener, The Corporation of the Township of Wilmot, The Corporation of the City of Waterloo, The Corporation of the Township of Woolwich, and The Corporation of the Township of Wellesley (collectively the “Shareholders”), Kitchener Power Corp., Kitchener-Wilmot Hydro Inc., Kitchener Energy Services Inc., Waterloo North Hydro Holding Corporation, Waterloo North Hydro Inc., and Alliance Metering Solutions Inc. approved and entered into a Merger Participation Agreement (the “**MPA**”) (Attachment I) the effect of which, subject to OEB and Competition Act approval, is the amalgamation of KPC and WNHHC to create Merged Holdco, the amalgamation of KWHI and WNHI to create the LDC MergeCo, and the shareholders intend to continue with AMS and KESI as separate corporations wholly owned by the Merged Holdco (collectively, the “**Proposed Transaction**”), as further detailed below.

The MPA currently contemplates the closing of the transaction on the later of:

(i) the first business day of the second calendar month following receipt of OEB approval and Competition Act approval; or

(ii) if the OEB approval and Competition Act approval are received less than 14 days prior to the end of the applicable calendar month, the closing date will be the first business day of the subsequent calendar month; or

(iii) if the OEB approval and Competition act approval are received after August 31, 2022, the closing date will be January 1, 2023.

3.1.1 Holdco Amalgamation

KPC and WNHHC will amalgamate on the closing date to form Merged Holdco, which will continue as a corporation amalgamated under the laws of Ontario.

Merged Holdco will issue fully paid and non-assessable Common Shares and Special Shares in the capital of Merged Holdco upon completion of the Merged Holdco merger in accordance with the terms of the MPA and as summarized in Table 4.

Table 4 - Equity and Voting Percentage Interest

Party	Merged Holdco	Equity & Voting %
City of Kitchener	53,390 Common Shares 9,225 Class A Special Shares	53.39%
Township of Wilmot	4,490 Common Shares 775 Class A Special Shares	4.49%
City of Waterloo	30,830 Common Shares 7,320 Class B Special Shares	30.83%
Township of Woolwich	8,510 Common Shares 2,020 Class B Special Shares	8.51%
Township of Wellesley	2,780 Common Shares 660 Class B Special Shares	2.78%

3.1.2 LDC MergeCo Amalgamation

Following the merger of KPC and WNHHC, KWHI and WNHI will merge on the closing date to form LDC MergeCo, which will continue as a corporation amalgamated under the laws of Ontario and shall file articles of amalgamation giving effect to the amalgamation in accordance with the Ontario Business Corporations Act (OBCA). LDC MergeCo will be wholly owned by Merged Holdco following the completion of the Proposed Transaction.

3.2 Leave Being Sought

Filing Requirement: *Provide a clear statement on the leave being sought by the applicant, referencing the particular section or sections of the Ontario Energy Board Act, 1998.*

The Applicants hereby apply to the Board for the following Order and Approvals:

1) Leave for Merged Holdco to acquire control of KWHI and WNHI pursuant to section 86(2)(b) of the *Ontario Energy Board Act, 1998* (the “OEB Act”);

2) Leave to amalgamate KWHI and WNHI to form LDC MergeCo pursuant to section 86(1)(c) of the OEB Act;
3) The issuance of a Distribution License to LDC MergeCo pursuant to section 60 of the OEB Act and the cancellation of the Distribution Licenses of KWHI (ED-2002-0573) and WNHI (ED-2002-0575) pursuant to section 77(5) of the OEB Act upon the issuance of the Distribution License to LDC MergeCo;
4) Leave to transfer the rate orders of KWHI and WNHI to LDC MergeCo pursuant to section 18 of the OEB Act, which would include the continuation of related distribution rates and low voltage rates associated with Embedded Distributors;
5) Leave for LDC MergeCo to track costs to the existing regulatory and deferral and variance accounts currently approved by the Board for each service area and to seek disposition of their balances at a future date; and
6) Leave for LDC MergeCo to track the grossed-up PILs impact of the variance between the unsmoothed accelerated depreciation approach agreed to by WNHI in its 2021 Cost of Service Settlement Proposal (EB-2020-0059), and the effective PILs impact of the phase-out/elimination of the accelerated CCA anticipated to begin after 2023 and until LDC MergeCo's rebasing. The differences, if any, would be included in DVA Account 1592, PILS and Tax Variances Sub-Account CCA Changes for the WNHI service area only.
7) Leave to defer rebasing for 10 years following closing of the Proposed Transaction (the "**10-year Deferred Rebasing Period**"), following which LDC MergeCo intends to prepare a rate harmonization proposal that will harmonize the rates in the KWHI rate zone with the WNHI rate zone over a further 10 years following the 10-year Deferred Rebasing Period (the "**Rate Harmonization Period**"). This is set out in Section 9.3 of the MPA attached as Attachment I to this Application.

8) Leave pursuant to Section 78 of the OEB Act to maintain two separate distribution rate zones: one for the KWHI service area and one for the WNHI service area for both the 10-year Deferred Rebasing Period and the Rate Harmonization Period (the "**Special Request**") further to Section 9.3 of the MPA.

The Applicants acknowledge that in accordance with the Handbook distributors are typically not required to file details of their rate-setting plans, including any proposals for rate harmonization, as part of this Application because these issues will be addressed at the time of rate rebasing of the consolidated entity.

KWHI and WNHI respectfully request that this Application be heard by way of a written hearing.

3.3 Consideration

Filing Requirement: *Provide details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.*

The Proposed Transaction involves the exchange and issuance of shares. Ownership of the voting shares of Merged Holdco is set out in Section 3.1 above. The only cash exchange arising from the merger that may be necessary will occur in the form of typical post-closing adjustments, which are described in the MPA. These post-closing adjustments will have no impact on the ownership of the voting shares of Merged Holdco.

3.4 Legal Documents

Filing Requirement: *Provide all final legal documents to be used to implement the proposed transaction.*

A copy of the MPA that governs and contemplates all the steps of the Proposed Transaction is provided as Attachment I. As the MPA contains:

(i) personal information;

(ii) confidential information, as this term is understood pursuant to the Board's Practice Direction on Confidential Filings; or

(iii) is not relevant for the purposes of this Application and the "No Harm" test,

a redacted version of the MPA has been filed for inclusion on the public record. An unredacted version of the MPA is being filed with the Board together with a request by the Applicants for confidential treatment of the redacted sections in accordance with the Board Practice Direction on Confidential Filings.

3.5 Resolutions

Filing Requirement: *Provide a copy of appropriate resolutions by parties such as parent companies, municipal council/s, or any other entities that are required to approve a proposed transaction confirming that all these parties have approved the proposed transaction.*

Copies of all relevant Board of Directors' and Municipal Councils' resolutions are included as Attachment J.

4. Impact of the Proposed Transaction

Filing Requirement: *In reviewing an application, the OEB will apply the no harm test as outlined in the Handbook. Applicants are required to provide the following evidence to demonstrate the impact of the proposed transaction with respect to the OEB's first two statutory objectives.*

4.1 Objective 1 – Protect consumers with respect to prices and the adequacy, reliability, and quality of electricity service.

4.1.1 Consumer Impact

Filing Requirement: *Indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability, and quality of electricity service.*

The proposed transaction is expected to benefit and protect customers as follows:

- Over the course of the 10-year Deferred Rebasing Period, customers in the KWHI and WNHI service areas will benefit from stable distribution rates, as provided under PCIR, that are projected to increase at less than the rate of inflation over the 10 years following the merger and are lower than what they would have been on a stand-alone basis in the absence of the Proposed Transaction;
- Real cost synergies and operational efficiencies, as well as economies of scale over a larger customer base, will result in a lower future cost structure after the 10-year Deferred Rebasing Period. Customers will benefit from the sustained synergies from the merger, which will lower distribution rates at the next rebasing application, in comparison to the stand-alone basis;
- LDC MergeCo is committed to maintaining the highest quality, reliability, and adequacy of electricity service across both service areas;
- Customers will benefit from a larger, local and publicly owned utility that will have the capacity to modernize and adapt to significant changes in Ontario's electricity sector; and
- Customers will benefit by LDC MergeCo having additional resources to invest in innovation and new technologies that address their needs.

4.1.1.1 Price

The Proposed Transaction is expected to deliver distribution rate savings to customers in the two service territories. LDC MergeCo plans to file an annual PCIR application with two distribution rate zones (the previous KWHI and WNHI service territories) during the 10-year Deferred Rebasing Period. Under the PCIR, customers are expected to receive a distribution rate increase that is less than inflation over this period. In the absence of the Proposed Transaction, under the stand-alone basis, both KWHI and WNHI would rebase their distribution rates under the Cost of Service methodology during the 10-year Deferred Rebasing Period (KWHI in 2025 and 2030 and WNHI in 2026 and 2031). Without the benefit of the projected costs savings and synergies realized from the Proposed Transaction, as outlined below, projected rate increases under the stand-alone basis are expected to be greater than under the PCIR.

Following the Cost-of-Service application in 2032, LDC MergeCo proposes to maintain two separate distribution rate zones and gradually harmonize distribution rates to customers in both rate zones over a ten-year period (referred to herein as the Rate Harmonization Period). The Applicants intend to propose in 2032 a plan to harmonize distribution rates, since the phase-in of distribution rates is intended to minimize rate and bill impacts to customers in the former KWHI service territory. Customer rates will be carefully harmonized to ensure that all customers benefit from the merger as compared to where they would have been had the LDCs operated in status quo.

4.1.1.2 Adequacy, Reliability and Quality of Electricity Service

The Handbook provides that in considering the impact of a proposed transaction on the quality and reliability of electricity service, and whether the "no harm" test has been met, the OEB will be informed by the metrics provided by the distributor in its annual reporting to the OEB and published in its annual scorecard. The OEB's *Report of the Board: Electricity Distribution Systems Reliability Measures and Expectations*, issued on August 25, 2015 (the "**Reliability Report**"), additionally sets out the OEB's expectations on the level of reliability performance by distributors. In the Reliability Report, the OEB notes that continuous improvement will be demonstrated by a distributor's ability to deliver improved reliability performance without an increase in costs, or to maintain the same level of performance at a reduced cost.

Ensuring levels of customer service, safety, and reliability that either meet or exceed existing levels for each of KWHI and WNHI, while maintaining stable, competitive distribution rates, is a key objective for the Proposed Transaction.

LDC MergeCo is committed to maintaining and enhancing the quality, reliability, and adequacy of electricity service for its customers across both service areas. LDC MergeCo will continue the strong culture of customer service that is currently provided by KWHI and WNHI. LDC MergeCo will aim to maintain or improve existing service levels while adopting best practices and achieving efficiencies in its operations. LDC MergeCo will continue to focus on reliability, bill accuracy, first call resolution, responsiveness to customers' needs and concerns, and general customer service. Additionally, LDC MergeCo will incorporate feedback from customers to set its performance targets.

LDC MergeCo will maintain two dedicated operations centres servicing a larger territory:

(i) 301 Victoria Street South (Kitchener, Ontario) Operations Centre; and
(ii) 526 Country Squire Road (Waterloo, Ontario) Operations Centre.

These Operations Centres will continue to be used for providing engineering, construction and maintenance, material handling and logistics, fleet, and metering services.

The Operations staff that currently respond to outages and power quality issues will continue to service the larger territory of LDC MergeCo. It is expected that LDC MergeCo will maintain or improve existing response times, as overall staffing levels are not expected to change in this area. In fact, during large-scale outages, LDC MergeCo will have the ability to draw upon a much larger number of Operations staff for storm restoration efforts. In addition to Operations staff, LDC MergeCo expects to maintain a customer service presence at both Operations Centres where customers can visit to pay bills or meet with staff to set up accounts or resolve problems.

The Proposed Transaction provides an opportunity for LDC MergeCo to review and implement standardized operational and safety practices aligned to best practices. The adoption of standardized policies and procedures will ensure a consistent experience for businesses, developers, and contractors who currently operate in the service areas, and most notably will eliminate the confusion of having two local distribution companies servicing the cities of Kitchener and Waterloo and surrounding areas. Standardized processes for the expansion of the distribution system are expected to facilitate economic growth, as developers will be serviced by one utility.

Customers will also benefit from being served by a larger utility that will have expanded resources, including people and technology to improve system reliability and power quality, as well as the monitoring and reporting of these performance indicators.

SAIDI/SAFI

The System Average Interruption Duration Index ("SAIDI"), the average outage duration for each customer served, is commonly used as a reliability indicator for electricity utilities. The System Average Interruption Frequency Index ("SAIFI"), the average number of interruptions that a customer would experience, is also a key reliability indicator.

LDC MergeCo is expected to maintain and/or improve upon the five-year average reliability indices and the OEB Customer Service Standard metrics for customers. Each of the service areas has unique distribution system characteristics and has capital and maintenance plans based on sound asset management strategies that address specific needs, including addressing reliability issues.

The five-year historical reliability metrics for KWHI and WNHI are provided in Table 5.

Table 5 – SAIDI and SAIFI

	2016	2017	2018	2019	2020
SAIDI					
KWHI	1.11	0.92	0.70	1.02	0.53
WNHI	0.71	0.76	0.92	0.85	0.80
SAIFI					
KWHI	1.11	1.03	0.97	1.05	0.92
WNHI	1.15	1.50	1.32	1.29	1.02

The 2020 Scorecards for KWHI and WNHI are Included as Attachments K and L respectively.

4.1.2 Cost Structure Analysis

Filing Requirement: *Provide a year over year comparative cost structure analysis for the proposed transaction, comparing the costs of the utilities post transaction and in the absence of the transaction.*

As the Board notes in the Handbook, a simple comparison of current rates between consolidating distributors does not reveal the potential for lower-cost delivery. For these reasons, the OEB will assess the underlying cost structures of the consolidating utilities and consider the impact of a transaction on the cost structure of consolidating entities both now and in the future.

To demonstrate "no harm" to customers with respect to price, the Applicants must provide evidence that it is reasonably expected that the underlying cost structure to serve customers following the LDC merger will be no higher than it otherwise would have been.

LDC MergeCo will be focused on reducing operating expenditures, and estimates that these savings will be realized primarily through costs synergies in the following areas:

- Optimization and reduction of staffing levels, expected to be achieved primarily through planned retirements; and natural attrition;
- Reduction in corporate governance costs, with the consolidation of two boards of directors into a single board of directors;
- Reduction in information technology costs, such as hardware and software maintenance fees as a result of combining key information systems and reducing third party support costs;
- Reduction in future regulatory costs and audits associated with fulfilling regulatory requirements, including the preparation and filing of regulatory applications, including Cost of Service applications; and
- Reduction in overall financing and prudential costs as a result of a strong credit profile and capital structure of LDC MergeCo.

4.1.2.1 Operating, Maintenance and Administrative Savings

The Applicants estimate that the Proposed Transaction will result in annual Operating, Maintenance and Administrative ("OM&A") cost savings of approximately $3.7MM by year 11 after the Transaction close. These cost savings are further summarized below in Table 6. Table 7 shows the OM&A cost per customer for the 10-year Deferred Rebasing Period.

As outlined in Section 4.2.2, incremental OM&A integration and implementation costs are expected to be approximately $4.3MM. These incremental costs will be funded through the annual OM&A savings generated.

To recover the incremental integration and implementation costs associated with the Proposed Transaction, the Applicants are relying on the synergistic efficiencies and cost savings over the 10-year Deferred Rebasing Period. This approach is consistent with the Consolidation Policy.

Table 6 - Projected OM&A Cost Savings

($000's)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
KWHI	$ 20,501	$ 21,025	$ 21,562	$ 22,113	$ 22,677	$ 23,257	$ 23,851	$ 24,460	$ 25,084	$ 25,725	$ 26,382
WNHI	$ 15,890	$ 16,234	$ 16,586	$ 16,945	$ 17,312	$ 17,687	$ 18,070	$ 18,461	$ 18,861	$ 19,270	$ 19,687
Total (Stand-Alone)	**$ 36,391**	**$ 37,259**	**$ 38,147**	**$ 39,057**	**$ 39,989**	**$ 40,943**	**$ 41,920**	**$ 42,921**	**$ 43,946**	**$ 44,995**	**$ 46,069**
MergeCo	**$ 36,089**	**$ 35,720**	**$ 35,009**	**$ 35,856**	**$ 36,724**	**$ 37,613**	**$ 38,523**	**$ 39,456**	**$ 40,411**	**$ 41,390**	**$ 42,392**
Net Costs / (Synergies)	**$ (302)**	**$ (1,538)**	**$ (3,139)**	**$ (3,201)**	**$ (3,265)**	**$ (3,331)**	**$ (3,397)**	**$ (3,465)**	**$ (3,535)**	**$ (3,605)**	**$ (3,677)**

Table 7 - Projected OM&A Cost per Customer

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
KWHI	$ 207	$ 208	$ 210	$ 211	$ 213	$ 214	$ 216	$ 218	$ 219	$ 221	$ 222
WNHI	$ 272	$ 274	$ 276	$ 278	$ 281	$ 283	$ 285	$ 288	$ 290	$ 292	$ 295
Total (Stand-Alone)	**$ 231**	**$ 233**	**$ 234**	**$ 236**	**$ 238**	**$ 240**	**$ 241**	**$ 243**	**$ 245**	**$ 247**	**$ 249**
MergeCo	**$ 229**	**$ 223**	**$ 215**	**$ 217**	**$ 218**	**$ 220**	**$ 222**	**$ 223**	**$ 225**	**$ 227**	**$ 229**

4.1.2.2 Capital Expenditures

Net cost savings related to capital investments over the 10-year Deferred Rebasing Period are not expected to be material and therefore have not been included within the analysis of the Proposed Transaction. It is expected such adjustments would relate primarily to the General Plant investment category, with the planned "distribution system" investments remaining consistent with each community's needs without the Proposed Transaction.

Certain long-term planned capital investments included in the capital plans of KWHI and WNHI may be avoided or reduced as part of the Proposed Transaction.

Subject to further evaluation and due diligence to be undertaken by the integration planning teams, examples of avoided or reduced capital investments may include:

- Future upgrades to two separate Enterprise Resource Planning ("ERP") systems;
- Future upgrades to two separate websites; and
- Consolidation of other network and cyber security infrastructure.

Other areas for potential capital expenditure synergies in the future include:

- Optimization of the vehicle fleet, including the size of the fleet required and the standardization of vehicles; and
- Consolidation and optimization of inventory levels and increased purchasing power of a larger entity.

LDC MergeCo anticipates that cash flow savings from the avoidance of capital investments identified above will be required to fund the information system technology integration and implementation costs during the 10-year Deferred Rebasing Period.

As a result, the annual capital investments under the Proposed Transaction are forecast to be the same as the sum of the individual capital plans under a stand-alone basis. Total gross and net capital expenditures over the 10-year Deferred Rebasing Period are summarized in Tables 8 and 9.

Table 8 - Projected Gross Capital Expenditures – LDC MergeCo

($000’s)

Gross Capital Expenditures	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
KWHI	$ 25,835	$ 26,442	$ 27,112	$ 27,654	$ 28,207	$ 28,771	$ 29,347	$ 29,933	$ 30,532	$ 31,143	$ 31,766
WNHI	$ 20,945	$ 20,636	$ 20,203	$ 20,227	$ 20,632	$ 21,045	$ 21,465	$ 21,895	$ 22,333	$ 22,779	$ 23,235
MergeCo	**$ 46,780**	**$ 47,079**	**$ 47,315**	**$ 47,881**	**$ 48,839**	**$ 49,816**	**$ 50,812**	**$ 51,828**	**$ 52,865**	**$ 53,922**	**$ 55,001**

Table 9 - Projected Net Capital Expenditures – LDC MergeCo

($000’s)

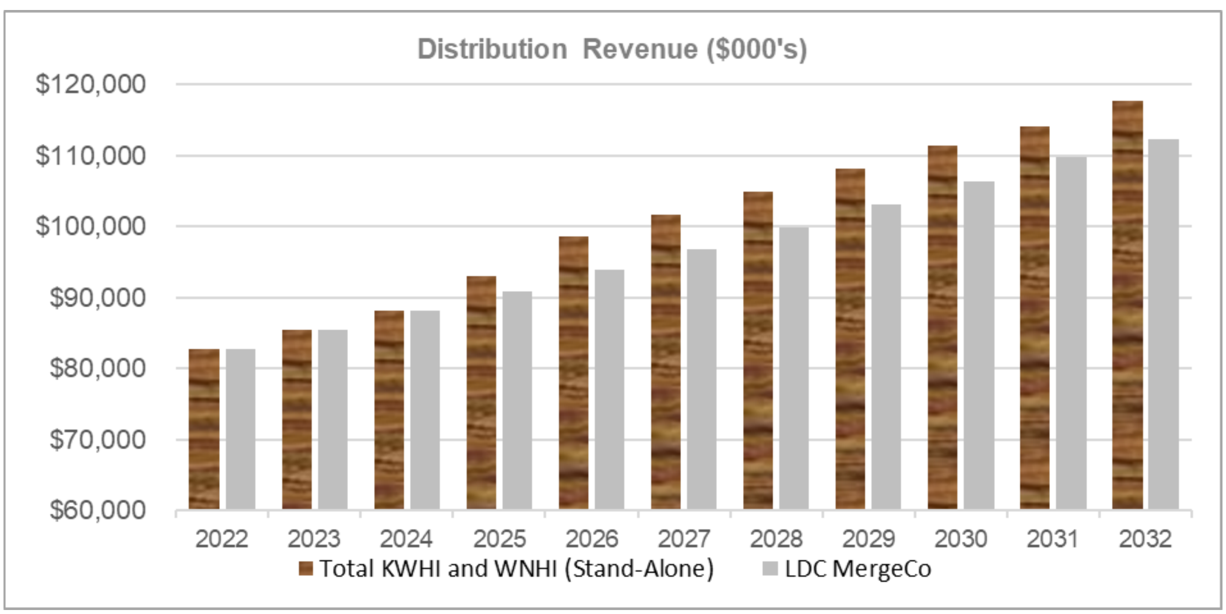
Net Capital Expenditures	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
KWHI	$ 22,330	$ 23,088	$ 23,805	$ 24,431	$ 25,028	$ 25,615	$ 26,376	$ 27,066	$ 27,767	$ 28,481	$ 29,207
WNHI	$ 19,128	$ 19,059	$ 18,410	$ 18,448	$ 19,037	$ 19,464	$ 19,899	$ 20,344	$ 20,797	$ 21,259	$ 21,731
MergeCo	**$ 41,458**	**$ 42,147**	**$ 42,215**	**$ 42,879**	**$ 44,065**	**$ 45,079**	**$ 46,275**	**$ 47,409**	**$ 48,564**	**$ 49,740**	**$ 50,938**

Any net capital cost savings achieved during the 10-year Deferred Rebasing Period will ultimately benefit customers through lower depreciation and amortization expense and return on rate base in the years following rebasing.

4.1.2.3 Distribution Revenue Trend

Figure 1 illustrates the customer benefits of the Proposed Transaction in terms of LDC MergeCo distribution revenue requirement. Benefits to customers versus the stand-alone basis begin to accrue in 2025, via the avoided incremental revenues associated with a planned KWHI COS in 2025 and a planned WNHI COS in 2026. Going forward from that year, the gap between the total stand-alone scenario revenues and LDC MergeCo scenario revenues widens over time with further avoided COS increases. Following the end of the 10-year Deferred Rebasing Period, the net cost savings achieved through the Proposed Transaction are passed on to customers in the form of lower distribution revenue requirements and customer rates. The revenue requirement under the stand-alone basis is the combined revenue requirement of KWHI and WNHI in the absence of the Proposed Transaction.

Figure 1 - Distribution Revenue Trend



Overall, the Proposed Transaction is expected to deliver lower distribution costs to LDC MergeCo customers of approximately 3.1% through the 10-year Deferred Rebasing Period and 4.5% following the transfer of the merger benefits to customers in year 11.

Figures 2 and 3 illustrate the distribution revenue per customer for each of KWHI and WNHI under the stand-alone basis compared to the Proposed Transaction. The distribution revenue per customer in each of the KWHI and WNHI service areas is expected to be lower as a result of the amalgamation compared to the stand-alone basis, and clearly demonstrates a benefit to customers in both service areas.

Figure 2 – KWHI Distribution Revenue per Customer

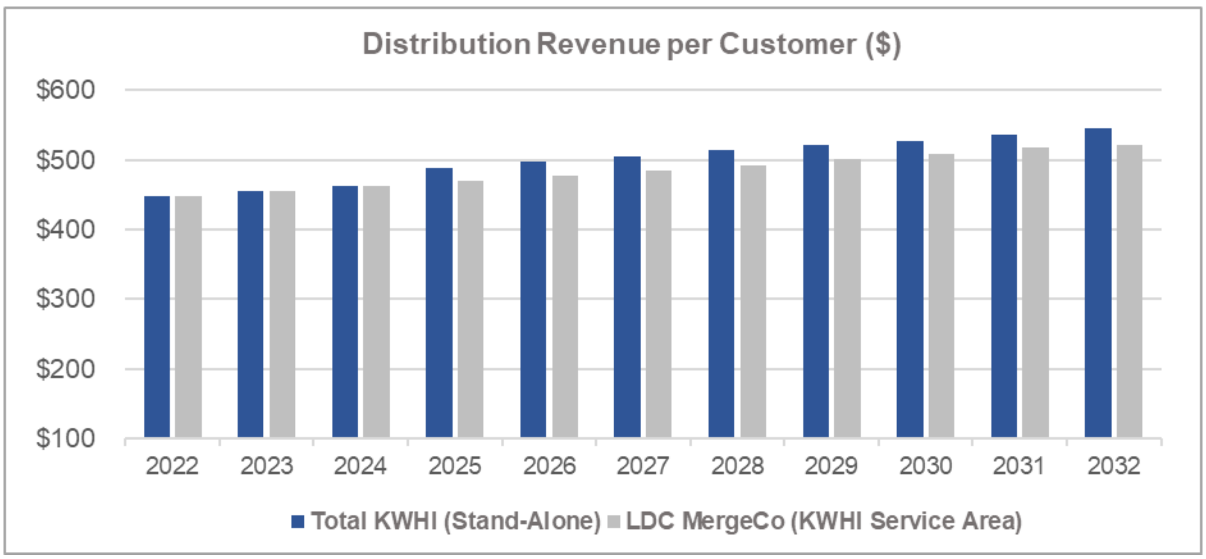
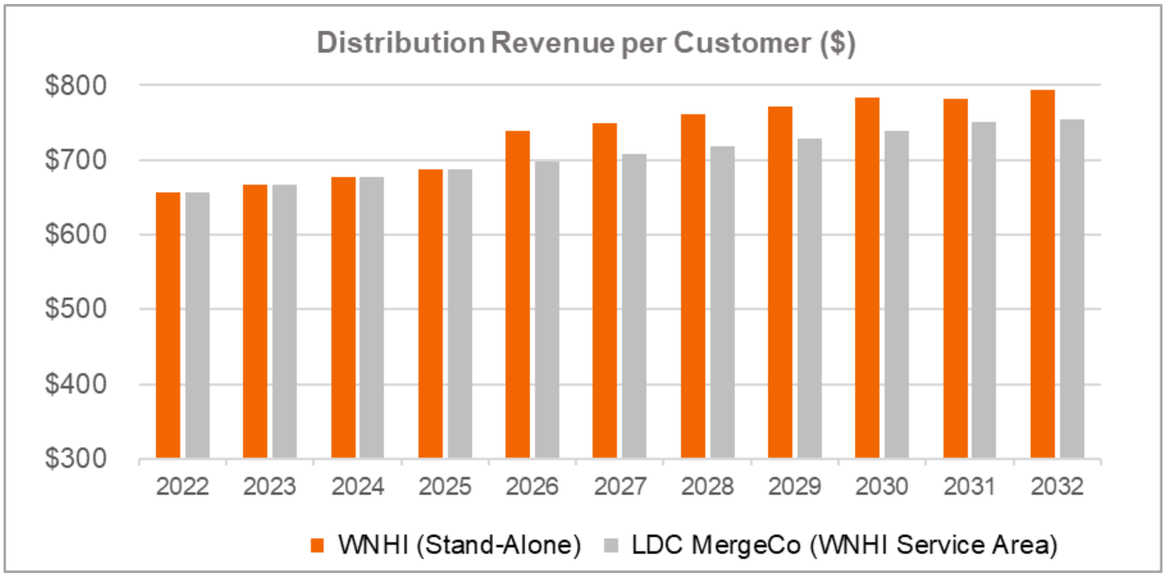


Figure 3 – WNHI Distribution Revenue per Customer



The Applicants note that the long-term forecasts for total revenue in year 11, following rate rebasing, have been developed based on currently reasonable inflation and growth assumptions (as well as projections for the sustained productivity savings). The forecast assumptions do not consider changes such as, but not limited to:

(i) higher than expected inflation levels;

(ii) mandatory regulatory or government policy changes requiring material cost increases; or

(iii) other items which could normally place upwards pressure on the costs of LDC MergeCo.

In most cases, changes of this nature would place similar cost pressures on the Applicants in the stand-alone scenario; however, the Proposed Transaction may increase LDC MergeCo's ability to address such changes.

In summary, under the Proposed Transaction, a sustainable reduction to the underlying cost structure of LDC MergeCo will be achieved through annual OM&A cost reductions of approximately $3.7MM or 8% lower costs at the time of rebasing as compared to the stand-alone basis, in addition to any avoided capital costs that would be achieved through the Proposed Transaction. These underlying cost reductions will be passed through to customers at rebasing following the 10-year Deferred Rebasing Period.

4.1.3 OM&A Cost per Customer

Filing Requirement: *Provide a comparison of the OM&A cost per customer per year between the consolidating distributors.*

Table 10 provides a comparison of the OM&A Cost per Customer for each of KWHI and WNHI based on the OEB's 2020 Electricity Distributors Yearbook.

Table 10 – OM&A Cost per Customer – 2020

	OM&A ($000`s)	# Customers *	OM&A Cost per Customer	Benchmarking Total Cost per Customer
KWHI	$ 21,730	99,026	$ 219.43	$ 519
WNH	$ 14,453	58,438	$ 247.32	$ 797
Ontario Average			**$ 324.44**	**$ 832**

*# of Customers includes Residential, GS<, GS> and Large Users

Annually, the OEB benchmarks Ontario electricity distributors in terms of cost performance. Each distributor is assigned to one of five cohorts, with the best cost performers assigned to Cohort 1 and the worst to Cohort 5. The rankings are based on an annual report by the Pacific Economics Group, which uses econometric modelling to generate total cost benchmarking in order to rank the cost efficiency of each distributor.

On August 27, 2021, the OEB released the 2020 Benchmarking results. KWHI continued to be ranked in Cohort 2 and WNHI continued to be ranked in Cohort 3.

4.1.4 Change of Control

<u>Filing Requirement:</u> *Confirm whether the proposed transaction will cause a change of control of any of the transmission or distribution system assets, at any time, during or by the end of the transaction.*

Under the Proposed Transaction, LDC MergeCo will be wholly owned by Merged Holdco. This entity will in turn be owned collectively by the Municipalities of Kitchener, Waterloo, Wellesley, Wilmot and Woolwich by the percentage amounts set out above in Section 3.1. The Post-Proposed Transaction corporate chart is available in Attachment H.

4.1.5 System Operations

<u>Filing Requirement:</u> *Describe how the distribution or transmission systems within the service areas will be operated.*

During the merger evaluation process, the Applicants identified key merger objectives and principles for the Proposed Transaction:

- Customer Service
    - To provide value to customers through increased efficiencies and strong customer service
    - To preserve local focus
    - To continue to be highly responsive to the needs of customers
    - Create opportunities for innovation for the benefit of customers
- Employees
    - Fair and equitable treatment for employees
    - Follow a strong set of core values, including workplace safety, high customer service standards and improved productivity
    - Consistent and transparent two-way communication
- Community
    - Local focus facilitating economic development and needs in the communities of the combined service territory

  - Building and maintaining sustainable infrastructure
  - Maintaining a local presence
- Continued responsible and sound governance
- Financial Strength
  - Achieve operating efficiencies and synergies to enhance shareholder value and mitigate rate increases for customers.

To achieve these objectives, the Applicants recognize that there must be a focus on optimizing operational processes, on ensuring sufficient levels of skilled employees and on providing services in a manner that is responsive to customers' interests and preferences.

LDC MergeCo will ensure levels of customer service, safety, and reliability that either meet or exceed existing levels for each of KWHI and WNHI while maintaining stable, competitive distribution rates.

Service Area

LDC MergeCo service area will encompass the cities of Kitchener, Waterloo, and the townships of Wellesley, Wilmot and Woolwich. LDC MergeCo will be a contiguous area and combining resources will lead to improved restoration times in outage situations and improved service quality indicators.

Employees

KWHI and WNHI regard their employees as valuable resources. The success of the merger will be the result of the engagement and efforts of its workers. LDC MergeCo is committed to treating employees fairly and creating opportunities for employees. KWHI and WNHI recognize the institutional and specialized knowledge that their employees have, and the importance of retention. Through transitional planning and integration, the consolidated business functions will be maintained with well-trained and knowledgeable staff. Reductions to achieve cost savings will be accomplished primarily through retirements, natural attrition through the transition period.

KWHI and WNHI regard their employees as valuable resources. The success of the merger will be the result of the engagement and efforts of its workers. LDC MergeCo is committed to treating employees fairly and creating opportunities for employees. KWHI and WNHI recognize the institutional and specialized knowledge that their employees have, and the importance of retention. Through transitional planning and integration, the consolidated business functions will be maintained with well-trained and knowledgeable staff. Reductions to achieve cost savings will be accomplished primarily through retirements, natural attrition and not filling some vacant positions through the transition period.

The current head office locations and operations centres of KWHI and WNHI are close to each other, and any staff impacts from work relocations are expected to be minimal. Relocation of operations staff will be minimized given the plan to maintain two operation centres.

Operation Centres

KWHI and WNHI will maintain service centres in both service areas into the future to maintain and enhance current customer service levels. The focus will be to maintain the current community relationships and the excellent customer service available in both territories. Response times for outages and emergencies are expected to be enhanced.

LDC MergeCo will have two service centres, 301 Victoria Street South in Kitchener, and 526 Country Squire Road in Waterloo. These operation centres will continue to be used for providing construction and maintenance facilities, material handling and logistics, fleet and metering services. Most operations staff will remain in the communities that they currently serve. In a period of a large-scale outage in the service area, LDC MergeCo will have the ability to draw on a much larger number of operations staff for restoration efforts.

Customer Service

Customer service is expected to continue with counter service in both service territories. LDC MergeCo is committed to continuing the strong culture of customer service across both of its service territories. LDC MergeCo is targeting to improve on existing service levels while adopting best practices and achieving efficiencies in its operations. The focus will continue to be on billing accuracy, first contact resolution and other customer service metrics. Performance targets for customer service will be set using surveys, feedback received from customers, OEB standards and benchmarking data.

Control Room

LDC MergeCo is committed to maintaining and enhancing the quality, reliability and adequacy of electricity service for its customers across both service territories. LDC MergeCo plans to transition to a single centralized 24/7 control room with adequate staffing levels. With a consolidated control room, LDC MergeCo expects to improve reliability and quality of service by minimizing the duration of outages.

Engineering Services

Engineering services is expected to continue to be provided in both locations to continue to provide support to field staff and local customer service and to respond to expected customer growth in each service territory.

Information System Technology

The Applicants are committed to ensuring a stable, secure information technology infrastructure environment to sustain the operations of the LDC MergeCo, while at the same time maximizing operating synergies. There will be an integration of enterprise security to address cyber security risks informed by best practices and the OEB's Cyber Security Framework.

It is also expected that the costs of fully implementing all of the required components of the Cyber Security Framework will be lower under the Proposed Transaction through the sharing of costs under a single entity for initiatives such as policy and procedure development, staff training programs, specialized cyber security software and third-party monitoring and auditing.

KWHI and WNHI currently utilize two different systems for Customer Information (CIS) and Enterprise Resource Planning (ERP). Combining to a common platform will result in lower costs for customers by not maintaining duplicate systems.

4.2 Objective 2 – Promote economic efficiency and cost-effectiveness and facilitate the maintenance of a financially viable electricity industry.

4.2.1 Efficiencies

Filing Requirement: *Indicate the impact that the proposed transaction will have on economic efficiency and cost-effectiveness (in the distribution or transmission of electricity), identifying the various aspects of utility operations where the applicant expects sustained operational efficiencies (both quantitative and qualitative).*

The Applicants have estimated total OM&A savings, net of transition costs, of approximately $28.8MM over the 10-year Deferred Rebasing Period. The sustained OM&A savings are estimated to be approximately $3.5MM to $3.7MM per year, commencing in year five after the Transaction close and beyond, driven principally by the integration of back-office and centralized functions.

As described previously in Section 4.1.2.1, LDC MergeCo will be focused on reducing operating expenditures, and estimates that these savings will be realized primarily through costs synergies in the following areas:

- Optimization and reduction of staffing levels, expected to be achieved through planned retirements, and natural attrition;
- Reduction in corporate governance costs, with the consolidation of two boards of directors into a single board of directors;

- Reduction in information technology costs, such as hardware and software maintenance fees as a result of combining key information systems and reducing third party support costs;
- Reduction in future regulatory costs and audits associated with fulfilling regulatory requirements, including the preparation and filing of regulatory applications, including COS applications;
- Elimination of duplicate and/or overlapping third-party administrative services such as legal, auditing, banking, and consulting services; and
- Reduction in overall financing costs as a result of a strong credit profile and capital structure of LDC MergeCo.

These operating savings will benefit customers through lower rates than on a stand-alone basis, as well as provide local and community benefits.

The merger of KWHI and WNHI demonstrates the benefits of voluntary consolidation within the electricity sector in Ontario. The Proposed Transaction supports the OEB's Renewed Regulatory Framework for Electricity Distributors, and the focus on performance-based outcomes. This merger will promote the achievement of customer focus, operational effectiveness, public policy responsiveness, and financial performance. As well, it will promote a key element of the framework, which is the focus on continuous improvement and increased efficiency in the distribution sector.

4.2.2 Incremental Costs

Filing Requirements: *Identify all incremental costs that the parties to the proposed transaction expect to incur which may include incremental transaction costs (e.g. legal, regulatory), incremental merged costs (e.g. employee severances), and incremental ongoing costs (e.g. purchase and maintenance of new IT systems). Explain how the consolidated entity intends to finance these costs.*

The Applicants have and will incur incremental costs in respect of the Proposed Transaction, including transaction costs and integration and implementation costs.

Transaction costs include, but are not limited to:

- Due diligence on the part of all parties;
- Negotiating the terms of the Proposed Transaction, MPA, and related agreements;
- All regulatory, legal and statutory reviews to receive necessary regulatory approvals; and
- Third-party financial and independent expert valuation services.

The Applicants engaged joint legal and financial advisors to facilitate the Proposed Transaction. Each of the shareholders of KWHI and WNHI retained its own independent legal and financial advisors. The transaction costs are borne by each of the Applicants and are not recoverable from customers through electricity distribution rates. In addition, such costs will not be carried over as costs to LDC MergeCo and are not included in the integration and implementation costs summarized below.

Integration and implementation costs include, but are not limited to:

(i) Human resources related costs, including transition planning and execution, incremental staffing costs related to implementing the integration plans, and employee training costs associated with systems, processes, and policies;
(ii) Integration of system software, hardware and standardizations;
(iii) Legal and regulatory costs associated with the Application and the LDC merger;
(iv) Brand development and implementation, which includes the development of a new corporate name and logo, as well as associated changes to operating and physical assets (e.g. signage, stationery, facilities, fleet, etc.); and
(v) Communication costs associated with the development and execution of customer and other stakeholder communications at various stages of transition.

The total integration and OM&A implementation costs are estimated at approximately $4.3MM. These costs will be financed through the anticipated productivity savings expected from the merger during the 10-year Deferred Rebasing Period. These costs will not be included in the LDC MergeCo's revenue requirement and will not be funded by customers. The 10-year Deferred Rebasing Period will allow LDC MergeCo to retain synergy savings to offset these costs and provide shareholder incentives to undertake the merger while protecting the interests of customers.

4.2.3 Valuation

Filing Requirements: *Provide a valuation of any assets or shares that will be transferred in the proposed transaction. Describe how this value was determined.*

In MAADs applications involving LDC acquisitions, the OEB considers whether the purchase price premium to be paid will have an adverse impact on the financial viability of the acquirer distributor. This consideration is not relevant to the Proposed Transaction since the merger of KWHI and WNHI involves the exchange of existing shares for new shares in the merged entity, LDC MergeCo. The financing of the transaction costs and incremental integration costs to implement the Proposed Transaction will be self-financed through synergy savings.

Accordingly, the Proposed Transaction is predominantly a non-cash transaction involving the issuance of shares. The only consideration which may be necessary will occur in the form of the issuance and redemption of non-voting special shares of Merged Holdco arising from typical post-closing adjustments, as described in the MPA (Attachment I). The redemption of the non-voting special shares will have no impact on the ownership of the voting shares of Merged Holdco or LDC MergeCo.

4.2.4 Financial Viability

Filing Requirements: *If the price paid as part of the proposed transaction is more than the book value of the assets of the selling utility, provide details as to why this price will not have an adverse effect on the financial viability of the acquiring utility.*

The Proposed Transaction is primarily a non-cash transaction and as such, there is no adverse effect on the financial viability of the Applicants.

The Applicants have reviewed the proposed merger of the LDCs, including the amount of debt that will be outstanding by LDC MergeCo at the time of closing, as well as its longer-term financing requirements. LDC MergeCo is targeting a long-term A-range rating, which is consistent with the Canadian utility practice for rate-regulated entities. WNHI is currently rated by DBRS Limited and has maintained an A/Low credit rating.

The OEB's ratemaking policy effectively establishes an appropriate capital structure for Ontario LDCs. This "deemed" structure comprises 60% debt and 40% equity in support of the regulated assets or rate base of an LDC. At these levels of debt and equity and corresponding rate recovery of financial capital, the rate-making policy effectively supports an A-range credit rating.

The Applicants have assumed that the ongoing sustainment and growth requirements of the electricity distribution system are provided in a manner consistent with the long-term forecasts of the utilities. KWHI and WNHI have long-term capital plans based on detailed asset condition assessments, growth estimates, and sound engineering principles.

Table 11 summarizes the debt-to-total capital ratio of KWHI and WNHI as at December 31, 2020, as well as a Pro-forma for LDC MergeCo as at December 31, 2020, and at the end of year 1 following the closing of the Proposed Transaction:

Table 11 – Debt-to-Total Capital Ratio

Date	KWHI	WNHI	LDC MergeCo (Pro-Forma)
December 31, 2020	32%	53%	42%
On Closing			40%
Year 1 Post Closing			39%

4.2.5 Financing of the Transaction

Filing Requirements: *Provide details of the financing of the proposed transaction.*

The Proposed Transaction involves the issuance of shares in Merged Holdco and the legal amalgamation of KWHI and WNHI to form LDC MergeCo. Incremental financing is not required to affect the amalgamation of Merged Holdco or LDC MergeCo.

In addition, the Applicants expect to work with a financial institution on the longer-term financing plan for LDC MergeCo, including a proposal for a $45MM revolving line of credit, which combines the existing lines of credit of KWHI ($30MM) and WNHI ($15MM) and provides the incremental capacity to fund working capital and for general corporate purposes.

4.2.6 Financial Statements

Filing Requirement: *Provide financial statements (including balance sheet, income statement, and cash flow statement) of the parties to the proposed transaction for the past two most recent years.*

Attachments M and N contain the 2019 and 2020 audited annual financial statements for KWHI and WNHI respectively.

4.2.7 Pro Forma Financial Statements

Filing Requirement: *Provide pro forma financial statements for each of the parties (or if an amalgamation, the consolidated entity) for the first full year following the completion of the proposed transaction.*

Attachment O contains the pro forma financial statements for LDC MergeCo, for the first full year following the completion of the proposed transaction.

4.3 Objective 3 – Promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario

LDC MergeCo will comply with electricity conservation and demand management (CDM) in a manner consistent with the 2021 CDM Guidelines (EB-2021-0106) and administered by the Independent Electricity System Operator (IESO) under the provincial 2021-2024 CDM Framework.

LDC MergeCo will also comply in other activities related to CDM:

- Planning work to assess potential opportunities for distribution rate-funded CDM activities to meet system needs, in advance of proposing specific CDM activities;
- Support to a distributor's customers for conservation and energy efficiency programs delivered by IESO or other organizations; and
- Green Button implementation, use and enhancement.

To help customers with energy efficiency, energy planning and demand management, KWHI and WNHI have Key Accounts employees that play a large role in assisting customers with energy efficiency, energy planning and general customer communication and education throughout the service territories. Although the government has cut the decentralized CDM program, there is a need for energy efficiency and demand management on the grid which will in turn help all customers with cost savings. It is expected that LDC MergeCo will continue to promote energy efficiency through its Key Accounts employees.

4.4 Objective 4 – To facilitate innovation in the energy sector

LDC MergeCo will help the communities it serves to thrive in the years ahead while adapting to Ontario's changing utility sector. LDC MergeCo will have more resources to invest in new technologies such as:

- Managing smart home and energy data
- Automated restoration of power outages
- Local renewable generation
- Supporting the electrification of transportation

It is expected that LDC MergeCo will support greater investments in new technologies and services that will boost capacity for collective climate action. The larger customer base will help municipalities achieve their climate goals. As a result of the merger there will be more resources to invest in technologies that will help our communities transition to a lower carbon economy.

These investments are not to the sole benefit of the electricity sector, but to the benefit of society as a whole.

5. Rate Considerations for Consolidation Application

5.1 Deferred Rate Rebasing

Filing Requirement: *Indicate a specific deferred rate-rebasing period that has been chosen.*

The Applicants have chosen and are requesting a Deferred Rebasing Period for LDC MergeCo of ten years from the date of closing, which is targeted for no later than January 1, 2023.

Accordingly:

- LDC MergeCo would maintain PCIR for each of the KWHI and WNHI service territories until the end of the 10-year Deferred Rebasing Period;
- LDC MergeCo would maintain Specific Service Charges for each of the KWHI and WNHI service territories at the interim;
- All existing and future rate riders approved for KWHI and WNHI shall continue as per the existing and approved rate schedules until expiry; and
- During the 10-year Deferred Rebasing Period, LDC MergeCo may apply for rate adjustments using the Board's ICM mechanism as may be necessary and in accordance with applicable Board policies with respect to eligibility and use of ICM.

Under the Proposed Transaction, LDC MergeCo plans to file an annual PCIR application with two rate zones during the 10-year Deferred Rebasing Period.

5.2 Earnings Sharing Mechanism

Filing Requirements: *Confirm that the ESM will be as required by the 2015 Report and the Handbook. If the applicant's proposed ESM is different from the ESM set out in the 2015 Report, the applicant must provide evidence to demonstrate the benefit to the customers of the acquired distributor.*

The Applicants confirm that the proposed ESM will be as required by the 2015 Report and Handbook and is consistent with the Board's Consolidation Policy, which states:

> *"Consolidating entities may also apply for an extended rate rebasing deferral period of up to 10 years. For the extended period (i.e. - the period between year 5 and year 10), the OEB will require the consolidating entity to implement an earnings sharing mechanism. The earnings share split shall be a 50:50 sharing with customers where the return on equity for the consolidated distributor is greater than 300 basis points above the allowed rate of return for the consolidated distributor." (Consolidation Policy, pg. 4*)

In accordance with the Consolidation Policy, the Applicants propose that any earnings in excess of 300 basis points above the Board's established regulated rate of return ("Regulated ROE"), for the consolidated entity for the years 6 through 10 post-merger will be shared on a 50:50 basis between LDC MergeCo and its customers.

The Applicants propose calculating the ESM consistent with the Board's current established regulated ROE model applied for regulatory purposes under the Board's Reporting and Record-Keeping Requirements ("RRRs"), as it exists now. This is an important consideration as it is the baseline used for the business case undertaken in support of the Proposed Transaction. Under this methodology, Regulated ROE is calculated by dividing the current year's Adjusted Regulatory Net Income by the Deemed Equity component of Rate Base.

The Applicants expect that the computation of the Adjusted Regulatory Net Income will continue to exclude any revenue and expenses that are not otherwise included for regulatory purposes. Exclusions would include, but are not limited to:

- The impact of regulatory assets/liabilities including the Lost Revenue Adjustment Mechanism;
- Changes in taxes/PILS to which Account 1592 applies, which will be shared through Account 1592 rather than through earnings sharing;
- Other non-rate regulated revenue and expenses applicable to each of the Applicants;
- Earnings from Conservation and Demand Management (CDM) programs funded by the IESO or other third parties; and
- Non-LEAP donations.

5.3 Incremental Capital Investments During the Deferral Period

The Applicants do not need to address an ICM in this Application, however, if circumstances prevail where LDC MergeCo requires an ICM, a request will be incorporated as part of a future incentive rate-setting mechanism application as per the OEB issued "Report of the Board, New Policy Options for Funding of Capital Investments: The Advanced Capital Module" ("September 2014 Report") on September 18, 2014.

The September 2014 Report clarified that the opportunity for requests for review and approvals of incremental capital during an incentive rate-setting ("IR") term will be maintained for projects that were unanticipated at the time of the development of a distributors' system plan, and/or for projects anticipated for which sufficient rationale was not available at the time of the system plan to establish need and prudence.

As per the September 2014 Report, “The Board is of the view that the availability of the incremental capital funding during the IR term should no longer be limited to non-discretionary projects. Any discrete project (discretionary or otherwise) adequately supported in the DSP (Distribution System Plan) is eligible for ACM funding subject to capital funding availability flowing from the formula results. The approach shall apply going forward to new projects proposed as ICMs during the Price Cap IR term.” (September 2014 Report, pg. 15)

To encourage consolidations, the Handbook explicitly extended the availability of an ICM for any prudent discrete capital projects for consolidating distributors that are on either PCIR or Annual Incentive Regulation Index. Currently, the rates for both KWHI and WNHI are set in accordance with PCIR.

5.4 Rate Harmonization Period

Following the 10-year Deferred Rebasing Period in 2032, the Applicants are requesting two separate distribution rate zones be maintained for up to 10 years. For that period a Rate Harmonization Plan will be proposed to allow for a gradual harmonization of distribution rates. The municipal shareholders who are signatories to the MPA support and have agreed to this Rate Harmonization Period as a reasonable and principled approach to protecting customers by ensuring, over the long term, that distribution rates will be no higher because of the LDC merger when compared to the status quo if no merger were to take place. Specifically, the eventual phase-in of distribution rates in the rate harmonization period is intended to minimize the rate and bill impacts to legacy KWHI customers.

Although a rate harmonization plan is not required to be filed at this time, distribution rates for 2022 for each of the Applicants is presented in Table 12.

Table 12 - Distribution Revenue 2022

Rate Class	kWh	kW	KWHI	WNHI	$ Difference - KWHI - WNHI
Residential	750		$ 23.66	$ 33.71	$ 10.05
GS<50	2,000		$ 56.75	$ 70.31	$ 13.56
GS>50	100,000	250	$ 1,434.31	$ 1,538.11	$ 103.80

LDC MergeCo will allocate savings arising from the Proposed Transaction proportionately to the legacy service territories and reduce WNHI residential rates gradually to match KWHI residential rates.

As described in Section 4.1.2, the Proposed Transaction is expected to result in annual net cost savings of approximately $3.7MM by year 11, after the close of the Proposed Transaction.

Customers will directly benefit as these savings would be passed on to customers in the form of lower distribution revenue requirement and customer rates following the 10-year Deferred Rebasing Period. Based on these estimated net cost savings, LDC MergeCo distribution rates would be no greater than what they would have otherwise been in the absence of the Proposed Transaction.

The timing and approach to the future harmonization of rates will be carefully considered to ensure that there is no harm to customers.

6. Other Related Matters

Filing Requirements: *Applicants have, in previous consolidation applications, made the following additional requests to the OEB which have formed part of the OEB's determination of a consolidation application:*

6.1 Application for Electricity Distribution Licence

The Applicants will seek an Order from the Board to cancel the existing Electricity Distribution Licenses of KWHI (ED-2002-0573) and WNHI (ED-2002-0575) upon the issuance of the new license for LDC MergeCo. The KWHI and WNHI Licences are attached as Attachment D and E, respectively.

The Applicants will seek an Order from the Board to create a new Electricity Distribution Licence for LDC MergeCo. An application for a new Electricity Distribution Licence is included as part of the MAADs Application.

A draft version of LDC MergeCo Proposed Electricity Distribution Licence Service Area is attached as Attachment P. If the Proposed Transaction is approved, an application for an Electricity Distribution Licence for LDC MergeCo will be filed with the OEB.

This is consistent with the approach taken in EB-2018-0236.

6.2 Transfer of Rate Orders and Extension of Existing Rate Riders

The Applicants seek an Order from the Board transferring the existing Rate Orders (and any future Rate Orders received prior to the Board's approval for this Application) of KWHI (EB-2021-0038) and WNHI (EB-2021-0062) to LDC MergeCo. The existing 2022 rate riders for KWHI and WNHI are attached as Attachment Q.

The Applicants propose that all customer service classifications, inclusive of all existing Embedded Distributor Service Classifications be transferred to LDC MergeCo.

The Applicants are not proposing any new rate riders or changes to existing rate riders as a result of the Proposed Transaction.

6.3 Approval to continue to track costs to the deferral and variance accounts currently approved by the OEB

The Applicants request that LDC MergeCo be granted approval to continue to track costs to the existing regulatory and deferral and variance accounts currently approved by the Board for KWHI and WNHI. KWHI's deferral and variance accounts will be held separately from WNHI's deferral and variance accounts during the 10-year Deferred Rebasing Period and the Applicants will seek disposition at a later date in accordance with OEB policy.

The OEB's *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report* dated July 31, 2009 ("EDDVAR") provides that under the PCIR, the distributor's Group 1 audited account balances will be reviewed and disposed of if the pre-set disposition threshold is met. Pursuant to the letter update to EDDVAR dated July 25, 2014, distributors may seek to dispose of Group 1 balances that do not exceed the threshold. The Applicants will comply with this policy during the 10-year Deferred Rebasing Period and will propose disposition of the former KWHI and WNHI Group 1 balances consistent with this policy.

As described in Section 3.2, the Applicants seek approval to continue the use of DVA Account 1592, PILS and Tax Variances Sub-Account CCA Changes for the WNHI service area to track the grossed-up PILs impact, of the variance between the CCA unsmoothing approach adopted by WNHI in its Settlement Proposal, and the effective PILs impact of the phase-out/elimination of the accelerated CCA anticipated to begin after 2023 and until LDC MergeCo's rebasing.

As described in Section 5.2, the Applicants request approval to establish and use a regulatory account to track costs associated with the proposed ESM, which is proposed to be active in the deferral period years six through ten as part of this Application. If approval is granted, the Applicants will submit a Draft Accounting Order for the Board's approval either as a condition of this Application's approval or as a subsequent filing.

6.4 Accounting Standards

The Applicants currently prepare their financial statements under International Financial Reporting Standards ("IFRS"). LDC MergeCo will also prepare its financial statements under IFRS. The Applicants utilize Modified International Financial Reporting Standards ("MIFRS") for regulatory reporting purposes, consistent with OEB policy, and therefore, LDC MergeCo will also utilize MIFRS.

6.5 Approval to Use Specific Service Charges

The Applicant's Specific Service Charges are identified in Table 13 presented below. The charges for KWHI and WNHI vary due to the fact that the Applicants independently applied for their respective Specific Service Charges as part of their most recent cost of service rate applications. These applications were filed in accordance with the Board's *Filing Requirements for Electricity Transmission and Distribution Applications*, and the *Electricity Distribution Rate Handbook*; and were approved by the Board.

Table 13 - Specific Service Charges

Specific Service Charges	KWHI	WNHI
Customer Administration		
Easement letter		$ 15.00
Duplicate invoices for previous billing		$ 15.00
Income tax letter		$ 15.00
Returned cheque (plus bank charges)	$ 15.00	$ 15.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	$ 20.00	$ 30.00
Meter dispute charge plus Measurement Canada fees (if meter found correct)	$ 30.00	$ 30.00
Non-Payment of Account		
Late payment - per month - (effective annual rate 19.56% per annum or 0.04896% compounded daily rate)	1.50%	1.50%
Reconnection at meter - during regular hours	$ 65.00	$ 65.00
Reconnection at meter - after regular hours	$ 185.00	$ 185.00
Reconnection at pole - during regular hours	$ 95.00	
Other		
Meter removal without authorization	$ 355.00	
Service call - after regular hours	$ 105.00	
Specific charge for access to the power poles - $/pole/year (with the exception of wireless attachments) - Approved on an Interim Basis	$ 34.76	$ 34.76
Owner Requested Disconnection/Reconnection at Meter – During Regular Hours		$ 130.00
Owner Requested Disconnection/Reconnection at Meter – After Regular Hours		$ 335.00
Owner Requested Disconnection/Reconnection at Pole/Transformer – During Regular Hours		$ 310.00
Owner Requested Disconnection/Reconnection at Pole/Transformer – After Regular Hours		$ 685.00

LDC MergeCo has selected a 10-year Deferred Rebasing Period in the Application with the individual rate zones for the two predecessor LDCs. However, LDC MergeCo may propose to file a change in rates to Specific Service Charges under s.78 of the OEB Act prior to the next rebasing.

7. Conclusion

The Applicants believe that this Application clearly demonstrates that the Proposed Transaction will result in no harm to customers and will also produce material benefits to customers through the generation of synergies, which will be structural and lasting. Customers will also benefit from a smaller increase in distribution rates over the 10-year Deferred Rebasing Period because of the Proposed Transaction as opposed to the status quo scenario which would otherwise have involved at least two COS rate applications.

The Applicants also believe that circumstances are currently appropriate to proceed with the Proposed Transaction given the similarities in corporate cultures, which prioritize high-quality service to customers and operational effectiveness.

The Proposed Transaction accomplishes the objectives of consolidation as articulated by the Commission on the Reform of Ontario's Public Services, the Distribution Sector Review Panel and the Premiers Advisory Council on Government Assets. Each recommended a reduction in the number of local distribution companies in Ontario and has endorsed consolidation under the belief that consolidation will achieve efficiencies and generate benefits for customers. This Application demonstrates that these expected results will be achieved. Accordingly, for the reasons stated above, approval for the Proposed Transaction from the Board is sought.

ATTACHMENT A

Mapping of Application to Board's Handbook Filing

ATTACHMENT A
Mapping of Application to Board's
Handbook Filing Requirements

Handbook Reference	Filing Requirement	Application Reference
2.1	**The Index**	
2.2	**The Application**	
2.2.1	**Administrative**	**1**
☑	Legal name of the applicant or applicants	1.2
☑	Details of the authorized representative of the applicant/s, including the name, phone and fax numbers, and email and delivery addresses	1.2
☑	Legal name of the other party or parties to the transaction, if not an applicant	1.3
☑	Details of the authorized representative of the other party or parties to the transaction, including the name, phone and fax numbers, and email and delivery addresses	1.3
☑	Brief description of the nature of the transaction for which approval of the OEB is sought by the applicant or applicants	1.4
2.2.2	**Description of the Business of the Parties to the Transaction**	**2**
☑	Describe the business of each of the parties to the proposed transaction, including each of their electricity sector affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity.	2.1
☑	Describe the geographic territory served by each of the parties to the proposed transaction, including each of their affiliates, if applicable, noting whether service area boundaries are contiguous or if not the relative distance between service boundaries.	2.2
☑	Describe the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.	2.3

Handbook Reference	Filing Requirement	Application Reference
☑	Describe the proposed geographic service area of each of the parties after completion of the proposed transaction.	2.4
☑	Provide a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.	2.5
☑	If the proposed transaction involves the consolidation of two or more distributors, please indicate the current net metering thresholds of the utilities involved in the proposed transaction. The OEB will, in the absence of exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Applicants must indicate if there are any special circumstances that may warrant the OEB using a different methodology to determine the net metering threshold for the new or remaining utility.	2.6
2.2.3	**Description of the Proposed Transaction**	**3**
☑	Provide a detailed description of the proposed transaction.	3.1
☑	Provide a clear statement on the leave being sought by the applicant, referencing the particular section or sections of the Ontario Energy Board Act, 1998.	3.2
☑	Provide details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.	3.3
☑	Provide all final legal documents to be used to implement the proposed transaction.	3.4
☑	Provide a copy of appropriate resolutions by parties such as parent companies, municipal council/s, or any other entities that are required to approve a proposed transaction confirming that all these parties have approved the proposed transaction.	3.5
2.2.4	**Impact of the Proposed Transaction**	**4**
	Objective 1 – Protect consumers with respect to prices and the adequacy, reliability and quality of electricity service:	**4.1**
☑	Indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability and quality of electricity service.	4.1.1
☑	Provide a year over year comparative cost structure analysis for the proposed transaction, comparing the costs of the utilities post transaction and in the absence of the transaction.	4.1.2
☑	Provide a comparison of the OM&A cost per customer per year between the consolidating distributors.	4.1.3

Handbook Reference	Filing Requirement	Application Reference
☑	Confirm whether the proposed transaction will cause a change of control of any of the transmission or distribution system assets, at any time, during or by the end of the transaction.	4.1.4
☑	Describe how the distribution or transmission systems within the service areas will be operated.	4.1.5
	Objective 2 – Promote economic efficiency and cost effectiveness and to facilitate the maintenance of a financially viable electricity industry:	**4.2**
☑	Indicate the impact that the proposed transaction will have on economic efficiency and cost effectiveness (in the distribution or transmission of electricity), identifying the various aspects of utility operations where the applicant expects sustained operational efficiencies (both quantitative and qualitative)	4.2.1
☑	Identify all incremental costs that the parties to the proposed transaction expect to incur which may include incremental transaction costs (e.g. legal, regulatory), incremental merged costs (e.g. employee severances), and incremental on-going costs (e.g. purchase and maintenance of new IT systems). Explain how the consolidated entity intends to finance these costs.	4.2.2
☑	Provide a valuation of any assets or shares that will be transferred in the proposed transaction. Describe how this value was determined.	4.2.3
☑	If the price paid as part of the proposed transaction is more than the book value of the assets of the selling utility, provide details as to why this price will not have an adverse effect on the financial viability of the acquiring utility.	4.2.4
☑	Provide details of the financing of the proposed transaction.	4.2.5
☑	Provide financial statements (including balance sheet, income statement, and cash flow statement) of the parties to the proposed transaction for the past two most recent years.	4.2.6
☑	Provide pro forma financial statements for each of the parties (or if an amalgamation, the consolidated entity) for the first full year following the completion of the proposed transaction.	4.2.7

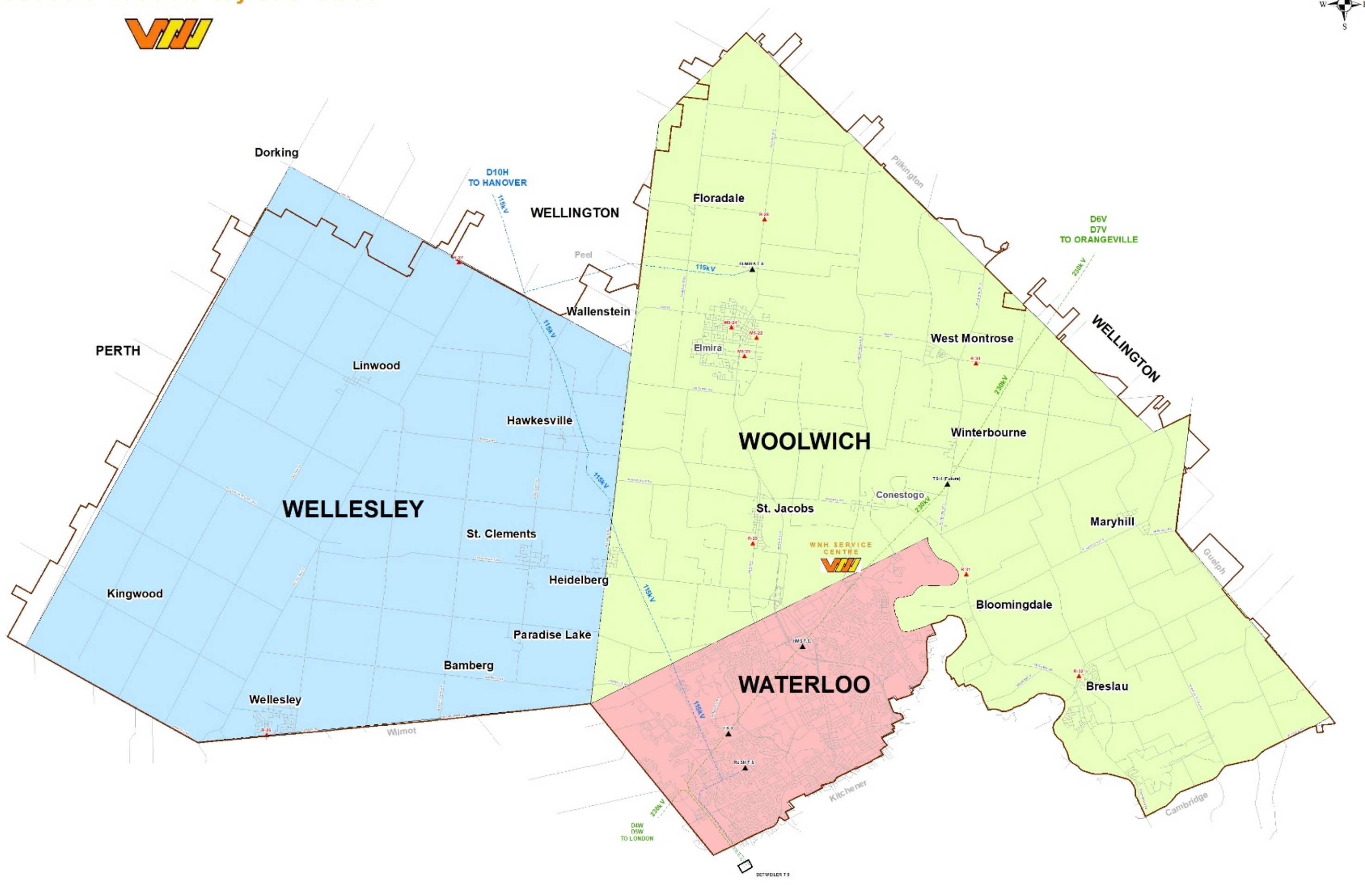
Handbook Reference	Filing Requirement	Application Reference
2.2.5	**Rate considerations for consolidation applications**	**5**
☑	Indicate a specific deferred rate rebasing period that has been chosen.	5.1
	For deferred rebasing periods greater than five years:	
☑	Confirm that the ESM will be as required by the 2015 Report and the Handbook. If the applicant's proposed ESM is different from the ESM set out in the 2015 Report, the applicant must provide evidence to demonstrate the benefit to the customers of the acquired distributor	5.2
☑	If the applicant's proposed ESM is different from the ESM set out in the 2015 Report, the applicant must provide evidence to demonstrate the benefit to the customers of the acquired distributor.	5.2
☑	Incremental capital investments during the deferral period	5.3
2.2.6	**Other Related Matters**	**6**
☑	Application for Electricity Distribution Licence	6.1
☑	Transfer of rate order and licence or the extension of existing rate riders	6.2
☑	Approval to continue to track costs to the deferral and variance accounts currently approved by the OEB	6.3
☑	Approval to use different accounting standards for financial reporting following the closing of the proposed transaction	6.4
☑	Approval to use specific charges	6.5

ATTACHMENT B

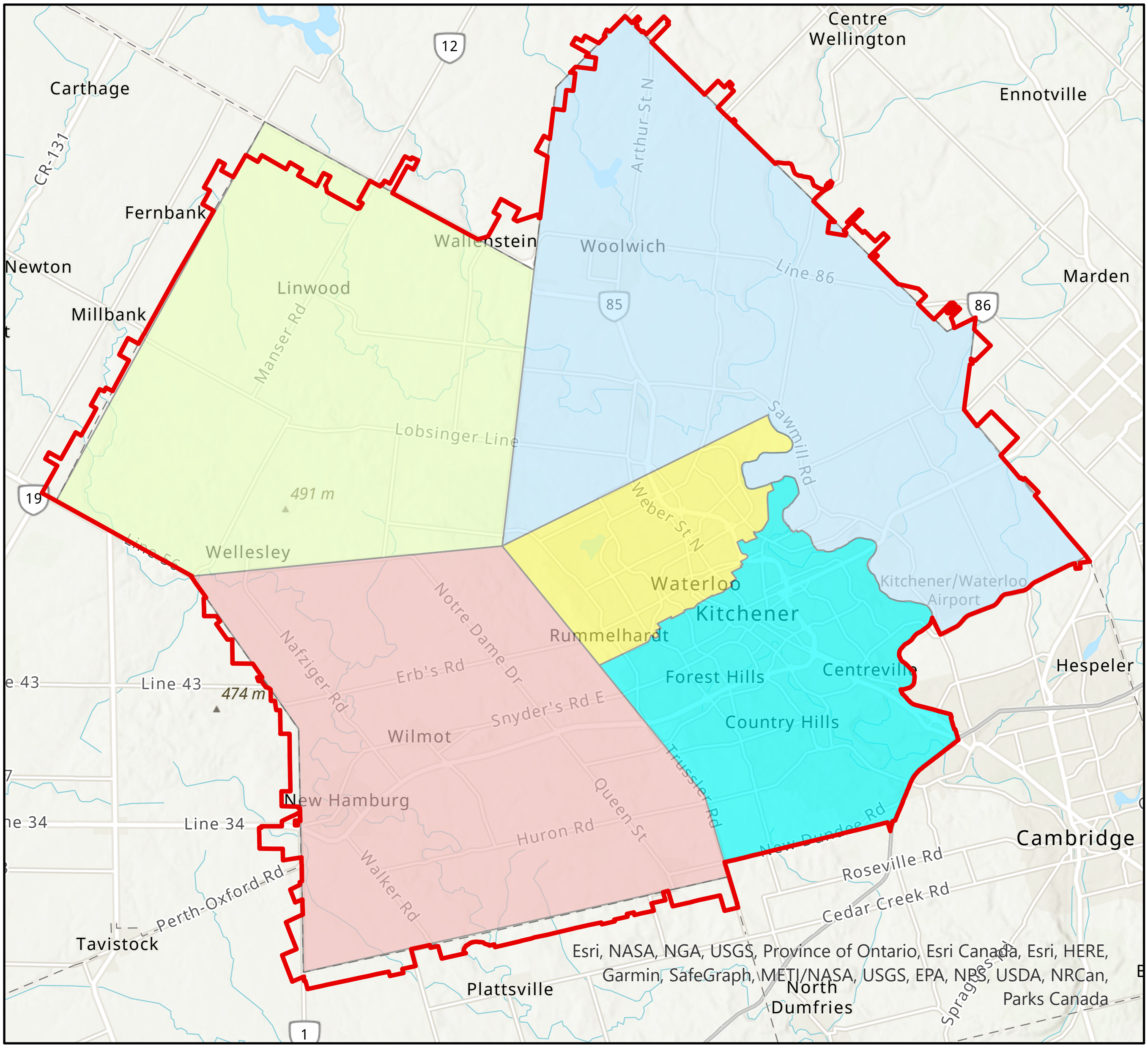
Maps of Service Areas and Proposed Service Area

KITCHENER-WILMOT HYDRO	KITCHENER-WILMOT HYDRO INC. SERVICE AREA						
ORIGINATOR	KWHI	(D.F.)	DATE	NOV 26/21	SCALE	1:40 000	
FILE	N.A.				FILE No.	NA	

Waterloo North Hydro Inc.



Waterloo North Hydro and Kitchener Wilmot Hydro Merged Service Area



Merged Service Area

Shareholder Municipalities

- KITCHENER
- WATERLOO
- WELLESLEY
- WILMOT
- WOOLWICH

N

ATTACHMENT C

Certificates of Evidence

Certification of Evidence

The undersigned, President and Chief Executive Officer of Kitchener-Wilmot Hydro Inc., in my capacity as an officer of that corporation without personal liability, hereby certify, to the best of my knowledge, as at the date of certification, that the evidence in the Application is accurate, consistent and complete.

J. Van Ooteghem

Jerry Van Ooteghem, P. Eng.
President and CEO
Kitchener-Wilmot Hydro Inc.

Certification of Evidence

The undersigned, President and Chief Executive Officer of Waterloo North Hydro Inc., in my capacity as an officer of that corporation without personal liability, hereby certify, to the best of my knowledge, as at the date of certification, that the evidence in the Application is accurate, consistent and complete.

Rene W. Gatien.

Rene Gatien, P. Eng., MBA, ICD.D
President and CEO
Waterloo North Hydro Inc.

ATTACHMENT D

KWHI Electricity Distribution License

Ontario

Electricity Distribution Licence

ED-2002-0573

Kitchener-Wilmot Hydro Inc.

Valid Until

December 17, 2023

Original Signed By

____
Brian Hewson
Vice President, Consumer Protection and Industry Performance
Ontario Energy Board

Date of Issuance: December 18, 2003
Date of Amendment: December 17, 2020

Ontario Energy Board	Commission de l'énergie de l'Ontario
P.O. Box 2319	C.P. 2319
2300 Yonge Street	2300, rue Yonge
27th. Floor	27e étage
Toronto, ON M4P 1E4	Toronto ON M4P 1E4

LIST OF AMENDMENTS

Board File No.	Date of Amendment
EB-2010-0216	November 12, 2010
EB-2011-0239	August 23, 2011
EB-2012-0305	September 27, 2012
EB-2014-0324	December 18, 2014
EB-2016-0015	January 28, 2016
EB-2017-0101	March 31, 2017
EB-2017-0233	June 29, 2017
EB-2017-0318	February 8, 2018
EB-2018-0112	March 29, 2018
EB-2019-0167	September 12, 2019
EB-2019-0217	February 11, 2020
EB-2020-0085	March 2, 2020
EB-2020-0185	September 11, 2020
EB-2020-0259	December 17, 2020

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1 Definitions

In this Licence:

"**Accounting Procedures Handbook**" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

"**Act**" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

"**Affiliate Relationships Code for Electricity Distributors and Transmitters**" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

"**distribution services**" means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

"**Distribution System Code**" means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

"**Electricity Act**" means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

"**IESO**" means the Independent Electricity System Operator;

"**Licensee**" means Kitchener-Wilmot Hydro Inc.

"**Market Rules**" means the rules made under section 32 of the Electricity Act;

"**OPA**" means the Ontario Power Authority;

"**Performance Standards**" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

"**Rate Order**" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"**regulation"** means a regulation made under the Act or the Electricity Act;

"**Retail Settlement Code**" means the code approved by the Board which, among other things, establishes a distributor's obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

"**service area**" with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

"**Standard Supply Service Code**" means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

"**wholesaler**" means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this Licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence:

a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence;

b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and

c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act.

4 Obligation to Comply with Legislation, Regulations and Market Rules

4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.

4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:

a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;

b) the Distribution System Code;

c) the Retail Settlement Code; and

d) the Standard Supply Service Code.

5.2 The Licensee shall:

a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Obligation to Provide Non-discriminatory Access

6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee's distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

7 Obligation to Connect

7.1 The Licensee shall connect a building to its distribution system if:

a) the building lies along any of the lines of the distributor's distribution system; and

b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.2 The Licensee shall make an offer to connect a building to its distribution system if:

a) the building is within the Licensee's service area as described in Schedule 1; and

b) the owner, occupant or other person in charge of the building requests the connection in writing.

7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.

7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the Act or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.

8 Obligation to Sell Electricity

8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

9 Obligation to Maintain System Integrity

9.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

10 Market Power Mitigation Rebates

10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.

11 Distribution Rates

11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.

12 Separation of Business Activities

12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

13 Expansion of Distribution System

13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules.

13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

14 Provision of Information to the Board

14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.

14.2 Without limiting the generality of paragraph 14.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.

15 Restrictions on Provision of Information

15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.

15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:

a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;

b) for billing, settlement or market operations purposes;

c) for law enforcement purposes; or

d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.

15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.

15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.

15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed.

16 Customer Complaint and Dispute Resolution

16.1 The Licensee shall:

a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;

b) publish information which will make its customers aware of and help them to use its dispute resolution process;

c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;

d) give or send free of charge a copy of the process to any person who reasonably requests it; and

e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

17 Term of Licence

17.1 This Licence shall take effect on December 18, 2003 and expire on December 17, 2023. The term of this Licence may be extended by the Board.

18 Fees and Assessments

18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.

19.2 All official communication relating to this Licence shall be in writing.

19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

a) when delivered in person to the addressee by hand, by registered mail or by courier;

b) ten (10) business days after the date of posting if the communication is sent by regular mail; and

c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

20 Copies of the Licence

20.1 The Licensee shall:

a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and

b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

21 Conservation and Demand Management

[Intentionally left blank]

22 Pole Attachments

22.1 The Licensee shall provide access to its distribution poles to all Canadian carriers, as defined by the Telecommunications Act, and to all cable companies that operate in the Province of Ontario. For each attachment, with the exception of wireless attachments, the Licensee shall charge the rate approved by the Board and included in the Licensee's tariff.

22.2 The Licensee shall:

a) annually report the net revenue, and the calculations used to determine that net revenue, earned from allowing wireless attachments to its poles. Net revenues will be accumulated in a deferral account approved by the Board;

b) credit that net revenue against its revenue requirement subject to Board approval in rate proceedings; and

c) provide access for wireless attachments to its poles on commercial terms normally found in a competitive market.

23 Administration of COVID-19 Energy Support Program

23.1 For the purposes of paragraphs 23.1 to 23.8:

"Application Form" means the form of application for CEAP approved by the Board, including the use of that form by telephone

"CEAP" means the COVID-19 Energy Assistance Program as described in the Board's Decision and Order dated June 16, 2020

"CEAP-eligible account" means an account in the Licensee's residential class that meets all of the following criteria:

(a) the account was in good standing (i.e. all amounts on account of electricity charges that were payable were fully paid) on March 17, 2020, and the account was not enrolled in an arrears payment for amounts owing prior to March 17, 2020

(b) complete payment on account of electricity charges has not been made on at least two electricity bills issued since March 17, 2020, and the account has an Overdue Balance on the date of receipt of the Application Form for the account including where the account is enrolled in an arrears payment agreement for amounts incurred following March 17, 2020,

(c) the account has not received funding under the Low-income Energy Assistance Program or the Ontario Electricity Support Program in 2020; and

(d) the account holder has provided a complete Application Form and has declared, through the Application Form, that they or their spouse or common-law partner that resides in the same residence:

- are unemployed on the date that they provide their completed Application Form to the Licensee

- have received Employment Insurance or the Canada Emergency Response Benefit since March 17, 2020

"Overdue Balance" means the amount by which the account holder's balance is past due in respect of Electricity Charges at the time the Application Form is received by the Licensee. Amounts that may be on the bill but are not yet past due are not part of the Overdue Balance.

“electricity charges” means:

(a) charges that appear under the sub-headings “Electricity”, “Delivery”, and “Regulatory Charges” as described in Ontario Regulation 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) made under the Act, and all applicable taxes on those charges;

(b) where applicable, charges prescribed by regulations under section 25.33 of the Electricity Act and all applicable taxes on those charges

(c) Board-approved specific service charges, including late payment charges, and such other charges and applicable taxes associated with the consumption of electricity as may be required by law to be included on the bill issued to the customer or as may be designated by the Board for the purposes of this definition, but not including security deposits, amounts owed by a customer pursuant to a billing adjustment, or amounts under an arrears payment agreement entered into prior to March 17, 2020; and

(d) any financial assistance provided for under the *Ontario Rebate for Electricity Consumers Act, 2016*

23.2 The Licensee shall start to accept Application Forms as of July 13, 2020.

23.3 The Licensee shall:

(a) Make copies of the Application Form available on its web site and to any customer on request.

(b) Process all complete Application Forms in the order in which they are received.

(c) Accept Application Forms by e-mail or mail, and may also allow the Application Form to be completed online or by telephone, provided that where Application Forms are completed by telephone the call must be recorded and must document confirmation of all information requested on the Application Form, including consent and the applicant’s declaration of eligibility.

(d) Process each complete Application Form within 10 business days of receipt.

23.4 The Licensee shall provide a credit to a CEAP-eligible account in an amount equal to half of the Overdue Balance for the account:

(a) to a maximum of $230, where the Application Form declares that the account is for a residence that mainly uses electric heating or in which an eligible medical device is used

(b) to a maximum of or $115, in all other cases.

23.5 The credit must be applied on the next bill issued to the CEAP-eligible account after the processing of the Application Form for the account as set out in paragraph 12.3(d), where feasible, and in any event no later than on the following bill.

23.6 Despite paragraph 23.4:

(a) The Licensee is not required to provide a credit to a CEAP-eligible account if the total amount of CEAP funding available to the Licensee as specified by the Board has been expended; and

(b) The Licensee shall not provide a credit to a CEAP-eligible account more than once.

23.7 Reimbursement for credits provided by the Licensee to CEAP-eligible accounts, up to the total referred to in paragraph 23.5(a), are recoverable from the Independent Electricity System Operator. The Licensee shall provide information in such form and manner, and within such time, as the IESO may reasonably require, in respect of requests for reimbursement. The Licensee shall not seek reimbursement from the Independent Electricity System Operator for any amount above the total referred to in paragraph 23.5(a) or on account of any costs relating to the administration of CEAP.

23.8 The Licensee shall keep the following records for two years, and make them available to the Board upon request:

(a) Copies of all Application Forms received, including recordings of calls where the Application Form is provided by telephone, and copies of any communications with customers about CEAP.

(b) A record of all Application Forms that were accepted as complete and a credit was provided to CEAP-eligible accounts, and a record of all Application Forms that were denied

(c) A record of the credit provided to each CEAP-eligible account, as well as the total amount of credits provided to all CEAP-eligible accounts.

23.9 The Licensee shall report to the Board, as soon as practicable, the date on which to total amount of CEAP funding referred to in paragraph 23.5(a) has been expended.

23.10 Paragraphs 23.1 to 23.8 govern over any provisions of the Distribution System Code or the Standard Supply Service Code in the event of any inconsistency.

24 Administration of COVID-19 Energy Support Program – Small Business

24.1 For the purposes of paragraphs 24.1 to 24.8:

“Application Form” means the form of application for CEAP-SB approved by the Board, including the use of that form by telephone

“CEAP-SB” means the COVID-19 Energy Assistance Program – Small Business as described in the Board’s Decision and Order dated August 7, 2020

“CEAP-SB eligible account” means an account for premises in the Licensee’s GS<50 class (for electricity distributors) / relevant commercial class and whose annual usage is less than 150,000 kWh (for USMPs) that meets all of the following criteria:

a) the account holder has a registered business number or charitable registration number for the business or registered charity operating out of the premises,

b) the account was in good standing (i.e. all amounts on account of electricity charges that were payable were fully paid) on March 17, 2020, and the account was not enrolled in an arrears payment agreement for amounts owing prior to March 17, 2020,

c) complete payment on account of electricity charges has not been made on at least two electricity bills issued since March 17, 2020, and the account has an Overdue Balance on the date of receipt of the Application Form for the account including where the account is enrolled in an arrears payment agreement for amounts incurred following March 17, 2020,

d) the account holder has confirmed in the Application Form that it is not applying for a CEAP-SB credit for another location or electricity account anywhere in the Province of Ontario for the same small business or registered charity,

e) the account holder has provided a complete Application Form and has declared, through the Application Form, that their small business or registered charity's premises was required to close to the public for regular operations for at least 15 days as a result of a government order or inability to comply with public health recommendations.

Note that the Licensee is only required to verify the information in items (b), (c), and (e) above.

"electricity charges" means:

a) charges that appear under the sub-headings "Electricity", "Delivery", and "Regulatory Charges" as described in Ontario Regulation 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity) made under the Act, and all applicable taxes on those charges;

b) where applicable, charges prescribed by regulations under section 25.33 of the Electricity Act and all applicable taxes on those charges

c) Board-approved specific service charges, including late payment charges, and such other charges and applicable taxes associated with the consumption of electricity as may be required by law to be included on the bill issued to the customer or as may be designated by the Board for the purposes of this definition, but not including security deposits, amounts owed by a customer pursuant to a billing adjustment, or amounts under a payment agreement entered into prior to March 17, 2020; and

d) any financial assistance provided for under the *Ontario Rebate for Electricity Consumers Act, 2016;* and

"Overdue Balance" means the amount by which the account holder's balance is past due in respect of Electricity Charges at the time the Application Form is received by the Licensee. Amounts that may be on the bill but are not yet past due are not part of the Overdue Balance.

24.2 The Licensee shall start to accept Application Forms as of August 31, 2020.

24.3 The Licensee shall:

a) Make copies of the Application Form available on its web site and to any customer on request.

b) Process all complete Application Forms in the order in which they are received.

c) Accept Application Forms by e-mail or mail, and may also allow the Application Form to be completed online or by telephone, provided that where Application Forms are completed by telephone the call must be recorded and must document confirmation of all information requested on the Application Form, including consent and the applicant's declaration of eligibility.

d) Process each complete Application Form within 10 business days of receipt.

24.4 The Licensee shall provide a credit to a CEAP-SB eligible account up to the amount of the Overdue Balance for the account:

a) to a maximum of $850, where the Application Form declares that the account is for small business or registered charity premises that primarily uses electricity for heating; or

b) to a maximum of or $425, in all other cases.

The credit must be applied on the next bill issued to the CEAP-SB eligible account after the processing of the Application Form for the account as set out in paragraph 24.3(d), where feasible, and in any event no later than on the following bill.

24.5 Despite paragraph 24.4:

a) The Licensee is not required to provide a credit to a CEAP-SB eligible account if the total amount of CEAP-SB funding available to the Licensee as specified by the Board has been expended; and

b) The Licensee shall not provide a credit to a CEAP-SB eligible account more than once.

24.6 Reimbursement for credits provided by the Licensee to CEAP-SB eligible accounts, up to the total referred to in paragraph 24.5(a), are recoverable from the Independent Electricity System Operator. The Licensee shall provide information in such form and manner, and within such time, as the IESO may reasonably require, in respect of requests for reimbursement. The Licensee shall not seek reimbursement from the Independent Electricity System Operator for any amount above the total referred to in paragraph 24.5(a) or on account of any costs relating to the administration of CEAP-SB.

24.7 The Licensee shall keep the following records for two years, and make them available to the Board upon request:

a) Copies of all Application Forms received, including recordings of calls where the Application Form is provided by telephone, and copies of any communications with customers about CEAP-SB.

b) A record of all Application Forms that were accepted as complete and a credit was provided to CEAP-SB eligible accounts, and a record of all Application Forms that were denied.

c) A record of the credit provided to each CEAP-SB eligible account, as well as the total amount of credits provided to all CEAP-SB eligible accounts.

24.8 The Licensee shall report to the Board, as soon as practicable, the date on which the total amount of CEAP-SB funding referred to in paragraph 24.5(a) has been expended.

24.9 Paragraphs 24.1 to 24.8 govern over any provisions of the Distribution System Code or the Standard Supply Service Code in the event of any inconsistency.

SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

1. The City of Kitchener and the Township of Wilmot as of January 1, 1991.

2. The customers in the Township of Blandford-Blenheim located at:

   - 965880, 966070, 966104, 966178, 966182, 966248, 966426, 966484, 966558, 966568, 966584, 966608, 966616, 966654, 966750, 966780, 966800, 966858, 966956, 966980 (three customers), 967022, 967092, 967192, 967244, 967268, 967324, 967372, 967376 (two customers), 967418, 967470, 967520, 967530, 967590, 967610, 967638 (two customers), 967672, and 967720 Oxford-Waterloo Road
   - 3033 and 3063 Trussler Road
   - 776928 and 776949 Blandford Road
   - 816911 Oxford Road 22
   - 856910 River Road
   - 896941 Washington Road

3. The customers in the Township of North Easthope located at:

   - 1466 and 1478 (two customers) Line 34
   - 4104, 4184 (two customers) and 4426 Wilmot-Easthope Road
   - 4010, 4086, 4526 (two customers), 4576, 4582, 4596 Perth Road 99
   - 4264 Perth Road 101
   - 4714 (two customers), 4888, 4906, 4920, 4930, 4994, 5076 (two customers) Perth Road 103
   - 1481 Perth Line 43

4. The customers in the Township of South Easthope located at:

   - 1481, 1483 and 1559 Line 34
   - 3976 Perth Road 100
   - 3880 and 3976 Perth Road 101
   - 3940 Perth Road

5. The customers in the Township of Zorra East located at:

   - 756795, 756819, 756871, 756907, 756893, 756995, 757119, 757161 and 757165 (two customers) Oxford Road 5

SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act.

1. The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with paragraph 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

SCHEDULE 3 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the Licensee has been exempted.

1. Licensee is exempt from the requirements of section 2.5.3 of the Standard Supply Service Code with respect to the price for small volume/residential consumers, subject to the Licensee offering an equal billing plan as described in its application for exemption from Fixed Reference Price, and meeting all other undertakings and material representations contained in the application and the materials filed in connection with it.

2. The Licensee is exempt from the requirement to implement time-of-use pricing as of the mandatory date for RPP General Service under 50 kW customers with eligible time-of-use meters with improper time-alignment of the consumption intervals as required under the Standard Supply Service Code for Electricity Distributors. The mandatory time-of-use pricing date exemption expires on January 31, 2012.

3. Licensee is exempt from the requirements of section 4.2.4A of the Distribution System Code. This exemption takes effect on March 1, 2020 and expires on April 30, 2021.

4. Licensee is exempt from the requirements of section 2.6.2 of the Standard Supply Service Code. This exemption takes effect on March 1, 2020 and expires on April 30, 2021.

APPENDIX A

MARKET POWER MITIGATION REBATES

1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998.*

b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

a retailers who serve one or more consumers in the distributor’s service area where a service transaction request as defined in the Retail Settlement Code has been implemented;

b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

ONTARIO POWER GENERATION INC. REBATES

For the payments that relate to the period from May 1, 2006 to April 30, 2009, the rules set out below shall apply.

1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.

c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*;

b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and

c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

"ONTARIO POWER GENERATION INC. rebate"

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

ATTACHMENT E

WNHI Electricity Distribution License

Electricity Distribution Licence

ED-2002-0575

Waterloo North Hydro Inc.

Valid Until
December 17, 2023

____
Mark C. Garner
Secretary
Ontario Energy Board

Date of Issuance: December 18, 2003

Ontario Energy Board	Commission de l'Énergie de l'Ontario
P.O. Box 2319	C.P. 2319
2300 Yonge Street	2300, rue Yonge
26th. Floor	26e étage
Toronto, ON M4P 1E4	Toronto ON M4P 1E4

1 Definitions 1

In this Licence: 2

"**Accounting Procedures Handbook**" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee; 3

"**Act**" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B; 4

"**Affiliate Relationships Code for Electricity Distributors and Transmitters**" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies; 5

"**distribution services**"means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order; 6

"**Distribution System Code**" means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems; 7

"**Electricity Act**" means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A; 8

"**Licensee**" means: Waterloo North Hydro Inc.; 9

"**Market Rules**" means the rules made under section 32 of the Electricity Act; 10

"**Performance Standards**" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act; 11

"**Rate Order**" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge; 12

"**regulation**" means a regulation made under the Act or the Electricity Act; 13

"**Retail Settlement Code**" means the code approved by the Board which, among other things, establishes a distributor's obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers; 14

"**service area**" with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity; 15

"**Standard Supply Service Code**" means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act; 16

"**wholesaler**" means a person that purchases electricity or ancillary services in the IMO-administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IMO-administered markets or directly to another person other than a consumer. 17

2 Interpretation 18

2.1 In this Licence words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this licence where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day. 19

3 Authorization 20

3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence: 21

a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence; 22

b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and 23

c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act. 24

4 Obligation to Comply with Legislation, Regulations and Market Rules 25

4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts except where the Licensee has been exempted from such compliance by regulation. 26

4.2 The Licensee shall comply with all applicable Market Rules. 27

5 Obligation to Comply with Codes 28

5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence: 29

a) the Affiliate Relationships Code for Electricity Distributors and Transmitters; 30

b) the Distribution System Code; 31

c) the Retail Settlement Code; and 32

d) the Standard Supply Service Code. 33

5.2 The Licensee shall: 34

a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and 35

b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies. 36

6 Obligation to Provide Non-discriminatory Access 37

6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee's distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence. 38

7 Obligation to Connect 39

7.1 The Licensee shall connect a building to its distribution system if: 40

a) the building lies along any of the lines of the distributor's distribution system; and 41

b) the owner, occupant or other person in charge of the building requests the connection in 42
writing.

7.2 The Licensee shall make an offer to connect a building to its distribution system if: 43

a) the building is within the Licensee's service area as described in Schedule 1; and 44

b) the owner, occupant or other person in charge of the building requests the connection in 45
writing.

7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance 46
with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.

7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted 47
to do so by the *Act* or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.

8 Obligation to Sell Electricity 48

8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in 49
accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

9 Obligation to Maintain System Integrity 50

9.1 The Licensee shall maintain its distribution system in accordance with the standards established in 51
the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

10 Market Power Mitigation Rebates 52

10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set 53
out in Appendix A of this Licence.

11 Distribution Rates 54

11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board. 55

12 Separation of Business Activities 56

12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board. 57

13 Expansion of Distribution System 58

13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules. 59

13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine. 60

14 Provision of Information to the Board 61

14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time. 62

14.2 Without limiting the generality of condition 14.1 the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs. 63

15 Restrictions on Provision of Information 64

15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator. 65

15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed: 66

a) to comply with any legislative or regulatory requirements, including the conditions of this Licence; 67

b) for billing, settlement or market operations purposes; 68

c) for law enforcement purposes; or 69

d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator. 70

15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified. 71

15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent. 72

15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed. 73

16 Customer Complaint and Dispute Resolution 74

16.1 The Licensee shall: 75

a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner; 76

b) publish information which will make its customers aware of and help them to use its dispute resolution process; 77

c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee’s premises during normal business hours; 78

d) give or send free of charge a copy of the process to any person who reasonably requests it; and 79

e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective. 80

17 Term of Licence 81

17.1 This Licence shall take effect on December 18, 2003 and expire on December 17, 2023. The term of this Licence may be extended by the Board. 82

18 Fees and Assessments 83

18.1 The Licensee shall pay all fees charged and amounts assessed by the Board. 84

19 Communication 85

19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change. 86

19.2 All official communication relating to this Licence shall be in writing. 87

19.3 All written communication is to be regarded as having been given by the sender and received by the addressee: 88

a) when delivered in person to the addressee by hand, by registered mail or by courier; 89

b) ten (10) business days after the date of posting if the communication is sent by regular mail; and 90

c) when received by facsimile transmission by the addressee, according to the sender's transmission report. 91

20 Copies of the Licence 92

20.1 The Licensee shall: 93

a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and 94

b) provide a copy of the Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies. 95

SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA 96

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with condition 8.1 of this Licence. 97

The City of Waterloo, the Township of Wellesley and the Township of Woolich as of January 1, 1991. 98

SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE 99

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act. 100

The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with condition 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders. 101

SCHEDULE 3 LIST OF CODE EXEMPTIONS 102

This Schedule specifies any specific Code requirements from which the Licensee has been exempted. 103

The Licensee is exempt from the requirements of section 2.5.3 of the Standard Supply Service Code with respect to the price for small volume/residential consumers, subject to the Licensee offering an equal billing plan as described in its application for exemption from Fixed Reference Price, and meeting all other undertakings and material representations contained in the application and the materials filed in connection with it. 104

APPENDIX A MARKET POWER MITIGATION REBATES 105

1 Definitions and Interpretation 106

In this Licence, 107

“embedded distributor” means a distributor who is not a market participant and to whom a host distributor distributes electricity; 108

“embedded generator” means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates; 109

“host distributor” means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant. 110

In this Licence, a reference to the payment of a rebate amount by the IMO includes interim payments made by the IMO. 111

2 Information Given to IMO 112

a Prior to the payment of a rebate amount by the IMO to a distributor, the distributor shall provide the IMO, in the form specified by the IMO and before the expiry of the period specified by the IMO, with information in respect of the volumes of electricity withdrawn by the distributor from the IMO-controlled grid during the rebate period and distributed by the distributor in the distributor’s service area to: 113

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and 114

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998*. 115

b Prior to the payment of a rebate amount by the IMO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IMO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor’s host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor’s service area to: 116

i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and 117

ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998*. 118

c Prior to the payment of a rebate amount by the IMO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IMO, in the form specified by the IMO and before the expiry of the period specified by the IMO, with the information provided to the host distributor by the embedded distributor in accordance with section 2. 119

The IMO may issue instructions or directions providing for any information to be given under this section. The IMO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment. 120

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IMO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IMO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period. 121

3 Pass Through of Rebate 122

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IMO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to: 123

a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented; 124

b consumers who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and 125

c embedded distributors to whom the distributor distributes electricity. 126

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor. 127

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement: 128

"ONTARIO POWER GENERATION INC. rebate" 129

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IMO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt. 130

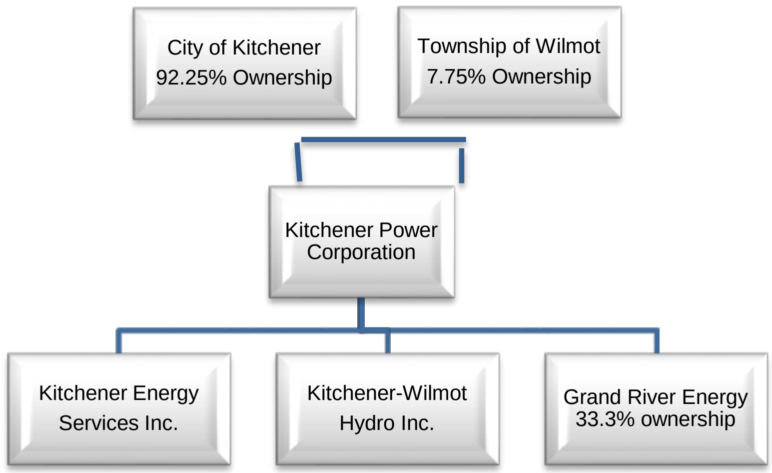
Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party. 131

Pending pass-through or return to the IMO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account. 132

ATTACHMENT F

KPC Corporate Chart

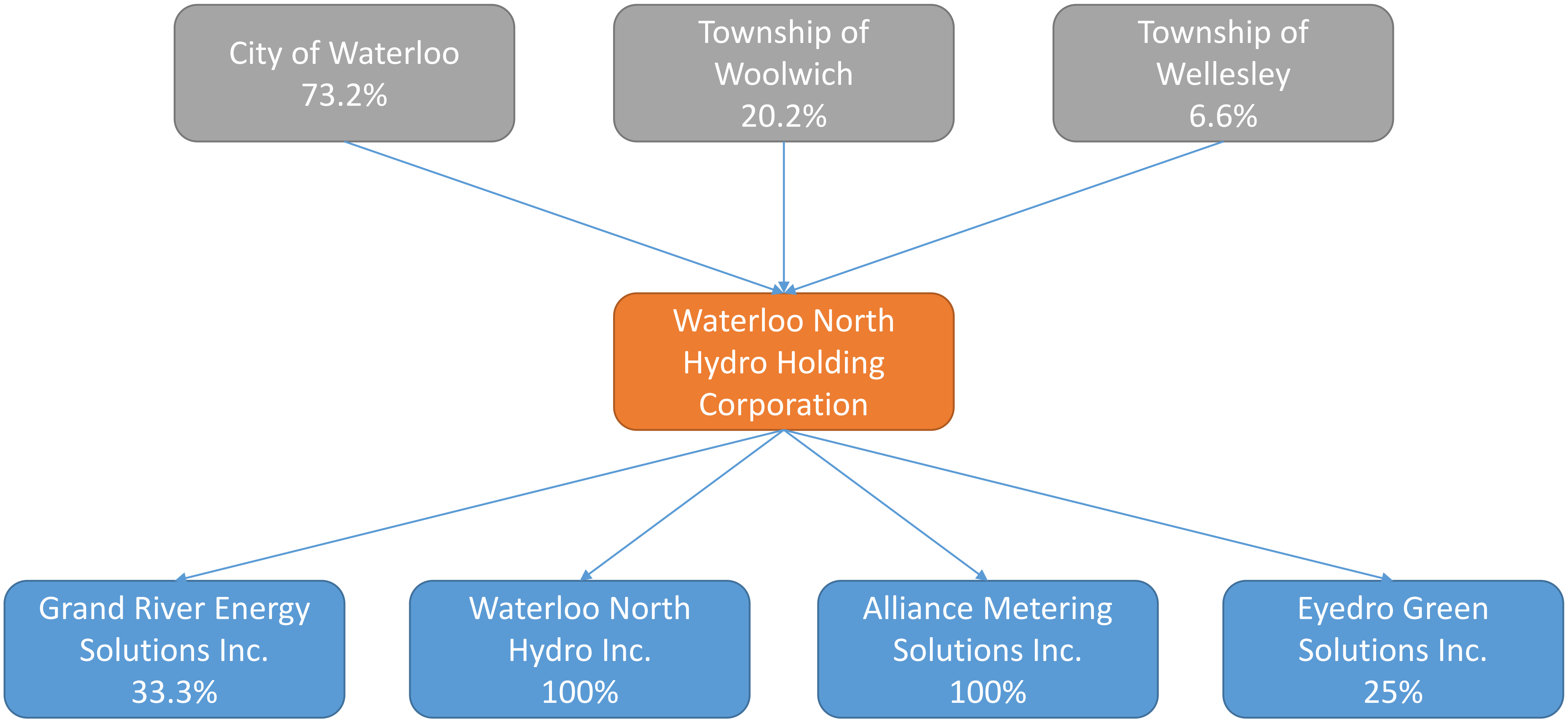
Ownership


City of Kitchener
92.25% Ownership
Township of Wilmot
7.75% Ownership
Kitchener Power Corporation
Kitchener Energy Services Inc.
Kitchener-Wilmot Hydro Inc.
Grand River Energy
33.3% ownership

ATTACHMENT G

WNHHC Corporate Chart

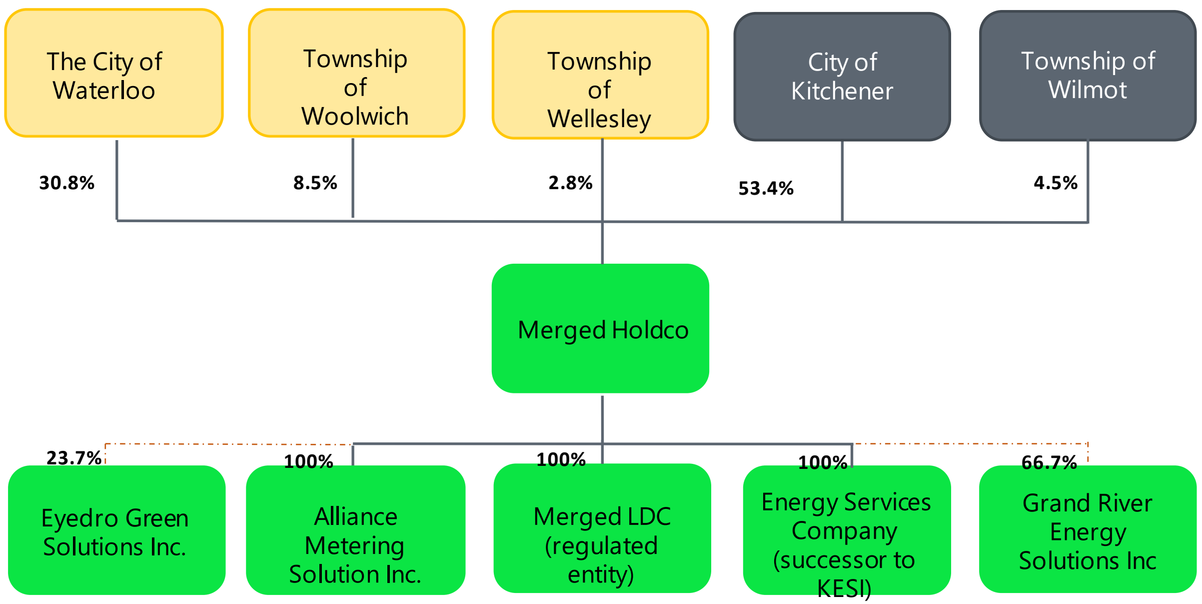
Waterloo North Hydro Holding Corporation – Corporate Structure



ATTACHMENT H

Merged Holdco Corporate Chart

Transaction Structure – Post-Closing Corporate Chart



ATTACHMENT I

Legal Agreements

Execution Version

MERGER PARTICIPATION AGREEMENT

BETWEEN

THE CORPORATION OF THE CITY OF KITCHENER

– and –

THE CORPORATION OF THE TOWNSHIP OF WILMOT

– and –

THE CORPORATION OF THE CITY OF WATERLOO

– and –

THE CORPORATION OF THE TOWNSHIP OF WOOLWICH

– and –

THE CORPORATION OF THE TOWNSHIP OF WELLESLEY

– and –

KITCHENER POWER CORP.

– and –

KITCHENER-WILMOT HYDRO INC.

– and –

KITCHENER ENERGY SERVICES INC.

– and –

WATERLOO NORTH HYDRO HOLDING CORPORATION

– and –

WATERLOO NORTH HYDRO INC.

– and –

ALLIANCE METERING SOLUTIONS INC.

January 12, 2022

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Page

MERGER PARTICIPATION AGREEMENT

THIS AGREEMENT is dated as of January 12, 2022

BETWEEN:

THE CORPORATION OF THE CITY OF KITCHENER, a municipal corporation incorporated under the laws of Ontario

(“**Kitchener**”)

– and –

THE CORPORATION OF THE TOWNSHIP OF WILMOT, a municipal corporation incorporated under the laws of Ontario

(“**Wilmot**”)

– and –

THE CORPORATION OF THE CITY OF WATERLOO, a municipal corporation incorporated under the laws of Ontario

(“**Waterloo**”)

– and –

THE CORPORATION OF THE TOWNSHIP OF WOOLWICH, a municipal corporation incorporated under the laws of Ontario

(“**Woolwich**”)

– and –

THE CORPORATION OF THE TOWNSHIP OF WELLESLEY, a municipal corporation incorporated under the laws of Ontario

(“**Wellesley**”)

– and –

KITCHENER POWER CORP., a corporation incorporated under the laws of Ontario

(“**KPC**”)

– and –

WATERLOO NORTH HYDRO HOLDING CORPORATION, a corporation incorporated under the laws of Ontario

(“**Waterloo North Holdings**”)

– and –

KITCHENER-WILMOT HYDRO INC., a corporation incorporated under the laws of Ontario

(“**KWHI**”)

– and –

KITCHENER ENERGY SERVICES INC., a corporation incorporated under the laws of Ontario

(“**KESI**”)

– and –

WATERLOO NORTH HYDRO INC., a corporation incorporated under the laws of Ontario

(“**WNHI**”)

– and –

ALLIANCE METERING SOLUTIONS INC., a corporation incorporated under the laws of Ontario

(“**Alliance Solutions**”)

RECITALS:

A. The Parties (other than KESI and Alliance) are party to a memorandum of understanding dated October 5, 2021 and the Confidentiality Agreement in connection with the transactions contemplated by this Agreement.

B. KWHI is licensed by the OEB to distribute electricity in Ontario.

C. WNHI is licensed by the OEB to distribute electricity in Ontario.

D. Kitchener is the beneficial and registered owner of 92.25% of the issued and outstanding shares in the capital of KPC and Wilmot is the beneficial and registered owner of 7.75% of the issued and outstanding shares in the capital of KPC.

E. Waterloo is the beneficial and registered owner of 73.2% of the issued and outstanding shares in the capital of Waterloo North Holdings, Woolwich is the beneficial and registered owner of 20.2% of the issued and outstanding shares in the capital of Waterloo North Holdings and Wellesley is the beneficial and registered owner of 6.6% of the issued and outstanding shares in the capital of Waterloo North Holdings.

F. KPC is the legal and beneficial owner of all the issued and outstanding shares in the capital of KWHI and KESI.

G. Waterloo North Holdings is the legal and beneficial owner of all the issued and outstanding shares in the capital of WNHI and Alliance Solutions.

H. The Parties wish to have KPC and Waterloo North Holdings amalgamate to form Amalco Holdco.

I. The Parties wish to have KWHI and WNHI amalgamate to form LDC Amalco.

J. The Parties intend to continue Alliance Metering Solutions and KESI as separate corporations wholly owned by Amalco Holdco.

NOW THEREFORE THE PARTIES AGREE AS FOLLOWS:

ARTICLE 1
INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals, Schedules and Exhibit hereto), the following terms have the following meanings:

"**Accounts Receivable**" means the aggregate sum of all accounts receivable and other amounts due, owing or accruing due, including amounts due from Affiliates, net of an allowance for doubtful accounts, calculated in accordance with IFRS.

"**Adverse Determination**" is defined in Section 9.3.

"**Affiliate**" has the meaning set forth in the OBCA.

"**Affiliate Relationships Code**" means the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the OEB as amended from time to time and any replacement code or directive.

"**Agreement**" means this merger participation agreement, including all Schedules and Exhibits, as it may be confirmed, amended, modified, supplemented or restated by written agreement between the Parties.

"**Alliance Solutions**" means Alliance Metering Solutions Inc., a corporation incorporated under the laws of the Province of Ontario.

"**Alliance Solutions Financial Statements**" means the balance sheet and statement of income of Alliance Solutions for the financial year ended December 31, 2020 including notes to the financial statements.

"Amalco Holdco" is defined in Section 2.1(a).

"**Amalgamations**" means the Holdco Amalgamation and the LDC Amalgamation.

"**Anti-Spam Laws**" means CASL, together with all other Laws relating to the delivering, sending, sharing or transmitting Electronic Messages, and/or using Electronic Addresses.

"**Books and Records**" means the books, ledgers, files, lists, reports, plans, logs, deeds, surveys, correspondence, operating records, Tax Returns and other data and information, including all data and information stored on computer-related or other electronic media, maintained with respect to, as applicable, the KPC Business and the Waterloo North Business.

"**Business Day**" means any day excluding a Saturday, Sunday or statutory holiday in the Province of Ontario, and also excluding any day on which the principal chartered banks located in the Region of Waterloo are not open for business during normal banking hours.

"**CASL**" means *An Act to promote the efficiency and adaptability of the Canadian economy by regulating certain activities that discourage reliance on electronic means of carrying out commercial activities, and to amend the Canadian Radio-television and Telecommunications Commission Act, the Competition Act, the Personal Information Protection and Electronic Documents Act and the Telecommunications Act* S.C. 2010, c. 23 and all of its implementing regulations.

"**Claim**" means any claim, demand, action, cause of action, suit, arbitration, investigation, proceeding, complaint, grievance, charge, prosecution, assessment or reassessment, including any appeal or application for review.

"**Class A Special Shares**" means the non-voting, convertible, redeemable, Class A Special shares in the capital stock of Amalco Holdco.

"Class B Special Shares" means the non-voting, convertible, redeemable, Class B Special shares in the capital stock of Amalco Holdco.

"**Closing**" means the completion of the Amalgamations pursuant to this Agreement.

[redacted]

[redacted]

"**Closing Financial Statements**" means the KW Closing Financial Statements and the Waterloo North Closing Financial Statements.

"**Closing Time**" means 9:00 a.m. (Eastern time) on the Closing Date or any other time on the Closing Date as may be agreed by the Parties in writing.

"**Commissioner**" means the Commissioner of Competition under the Competition Act.

"**Common Shares**" means the voting common shares in the capital stock of Amalco Holdco.

"**Communication**" means any notice, demand, request, consent, approval or other communication which is required or permitted by this Agreement to be given or made by a Party.

"**Competition Act**" means the *Competition Act* (Canada).

"**Competition Act Approval**" means: (a) the issuance of an advance ruling certificate under Section 102(1) of the Competition Act with respect to the transactions contemplated by this Agreement without such advance ruling certificate having been modified or withdrawn before Closing; (b) the Parties having given the notice required under Section 114 of the Competition Act with respect to the transactions contemplated by this Agreement and the applicable waiting periods under Section 123 of the Competition Act having expired or been terminated in accordance with the Competition Act; or (c) the obligation to give the requisite notice having been waived under Section 113(c) of the Competition Act and, in the case of (b) or (c), the Parties having been advised in writing by the Commissioner that the Commissioner does not, at that time, intend to make an application under Section 92 of the Competition Act in respect of the transactions contemplated by this Agreement (a "**No-Action Letter**") with any terms and conditions attached to such No-Action Letter being acceptable to the Parties, acting reasonably, and without such No-Action Letter having been withdrawn or modified before Closing.

"**Confidentiality Agreement**" means the confidentiality agreement dated January 29, 2021 in connection with the transactions contemplated by this Agreement.

"**Contract**" means any agreement, understanding, undertaking, commitment, licence, or lease, whether written or oral.

"**Corporate Articles**" means, as applicable, the certificate or articles of incorporation or amalgamation of the applicable corporation and the certificates and articles of amendment of such corporation.

"**CTA**" means the *Corporations Tax Act* (Ontario).

"**COVID-19**" means the global pandemic known as coronavirus disease as identified in COVID-19 Legislation and Emergency Orders.

"**COVID-19 Legislation and Emergency Orders**" means the Reopening Ontario (A Flexible Response to COVID-19) Act, 2020, the orders made under section 7.0.2 or 7.1 of the Emergency Management and Civil Protection Act and any other decrees, rules, regulations, by-laws, published policies and guidelines enacted by a Governmental Authority in the Province of Ontario in connection with COVID-19.

"**Current Assets**" means the aggregate sum of, Accounts Receivable, plus unbilled revenue, Taxes receivable, Inventories and Current Prepaid Amounts.

"**Current Liabilities**" means the aggregate sum of (a) accounts payable and accrued liabilities, owing or accruing due, and all other amounts owed that are payable within one year of the Closing Date, (b) all liabilities for Taxes, including all Taxes required to be withheld and remitted to an applicable Governmental Authority in respect of any period ending prior to the Closing Date which have not been remitted, and (c) current amounts due to related parties and Affiliates.

"**Current Prepaid Amounts**" means the aggregate sum of all prepaid expenses and deposits, including all prepaid Taxes, all prepaid charges for water, gas, oil, hydro and other utilities, and the current portion of all prepaid lease payments and prepaid insurance premiums.

"**Customer Contract**" means an individual Contract in respect of (a) the Waterloo North Business to which any member of the Waterloo North Group is a party excluding any Contracts to which WNHI is a party, or (b) the KPC Business to which any member of the KPC Group is a party excluding any Contracts to which KWHI is a party, in each case which Contract is expected to generate gross revenue for the applicable member of the Waterloo North Group or KPC Group [redacted], or, for an entity in which such member holds equity, where the proportion of the gross revenues of such entity that is equal to the ownership proportion of such member [redacted]

"**Data Room**" means the virtual data room as at the date of this Agreement managed by Grant Thornton LLP to which each Party obliged to provide documents or information for due diligence purposes has posted the same and to which each Party relying thereupon has access.

"**Direct Claim**" is defined in Section 8.6.

"**Distribution Rate Zones**" means the respective existing distribution rate classes of KWHI, referred to as Zone A Rates, and WNHI, referred to as Zone B Rates, which are expected to be maintained and continue as separate and distinct distribution rate classes for the former KWHI and WNHI franchise areas.

"**EA**" means the *Electricity Act, 1998* (Ontario).

"**Easements**" means all of the following real property interests: (a) all easements and rights of way, registered and unregistered; (b) the right to use, traverse, enjoy or have access to, over, in or under any real property, whether public or private; and (c) all permits, licences and permissions received, used or enjoyed in respect of any of the foregoing and any right or benefit in the nature or character of any of the foregoing.

"**Electronic Message**" has the meaning ascribed thereto in CASL.

"**Electronic Address**" has the meaning ascribed thereto in CASL.

"**Employee Benefits**" means:

(a) bonuses, vacation entitlements, commissions, fees, stock option plans, incentive plans, deferred compensation plans, profit-sharing plans, severance plans, termination pay plans, supplementary employment insurance plans and other similar benefits, plans or arrangements; and

(b) insurance, health, welfare, disability, pension, retirement, hospitalization, medical, prescription drug, dental, eye care and other similar benefits, plans or arrangements.

"**Encumbrance**" means any security interest, mortgage, charge, pledge, hypothec, lien, encumbrance, restriction, option, adverse claim, right of others or other encumbrance of any kind.

"**Environment**" means the ambient air, all layers of the atmosphere, all water including surface water and underground water, all land, all living organisms and the interacting natural systems that include components of air, land, water, living organisms and organic and inorganic matter, and includes indoor spaces.

"**Environmental Laws**" means any Laws relating to the Environment and protection of the Environment, the regulation of chemical substances or products, health and safety including occupational health and safety, and the transportation of dangerous goods.

"**ETA**" means Part IX of the *Excise Tax Act* (Canada).

"Excluded Amounts" means the specified amounts set forth in the Waterloo North Disclosure Schedule.

"**Expert**" is defined in Section 2.4(h).

"**Eyedro**" means Eyedro Green Solutions Inc., a corporation incorporated under the laws of the Province of Ontario.

"**Eyedro Financial Statements**" means the audited balance sheet and audited statement of income of Eyedro for the financial year ended September 30, 2020 including notes to the financial statements.

"**Fixed Assets**" means the aggregate sum of property, plant and equipment, net of deferred revenues; where property, plant and equipment includes, but is not limited to furniture, furnishings, parts, tools, personal property fixtures, plants, land, buildings, transformer stations and equipment, right of use assets, finance lease receivables, intangible assets, structures, erections, improvements, appurtenances, machinery, equipment, substations, transformers, vaults, vehicles, distribution lines, transmission lines, conduits, ducts, pipes, wires, rods, cables, fibre optic network and electronics, water heater units, water treatment systems, devices, appliances, material, poles, pipelines, fittings, major spare parts, and any other similar or related item, including work-in-progress in respect of the foregoing.

"**Governmental Authority**" means:

(a) any federal, provincial, state, local, municipal, regional, territorial, aboriginal, or other government, governmental or public department, branch, ministry, or court, domestic or foreign, including any district, agency, commission, board, arbitration panel or authority and any subdivision of any of them exercising or entitled to exercise any administrative, executive, judicial, ministerial, prerogative, legislative, regulatory, or taxing authority or power of any nature; and

(b) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of them, and any subdivision of any of them.

"**GRE**" means Grand River Energy Solutions Corporation.

"**GRE Financial Statements**" means the audited balance sheet and audited statement of income of GRE for the financial year ended December 31, 2020 including notes to the financial statements.

"**Hazardous Substance**" means any substance, waste, liquid, gaseous or solid matter, fuel, micro-organism, sound, vibration, ray, heat, odour, radiation, energy vector, plasma, organic or inorganic matter which is or is deemed to be, alone or in any combination, hazardous, hazardous waste, solid or liquid waste, toxic, a pollutant, a deleterious substance, a contaminant or a source of pollution or contamination, regulated by any Environmental Laws.

"**IFRS**" means the International Financial Reporting Standards in effect from time to time, which include standards and interpretations adopted by the Canadian Accounting Standards Board.

"**Indemnified Party**" is defined in Section 8.3.

"**Indemnifying Party**" is defined in Section 8.3.

"**Indemnity Claim**" is defined in Section 8.6.

"**Indemnity Notice**" is defined in Section 8.6.

"**Insurance Policies**" means, as applicable, the insurance policies maintained with respect to the Waterloo North Business and/or the KPC Business.

"**Intellectual Property**" means trade-marks and trade-mark applications, trade names, certification marks, patents and patent applications, copyrights, domain names, industrial designs, trade secrets, know-how, formulae, processes, inventions, technical expertise, research data and other similar property, all associated registrations and applications for registration, and all associated rights, including moral rights.

"**Inventories**" means the aggregate of all parts and supplies recorded as inventory on the audited financial statements excluding work-in-progress or parts and supplies that have otherwise been capitalized as part of Fixed Assets.

"**ITA**" means the *Income Tax Act* (Canada).

"**KESI**" means Kitchener Energy Services Inc. a corporation incorporated under the laws of Ontario.

"**KESI Financial Statements**" means the balance sheet and statement of income of KESI for the financial year ended December 31, 2020 including notes to the financial statements.

"**Kitchener**" is defined in the preamble to this Agreement.

"**Knowledge of Kitchener and Wilmot**" means the knowledge of the chief executive officer or the chief financial offer of any member of the KPC Group that any such individual either has or would have obtained after having made or caused to be made all reasonable inquiries necessary to obtain informed knowledge, including inquiries of the records and management employees of Kitchener and Wilmot or management of the KPC Group who are reasonably likely to have knowledge of the relevant matter.

"**Knowledge of Waterloo, Woolwich and Wellesley**" means the knowledge of the chief executive officer or the chief financial offer of any member of the Waterloo North Group that any such individual either has or would have obtained after having made or caused to be made all reasonable inquiries necessary to obtain informed knowledge, including inquiries of the records and management employees of Waterloo, Woolwich and Wellesley or management of the Waterloo North Group who are reasonably likely to have knowledge of the relevant matter.

"**KPC**" is defined in the preamble to this Agreement.

"**KPC Business**" means, (a) in the case of KPC, the business of serving as a holding company for all of the issued and outstanding shares in the capital of KWHI and KESI, (b) in the case of KWHI, the business of distributing electricity to third parties within the geographic boundaries as permitted by its OEB distribution license and related services and activities, and (c) in the case of KESI, the business of providing street light maintenance services.

"**KPC Employees**" means all personnel employed, engaged or retained by a member of the KPC Group in connection with the KPC Business, including any that are on medical or long-term disability leave, or other statutory or authorized leave or absence, but excluding independent contractors.

"**KPC Environmental Approvals**" is defined in Section 4.24(b).

"**KPC Failure**" is defined in Section 8.3(b).

"**KPC Financial Statements**" means the audited, consolidated balance sheet and audited, consolidated statement of income of KPC for the financial year ended December 31, 2020 including notes to the financial statements.

"**KPC Group**" means, collectively, KPC, KWHI and KESI.

"**KPC Group Adjustment Amount**" is defined in Section 2.5(a).

"**KPC Group Systems**" means all computer software, and computer hardware, servers, networks, platforms, peripherals, data communication lines and other information technology equipment and related systems that are owned or used by each member of the KPC Group in the conduct of the KPC Business.

"**KPC Group Valuation**" means [redacted]

"**KPC Shareholder Agreement**" [redacted]

"**KW Closing Financial Statements**" is defined in Section 2.4(a).

"**KW Disclosure Schedule**" is defined in Article 4.

"**KWHI**" is defined in the preamble to this Agreement.

"**KWHI Financial Statements**" means the audited balance sheet and audited statement of income of KWHI for the financial year ended December 31, 2020 including notes to the financial statements.

"**Law**" or "**Laws**" means all laws, statutes, codes, ordinances, decrees, rules, regulations, by-laws, statutory rules, principles of law, published policies and guidelines, judicial or arbitral or administrative or ministerial or departmental or regulatory judgments, orders, decisions, rulings or awards, including general principles of common and civil law, and the terms and conditions of any grant of approval, permission, authority or licence of any Governmental Authority, and the term "applicable" with respect to Laws and in a context that refers to one or more Persons, means that the Laws apply to the Person or Persons, or its or their business, undertaking, property or Securities, and emanate from a Governmental

Authority having jurisdiction over the Person or Persons or its or their business, undertaking, property or Securities.

"**LDC Amalco**" is defined in Section 2.2.

"**LDC Amalgamation**" is defined in Section 2.2.

"**Leased Premises**" means all of the lands and premises which are leased by any member of the KPC Group, as applicable or by any member of the Waterloo North Group, as applicable.

"**Loss**" means any loss, liability, damage, cost, expense, charge, fine, penalty or assessment including the costs and expenses of any action, suit, proceeding, demand, assessment, judgment, settlement or compromise and all interest, punitive damages, fines, penalties and reasonable professional fees and disbursements.

"**Material Adverse Effect**" means a material adverse effect on the Waterloo North Business or the KPC Business, taken as a whole, or the operations, prospects, assets, liabilities, capital, property, condition (financial or otherwise) or results of operation of Waterloo North Holdings or KPC, all taken as a whole, excluding any effects of COVID-19 in existence as of the date of this Agreement and/or COVID-19 Legislation and Emergency Order in existence as of the date of this Agreement.

"**Material Contract**" means a Contract in respect of the Waterloo North Business or the KPC Business, as applicable:

(a) that involves or may result in the payment of money or money's worth in an amount [redacted] (excluding any collective bargaining agreements or employment agreements), including any Customer Contracts; or

(b) the termination of which, or under which the loss of rights, would constitute a Material Adverse Effect.

"**Net Adjustment Amount**" means, subject to Article 2 and Schedule 2.6(b), the difference between the KPC Group Adjustment Amount and the Waterloo North Group Adjustment Amount, provided that:

(a) where the difference between the KPC Group Adjustment Amount and the Waterloo North Group Adjustment Amount results in a difference in favour of the KPC Group, Kitchener and Wilmot shall be entitled to receive such amount in accordance with Section 2.6(a)(i); and

(b) where the difference between the Waterloo North Group Adjustment Amount and the KPC Group Adjustment Amount results in a difference in favour of the Waterloo North Group, Waterloo, Woolwich and Wellesley shall be entitled to receive such amount in accordance with Section 2.6(a)(ii).

"**OBCA**" means the *Business Corporations Act* (Ontario).

"**OEB**" means the Ontario Energy Board.

"**OEB Act**" means the Ontario Energy Board Act, 1998.

"**OEB Approval**" means the approval of the OEB pursuant to section 86(1)(c) of the OEB Act in respect of the LDC Amalgamation.

"**OMERS**" means the Ontario Municipal Employees Retirement System.

"**Owned Lands**" means all of the lands and premises which are owned by any member of the KPC Group, as applicable or by any member of the Waterloo North Group, as applicable.

"**Parties**" means Kitchener, Wilmot, KPC, KWHI, Waterloo, Woolwich, Wellesley, Waterloo North Holdings, WNHI, KESI and Alliance Solutions and "**Party**" means any one of them.

"**PCBs**" is defined in Section 4.24(k).

"**Permits**" means the authorizations, registrations, permits, certificates of approval, approvals, grants, licences, quotas, consents, commitments, rights or privileges (other than those relating to the Intellectual Property) issued or granted by any Governmental Authority to any member of the KPC Group or Waterloo North Group, as applicable.

"**Permitted Encumbrances**" means:

(a) unregistered liens for municipal Taxes, assessments or similar charges incurred in the ordinary course of business that are not yet due and payable;

(b) inchoate mechanic's, construction and carrier's liens and other similar liens arising by operation of law or statute in the ordinary course business for obligations which are not delinquent and will be paid or discharged in the ordinary course of business;

(c) unregistered Encumbrances of any nature claimed or held by Her Majesty The Queen in Right of Canada, Her Majesty The Queen in right of the Province of Ontario or by any Governmental Authority under any applicable Law, except for unregistered liens for unpaid realty Taxes, assessments and public utilities;

(d) title defects which are of a minor nature and in the aggregate, do not materially impair the value or use of any of the Owned Lands;

(e) any right of expropriation conferred upon, reserved to or vested in Her Majesty The Queen in Right of Canada, Her Majesty The Queen in right of the Province of Ontario or any Governmental Authority under any applicable Law;

(f) zoning restrictions, easements and rights of way or other similar Encumbrances or privileges in respect of real property which in the aggregate, do not materially impair the value or use of any of the Owned Lands, Leased Premises or Easements;

(g) Encumbrances created by others upon other lands over which there are easements, rights-of-way, licences or other rights of user in favour of the Owned Lands, Leased Premises or Easements and which do not materially impede the use of the easements, rights-of-way, licences or other rights of user for the purposes for which they are held;

(h) the reservations, limitations, provisos, conditions, restrictions and exceptions in the letters patent or grant, as the case may be, from the Crown and statutory exceptions to title; and

(i) those instruments registered on title to the Owned Lands or against the leasehold interest in the Leased Premises and described in the KW Disclosure Schedule or the Waterloo North Disclosure Schedule.

"Person" will be broadly interpreted and includes:

(a) a natural person, whether acting in his or her own capacity, or in his or her capacity as executor, administrator, estate trustee, trustee or personal or

(b) legal representative, and the heirs, executors, administrators, estate trustees, trustees or other personal or legal representatives of a natural person;

(c) a corporation or a company of any kind, a partnership of any kind, a sole proprietorship, a trust, a joint venture, an association, an unincorporated association, an unincorporated syndicate, an unincorporated organization or any other association, organization or entity of any kind; and

(d) a Governmental Authority.

"**Personal Information**" means information about an individual who can be identified by the Person who holds that information.

"**PILs**" means payment in lieu of corporate taxes required to be made under Section 93 of the EA.

"Prime Rate" means the annual interest rate Canada's major banks and financial institutions use to set interest rates for variable loans and lines of credit, including variable-rate mortgages.

"**Privacy Laws**" means Laws relating to the privacy rights of individuals and/or the collection, use, disclosure and safeguarding of information about an identifiable individual including, without limitation, the *Personal Information Protection and Electronic Documents Act* (Canada) and any similar Law of any jurisdiction, including without limitation, any province or territory of Canada, all findings and/or orders reached by any Governmental Authority.

"**Privacy Statements**" means, collectively, any and all of a Person's privacy policies made regarding the collection, retention, use, disclosure and distribution of the personal information of individuals.

"Pro Rata Share" means

(a) in respect of Waterloo, Woolwich and Wellesley, the percentage interest of the issued and outstanding shares in the capital of Waterloo North Holdings, being 73.2% in respect of Waterloo, 20.2% in respect of Woolwich and 6.6% in respect of Wellesley, respectively; and

(b) in respect of Kitchener and Wilmot, the percentage interest of the issued and outstanding shares in the capital of KPC, being 92.25% in respect of Kitchener and 7.75% in respect of Wilmot.

"**Real Property Leases**" means the leases between any member of the KPC Group, as applicable, or between any member of the Waterloo North Group, as applicable, and each landlord party thereto, and all amendments to those leases, relating to the leasing of Leased Premises.

"**Release**" means to release, spill, leak, pump, pour, emit, empty, discharge, deposit, inject, leach, dispose, dump or permit to escape.

"**Remedial Order**" means any remedial order, including any notice of non-compliance, order, other complaint, direction or sanction issued, filed or imposed by any Governmental Authority pursuant to Environmental Laws, with respect to the existence of Hazardous Substances on, in or under Owned Lands or Leased Premises, or neighbouring or adjoining properties, or the Release of any Hazardous Substance from, at or on the Owned Lands or Leased Premises or with respect to any failure or neglect to comply with Environmental Laws.

"**Representatives**" means the Affiliates of any Person, and the advisors, agents, consultants, directors, officers, management, employees, subcontractors, and other representatives, including accountants, auditors, financial advisors, lenders and lawyers of any Person and of that Person's Affiliates.

"**Securities**" has the meaning given to that term in the *Securities Act* (Ontario).

"**Shareholders Agreement**" means the unanimous shareholders agreement for Amalco Holdco to be entered into and effective on Closing and that will be substantially in the form attached as Schedule 1.1.

"Special Shares" means the Class A Special Shares and the Class B Special Shares, as the case may be.

"**Subsidiary**" means subsidiary within the meaning of the OBCA.

"**TA**" means the *Taxation Act, 2007* (Ontario).

"**Tax**" means PILs, Transfer Tax, and all taxes, duties, fees, premiums, assessments, imposts, levies, rates, withholdings, dues, government contributions and other charges of any kind whatsoever, whether direct or indirect (including all income, capital gains, excise, use, property, capital, goods and services, business transfer and value added taxes, all customs and import duties, workers' compensation premiums, Canada Pension Plan premiums, Employment Insurance premiums, and debt retirement charges pursuant to Part V.1 of the EA and special payments pursuant to Part VI of the EA), together with all interest, penalties, fines, additions to tax or other additional amounts, imposed by any Governmental Authority.

"**Tax Return**" means any return, report, declaration, designation, election, undertaking, waiver, notice, filing, information return, statement, form, certificate or any other document or materials relating to Taxes, including any related or supporting information with respect to any of those documents or materials listed above in this definition, filed or to be filed with any Governmental Authority in connection with the determination, assessment, collection or administration of Taxes, including those required pursuant to Parts V.1 and VI of the EA.

"**Third Party Claim**" is defined in Section 8.6.

"**Total Debt**" means for each member of the KPC Group or the Waterloo North Group, as applicable, the aggregate amount of all long and short term interest-bearing liabilities for borrowed money and long and short term amounts owing to related parties, including without limitation amounts for bank debt, short-term debt, current portion of long-term borrowings, long-term borrowings, short-term and long-term portion of capital leases, the short-term and long-term portion of lease liabilities, the long-term portion of customer deposits, employee future benefit liabilities, related party loans and notes payable.

"**Transfer Tax**" means the tax payable pursuant to Section 94 of the EA.

"**Waterloo**" is defined in the preamble to this Agreement.

"**Waterloo North Business**" (a) in the case of Waterloo North Holdings, the business of serving as a holding company for all of the issued and outstanding shares in the capital of WNHI and Alliance Solutions, (b) in the case of WNHI, the business of distributing electricity to third parties within the geographic boundaries as permitted by its OEB distribution license and related services and activities, and (c) in the case of Alliance Solutions, the business of providing utility-level sub-metering services.

"**Waterloo North Closing Financial Statements**" is defined in Section 2.4(b).

"**Waterloo North Disclosure Schedule**" is defined in Article 5.

"**Waterloo North Employees**" means all personnel employed, engaged or retained by the Waterloo North Group in connection with the Waterloo North Business, including any that are on medical or long-term disability leave, or other statutory or authorized leave or absence, but excluding independent contractors.

"**Waterloo North Failure**" is defined in Section 8.3(a).

"**Waterloo North Group**" means Waterloo North Holdings, WNHI and Alliance Solutions.

"**Waterloo North Group Adjustment Amount**" is defined in Section 2.5(b).

"**Waterloo North Group Systems**" means all computer software, and computer hardware, servers, networks, platforms, peripherals, data communication lines and other information technology equipment and related systems that are owned or used by each member of the Waterloo North Group in the conduct of the Waterloo North Business.

"**Waterloo North Group Valuation**" [redacted]

"**Waterloo North Holdings**" is defined in the preamble to this Agreement.

"**Waterloo North Holdings Financial Statements**" means the audited, consolidated balance sheet and audited, consolidated statement of income of Waterloo North Holdings for the financial year ended December 31, 2020 including notes to the financial statements.

"**Waterloo North Shareholder Agreement**" means the shareholders agreement dated April 1, 2017 between Waterloo, Woolwich and Wellesley and Waterloo North Holdings, as amended.

"**Wellesley**" is defined in the preamble to this Agreement.

"**Wilmot**" is defined in the preamble to this Agreement.

[redacted]

"**WNHI**" is defined in the preamble to this Agreement

"**WNHI Financial Statements**" means the audited balance sheet and audited and statement of income of WNHI for the financial year ended December 31, 2020 including notes to the financial statements.

"**Woolwich**" is defined in the preamble to this Agreement.

1.2 Certain Rules of Interpretation

(a) In this Agreement, words signifying the singular number include the plural and vice versa, and words signifying gender include all genders. Every use of the words "including" or "includes" in this Agreement is to be construed as meaning "including, without limitation" or "includes, without limitation", respectively.

(b) The division of this Agreement into Articles and Sections, the insertion of headings and the inclusion of a table of contents are for convenience of reference only and do not affect the construction or interpretation of this Agreement.

(c) References in this Agreement to an Article, Section, Schedule or Exhibit are to be construed as references to an Article, Section, Schedule or Exhibit of or to this Agreement unless otherwise specified.

(d) Unless otherwise specified in this Agreement, time periods within which or following which any calculation or payment is to be made, or action is to be taken, will be calculated by excluding the day on which the period begins and including the day on which the period ends. If the last day of a time period is not a Business Day, the time period will end on the next Business Day.

(e) Unless otherwise specified, any reference in this Agreement to any statute includes all regulations and subordinate legislation made under or in connection with that statute at any time, and is to be construed as a reference to that statute as amended, modified, restated, supplemented, extended, re-enacted, replaced or superseded at any time.

(f) Except as expressly set forth herein or as the context otherwise requires, wherever in this Agreement reference is made to a calculation to be made in accordance with IFRS, the reference is to IFRS as applicable as at the date of this Agreement.

1.3 Governing Law

This Agreement is governed by, and is to be construed and interpreted in accordance with, the Laws of the Province of Ontario and the Laws of Canada applicable in that Province.

1.4 Entire Agreement

This Agreement and any other agreements and documents to be delivered pursuant to this Agreement constitute the entire agreement between the Parties pertaining to the subject matter of this Agreement and supersede all prior agreements, understandings, negotiations and discussions, including the MOU, whether oral or written, of the Parties and there are no representations, warranties or other agreements between the Parties in connection with the subject matter of this Agreement except as specifically set out in this Agreement, the Confidentiality Agreement or in any of the other agreements and documents delivered pursuant to this Agreement. No Party has been induced to enter into this Agreement in reliance on, and there will be no liability assessed, either in tort or contract, with respect to, any warranty, representation, opinion, advice or assertion of fact, except to the extent it has been reduced to writing and included as a term in this Agreement or in any of the other agreements and documents delivered pursuant to this Agreement.

1.5 Schedules

The following is a list of Schedules attached to and forming an integral part of this Agreement:

Schedules	
Schedule 1.1	Form of Shareholders Agreement
Schedule 2.6(a)(iv)	Illustrative Example of Adjustments
Schedule 2.6(b)	Share Capital
Schedule 4.1	KW Disclosure Schedule
Schedule 5.1	Waterloo North Disclosure Schedule

ARTICLE 2
AMALGAMATIONS

2.1 Holdco Amalgamation

(a) Subject to and conditional upon the terms and conditions of this Agreement, the Parties agree that KPC and Waterloo North Holdings shall:

(i) enter into an amalgamation agreement contemplated by Section 175(1) of the OBCA incorporating the applicable terms of this agreement in order to amalgamate with each other on the Closing Date (the "**Holdco Amalgamation**");

(ii) file articles of amalgamation giving effect to the Holdco Amalgamation in accordance with the OBCA on the Closing Date; and

(iii) continue as a corporation amalgamated under the laws of Ontario following the Closing Date (and such amalgamated corporation is referred to herein as "**Amalco Holdco**").

(b) Amalco Holdco will issue the following fully paid and non-assessable Common Shares and Special Shares in the capital of Amalco Holdco upon completion of the Holdco Amalgamation:

Party	Amalco Holdco	Equity & Voting Percentage Interest
Kitchener	53,390 Common Shares 9,225 Class A Special Shares	53.39% Nil
Wilmot	4,490 Common Shares 775 Class A Special Shares	4.49% Nil
Waterloo	30,830 Common Shares 7,320 Class B Special Shares	30.83% Nil
Woolwich	8,510 Common Shares 2,020 Class B Special Shares	8.51% Nil
Wellesley	2,780 Common Shares 660 Class B Special Shares	2.78% Nil

2.2 LDC Amalgamation

As soon as practicable after the Holdco Amalgamation and subject to and conditional upon the terms and conditions of this Agreement, KWHI and WNHI shall:

(a) enter into an amalgamation agreement contemplated by Section 175(1) of the OBCA incorporating the applicable terms of this agreement in order to amalgamate with each other on the Closing Date (the "**LDC Amalgamation**");

(b) file articles of amalgamation giving effect to the LDC Amalgamation in accordance with the OBCA on the Closing Date; and

(c) continue as a corporation amalgamated under the laws of Ontario following the Closing Date (and such amalgamated corporation is referred to herein as "**LDC Amalco**").

2.3 Target Closing Amounts

(a) Before Closing, KPC shall take reasonable steps to ensure that on Closing it has:

(i) KPC Closing Net Asset Value equal to KPC Target Net Asset Value; and

(ii) KESI Closing Net Asset Value equal to KESI Target Net Asset Value.

(b) Before Closing, KWHI shall take reasonable steps to ensure that on Closing it has:

(i) KWHI Closing Net Working Capital equal to KWHI Target Net Working Capital;

(ii) KWHI Closing Net Fixed Assets equal to KWHI Target Net Fixed Assets;

(iii) KWHI Closing Net Regulatory Balance equal to KWHI Target Net Regulatory Balance;

(iv) KWHI Closing Net Other Assets and Liabilities equal to KWHI Target Net Other Assets and Liabilities; and

(v) KWHI Closing Total Net Debt equal to KWHI Target Total Net Debt.

(c) Before Closing, Waterloo North Holdings shall take reasonable steps to ensure that on Closing it has:

(i) Waterloo North Holdings Closing Net Asset Value equal to Waterloo North Holdings Target Net Asset Value; and

(ii) Alliance Solutions Closing Net Asset Value equal to Alliance Solutions Target Net Asset Value.

(d) Before Closing, WNHI shall take reasonable steps to ensure that on Closing it has:

(i) WNHI Closing Net Working Capital equal to WNHI Target Net Working Capital;

(ii) WNHI Closing Net Fixed Assets equal to WNHI Target Net Fixed Assets;

(iii) WNHI Closing Net Regulatory Balance equal to WNHI Target Net Regulatory Balance;

(iv) WNHI Closing Net Other Assets and Liabilities equal to WNHI Target Net Other Assets and Liabilities; and

(v) WNHI Closing Total Net Debt equal to WNHI Target Total Net Debt.

2.4 Closing Financial Statements and Contracts Valuation

(a) Kitchener and Wilmot shall cause the auditors for the KPC Group to complete the audit procedures and distribute to Kitchener and Wilmot, Waterloo, Woolwich and Wellesley the audited financial statements for KWHI and KPC (consolidated) and unaudited financial statements of KPC and KESI (non-consolidated) as at the end of business on the day immediately prior to the Closing Date within 120 days following the Closing Date (the "**KW Closing Financial Statements**").

(b) Waterloo, Woolwich and Wellesley shall cause the auditors for the Waterloo North Group to complete the audit procedures and distribute to Waterloo, Woolwich and Wellesley, Kitchener and Wilmot the audited financial statements for WNHI and Waterloo North Holdings (consolidated) and unaudited financial statements for

Waterloo North Holdings, Alliance Solutions and Eyedro (non-consolidated) as at the end of business on the day immediately prior to the Closing Date within 120 days following the Closing Date (the "**Waterloo North Closing Financial Statements**").

(c) Kitchener and Wilmot, Waterloo, Woolwich and Wellesley shall cause a valuation by Grant Thornton LLP or such other Chartered Business Valuator (to be agreed between KPC and Waterloo North Holdings prior to the Closing Date) utilizing the discounted cash flow analysis method, as used for the Valuation, of the following:

(i) each new Customer Contract entered into and not terminated by a member of the KPC Group (excluding KWHI) or by a member of the Waterloo North Group (excluding WNHI) during the period from and including the date of this Agreement to and including the Closing Date,

(ii) any amendment to any new or existing Customer Contract to which a member of the KPC Group (excluding KWHI) or the Waterloo North Group (excluding WNHI) is a party made during the period from and including the date of this Agreement to and including the Closing Date existing at the date hereof; and

(iii) each Customer Contract that may be terminated by a member of the KPC Group (excluding KWHI) or by a member of the Waterloo North Group (excluding WNHI) or by a counterparty to any such Material Contract during the period from and including the date of this Agreement to and including the Closing Date,

(each such valuation by Kitchener and Wilmot, on the one hand, and Waterloo, Woolwich and Wellesley, on the other hand, a "**Customer Contracts Valuation**").

(d) All Closing Financial Statements shall be prepared in accordance with IFRS applied on a basis consistent with the preparation of the KPC Financial Statements (both consolidated and non-consolidated), the KWHI Financial Statements, the KESI Financial Statements, the Waterloo North Holdings Financial Statements (both consolidated and non-consolidated), the WNHI Financial Statements and the Alliance Solutions Financial Statements, as applicable. The Closing Financial Statements shall be accompanied by an unqualified report thereon by such auditors. For the purposes of preparing and reviewing the applicable Closing Financial Statements, each Party shall grant such auditors and the other authorized Representatives of the other Parties reasonable access to all relevant records, facilities and personnel in its possession or within its control. The KPC Group will accrue and pay all costs and expenses in connection with the preparation of the Closing Financial Statements in respect of the KPC Group and the Waterloo North Group will accrue and pay all costs and expenses in connection with the preparation of the Closing Financial Statements in respect of the Waterloo North Group.

(e) Kitchener and Wilmot shall have a period of 30 days from the date each receive the Waterloo North Closing Financial Statements, the reports of the auditor thereon and the Customer Contracts Valuation in respect of each applicable member of the Waterloo North Group during which to review such Waterloo North Closing Financial Statements and the Customer Contracts Valuation in respect of each applicable member of the Waterloo North Group. For the purpose of such review, Kitchener and Wilmot and each member of the KPC Group and their authorized Representatives shall be given full access by Waterloo, Woolwich and Wellesley and each member of the Waterloo North Group to examine the working papers, schedules and other documentation used or prepared by the auditors to the Waterloo North Group or Chartered Business Valuator, as applicable. If no written objection to such Waterloo North Closing Financial Statements or Customer Contracts Valuation in respect of each applicable member of the Waterloo North Group is given to Waterloo, Woolwich and Wellesley by Kitchener and Wilmot (acting jointly) within such 30-day period, such Waterloo North Closing Financial Statements and the Customer Contracts Valuation in respect of each applicable member of the Waterloo North Group shall be deemed to have been approved by Kitchener and Wilmot as of the last day of such 30-day period.

(f) Waterloo, Woolwich and Wellesley shall have a period of 30 days from the date they receive the applicable KW Closing Financial Statements, the reports of the auditor thereon and the Customer Contracts Valuation in respect of each applicable member of the KPC Group during which to review such applicable KW Closing Financial Statements and the Customer Contracts Valuation in respect of each applicable member of the KPC Group. For the purpose of such review, Waterloo, Woolwich and Wellesley and each member of the Waterloo North Group and their authorized Representatives shall be given full access by Kitchener and Wilmot and each member of the KPC Group to examine the working papers, schedules and other documentation used or prepared by the auditors to the KPC Group or Chartered Business Valuator, as applicable. If no written objection to such KPC Closing Financial Statements or the Customer Contracts Valuation in respect of each applicable member of the KPC Group is given to Kitchener and Wilmot by Waterloo, Woolwich and Wellesley (acting jointly) within such 30-day period, such KPC Closing Financial Statements and the Customer Contracts Valuation in respect of each applicable member of the KPC Group shall be deemed to have been approved by Waterloo, Woolwich and Wellesley as of the last day of such 30-day period.

(g) Kitchener and Wilmot (acting jointly) may object to the Waterloo North Closing Financial Statements and/or the Customer Contracts Valuation in respect of any applicable member of the Waterloo North Group within the 30-day period set out in Section 2.4(f) by giving written notice to Waterloo, Woolwich and Wellesley setting out in reasonable detail the nature of such objection (a "**Kitchener and Wilmot Objection**"). Waterloo, Woolwich and Wellesley (acting jointly) may object to the KW Closing Financial Statements and/or the Customer Contracts

Valuation in respect of the applicable member of the KPC Group within the 30-day period set out in Section 2.4(f) by giving written notice to Kitchener and Wilmot setting out in reasonable detail the nature of such objection (a "**Waterloo, Woolwich and Wellesley Objection**"). Kitchener, Wilmot, Waterloo, Woolwich and Wellesley (acting jointly) agree to attempt to resolve the matters in dispute set out in a Kitchener and Wilmot Objection and/or Waterloo, Woolwich and Wellesley Objection within 15 days from the date on which such notice is given. If all matters in dispute are resolved by Kitchener, Wilmot, Waterloo, Woolwich and Wellesley, the applicable Closing Financial Statements(s) and/or Customer Contracts Valuation, as applicable, shall be modified to the extent required to give effect to such resolution and shall be deemed to have been approved as of the date of such resolution.

(h) If Kitchener and Wilmot (acting jointly) and Waterloo, Woolwich and Wellesley (acting jointly) cannot resolve all matters in dispute in a Kitchener and Wilmot Objection and/or Waterloo, Woolwich and Wellesley Objection within such 15-day period, all unresolved matters shall be submitted to a mutually agreed, independent, nationally recognized accounting firm (the "**Expert**") for resolution. The Expert shall be given access to all materials and information reasonably requested by it for such purpose. The rules and procedures to be followed in connection therewith shall be determined by the Expert in its discretion but the Expert shall be instructed to proceed as quickly as possible. Notwithstanding the foregoing, the final determination of the Expert shall be limited to the strict parameters of the dispute submitted to it and the Expert shall limit its review to the matters specifically set out in the Kitchener and Wilmot Objection and/or Waterloo, Woolwich and Wellesley Objection and shall not assign a value to any item that is higher than the highest value for such item or lower than the lowest value for such item claimed by any Party. The Expert's determination of all such matters shall be final and binding on all Parties and shall not be subject to appeal by Kitchener and Wilmot, Waterloo, Woolwich and Wellesley or any other Party. The fees and expenses of the Expert shall be borne by Amalco Holdco. The applicable Closing Financial Statements, Customer Contracts Valuation in respect the applicable member(s) of the KPC Group and/or Waterloo North Group shall be modified to the extent required to give effect to the Expert's determination and shall be deemed to have been approved as of the date of such determination.

2.5 Calculation of Adjustments

(a) Upon the approval or deemed approval pursuant to Section 2.4 of the Financial Statements for each member of the KPC Group,

(i) KPC shall calculate the sum of:

(A) the KPC Closing Net Asset Value ***less*** the KPC Target Net Asset Value (which sum may be positive or negative), ***plus***

(B) [redacted] ***less*** one-third (1/3) of the [redacted] (which sum may be positive or negative).

(ii) KWHI shall calculate the sum of:

(A) the KWHI Closing Net Working Capital ***less*** the KWHI Target Net Working Capital (which sum may be positive or negative), ***plus***

(B) the KWHI Closing Net Fixed Assets ***less*** the KWHI Target Net Fixed Assets (which sum may be positive or negative), ***plus***

(C) the KWHI Closing Net Regulatory Balance ***less*** the KWHI Target Net Regulatory Balance (which sum may be positive or negative), ***plus***

(D) the KWHI Closing Net Other Assets and Liabilities ***less*** the KWHI Target Net Other Assets and Liabilities; ***plus***

(E) the KWHI Closing Total Net Debt ***less*** the KWHI Target Total Net Debt (which sum may be positive or negative),

(iii) KESI shall calculate the sum of:

(A) the KESI Closing Net Asset Value ***less*** the KESI Target Net Asset Value (which sum may be positive or negative), ***plus***

(B) the value of any Customer Contracts Valuation to which KESI is a party pursuant to the applicable Customer Contracts Valuation (which sum may be positive or negative);

with the sum of all of the amounts referred to in this Section 2.5(a) referred to as the "**KPC Group Adjustment Amount**".

(b) Upon the approval or deemed approval pursuant to Section 2.4 of the Closing Financial Statements for each member of the Waterloo North Group,

(i) Waterloo North Holdings shall calculate the sum of:

(A) the Waterloo North Holdings Closing Net Asset Value ***less*** the Waterloo North Holdings Target Net Asset Value (which sum may be positive or negative); ***plus***

(B) Twenty three point six five percent (23.65%) of the Eyedro Closing Net Asset Value ***less*** twenty three point six five percent (23.65%) **of** the Eyedro Target Net Asset Value (which sum may be positive or negative); ***plus***

(C) the Alliance Solutions Closing Net Asset Value ***less*** the Alliance Solutions Target Net Asset Value (which sum may be positive or negative), ***plus***

(D) the value of any Customer Contracts Valuation to which Alliance Solutions is a party pursuant to the applicable Customer Contracts Valuation (which sum may be positive or negative), plus

(E) [redacted] ***less*** one-third (1/3) of the [redacted] (which sum may be positive or negative)**.**

(ii) WNHI shall calculate the sum of:

(A) the WNHI Closing Net Working Capital ***less*** the WNHI Target Net Working Capital (which sum may be positive or negative), ***plus***

(B) the WNHI Closing Net Fixed Assets ***less*** the WNHI Target Net Fixed Assets (which sum may be positive or negative), ***plus***

(C) the WNHI Closing Net Regulatory Balance ***less*** the WNHI Target Net Regulatory Balance (which sum may be positive or negative), ***plus***

(D) the WNHI Closing Net Other Assets and Liabilities ***less*** the WNHI Target Net Other Assets and Liabilities; ***plus***

(E) the WNHI Closing Total Net Debt ***less*** the WNHI Target Total Net Debt (which sum may be positive or negative).

with the sum of all of the amounts referred to in this Section 2.5(b) referred to as the "**Waterloo North Group Adjustment Amount**".

(c) For the purposes of this Article 2:

(i) **"Alliance Solutions Closing Net Asset Value"** means the total shareholder's equity as set out in the applicable Waterloo North Closing Financial Statements;

(ii) **"Alliance Solutions Target Net Asset Value"** means [redacted]

(iii) **"Eyedro Closing Net Asset Value"** means: 23.65% of the sum of (i) shareholders' equity, *plus* (ii) the preferred shares net of transaction costs as shown on the applicable Waterloo North Closing Financial Statements (i.e. the Eyedro unaudited Closing financial statements);

(iv) **"Eyedro Target Net Asset Value"** means [redacted]

(v) **“GRE Closing Net Asset Value”** means 1/3 of the shareholders’ equity as shown on the Closing GRE Financial Statements;

(vi) **“GRE Target Net Asset Value”** means [redacted]

(vii) **“KESI Closing Net Asset Value”** means the shareholder’s equity of KESI as shown on the applicable KW Closing Financial Statements;

(viii) **“KESI Target Net Asset Value”** means [redacted]

(ix) **“KPC Closing Net Asset Value”** means the sum of (i) total non-consolidated shareholders’ equity, *less* (ii) the investments in its subsidiaries and associates, all as set out in the applicable KW Closing Financial Statements (i.e. the Closing non-consolidated financial statements of KPC);

(x) **“KPC Target Net Asset Value”** means [redacted]

(xi) “**KWHI Closing Net Fixed Assets**” means the value of the Fixed Assets as defined and based on the applicable KW Closing Financial Statements;

(xii) “**KWHI Closing Net Other Assets and Liabilities**” means any current or long term assets or liabilities not included within the KWHI Closing Net Working Capital, KWHI Closing Net Fixed Assets, KWHI Closing Net Regulatory Balance or KWHI Closing Total Net Debt, provided; however, that Closing Net Other Assets and Liabilities will exclude any derivative assets or liabilities, net of any associated deferred tax as determined in accordance with IFRS, consistently applied and based on the applicable KW Closing Financial Statements;

(xiii) “**KWHI Closing Net Regulatory Balance**” means the asset regulatory balances net of deferred tax component, if any, *less* liability regulatory balances net of deferred tax component, if any, in each case as determined in accordance with IFRS, consistently applied and as shown on the applicable KW Closing Financial Statements;

(xiv) “**KWHI Closing Total Net Debt**” means the sum of the Total Debt of KWHI as defined, cash and cash equivalents, bank indebtedness, and net deferred tax assets or liabilities in each case based on the applicable KW Closing Financial Statements;

(xv) “**KWHI Closing Working Capital**” means the sum of the Current Assets of KWHI ***less*** the Current Liabilities of KWHI, in each case as determined in accordance with IFRS, consistently applied and as shown on the applicable KW Closing Financial Statements;

(xvi) “**KWHI Target Net Fixed Assets**” means [redacted]

(xvii) “**KWHI Target Net Other Assets and Liabilities**” means [redacted]

(xviii) “**KWHI Target Net Regulatory Balance**” means [redacted]

(xix) **“KWHI Target Net Working Capital”** means [redacted]

(xx) “**KWHI Target Total Net Debt**” means [redacted]

(xxi) “**Waterloo North Holdings Closing Net Asset Value”** means the sum of (i) total non-consolidated shareholder’s equity, less (ii) investments in its subsidiaries and associates, all as set out in the applicable Waterloo North Closing Financial Statements (i.e. the Closing non-consolidated financial statements of Waterloo North Holdings);

(xxii) **“Waterloo North Holdings Target Net Asset Value”** means [redacted]

(xxiii) “**WNHI Closing Net Fixed Assets**” means the value of the Fixed Assets as defined and as included on the applicable Waterloo North Closing Financial Statements;

(xxiv) “**WNHI Closing Net Other Assets and Liabilities**” means any current or long term asset or liability not included within the WNHI Closing Net Working Capital, WNHI Closing Net Fixed Assets, WNHI Closing Net Regulatory Balance, or WNHI Closing Total Net Debt; provided, however, that other liabilities will: (a) include related party loan balances, and (b) exclude derivative assets or liabilities, net of any associated deferred tax, all as determined in accordance with IFRS, consistently applied and as shown on the applicable Waterloo North Closing Financial Statements;

(xxv) “**WNHI Closing Net Regulatory Balance**” means the asset regulatory balances net of deferred tax component, if any, ***less*** the liability regulatory balances net of deferred tax component, if any, in each case as determined in accordance with IFRS, consistently applied and as shown on the applicable Waterloo North Closing Financial Statements;

(xxvi) “**WNHI Closing Net Working Capital**” means the sum of the Current Assets of WNHI *less* the Current Liabilities of WNHI, in each case as determined in accordance with IFRS, consistently applied and as shown on the applicable Waterloo North Closing Financial Statements;

(xxvii) “**WNHI Closing Total Net Debt**” means the sum of the Total Debt of WNHI as defined, cash and cash equivalents, bank indebtedness, and net deferred tax assets or liabilities, in each case based on the applicable Waterloo North Closing Financial Statements;

(xxviii) “**WNHI Target Net Fixed Assets**” means [redacted]

(xxix) **"WNHI Target Net Other Assets and Liabilities"** means [redacted]

(xxx) "**WNHI Target Net Regulatory Balance**" means [redacted]

(xxxi) "**WNHI Target Net Working Capital**" means [redacted] and

(xxxii) "**WNHI Target Total Net Debt**" means [redacted]

2.6 Implementation of Adjustments

(a) As soon as practicable following the final determination of the KPC Group Adjustment Amount and the Waterloo North Group Adjustment Amount:

(i) Kitchener and Wilmot (acting jointly) shall send a redemption notice to Amalco Holdco in accordance with the redemption terms attached to its Special Shares if the KPC Group Adjustment Amount as a percentage of the KPC Group Valuation is higher than the Waterloo North Group Adjustment Amount as a percentage of the Waterloo North Group Valuation. Such redemption notice shall notify Amalco Holdco of Kitchener and Wilmot's intention to redeem the Special Shares it holds in Amalco Holdco. Amalco Holdco, in accordance with the redemption terms applicable to the Special Shares, shall pay to Kitchener and Wilmot, and Kitchener and Wilmot shall be entitled to receive from Amalco Holdco, the Net Adjustment Amount. In this situation, Waterloo, Woolwich and Wellesley shall each send a redemption notice to Amalco Holdco in accordance with the redemption terms applicable to the Special Shares, notifying Amalco Holdco of their intention to have their respective Special Shares redeemed for the price of $1.00, in the aggregate.

(ii) Waterloo, Woolwich and Wellesley shall send a redemption notice to Amalco Holdco in accordance with the redemption terms attached to its Special Shares if the Waterloo North Group Adjustment Amount as a percentage of the Waterloo North Group Valuation is higher than the KPC Group Adjustment Amount as a percentage of the KPC Group Valuation. Such redemption notice shall notify Amalco Holdco of Waterloo, Woolwich and Wellesley's intention to redeem the Special Shares each holds in Amalco Holdco. Amalco Holdco, in accordance with the redemption terms applicable to the Special Shares, shall pay to Waterloo, Woolwich and Wellesley, and Waterloo, Woolwich and Wellesley shall be entitled to receive from Amalco Holdco, the Net Adjustment Amount. In this situation, Kitchener and Wilmot (acting jointly) shall send a redemption notice to Amalco Holdco in accordance with the redemption terms applicable to the Special Shares, notifying Amalco Holdco of their intention to have their respective Special Shares redeemed for the price of $1.00, in the aggregate.

(iii) Each of Kitchener, Wilmot, Waterloo, Woolwich and Wellesley shall send a redemption notice to Amalco Holdco in accordance with the redemption terms applicable to the Special Shares held by each of them notifying Amalco Holdco of their intention to have their respective Special Shares redeemed for the price of $1.00, in the aggregate if the Net Adjustment Amount is zero.

(iv) Illustrative examples of the calculations of the KPC Group Adjustment Amount and the Waterloo North Group Adjustment Amount are set out in Schedule 2.6(a)(iv). In the case of any conflict between Schedule 2.6(a)(iv) and this Article 2, this Article 2 shall prevail.

(b) Amalco Holdco shall pay the applicable redemption amount in cash to the redeeming shareholder in the amounts and at the times prescribed by the Share Capital provisions set forth in Schedule 2.6(b).

(c) Each of LDC Amalco, KESI and Alliance Solutions, as applicable, will declare dividends in such amounts as may be required by Amalco Holdco to fund any payments or dividends in connection with any Special Shares.

2.7 Nature and Intent of Adjustments (No Double Counting)

Each of the Parties acknowledges and agrees that the calculations performed pursuant to this Article 2 including the determination of the KPC Group Adjustment Amount and the Waterloo North Group Adjustment Amount, as applicable, shall be calculated without duplication or double counting of amounts.

ARTICLE 3
GENERAL REPRESENTATIONS AND WARRANTIES

Each of Parties hereby severally represents and warrants as follows to each other that, the representations and warranties set out below with respect to itself are true and correct on the date hereof and acknowledge that each such other Party is relying on such representations and warranties:

3.1 Corporate Existence

It is a corporation (in the case of Waterloo, Woolwich, Wellesley, Kitchener and Wilmot, a municipal corporation), duly incorporated and validly existing under the laws of Ontario.

3.2 Capacity to Enter Agreement

It has all necessary corporate power, authority and capacity to enter into and perform its obligations under this Agreement and each of the other documents and agreements to be entered into by it pursuant to this Agreement.

3.3 Binding Obligation

The execution and delivery of this Agreement and each of the other documents and agreements to be entered into by it pursuant to this Agreement and the completion of the transactions contemplated by this Agreement and such other documents and agreements by it have been duly authorized by all necessary corporate action on its part. This Agreement has been duly executed and delivered by such entity and constitutes a valid and binding obligation of such entity, enforceable against it in accordance with the terms hereof, subject to applicable bankruptcy, insolvency and other Laws of general application limiting the enforcement of creditors' rights generally and to the fact that equitable remedies, including specific performance, are discretionary and may not be ordered in respect of certain defaults.

3.4 Absence of Conflict

None of the execution and delivery of this Agreement and each of the other documents and agreements to be entered into by it pursuant to this Agreement, the performance by it of its obligations hereunder and thereunder or the completion of the transactions contemplated hereunder and thereunder will:

(a) result in or constitute a breach of any term or provision of, or constitute a default under, the Corporate Articles, by-laws or other constating documents of such entity, or any Contract to which such entity is a party or by which such entity's undertakings, property or assets are bound or affected;

(b) result in the creation or imposition of any Encumbrance on any of the assets of such entity;

(c) subject to obtaining the regulatory approvals set forth in Article 9, contravene any applicable Law; or

(d) contravene any judgment, order, writ, injunction or decree of any Governmental Authority.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF KITCHENER AND WILMOT

Kitchener and Wilmot severally and not jointly represent and warrant to Waterloo, Woolwich and Wellesley as follows, and acknowledges that each of Waterloo, Woolwich and Wellesley are relying upon these representations and warranties in connection with the Amalgamations. Each exception to the following representations and warranties is set out in the disclosure schedule attached as Schedule 4.1 (the "**KW Disclosure Schedule**").

4.1 Residence

No member of the KPC Group is a non-resident of Canada for purposes of the ITA.

4.2 Regulatory Approvals

Except as set out in Article 9 and except as has already been obtained, no authorization, approval, order, consent of, or filing with, any Governmental Authority is required on the part of Kitchener and Wilmot, KPC Group in connection with the execution, delivery and performance by any of them of this Agreement or any other documents and agreements to be delivered under this Agreement or in connection with the completion of the transactions contemplated hereby or thereby.

4.3 Consents

Except as disclosed in the KW Disclosure Schedule, there is no requirement to obtain any consent, approval or waiver of a party under any Material Contract to which Kitchener and Wilmot or the KPC Group is a party in order to complete the transactions contemplated by this Agreement.

4.4 Share Ownership, Etc.

(a) As at the date hereof, Kitchener is the legal and beneficial owner of 18,450 common shares in the capital of KPC and Wilmot is the legal and beneficial owner of 1,550 common shares in the capital of KPC, with good and marketable title thereto, free and clear of all Encumbrances, being in aggregate all of the issued and outstanding shares of KPC. Immediately prior to Closing, Kitchener and Wilmot will be the legal and beneficial owner of all of the issued and outstanding common shares of KPC with good and marketable title thereto, free and clear of all Encumbrances.

(b) KPC is the legal and beneficial owner of 10,000 common shares of KWHI with good and marketable title thereto, free and clear of all Encumbrances (other than Permitted Encumbrances), being in aggregate all of the issued and outstanding shares of KWHI.

(c) KPC is the legal and beneficial owner of [redacted] of KESI with good and marketable title thereto, free and clear of all Encumbrances (other than Permitted Encumbrances), being in aggregate all of the issued and outstanding shares of KESI.

(d) KPC is the legal and beneficial owner of [redacted] of GRE with good and marketable title thereto, free and clear of all Encumbrances (other than Permitted Encumbrances).

(e) Kitchener and Wilmot are each the legal and beneficial owners of the promissory notes as described in the KW Disclosure Schedule (the "**Kitchener and Wilmot Promissory Notes**"). None of the Kitchener and Wilmot Promissory Notes contains any rights of the holders thereof or any member of the KPC Group to convert, redeem or otherwise exchange any of such Kitchener and Wilmot Promissory Notes into any shares or other securities of the KPC Group.

(f) Except as disclosed in the KW Disclosure Schedule or in this Section 4.4, the KPC Group does not own or hold, directly or indirectly, any Securities of, or have any other interest in, any Person, and no member of the KPC Group has entered into any agreement to acquire any such interests.

4.5 Corporate Existence of the KPC Group

Each member of the KPC Group has been duly incorporated and organized and are validly existing and in good standing as a corporation under the laws of the Province of Ontario. No proceedings have been taken or authorized by any member of the KPC Group in respect of the bankruptcy, insolvency, liquidation, dissolution or winding up of such member of the KPC Group.

4.6 Corporate Articles

Their respective Corporate Articles constitute all of the charter documents of each member of the KPC Group and are in full force and effect; no action has been taken to amend any Corporate Articles and no changes to such Corporate Articles are planned other than as contemplated in this Agreement.

4.7 Capacity and Powers of the KPC Group

Each member of the KPC Group has all necessary corporate power, authority and capacity to own or lease its respective assets and to carry on the KPC Business as currently being conducted by the applicable member of the KPC Group.

4.8 Jurisdictions

Ontario is the only jurisdiction in which the members of the KPC Group are qualified to do business. Neither the character nor location of the KPC Group Owned Lands or KPC Group Leased Premises, nor the nature of the KPC Business requires qualification to do business in any other jurisdiction.

4.9 Options, Etc.

Except as provided in this Agreement, no Person has any written or oral agreement or option or any right or privilege (whether by Law, pre-emptive, contractual or otherwise) capable of becoming an agreement or option, including Securities, warrants or convertible obligations of any nature, for:

(a) the purchase of any Securities of any member of the KPC Group; or

(b) the purchase of any of the assets of any member of the KPC Group other than in the ordinary course of the KPC Business.

4.10 Corporate Records/Directors

(a) The corporate records and minute books of the KPC Group which have been made available contain in all material respects complete and accurate minutes of all meetings of, and all written resolutions passed by, the directors and shareholders of the KPC Group, held or passed since incorporation. All those meetings were held, all those resolutions were passed, and the share certificate books, registers of shareholders, registers of transfers and registers of directors of the applicable member of the KPC Group are complete and accurate in all material respects.

(b) The KW Disclosure Schedule contains the name of each director of the applicable member of the KPC Group, including the date on which each of such director was most recently elected as a director, and each such individual has been duly elected a director of the respective member of the KPC Group.

4.11 Books and Records

The Books and Records of the KPC Group fairly and correctly set out and disclose in accordance with IFRS in all material respects the financial position of the KPC Group, and all material financial transactions of the KPC Group have been accurately recorded in such Books and Records.

4.12 Financial Statements

Copies of the KPC Financial Statements and the KWHI Financial Statements are attached to the KW Disclosure Schedule. Such KPC Financial Statements and KWHI Financial Statements have been prepared in accordance with IFRS and present fairly:

(a) the assets, liabilities (whether accrued, absolute, contingent or otherwise) and the financial condition of each member of the KPC Group as at the respective dates thereof; and

(b) the sales, earnings and results of the operations of the applicable member of the KPC Group during the periods covered by such KPC Financial Statements and KWHI Financial Statements;

but the unaudited interim financial statements:

(c) do not contain all notes required under IFRS; and

(d) are subject to normal year-end audit adjustments.

4.13 Tax Matters

(a) The members of the KPC Group are exempt from Tax under the ITA, CTA and TA but each of them is required to make PILs payments under the EA in an amount equal to the Tax that it would be liable to pay under the ITA, CTA and TA if it were not exempt from Tax under those statutes.

(b) The members of the KPC Group have filed in the prescribed manner and within the prescribed times all Tax Returns required to be filed by it in all applicable jurisdictions on a timely basis. All such Tax Returns are complete and correct and disclose all Taxes required to be paid for the periods covered thereby. No member of the KPC Group has been required to file any Tax Returns with, and have never been liable to pay or remit Taxes to, any Governmental Authority outside Canada. The KPC Group have paid all Taxes and all instalments of Taxes due on or before the date hereof. Kitchener and Wilmot has furnished to the Waterloo North Group true, complete and accurate copies of all Tax Returns and any amendments thereto filed by the KPC Group since December 31, 2017 and all notices of assessment and reassessment and all correspondence with Governmental Authorities relating thereto.

(c) Assessments under the EA have been issued to the KPC Group covering all periods up to and including its fiscal year ended December 31, 2020.

(d) There are no audits, assessments, reassessments or other Claims in progress or, to the Knowledge of Kitchener and Wilmot, threatened against any member of the KPC Group, in respect of any Taxes and, in particular, there are no currently outstanding reassessments or written enquiries which have been issued or raised by any Governmental Authority relating to any such Taxes. To the Knowledge of Kitchener and Wilmot, there is no contingent liability of any member of the KPC Group for Taxes or any grounds that could prompt an assessment or reassessment for Taxes. No member of the KPC Group has received any indication from any Governmental Authority that any assessment or reassessment is proposed.

(e) No member of the KPC Group has entered into any transactions with any non-resident of Canada (for the purposes of the ITA) with whom such member of the KPC Group was not dealing at arm’s length (within the meaning of the ITA). No member of KPC Group has acquired property from any Person in circumstances where such member of the KPC Group did or could have become liable for any Taxes payable by that Person.

(f) No member of the KPC Group will be required to include in a taxable period ending after the Closing Date any material taxable income attributable to income that accrued in a taxable period prior to the Closing Date but was not recognized for Tax purposes in such prior taxable period (or to exclude from taxable income in a taxable period ending after the Closing Date any material deduction the recognition of which was accelerated from such taxable period to a taxable period prior to the Closing Date).

(g) There are no circumstances existing which could result in, or which have existed and resulted in, the application of section 78 of the ITA, as it applies for purposes of the EA, in respect of an amount owing by a member of the KPC Group on the Closing Date.

(h) No member of the KPC Group has entered into any agreements, waivers or other arrangements with any Governmental Authority providing for an extension of time with respect to the issuance of any assessment or reassessment, the filing of any Tax Return, or the payment of any Taxes by or in respect of such member of the KPC Group. No member of the KPC Group is party to any agreements or undertakings with respect to Taxes.

(i) Kitchener Power Corp., Kitchener-Wilmot Hydro Inc. and Kitchener Energy Services Inc. are registrants for purposes of the ETA and KPC's registration number is [redacted], KWHI's registration number is [redacted] and KESI's registration number is [redacted]. Except as set forth on the KW Disclosure Schedule, all input tax credits claimed by each member of the KPC Group pursuant to the ETA have been proper, correctly calculated and documented. Each member of the KPC Group has collected, paid and remitted when due all Taxes, including goods and services tax, harmonized sales tax and retail sales tax, collectible, payable or remittable by them.

(j) Each member of the KPC Group has remitted to the appropriate Governmental Authority when required by Law to do so all amounts collected by it on account of sales taxes including goods and services tax and harmonized sales tax imposed under the ETA.

(k) Each member of the KPC Group maintains its Books and Records in compliance with section 230 of the ITA.

4.14 Absence of Changes

Except as disclosed in the KW Disclosure Schedule, since December 31, 2020, there has not been:

(a) any change in the financial condition, operations, results of operations, or business of any member of the KPC Group which has had a Material Adverse Effect, nor has there been any occurrence or circumstances which, to the Knowledge of Kitchener and Wilmot, with the passage of time might reasonably be expected to have a Material Adverse Effect; or

(b) any Loss, labour trouble, or other event, development or condition of any character (whether or not covered by insurance) suffered by KPC Group which, to the Knowledge of Kitchener and Wilmot, has had, or may reasonably be expected to have, a Material Adverse Effect.

4.15 Absence of Undisclosed Liabilities

Except to the extent reflected or reserved in the KPC Financial Statements and the KWHI Financial Statements, or incurred subsequent to December 31, 2020 and:

(a) disclosed in the KW Disclosure Schedule; or

(b) incurred in the ordinary course of the KPC Business;

no member of the KPC Group has any material outstanding indebtedness or any liabilities or obligations (whether accrued, absolute, contingent or otherwise, including under any guarantee of any debt) of a nature customarily reflected or reserved against in a balance sheet (including the notes to the KPC Financial Statements, the KWHI Financial Statements and the KESI Financial Statements) in accordance with IFRS. For the purposes of this Section 4.15 only, indebtedness, liabilities or obligations owing to any third party [redacted] will be deemed to be material.

4.16 Absence of Unusual Transactions

Except as disclosed or referred to in the KW Disclosure Schedule, since December 31, 2020 no member of the KPC Group has:

(a) given any guarantee of any debt, liability or obligation of any Person;

(b) subjected any of its assets, or permitted any of its assets to be subjected, to any Encumbrance other than the Permitted Encumbrances;

(c) acquired, sold, leased or otherwise disposed of or transferred any assets other than in the ordinary course of the KPC Business;

(d) made or committed to any capital expenditures other than in the ordinary course of the KPC Business;

(e) declared or paid any dividend or otherwise made any distribution or other payment of any kind or nature to any of its shareholders or any other non-arm's length Person, or taken any corporate proceedings for that purpose;

(f) redeemed, purchased or otherwise retired any of its shares or otherwise reduced its stated capital;

(g) entered into or become bound by any Contract except in the ordinary course of the KPC Business (other than this Agreement);

(h) modified, amended or terminated any Contract (except for Contracts which expire by the passage of time) resulting in a Material Adverse Effect;

(i) waived or released any right or rights which it has or had, or a debt or debts owed to it resulting, collectively or individually, in a Material Adverse Effect;

(j) made any change in any compensation arrangement or agreement with any KPC Employee except for annual merit pay increases and incentive payments consistent with the ordinary course of the KPC Business;

(k) made any change in any method of accounting or auditing practice (other than as disclosed in the KPC Financial Statements, KESI Financial Statements or KWHI Financial Statements and/or in order to make its financial disclosure consistent with the financial disclosure of the KPC Group as regards accrued CDM bonus or as regards loss revenue adjustment mechanism recoveries); or

(l) agreed or offered to do any of the things described in this Section 4.16.

4.17 Title to and Condition of Assets

Each member of the KPC Group owns, possesses and has good and marketable title to all of its undertakings, property and assets not otherwise the subject of specific representations and warranties in this Article 4, including all the undertakings, property and assets reflected in the most recent balance sheet included in the KPC Financial Statements or the KWHI Financial Statements (as applicable), free and clear of all Encumbrances other than Permitted Encumbrances. The undertakings, property and assets of each member of the KPC Group comprise all of the undertakings, property and assets necessary for it to carry on the KPC Business as it is currently operated by such member of the KPC Group. All facilities, machinery, equipment, fixtures, vehicles and other properties owned, leased or used by each member of the KPC Group are in good operating condition and repair, ordinary wear and tear excepted, and are reasonably fit and usable for the purposes for which they are being used.

4.18 Real Property

(a) The KW Disclosure Schedule contains a complete and accurate list of the KPC Group Owned Lands, including complete legal descriptions, and the particulars of the KPC Group Leased Premises and KPC Group Real Property Leases. No member of the KPC Group owns any real property and does not lease and has not agreed to acquire or lease any real property other than as listed in the KW Disclosure Schedule.

(b) Each member of the KPC Group has all Easements that are necessary for it to carry on the KPC Business as it is currently operated by such member of the KPC Group.

(c) No member of the KPC Group has received any, nor to the Knowledge of Kitchener and Wilmot are there any pending or threatened, notices of violation or alleged violation of any Laws against or affecting any KPC Group Owned Lands or KPC Group Leased Premises or KPC Group Easements.

(d) The buildings and other structures and improvements located on the KPC Group Owned Lands or forming part of the KPC Group Leased Premises, and their operation and maintenance, comply with all applicable Laws, and none of those buildings or structures or improvements encroaches upon any land not owned or leased by the applicable member of the KPC Group.

(e) There are no restrictive covenants or Laws which in any way restrict or prohibit any part of the present use of the KPC Group Owned Lands or KPC Group Leased Premises or KPC Group Easements, other than the Permitted Encumbrances. Each member of the KPC Group has such rights of entry and exit to and from the KPC Group Owned Lands and the KPC Group Leased Premises and the KPC Group Easements as are reasonably necessarily to carry on the KPC Business.

(f) Except as disclosed in the KW Disclosure Schedule, no Person has any right to purchase any of the KPC Group Owned Lands and no Person other than KWHI is using or has any right to use, is in possession or occupancy, of any part of the KPC Group Owned Lands. There exists no option, right of first refusal or other contractual rights with respect to any of the KPC Group Owned Lands.

(g) There are no expropriation or similar proceedings, actual or threatened, of which any member of the KPC Group or Kitchener and Wilmot have received notice, against any of the KPC Group Owned Lands or KPC Group Leased Premises or KPC Group Easements.

(h) The KPC Group Owned Lands are owned in fee simple, free and clear of all Encumbrances, except Permitted Encumbrances. No member of the KPC Group has entered into any contract to sell, transfer, encumber, or otherwise dispose of or impair the right, title and interest of such member of the KPC Group in and to the KPC Group Owned Lands or the air, density and easement rights relating to such KPC Group Owned Lands.

(i) All of the KPC Group Real Property Leases are in full force and effect, unamended, and none of them are, to the Knowledge of Kitchener and Wilmot, under any threat of termination.

(j) All of the KPC Group Easements are in full force and effect and none of them are, to the Knowledge of Kitchener and Wilmot, under any threat of termination.

(k) Neither Kitchener and Wilmot nor any member of the KPC Group has received any notification of, nor are there any outstanding or incomplete work orders in respect of any Fixed Assets on the KPC Group Owned Lands, KPC Group Leased Premises or KPC Group Easements, or of any current noncompliance (other than non-compliances which are legal non-conforming under relevant zoning by-laws) with applicable statutes and regulations or building and zoning by-laws and regulations.

(l) All accounts for work and services performed or materials placed or furnished upon or in respect of the construction and completion of any Fixed Assets constructed on the KPC Group Owned Lands or the KPC Group Leased Premises or the KPC Group Easements have been fully paid to the extent due and no Person is entitled to claim a lien under the *Construction Act* (Ontario) or other similar legislation for such work.

(m) To the Knowledge of Kitchener and Wilmot, there are no matters affecting the right, title and interest of any member of the KPC Group in and to the KPC Group Owned Lands or the KPC Group Leased Premises or the KPC Group Easements (other than the Permitted Encumbrances) or which, in the aggregate, would materially and adversely affect the ability of such member of the KPC Group to carry on the KPC Business upon such KPC Group Owned Lands or the KPC Group Leased Premises or the KPC Group Easements, as applicable.

4.19 Intellectual Property

(a) The KW Disclosure Schedule includes a list of all Intellectual Property that is registered with any Governmental Authority and that is used in connection with the conduct of the KPC Business, including all trade-marks and trade-mark applications, trade names, certification marks, patents and patent applications, copyrights, domain names, industrial designs, trade secrets, know-how, formulae, processes, inventions, technical expertise, research data and other similar property, all associated registrations and applications for registration, and all associated rights, including moral rights, the jurisdictions (if any) in which that Intellectual Property is registered (or in which application for registration has been made) and the applicable expiry dates of all listed registrations.

(b) All necessary legal steps have been taken by the KPC Group to preserve their respective rights to the Intellectual Property listed in the KW Disclosure Schedule. The KW Disclosure Schedule also includes a list of all licence agreements pursuant to which KPC Group have been granted a right to use, or otherwise exploit Intellectual Property owned by third parties, other than “off-the-shelf” software license agreements.

(c) The Intellectual Property that is owned by the members of the KPC Group (as applicable) is owned free and clear of any Encumbrances other than Permitted Encumbrances, and no Person other than the applicable member of the KPC Group has any right to use that Intellectual Property except as disclosed in the KW Disclosure Schedule.

(d) The use by the members of the KPC Group of any Intellectual Property owned by third parties is valid, and the KPC Group is not in default or breach of any licence agreement relating to that Intellectual Property, and there exists no state of facts which, after notice or lapse of time or both, would constitute a default or breach.

(e) The conduct by the members of the KPC Group of the KPC Business does not infringe the Intellectual Property of any Person.

4.20 Accounts Receivable

All Accounts Receivable reflected in the KPC Financial Statements, KESI Financial Statements and the KWHI Financial Statements, as applicable, or which have come into existence since the date of the most recent KPC Financial Statements, KESI Financial Statements and KWHI Financial Statements, were created in the ordinary and customary course of the KPC Business from bona fide arm's length transactions, and, except to the extent that they have been paid in the ordinary course of such KPC Business since the date of the KPC Financial Statements, KESI Financial Statements and the KWHI Financial Statements, are valid and enforceable and collectible in full, without, to the Knowledge of Kitchener and Wilmot, any right of set-off or counterclaim or any reduction for any credit or allowance made or given, except to the extent of the allowance for doubtful accounts which will be included in the KPC Closing Financial Statements, KESI Closing Financial Statements or KWHI Closing Financial Statements, as applicable.

4.21 Material Contracts

(a) The KW Disclosure Schedule contains a list of all Material Contracts to which each member of the KPC Group is a party. Kitchener and Wilmot have previously delivered or made available true and complete copies of such Material Contracts, all of which are in full force and effect, unamended (except for amendments which have previously been disclosed or made available).

(b) No counterparty to any Material Contract to which any member of the KPC Group is a party is in default of any of its obligations under such Material Contract in any material respect. Each member of the KPC Group is entitled to all benefits accruing to it under each Material Contract to which it is a party, and no member of the KPC Group has received any notice of termination of any Material Contract, and there are no current or pending negotiations with respect to the renewal, repudiation or amendment of any such Material Contract.

4.22 Accounts and Powers of Attorney

Each member of the KPC Group has previously disclosed:

(a) the name of each bank or other depository in which such member of the KPC Group maintains any bank account, trust account or safety deposit box and the names of all individuals authorized to draw on them or who have access to them; and

(b) the name of each Person holding a general or special power of attorney from KPC Group and a summary of its terms.

4.23 Compliance with Laws, Permits

(a) Each member of the KPC Group is conducting the KPC Business in compliance with all applicable Laws where the failure to do so (either individually or in the aggregate) would have a Material Adverse Effect.

(b) All Permits held by or granted to each member of the KPC Group are listed in the KW Disclosure Schedule. Such Permits are the only authorizations, registrations, permits, approvals, grants, licences, quotas, consents, commitments, rights or privileges (other than those relating to Intellectual Property) required to enable each member of the KPC Group to carry on the KPC Business as currently conducted and to enable each member of the KPC Group to own, lease and operate its assets. All such Permits are valid, subsisting, in full force and effect and unamended, and no member of the KPC Group is in default or breach of any such Permit; no proceeding is pending or, to the Knowledge of Kitchener and Wilmot, threatened to revoke or limit any such Permit, and the completion of the transactions contemplated by this Agreement will not result in the revocation of any such Permit or the breach of any term, provision, condition or limitation affecting the ongoing validity of any such Permit.

4.24 Environmental Conditions

Without limiting the generality of Section 4.23, and except as disclosed in the KW Disclosure Schedule:

(a) the conduct of the KPC Business by the members of the KPC Group, and the current use and condition of each of the KPC Group Leased Premises and KPC Group Owned Lands have been and are in compliance with all applicable Environmental Laws in all material respects, and, to the Knowledge of Kitchener and Wilmot, there are no facts which would give rise to any such non-compliance of any member of the KPC Group with any Environmental Laws either in the conduct of the KPC Business or in the current uses and condition of each of the KPC Group Leased Premises and the KPC Group Owned Lands;

(b) each member of the KPC Group has all Permits required by all Environmental Laws for the conduct by the KPC Group of the KPC Business ("**KPC Environmental Approvals**"), which KPC Environmental Approvals are valid and in full force and effect and listed in the KW Disclosure Schedule. Each member of the KPC Group is in compliance with all those KPC Environmental Approvals, and there have not been and there are no proceedings commenced or threatened to revoke or amend any such KPC Environmental Approvals in a manner that could reasonably be expected to have a Material Adverse Effect;

(c) each member of the KPC Group and each Person for whom such members of the KPC Group are responsible pursuant to all Environmental Laws, have imported, manufactured, processed, distributed, used, treated, stored, disposed of, transported, exported or handled Hazardous Substances in compliance with all Environmental Laws;

(d) to the Knowledge of Kitchener and Wilmot, no Hazardous Substances have been disposed of on any of the KPC Group Leased Premises or the KPC Group Owned Lands, and there are no underground storage tanks on the KPC Group Leased Premises or the KPC Group Owned Lands and any underground storage tanks formerly on the KPC Group Leased Premises or the KPC Group Owned Lands have been removed and any affected soil, surface water or ground water has been remediated in compliance with all applicable Laws including Environmental Laws;

(e) no part of the KPC Group Owned Lands has ever been used as a landfill or for the disposal of waste;

(f) there has been no Release of any Hazardous Substance in the course of the KPC Business from, at, on, or under the KPC Group Leased Premises or the KPC Group Owned Lands or, to the Knowledge of Kitchener and Wilmot, from or on to any other properties, except in compliance with all Environmental Laws;

(g) no member of the KPC Group has received any notice of any kind of any Release or possible Release of any Hazardous Substance from, at, on, or under any of the KPC Group Leased Premises or KPC Group Owned Lands, or from or on to any other properties;

(h) to the Knowledge of Kitchener and Wilmot, there are no Hazardous Substances on any adjoining properties to any of the KPC Group Leased Premises or KPC Group Owned Lands which may adversely affect the KPC Business, or any of the KPC Group Leased Premises or KPC Group Owned Lands;

(i) there has been no Remedial Order issued to any member of the KPC Group in respect of the KPC Business, or with respect to any of the KPC Group Leased Premises or the KPC Group Owned Lands and, to the Knowledge of Kitchener and Wilmot, no Remedial Orders are threatened, and there are no facts which could reasonably be expected to give rise to any Remedial Orders;

(j) no member of the KPC Group has received any notice of Claim, summons, order, direction or other communication relating to non-compliance with any Environmental Laws from any Governmental Authority or other third party, and to the Knowledge of Kitchener and Wilmot, there is no pending or threatened matter, act or fact which could cause the members of the KPC Group, the conduct of the KPC Business, or any of the KPC Group Leased Premises or KPC Group Owned Lands to no longer be in compliance with all applicable Environmental Laws; and

(k) no asbestos, asbestos containing materials, polychlorinated biphenyls ("**PCBs**") and PCB wastes are used, stored or otherwise present in or on the KPC Group Owned Lands except for PCBs contained in the electrical transformers which are in service and which form an integral part of, and are necessary for the operation of, the KPC Business. Kitchener and Wilmot have disclosed or made available, in the KW Disclosure Schedule, all inspection reports received from the Ministry of the Environment in connection with the handling, transportation and storage of PCBs by the applicable members of the KPC Group.

4.25 Suppliers and Customers

The KW Disclosure Schedule lists the 15 largest suppliers of goods and services from whom each member of the KPC Group has purchased goods or services (other than power) during the fiscal year ended December 31, 2020. No such supplier sold goods and services to the applicable member of the KPC Group which represented more than 20% of its annual purchases during such period. None of the suppliers listed in the KW Disclosure Schedule has advised the KPC Group, either orally or in writing, that it is terminating or considering terminating its relationship with such member of the KPC Group, or considering negotiating its relationship with such member of the KPC Group on terms that would result in a Material Adverse Effect, whether as a result of the completion of the transactions contemplated by this Agreement or otherwise.

4.26 Privacy and Information Technology

(a) All Personal Information in the possession of the KPC Group has been collected, used and disclosed in compliance with all applicable Privacy Laws in those jurisdictions in which the KPC Group conducts, or is deemed by operation of law in those jurisdictions to conduct, the KPC Business.

(b) Kitchener and Wilmot have disclosed or made available all Contracts and facts concerning the collection, use, retention, destruction and disclosure of Personal Information by the applicable members of the KPC Group and there are no other Contracts, or facts which, on completion of the transactions contemplated by this Agreement, would restrict or interfere with the use of any Personal Information by the applicable members of the KPC Group in the continued operation of the KPC Business as conducted before the Closing.

(c) Except as disclosed in the KW Disclosure Schedule, there are no Claims pending or, to the Knowledge of Kitchener and Wilmot, threatened, with respect to the collection, use or disclosure of Personal Information by the applicable members of the KPC Group.

(d) Except as disclosed in the KW Disclosure Schedule, each member of the KPC Group (a) complies with the KPC Group's Privacy Statements with respect to all personal information collected, used and/or disclosed by it; (b) complies with all applicable Privacy Laws; and (c) takes appropriate measures to protect and maintain the security of the personal information in its possession and/or which it has access.

(e) The transfer of Personal Information from members of the KPC Group to members of the Waterloo North Group pursuant to the terms of this Agreement and the transactions contemplated hereunder (including the disclosures made by member of the KPC Group in the course of the due diligence in anticipation of the transactions contemplated by this Agreement), is in compliance with the terms of the KPC Group's Privacy Statement and all applicable Privacy Laws.

(f) Except as disclosed in the KW Disclosure Schedule, to the Knowledge of Kitchener and Wilmot, there have been no complaints made or any audit, investigation, claim or proceeding including court proceeding against any member of the KPC Group by the Office of the Privacy Commissioner of Canada or any other Governmental Authority, or by any Person in respect of the collection, retention, use, disclosure, safeguarding or distribution of Personal Information by any Person in connection with any member of the KPC Group, nor to the Knowledge of Kitchener and Wilmot are there any facts which may give rise to any such complaint or audit, proceeding, investigation or claim.

(g) Except as disclosed in the KW Disclosure Schedule (i) all Electronic Addresses have been acquired, maintained, updated (including operationalizing opt-out requests) and stored, and (ii) all Electronic Messages sent and/or delivered by or on behalf of any member of the KPC Group have been sent and/or delivered, in accordance with Laws, including but not limited to Anti-Spam Laws and Privacy Laws.

(h) The KPC Systems are reasonably sufficient for the immediate needs of the KPC Business, including as to capacity, scalability, and ability to process current and anticipated peak volumes in a timely manner. The KPC Systems are in sufficiently good working condition to perform all information technology operations and include sufficient licensed capacity (whether in terms of authorized sites, units, users, seats or otherwise) for all software used by members of the KPC Group, in each case as necessary for the conduct of the KPC Business as currently conducted.

(i) Except as disclosed in the KW Disclosure Schedule, in the last five years, there has been no unauthorized access, use, intrusion or breach of security, or failure, breakdown, performance reduction or other adverse event affecting any KPC Systems, that has caused or could reasonably be expected to cause any: (i) substantial disruption of or interruption in or to the use of such KPC Systems or the conduct of the KPC Business; (ii) loss, destruction, damage or harm of or to any member of the KPC Group or its operations, personnel, property or other assets; or (iii) liability of any kind to any member of the KPC Group. Each member of the KPC Group has taken reasonable actions, consistent with applicable industry practices, to protect the integrity and security of the KPC Systems and the data and other information stored thereon.

(j) Each member of the KPC Group maintains commercially reasonable back-up and data recovery, disaster recovery and business continuity plans, procedures and facilities, acts in material compliance therewith, and tests such plans and procedures on a regular basis, and such plans and procedures have been proven effective upon such testing.

(k) Each member of the KPC Group maintains policies and procedures regarding data security and privacy that are intended to ensure that it is in compliance with all Laws and that are consistent with or exceed customary industry practices. Each member of the KPC Group is, and has been, in compliance in all material respects with (i) such foregoing policies and procedures, and (ii) all applicable data protection or privacy laws governing the use, collection, storage, disclosure and transfer of any personally identifiable information of third parties collected by it. Except as disclosed in the KW Disclosure Schedule, there have not been any (1) losses or thefts of data or security breaches relating to data used or stored in the KPC Business, (2) violations of any security policy regarding any such data, (3) unauthorized access or unauthorized use of any such data, or (4) unintended or improper disclosure of any personally identifiable information in the possession, custody or control of it or a contractor or agent acting on behalf of it. Except as disclosed in the KW Disclosure Schedule, there have not been any written complaints, written notices or legal proceedings or other written claims related to any of the foregoing in clauses (ii) or (1) through (4) above.

4.27 Employees and Employment Contracts

(a) Kitchener and Wilmot has made available in the Data Room the names, titles and status (active or non-active, and if not active, reason why and period of time not active) of all KPC Employees together with particulars of the material terms and conditions of their employment or engagement, including current rates of remuneration, perquisites, commissions, bonus or other incentive compensation (monetary or otherwise), most recent hire date, cumulative years of service, start and end dates of all previous periods of service, benefits, vacation or personal time off entitlements, current positions held and, if available, projected rates of remuneration, and whether the employee is a member of a collective bargaining union or agency and whether the employee is subject to the KPC Collective Agreement.

(b) To the Knowledge of Kitchener and Wilmot, no KPC Employee nor any consultant with whom the applicable members of the KPC Group has contracted, is in violation of any term of any employment contract, contract of engagement, services agreement, proprietary information agreement or any other agreement relating to the right of that individual to be employed, engaged or retained by the applicable members of the KPC Group in any material respect, and, to the Knowledge of Kitchener and Wilmot, the continued employment or engagement by the members of the KPC Group of the KPC Employees will not result in any such violation. No member of the KPC Group has received any notice alleging that any such violation has occurred.

(c) Except as disclosed in the Data Room, all of the KPC Employees are employed, engaged or retained for an indefinite term and none are subject to written employment agreements, contracts of engagement or services agreements. Kitchener and Wilmot has made available in the Data Room true and complete copies of any written employment agreements, contracts of engagement or services agreements of all KPC Employees. No officer has given notice, oral or written, of an intention to cease being employed with the KPC Group (other than the pending employee retirements disclosed in the KW Disclosure Schedule), and no member of the KPC Group intends to terminate the employment of any officer.

(d) The members of the KPC Group have operated in compliance with all Laws relating to employees in all material respects, including employment standards and all Laws relating in whole or in part to the protection of employee health and safety, human rights, labour relations and pay equity. Except as disclosed or referred to in the KW Disclosure Schedule, there have been no Claims within the past three years nor, to the Knowledge of Kitchener and Wilmot, are there any threatened complaints, under such Laws against the members of the KPC Group. To the Knowledge of Kitchener and Wilmot, nothing has occurred which might lead to a Claim or complaint against the members of the KPC Group under any such Laws. There are no outstanding decisions or settlements or pending settlements which place any obligation upon the members of the KPC Group to do or refrain from doing any act.

(e) There is no strike or lockout occurring or affecting, or to the Knowledge of Kitchener and Wilmot, threatened against any member of the KPC Group.

4.28 Unions

(a) Except as disclosed in the KW Disclosure Schedule, there are no apparent or, to the Knowledge of Kitchener and Wilmot, threatened union organizing activities involving KPC Employees.

(b) No member of the KPC Group has any labour problems that would reasonably be expected to result in a Material Adverse Effect, or lead to any interruption of operations at any location.

(c) No member of the KPC Group has engaged in any lay-off or other activities within the last three years in respect of the KPC Business that would violate or in any way subject the members of the KPC Group to the group termination or lay-off requirements of the Laws of any jurisdiction that apply to the members of the KPC Group.

(d) Except as disclosed in the KW Disclosure Schedule, no member of the KPC Group is bound by or a party to, either directly or by operation of law, any collective bargaining agreement (the "KPC Collective Agreement") with any trade union or association which might qualify as a trade union, and no trade union, association, council of trade unions, employee bargaining agency or affiliated bargaining agent:

(i) holds bargaining rights with respect to any of the KPC Employees by way of certification, interim certification, voluntary recognition, designation or successor rights;

(ii) has, to the Knowledge of Kitchener and Wilmot, applied to be certified or requested to be voluntarily recognized as the bargaining agent of any of the KPC Employees;

(iii) has, to the Knowledge of Kitchener and Wilmot, applied to have any member of the KPC Group declared a related or successor employer under applicable provincial labour or employment Law; or

(iv) has, to the Knowledge of Kitchener and Wilmot, filed a complaint or charge under applicable provincial labour or employment Law within the last three years.

4.29 Employee Benefits Matters

(a) Except as disclosed in the KW Disclosure Schedule, no member of the KPC Group is:

(i) a party to, bound by or subject to, or has any liability or contingent liability relating to, any employment agreement, retention agreement, bonus arrangements or any other agreement or arrangement relating to Employee Benefits;

(ii) in arrears in the payment of any contribution or assessment required to be made by it pursuant to any agreements or arrangements relating to Employee Benefits; or

(iii) a party to or bound by or subject to any agreement or arrangement with any labour union or employee association in respect of Employee Benefits and has not made any commitment to or conducted any negotiation or discussion with any labour union or employee association with respect to any future agreement or arrangement in respect of Employee Benefits.

(b) All agreements and arrangements relating to Employee Benefits in respect of KPC Employees set forth in the KW Disclosure Schedule (other than OMERS, with respect to which Kitchener and Wilmot makes no representation under this Section 4.29(b)) are, and have been, established, registered (where required), and administered without default, in material compliance with (i) the terms thereof; and (ii) all applicable Laws; and no member of the KPC Group has received, in the last four years, any notice from any Person questioning or challenging such compliance (other than in respect of any claim related solely to that Person), nor does Kitchener and Wilmot have any Knowledge of any such notice from any Person questioning or challenging such compliance beyond the last four years. Except as disclosed in the KW Disclosure Schedule or the KPC Collective Agreement, there have been no improvements, increases or changes to, or promised improvements, increases or changes to, the benefits provided under any such agreement or arrangement within the last four years, nor does any such agreement or arrangement provide for benefit increases or the acceleration of funding obligations that are contingent upon or will be triggered by the execution of this Agreement or the Closing.

(c) Except as disclosed in KW Disclosure Schedule, no KPC Employee is on long-term disability leave, extended absence or receiving benefits pursuant to the Workplace Safety and Insurance Act, 1997 (Ontario).

(d) Except as disclosed in the KW Disclosure Schedule, no agreement or arrangement, other than OMERS, provides benefits beyond retirement or other termination of service to employees or former employees of KWHI or KPC or to the beneficiaries or dependants of such employees or former employees. Other than OMERS, no such agreement or arrangement requires or permits a retroactive increase in premiums or payments.

(e) All assessments under the *Workplace Safety and Insurance Act, 1997* (Ontario) in relation to the KPC Business have been paid or accrued and no member of the KPC Group is subject to any special or penalty assessment under such legislation which has not been paid.

4.30 Pension Plans

(a) Except as disclosed in the KW Disclosure Schedule, OMERS is the only pension or retirement plan or arrangement in which KPC Employees participate and/or to which the KPC Group contributes as a participating employer.

(b) All obligations of the KPC Group to or under OMERS (whether pursuant to the terms thereof or any applicable Laws) have been satisfied, and there are no outstanding defaults or violations thereunder by any member of the KPC Group or by any predecessor thereof.

(c) There are no going concerns with respect to unfunded actuarial liabilities, past service unfunded liabilities or solvency deficiencies respecting the KPC Group's participation in OMERS.

(d) All employee data necessary to administer the KPC Group's participation in OMERS and any other agreement or arrangement listed in the KW Disclosure Schedule is in the possession of the KPC Group and is complete, correct and in a form which is sufficient for the proper administration of the KPC Group's participation in OMERS in accordance with the terms thereof and all applicable Laws.

(e) All employer or employee payments, contributions or premiums required to be remitted or paid by the KPC Group to or in respect of OMERS have been paid or remitted in a timely fashion in accordance with the terms thereof and all Laws, and no Taxes, penalties or fees are owing or exigible on any member of the KPC Group under OMERS.

4.31 Insurance Policies

The KW Disclosure Schedule lists all Insurance Policies, and also specifies the insurer, the amount of the coverage, the type of insurance, the policy number and any pending Claims with respect to each such Insurance Policy. The Insurance Policies insure all the property and assets of the KPC Group against Loss by all insurable hazards of risk commonly insured against in the industry. All Insurance Policies are in full force and effect and no member of the KPC Group:

(a) is in default, whether as to the payment of premiums or otherwise, under any material term or condition of any of the Insurance Policies; or

(b) has failed to give notice or present any Claim under any of the Insurance Policies in a due and timely fashion.

4.32 Litigation

(a) Except as disclosed or referred to in the KW Disclosure Schedule, there are no Claims, whether or not purportedly on behalf of KPC Group, pending, commenced, or, to the Knowledge of Kitchener and Wilmot, threatened, which might reasonably be expected to have a Material Adverse Effect on any member of the KPC Group or which might involve the possibility of an Encumbrance against the assets of any member of the KPC Group.

(b) There is no outstanding judgment, decree, order, ruling or injunction involving any member of the KPC Group or relating in any way to the transactions contemplated by this Agreement.

4.33 Withholding

Each member of the KPC Group has withheld from each payment made to any of its past or present employees, officers or directors, and to any non-resident of Canada, the amount of all Taxes and other deductions required to be withheld therefrom, including all employee and employer portions for Workers' Compensation, Canada Pension Plan, Employer Health Tax and Employment Insurance and has paid the same to the proper Governmental Authority within the time required under any applicable Laws.

4.34 No Expropriation

No property or asset of any member of the KPC Group has been taken or expropriated by any Governmental Authority within the last five years, and no notice or proceeding in respect of any such expropriation has been given or commenced or, to the Knowledge of Kitchener and Wilmot, is there any intent or proposal to give any notice or commence any proceeding in respect of any such expropriation.

4.35 Absence of Conflict

None of the execution and delivery of this Agreement, the performance of any member of the KPC Group's obligations under this Agreement, or the completion of the transactions contemplated by this Agreement will:

(a) result in or constitute a breach of any term or provision of, or constitute a default under, the Corporate Articles or the by-laws of such entity, or any Contract to which such entity is a party or by which any of such entity's undertakings, property or assets is bound or affected;

(b) subject to obtaining the third party consents contemplated by Section 7.1(c), constitute an event which would permit any party to any Material Contract with KPC Group to terminate or sue for damages with respect to that Material Contract, or to accelerate the maturity of any indebtedness of KPC Group, or other obligation of KPC Group under that Material Contract;

(c) subject to obtaining the regulatory approvals set forth in Article 9, contravene any applicable Law; or

(d) contravene any judgment, order, writ, injunction or decree of any Governmental Authority.

4.36 Restrictive Covenants

Other than as provided in the Shareholders Agreement, no member of the KPC Group is a party to, or bound or affected by, any Contract containing any covenant expressly limiting its ability to compete in any line of business or to transfer or move any of its assets or operations, or which could reasonably be expected to have a Material Adverse Effect on the KPC Business carried on by the applicable member of the KPC Group.

4.37 KPC Group Business

The business of the KPC Group is limited to the KPC Business.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES OF WATERLOO, WOOLWICH AND WELLESLEY

Waterloo, Woolwich and Wellesley severally and not jointly represent and warrant to Kitchener and Wilmot as follows, and acknowledge that Kitchener and Wilmot are relying upon these representations and warranties in connection with the transactions contemplated by this Agreement, despite any investigation made by or on behalf of Kitchener and Wilmot. Each exception to the following representations and warranties that is set out in the disclosure schedule attached as Schedule 5.1 (the "**Waterloo North Disclosure Schedule**").

5.1 Residence

No member of the Waterloo North Group is a non-resident of Canada for purposes of the ITA.

5.2 Regulatory Approvals

Except as set out in Article 9 and except as has already been obtained, no authorization, approval, order, consent of, or filing with, any Governmental Authority is required on the part of Waterloo, Woolwich and Wellesley or the Waterloo North Group in connection with the execution, delivery and performance by any of them of this Agreement or any other documents and agreements to be delivered under this Agreement or in connection with the completion of the transactions contemplated hereby or thereby.

5.3 Consents

Except as disclosed in the Waterloo North Disclosure Schedule, there is no requirement to obtain any consent, approval or waiver of a party under any Material Contract to which Waterloo, Woolwich and Wellesley or the Waterloo North Group is a party in order to complete the transactions contemplated by this Agreement.

5.4 Share Ownership, Etc.

(a) As at the date hereof, Waterloo is the legal and beneficial owner of 1,464 common shares of Waterloo North Holdings with good and marketable title thereto, free and clear of all Encumbrances.

(b) As at the date hereof, Woolwich is the legal and beneficial owner of 404 common shares of Waterloo North Holdings with good and marketable title thereto, free and clear of all Encumbrances.

(c) As at the date hereof, Wellesley is the legal and beneficial owner of 132 common shares of Waterloo North Holdings with good and marketable title thereto, free and clear of all Encumbrances.

(d) Waterloo, Woolwich and Wellesley are each the legal and beneficial owners of promissory notes as described in the Waterloo North Disclosure Schedule (the "**Waterloo, Woolwich and Wellesley Promissory Notes**").

(e) The common shares held by Waterloo, Woolwich and Wellesley pursuant to Section 5.4(a), Section 5.4(b) and Section 5.4(c) constitute all of the issued and outstanding shares of Waterloo North Holdings. Immediately prior to Closing, Waterloo, Woolwich and Wellesley will be the legal and beneficial owner of all of the issued and outstanding common shares of Waterloo North Holdings with good and marketable title thereto, free and clear of all Encumbrances.

(f) Waterloo North Holdings is the legal and beneficial owner of 1,000 common shares of WNHI with good and marketable title thereto, free and clear of all Encumbrances (other than Permitted Encumbrances), being in aggregate all of the issued and outstanding shares of WNHI.

(g) Waterloo North Holdings is the legal and beneficial owner of [redacted] of Alliance Solutions with good and marketable title thereto, free and clear of all Encumbrances (other than Permitted Encumbrances), being in aggregate all of the issued and outstanding shares of Alliance Solutions.

(h) Waterloo North Holdings is the legal and beneficial owner of [redacted] of GRE with good and marketable title thereto, free and clear of all Encumbrances (other than Permitted Encumbrances).

(i) Waterloo North Holdings is the legal and beneficial owner of [redacted] of Eyedro with good and marketable title thereto, free and clear of all Encumbrances (other than Permitted Encumbrances).

(j) Except as disclosed in the Waterloo North Disclosure Schedule, the Waterloo North Group does not own or hold, directly or indirectly, any Securities of, or have any other interest in, any Person, and no member of the Waterloo North Group has entered into any agreement to acquire any such interests.

5.5 Corporate Existence of the Waterloo North Group

Each member of the Waterloo North Group has been duly incorporated and organized and are validly existing and in good standing as a corporation under the laws of the Province of Ontario. No proceedings have been taken or authorized by any member of the Waterloo North Group in respect of the bankruptcy, insolvency, liquidation, dissolution or winding up of such member of the Waterloo North Group.

5.6 Corporate Articles

Their respective Corporate Articles constitute all of the charter documents of each member of the Waterloo North Group and are in full force and effect; no action has been taken to amend any Corporate Articles and no changes to such Corporate Articles are planned other than as contemplated in this Agreement.

5.7 Capacity and Powers of the Waterloo North Group

Each member of the Waterloo North Group has all necessary corporate power, authority and capacity to own or lease its respective assets and to carry on the Waterloo North Business as currently being conducted by the applicable member of the Waterloo North Group.

5.8 Jurisdictions

Ontario is the only jurisdiction in which the members of the Waterloo North Group are qualified to do business. Neither the character nor location of the Waterloo North Group Owned Lands or

Waterloo North Group Leased Premises, nor the nature of the Waterloo North Business, requires qualification to do business in any other jurisdiction.

5.9 Options, Etc.

Except as provided in this Agreement, no Person has any written or oral agreement or option or any right or privilege (whether by Law, pre-emptive, contractual or otherwise) capable of becoming an agreement or option, including Securities, warrants or convertible obligations of any nature, for:

(a) the purchase of any Securities of any member of the Waterloo North Group; or

(b) the purchase of any of the assets of any member of the Waterloo North Group other than in the ordinary course of the Waterloo North Business.

5.10 Corporate Records/Directors

(a) The corporate records and minute books of the Waterloo North Group which have been made available contain in all material respects complete and accurate minutes of all meetings of, and all written resolutions passed by, the directors and shareholders of the Waterloo North Group, held or passed since incorporation. All those meetings were held, all those resolutions were passed, and the share certificate books, registers of shareholders, registers of transfers and registers of directors of the applicable member of the Waterloo North Group are complete and accurate in all material respects.

(b) The Waterloo North Disclosure Schedule contains the name of each director of the applicable member of the Waterloo North Group, including the date on which each of such director was most recently elected as a director, and each such individual has been duly elected a director of the respective member of the Waterloo North Group.

5.11 Books and Records

The Books and Records of the Waterloo North Group fairly and correctly set out and disclose in accordance with IFRS in all material respects the financial position of the Waterloo North Group, and all material financial transactions of the Waterloo North Group have been accurately recorded in such Books and Records.

5.12 Financial Statements

Copies of the Waterloo North Holdings Financial Statements and the WNHI Financial Statements are attached to the Waterloo North Disclosure Schedule. Such Waterloo North Holdings Financial Statements and WNHI Financial Statements have been prepared in accordance with IFRS and present fairly:

(a) the assets, liabilities (whether accrued, absolute, contingent or otherwise) and the financial condition of each member of the Waterloo North Group as at the respective dates thereof; and

(b) the sales, earnings and results of the operations of the applicable member of the Waterloo North Group during the periods covered by such Waterloo North Holdings Financial Statements and WNHI Financial Statements;

but the unaudited interim financial statements:

(c) do not contain all notes required under IFRS; and

(d) are subject to normal year-end audit adjustments.

5.13 Tax Matters

(a) The members of the Waterloo North Group are exempt from Tax under the ITA, CTA and TA but each of them is required to make PILs payments under the EA in an amount equal to the Tax that it would be liable to pay under the ITA, CTA and TA if it were not exempt from Tax under those statutes.

(b) The members of the Waterloo North Group have filed in the prescribed manner and within the prescribed times all Tax Returns required to be filed by it in all applicable jurisdictions on a timely basis. All such Tax Returns are complete and correct and disclose all Taxes required to be paid for the periods covered thereby. No member of the Waterloo North Group has been required to file any Tax Returns with, and have never been liable to pay or remit Taxes to, any Governmental Authority outside Canada. The Waterloo North Group have paid all Taxes and all instalments of Taxes due on or before the date hereof. Waterloo, Woolwich and Wellesley has furnished to the KPC Group true, complete and accurate copies of all Tax Returns and any amendments thereto filed by the Waterloo North Group since December 31, 2017 and all notices of assessment and reassessment and all correspondence with Governmental Authorities relating thereto.

(c) Assessments under the EA have been issued to the Waterloo North Group covering all periods up to and including its fiscal year ended December 31, 2020.

(d) There are no audits, assessments, reassessments or other Claims in progress or, to the Knowledge of Waterloo, Woolwich and Wellesley, threatened against any member of the Waterloo North Group, in respect of any Taxes and, in particular, there are no currently outstanding reassessments or written enquiries which have been issued or raised by any Governmental Authority relating to any such Taxes. To the Knowledge of Waterloo, Woolwich and Wellesley, there is no contingent liability of any member of the Waterloo North Group for Taxes or any grounds that could prompt an assessment or reassessment for Taxes. No member of the Waterloo

North Group has received any indication from any Governmental Authority that any assessment or reassessment is proposed.

(e) No member of the Waterloo North Group has entered into any transactions with any non-resident of Canada (for the purposes of the ITA) with whom such member of the Waterloo North Group was not dealing at arm's length (within the meaning of the ITA). No member of Waterloo North Group has acquired property from any Person in circumstances where such member of the Waterloo North Group did or could have become liable for any Taxes payable by that Person.

(f) No member of the Waterloo North Group will be required to include in a taxable period ending after the Closing Date any material taxable income attributable to income that accrued in a taxable period prior to the Closing Date but was not recognized for Tax purposes in such prior taxable period (or to exclude from taxable income in a taxable period ending after the Closing Date any material deduction the recognition of which was accelerated from such taxable period to a taxable period prior to the Closing Date).

(g) There are no circumstances existing which could result in, or which have existed and resulted in, the application of section 78 of the ITA, as it applies for purposes of the EA, in respect of an amount owing by a member of the Waterloo North Group on the Closing Date.

(h) No member of the Waterloo North Group has entered into any agreements, waivers or other arrangements with any Governmental Authority providing for an extension of time with respect to the issuance of any assessment or reassessment, the filing of any Tax Return, or the payment of any Taxes by or in respect of such member of the Waterloo North Group. No member of the Waterloo North Group is party to any agreements or undertakings with respect to Taxes.

(i) The business transactions of Waterloo North Holdings are exempt from the ETA and Waterloo North Holdings does not require registration for ETA purposes. WNHI and Alliance are registrants for purposes of the ETA and WNHI's registration number is [redacted] and Alliance Solutions registration number is [redacted]. Except as set forth on the Waterloo North Disclosure Schedule, all input tax credits claimed by each member of the Waterloo North Group pursuant to the ETA have been proper, correctly calculated and documented. Each member of the Waterloo North Group has collected, paid and remitted when due all Taxes, including goods and services tax, harmonized sales tax and retail sales tax, collectible, payable or remittable by them.

(j) Each member of the Waterloo North Group has remitted to the appropriate Governmental Authority when required by Law to do so all amounts collected by it on account of sales taxes including goods and services tax and harmonized sales tax imposed under the ETA.

(k) Each member of the Waterloo North Group maintains its Books and Records in compliance with section 230 of the ITA.

5.14 Absence of Changes

Except as disclosed in the Waterloo North Disclosure Schedule, since December 31, 2020 there has not been:

(a) any change in the financial condition, operations, results of operations, or business of any member of the Waterloo North Group which has had a Material Adverse Effect, nor has there been any occurrence or circumstances which, to the Knowledge of Waterloo, Woolwich and Wellesley, with the passage of time might reasonably be expected to have a Material Adverse Effect; or

(b) any Loss, labour trouble, or other event, development or condition of any character (whether or not covered by insurance) suffered by Waterloo North Group which, to the Knowledge of Waterloo, Woolwich and Wellesley, has had, or may reasonably be expected to have, a Material Adverse Effect.

5.15 Absence of Undisclosed Liabilities

Except to the extent reflected or reserved in the Waterloo North Holdings Financial Statements and the WNHI Financial Statements, or incurred subsequent to December 31, 2020 and:

(a) disclosed in the Waterloo North Disclosure Schedule; or

(b) incurred in the ordinary course of the Waterloo North Business;

no member of the Waterloo North Group has any material outstanding indebtedness or any liabilities or obligations (whether accrued, absolute, contingent or otherwise, including under any guarantee of any debt) of a nature customarily reflected or reserved against in a balance sheet (including the notes to the Waterloo North Holdings Financial Statements, the WNHI Financial Statements and the Alliance Solutions Financial Statements) in accordance with IFRS. For the purposes of this Section 5.15 only, indebtedness, liabilities or obligations owing to any third party [redacted] will be deemed to be material.

5.16 Absence of Unusual Transactions

Except as disclosed or referred to in the Waterloo North Disclosure Schedule, since December 31, 2020 no member of the Waterloo North Group has:

(a) given any guarantee of any debt, liability or obligation of any Person;

(b) subjected any of its assets, or permitted any of its assets to be subjected, to any Encumbrance other than the Permitted Encumbrances;

(c) acquired, sold, leased or otherwise disposed of or transferred any assets other than in the ordinary course of the Waterloo North Business;

(d) made or committed to any capital expenditures, except in the ordinary course of the Waterloo North Business;

(e) declared or paid any dividend or otherwise made any distribution or other payment of any kind or nature to any of its shareholders or any other non-arm's length Person, or taken any corporate proceedings for that purpose;

(f) redeemed, purchased or otherwise retired any of its shares or otherwise reduced its stated capital;

(g) entered into or become bound by any Contract, except in the ordinary course of the Waterloo North Business (other than this Agreement);

(h) modified, amended or terminated any Contract (except for Contracts which expire by the passage of time) resulting in a Material Adverse Effect;

(i) waived or released any right or rights which it has or had, or a debt or debts owed to it resulting, collectively or individually, in a Material Adverse Effect;

(j) made any change in any compensation arrangement or agreement with any Waterloo North Employee, except for annual merit pay increases and incentive payments consistent with the ordinary course of the Waterloo North Business;

(k) made any change in any method of accounting or auditing practice (other than as disclosed in the Waterloo North Holdings Financial Statements or the WNHI Financial Statements and/or in order to make its financial disclosure consistent with the financial disclosure of the Waterloo North Group as regards accrued CDM bonus or as regards loss revenue adjustment mechanism recoveries); or

(l) agreed or offered to do any of the things described in this Section 5.16.

5.17 Title to and Condition of Assets

Except as disclosed or referred to in the Waterloo North Disclosure Schedule, each member of the Waterloo North Group owns, possesses and has good and marketable title to all of its undertakings, property and assets not otherwise the subject of specific representations and warranties in this Article 5, including all the undertakings, property and assets reflected in the most recent balance sheet included in the Waterloo North Holdings Financial Statements or the WNHI Financial Statements (as applicable), free and clear of all Encumbrances other than Permitted Encumbrances. The undertakings, property and assets of each member of the Waterloo North Group comprise all of the undertakings, property and assets necessary for it to carry on the Waterloo North Business as it is currently operated by such member of the Waterloo North Group. All facilities, machinery, equipment, fixtures, vehicles and other properties owned, leased or used by each member of the

Waterloo North Group are in good operating condition and repair, ordinary wear and tear excepted, and are reasonably fit and usable for the purposes for which they are being used.

5.18 Real Property

(a) The Waterloo North Disclosure Schedule contains a complete and accurate list of the Waterloo North Group Owned Lands, including complete legal descriptions, and the particulars of the Waterloo North Group Leased Premises and Waterloo North Group Real Property Leases. No member of the Waterloo North Group owns any real property and does not lease and has not agreed to acquire or lease any real property other than as listed in the Waterloo North Disclosure Schedule.

(b) Each member of the Waterloo North Group has all Easements that are necessary for it to carry on the Waterloo North Business as it is currently operated by such member of the Waterloo North Group.

(c) No member of the Waterloo North Group has received any, nor to the Knowledge of Waterloo, Woolwich and Wellesley are there any pending or threatened, notices of violation or alleged violation of any Laws against or affecting any Waterloo North Group Owned Lands or Waterloo North Group Leased Premises or Waterloo North Group Easements.

(d) The buildings and other structures and improvements located on the Waterloo North Group Owned Lands or forming part of the Waterloo North Group Leased Premises, and their operation and maintenance, comply with all applicable Laws, and none of those buildings or structures or improvements encroaches upon any land not owned or leased by the applicable member of the Waterloo North Group.

(e) There are no restrictive covenants or Laws which in any way restrict or prohibit any part of the present use of the Waterloo North Group Owned Lands or Waterloo North Group Leased Premises or Waterloo North Group Easements, other than the Permitted Encumbrances. Each member of the Waterloo North Group has such rights of entry and exit to and from the Waterloo North Group Owned Lands and the Waterloo North Group Leased Premises and the Waterloo North Group Easements as are reasonably necessarily to carry on the Waterloo North Business.

(f) Except as disclosed in the Waterloo North Disclosure Schedule, no Person has any right to purchase any of the Waterloo North Group Owned Lands and no Person other than the applicable member of the Waterloo North Group is using or has any right to use, is in possession or occupancy, of any part of the Waterloo North Group Owned Lands. There exists no option, right of first refusal or other contractual rights with respect to any of the Waterloo North Group Owned Lands.

(g) There are no expropriation or similar proceedings, actual or threatened, of which any member of the Waterloo North Group or Waterloo, Woolwich and Wellesley have received notice, against any of the Waterloo North Group Owned Lands or Waterloo North Group Leased Premises or Waterloo North Group Easements.

(h) The Waterloo North Group Owned Lands are owned in fee simple, free and clear of all Encumbrances, except Permitted Encumbrances. No member of the Waterloo North Group has entered into any contract to sell, transfer, encumber, or otherwise dispose of or impair the right, title and interest of such member of the Waterloo North Group in and to the Waterloo North Group Owned Lands or the air, density and easement rights relating to such Waterloo North Group Owned Lands.

(i) All of the Waterloo North Group Real Property Leases are in full force and effect, unamended, and none of them are, to the Knowledge of Waterloo, Woolwich and Wellesley, under any threat of termination.

(j) All of the Waterloo North Group Easements are in full force and effect and none of them are, to the Knowledge of Waterloo, Woolwich and Wellesley, under any threat of termination.

(k) Neither Waterloo, Woolwich and Wellesley nor any member of the Waterloo North Group has received any notification of, nor are there any outstanding or incomplete work orders in respect of any Fixed Assets on the Waterloo North Group Owned Lands, Waterloo North Group Leased Premises or Waterloo North Group Easements, or of any current noncompliance (other than non-compliances which are legal non-conforming under relevant zoning by-laws) with applicable statutes and regulations or building and zoning by-laws and regulations.

(l) All accounts for work and services performed or materials placed or furnished upon or in respect of the construction and completion of any Fixed Assets constructed on the Waterloo North Group Owned Lands or the Waterloo North Group Leased Premises or the Waterloo North Group Easements have been fully paid to the extent due and no Person is entitled to claim a lien under the *Construction Act* (Ontario) or other similar legislation for such work.

(m) To the Knowledge of Waterloo, Woolwich and Wellesley, there are no matters affecting the right, title and interest of any member of the Waterloo North Group in and to the Waterloo North Group Owned Lands or the Waterloo North Group Leased Premises or the Waterloo North Group Easements (other than the Permitted Encumbrances) or which, in the aggregate, would materially and adversely affect the ability of such member of the Waterloo North Group to carry on the Waterloo North Business upon such Waterloo North Group Owned Lands or the Waterloo North Group Leased Premises or the Waterloo North Group Easements, as applicable.

5.19 Intellectual Property

(a) The Waterloo North Disclosure Schedule includes a list of all Intellectual Property that is registered with any Governmental Authority and that is used in connection with the conduct of the Waterloo North Business, including all trade-marks and trade-mark applications, trade names, certification marks, patents and patent applications, copyrights, domain names, industrial designs, trade secrets, know-how, formulae, processes, inventions, technical expertise, research data and other similar property, all associated registrations and applications for registration, and all associated rights, including moral rights, the jurisdictions (if any) in which that Intellectual Property is registered (or in which application for registration has been made) and the applicable expiry dates of all listed registrations.

(b) All necessary legal steps have been taken by the Waterloo North Group to preserve their respective rights to the Intellectual Property listed in the Waterloo North Disclosure Schedule. The Waterloo North Disclosure Schedule also includes a list of all licence agreements pursuant to which Waterloo North Group have been granted a right to use, or otherwise exploit Intellectual Property owned by third parties, other than "off-the-shelf" software license agreements.

(c) The Intellectual Property that is owned by the members of the Waterloo North Group (as applicable) is owned free and clear of any Encumbrances other than Permitted Encumbrances, and no Person other than the applicable member of the Waterloo North Group has any right to use that Intellectual Property except as disclosed in the Waterloo North Disclosure Schedule.

(d) The use by the members of the Waterloo North Group of any Intellectual Property owned by third parties is valid, and the Waterloo North Group is not in default or breach of any licence agreement relating to that Intellectual Property, and there exists no state of facts which, after notice or lapse of time or both, would constitute a default or breach.

(e) The conduct by the members of the Waterloo North Group of the Waterloo North Business does not infringe the Intellectual Property of any Person.

5.20 Accounts Receivable

All Accounts Receivable reflected in the Waterloo North Holdings Financial Statements and the WNHI Financial Statements, as applicable, or which have come into existence since the date of the most recent Waterloo North Holdings Financial Statements and the WNHI Financial Statements, were created in the ordinary and customary course of the Waterloo North Business from bona fide arm's length transactions, and, except to the extent that they have been paid in the ordinary course of such Waterloo North Business since the date of the Waterloo North Holdings Financial Statements and the WNHI Financial Statements, are valid and enforceable and collectible in full, without, to the Knowledge of Waterloo, Woolwich and Wellesley, any right of set-off or counterclaim or any reduction for any credit or allowance made or given, except to the extent of the allowance for doubtful accounts which will be included in the Waterloo North Holdings Closing Financial Statements or WNHI Closing Financial Statements, as applicable.

5.21 Material Contracts

(a) The Waterloo North Disclosure Schedule contains a list of all Material Contracts to which each member of the Waterloo North Group is a party. Waterloo, Woolwich and Wellesley have previously delivered or made available true and complete copies of such Material Contracts, all of which are in full force and effect, unamended (except for amendments which have previously been disclosed or made available).

(b) No counterparty to any Material Contract to which any member of the Waterloo North Group is a party is in default of any of its obligations under such Material Contract in any material respect. Each member of the Waterloo North Group is entitled to all benefits accruing to it under each Material Contract to which it is a party, and no member of the Waterloo North Group has received any notice of termination of any Material Contract, and there are no current or pending negotiations with respect to the renewal, repudiation or amendment of any such Material Contract.

5.22 Accounts and Powers of Attorney

Each member of the Waterloo North Group has previously disclosed:

(a) the name of each bank or other depository in which such member of the Waterloo North Group maintains any bank account, trust account or safety deposit box and the names of all individuals authorized to draw on them or who have access to them; and

(b) the name of each Person holding a general or special power of attorney from Waterloo North Group and a summary of its terms.

5.23 Compliance with Laws, Permits

(a) Each member of the Waterloo North Group is conducting the Waterloo North Business in compliance with all applicable Laws where the failure to do so (either individually or in the aggregate) would have a Material Adverse Effect.

(b) All Permits held by or granted to each member of the Waterloo North Group are listed in the Waterloo North Disclosure Schedule. Such Permits are the only authorizations, registrations, permits, approvals, grants, licences, quotas, consents, commitments, rights or privileges (other than those relating to Intellectual Property) required to enable each member of the Waterloo North Group to carry on the Waterloo North Business as currently conducted and to enable each member of the Waterloo North Group to own, lease and operate its assets. All such Permits are valid, subsisting, in full force and effect and unamended and no member of the Waterloo North Group is in default or breach of any such Permit; no proceeding is pending or, to the Knowledge of Waterloo, Woolwich and Wellesley, threatened to revoke or limit any such Permit, and the completion of the transactions contemplated by this Agreement will not result in the revocation of any such Permit or the breach of any term, provision, condition or limitation affecting the ongoing validity of any such Permit.

5.24 Environmental Conditions

Without limiting the generality of Section 5.23, and except as disclosed in the Waterloo North Disclosure Schedule:

(a) the conduct of the Waterloo North Business by the members of the Waterloo North Group, and the current use and condition of each of the Waterloo North Group Leased Premises and Waterloo North Group Owned Lands have been and are in compliance with all applicable Environmental Laws in all material respects, and, to the Knowledge of Waterloo, Woolwich and Wellesley, there are no facts which would give rise to any such non-compliance of any member of the Waterloo North Group with any Environmental Laws either in the conduct of the Waterloo North Business or in the current uses and condition of each of the Waterloo North Group Leased Premises and the Waterloo North Group Owned Lands;

(b) each member of the Waterloo North Group has all Permits required by all Environmental Laws for the conduct by the Waterloo North Group of the Waterloo North Business ("**Waterloo North Environmental Approvals**"), which Waterloo North Environmental Approvals are valid and in full force and effect and listed in the Waterloo North Disclosure Schedule. Each member of the Waterloo North Group is in compliance with all those Waterloo North Environmental Approvals, and there have not been and there are no proceedings commenced or threatened to revoke or amend any such Waterloo North Environmental Approvals in a manner that could reasonably be expected to have a Material Adverse Effect;

(c) each member of the Waterloo North Group and each Person for whom such members of the Waterloo North Group are responsible pursuant to all Environmental Laws, have imported, manufactured, processed, distributed, used, treated, stored, disposed of, transported, exported or handled Hazardous Substances in compliance with all Environmental Laws;

(d) to the Knowledge of Waterloo, Woolwich and Wellesley, no Hazardous Substances have been disposed of on any of the Waterloo North Group Leased Premises or the Waterloo North Group Owned Lands, and there are no underground storage tanks on the Waterloo North Group Leased Premises or the Waterloo North Group Owned Lands and any underground storage tanks formerly on the Waterloo North Group Leased Premises or the Waterloo North Group Owned Lands have been removed and any affected soil, surface water or ground water has been remediated in compliance with all applicable Laws including Environmental Laws;

(e) no part of the Waterloo North Group Owned Lands has ever been used as a landfill or for the disposal of waste;

(f) there has been no Release of any Hazardous Substance in the course of the Waterloo North Business from, at, on, or under the Waterloo North Group Leased Premises or the Waterloo North Group Owned Lands or, to the Knowledge of Waterloo, Woolwich and Wellesley, from or on to any other properties, except in compliance with all Environmental Laws;

(g) no member of the Waterloo North Group has received any notice of any kind of any Release or possible Release of any Hazardous Substance from, at, on, or under any of the Waterloo North Group Leased Premises or Waterloo North Group Owned Lands, or from or on to any other properties;

(h) to the Knowledge of Waterloo, Woolwich and Wellesley, there are no Hazardous Substances on any adjoining properties to any of the Waterloo North Group Leased Premises or Waterloo North Group Owned Lands which may adversely affect the Waterloo North Business, or any of the Waterloo North Group Leased Premises or Waterloo North Group Owned Lands;

(i) there has been no Remedial Order issued to any member of the Waterloo North Group in respect of the Waterloo North Business, or with respect to any of the Waterloo North Group Leased Premises or the Waterloo North Group Owned Lands and, to the Knowledge of Waterloo, Woolwich and Wellesley, no Remedial Orders are threatened, and there are no facts which could reasonably be expected to give rise to any Remedial Orders;

(j) no member of the Waterloo North Group has received any notice of Claim, summons, order, direction or other communication relating to non-compliance with any Environmental Laws from any Governmental Authority or other third party, and to the Knowledge of Waterloo, Woolwich and Wellesley, there is no pending or threatened matter, act or fact which could cause the members of the Waterloo North Group, the conduct of the Waterloo North Business, or any of the Waterloo North Group Leased Premises or Waterloo North Group Owned Lands to no longer be in compliance with all applicable Environmental Laws; and

(k) no asbestos, asbestos containing materials, PCBs and PCB wastes are used, stored or otherwise present in or on the Waterloo North Group Owned Lands except for PCBs contained in the electrical transformers which are in service and which form an integral part of, and are necessary for the operation of, the Waterloo North Business. Waterloo, Woolwich and Wellesley has disclosed or made available all inspection reports received from the Ministry of the Environment in connection with the handling, transportation and storage of PCBs by the applicable members of the Waterloo North Group.

5.25 Suppliers and Customers

The Waterloo North Disclosure Schedule lists the 15 largest suppliers of goods and services from whom each member of the Waterloo North Group has purchased goods or services (other than power) during the fiscal year ended December 31, 2020. No such supplier sold goods and services to the applicable member of the Waterloo North Group which represented more than 20% of its annual purchases during such period. None of the suppliers listed in the Waterloo North Disclosure Schedule has advised the Waterloo North Group, either orally or in writing, that it is terminating or considering terminating its relationship with such member of the Waterloo North Group, or considering negotiating its relationship with such member of the Waterloo North Group on terms that would result in a Material Adverse Effect, whether as a result of the completion of the transactions contemplated by this Agreement or otherwise.

5.26 Privacy and Information Technology

(a) All Personal Information in the possession of the Waterloo North Group has been collected, used and disclosed in compliance with all applicable Privacy Laws in those jurisdictions in which the Waterloo North Group conducts, or is deemed by operation of law in those jurisdictions to conduct, the Waterloo North Business.

(b) Waterloo, Woolwich and Wellesley have disclosed or made available all Contracts and facts concerning the collection, use, retention, destruction and disclosure of Personal Information by the applicable members of the Waterloo North Group and there are no other Contracts, or facts which, on completion of the transactions contemplated by this Agreement, would restrict or interfere with the use of any Personal Information by the applicable members of the Waterloo North Group in the continued operation of the Waterloo North Business as conducted before the Closing.

(c) Except as disclosed in the Waterloo North Disclosure Schedule, there are no Claims pending or, to the Knowledge of Waterloo, Woolwich and Wellesley, threatened, with respect to the collection, use or disclosure of Personal Information by the applicable members of the Waterloo North Group.

(d) Except as disclosed in the Waterloo North Disclosure Schedule, each member of the Waterloo North Group (a) complies with the Waterloo North Group's Privacy Statements with respect to all personal information collected, used and/or disclosed by it; (b) complies with all applicable Privacy Laws; and (c) takes appropriate measures to protect and maintain the security of the personal information in its possession and/or which it has access.

(e) The transfer of Personal Information from members of the Waterloo North Group to members of the KPC Group pursuant to the terms of this Agreement and the transactions contemplated hereunder (including the disclosures made by member of the Waterloo North Group in the course of the due diligence in anticipation of the transactions contemplated by this Agreement), is in compliance with the terms of the Waterloo North Group's Privacy Statements and all applicable Privacy Laws.

(f) Except as disclosed in the Waterloo North Disclosure Schedule, to the Knowledge of Waterloo, Woolwich and Wellesley, there have been no complaints made or any audit, investigation, claim or proceeding including court proceeding against any member of the Waterloo North Group by the Office of the Privacy Commissioner of Canada or any other Governmental Authority, or by any Person in respect of the collection, retention, use, disclosure, safeguarding or distribution of Personal Information by any Person in connection with any member of the Waterloo North Group, nor to the Knowledge of Waterloo, Woolwich and Wellesley are there any facts which may give rise to any such complaint or audit, proceeding, investigation or claim.

(g) Except as disclosed in the Waterloo North Disclosure Schedule (i) all Electronic Addresses have been acquired, maintained, updated (including operationalizing opt-out requests) and stored, and (ii) all Electronic Messages sent and/or delivered by or on behalf of any member of the Waterloo North Group have been sent and/or delivered, in accordance with Laws, including but not limited to Anti-Spam Laws and Privacy Laws.

(h) The Waterloo North Systems are reasonably sufficient for the immediate needs of the Waterloo North Business, including as to capacity, scalability, and ability to process current and anticipated peak volumes in a timely manner. The Waterloo North Systems are in sufficiently good working condition to perform all information technology operations and include sufficient licensed capacity (whether in terms of authorized sites, units, users, seats or otherwise) for all software used by members of the Waterloo North Group, in each case as necessary for the conduct of the Waterloo North Business as currently conducted.

(i) Except as disclosed in the Waterloo North Disclosure Schedule, in the last five years, there has been no unauthorized access, use, intrusion or breach of security, or failure, breakdown, performance reduction or other adverse event affecting any Waterloo North Systems, that has caused or could reasonably be expected to cause any: (i) substantial disruption of or interruption in or to the use of such Waterloo North Systems or the conduct of the Waterloo North Business; (ii) loss, destruction, damage or harm of or to any member of the Waterloo North Group or its operations, personnel, property or other assets; or (iii) liability of any kind to any member of the Waterloo North Group. Each member of the Waterloo North Group has taken reasonable actions, consistent with applicable industry practices, to protect the integrity and security of the Waterloo North Systems and the data and other information stored thereon.

(j) Each member of the Waterloo North Group maintains commercially reasonable back-up and data recovery, disaster recovery and business continuity plans, procedures and facilities, acts in material compliance therewith, and tests such plans and procedures on a regular basis, and such plans and procedures have been proven effective upon such testing.

(k) Each member of the Waterloo North Group maintains policies and procedures regarding data security and privacy that are intended to ensure that it is in compliance with all Laws and that are consistent with or exceed customary industry practices. Each member of the Waterloo North Group is, and has been, in compliance in all material respects with (i) such foregoing policies and procedures, and (ii) all applicable data protection or privacy laws governing the use, collection, storage, disclosure and transfer of any personally identifiable information of third parties collected by it. Except as disclosed in the Waterloo North Disclosure Schedule, there have not been any (1) losses or thefts of data or security breaches relating to data used or stored in the Waterloo North Business, (2) violations of any security policy regarding any such data, (3) unauthorized access or unauthorized use of any such data, or (4) unintended or improper disclosure of any personally identifiable information in the possession, custody or control of it or a contractor or agent acting on behalf of it. Except as disclosed in the Waterloo North Disclosure Schedule, there have not been any written complaints, written notices or legal proceedings or other written claims related to any of the foregoing in clauses (ii) or (1) through (4) above.

5.27 Employees and Employment Contracts

(a) Waterloo, Woolwich and Wellesley has made available in the Data Room the names, titles and status (active or non-active, and if not active, reason why and period of time not active) of all Waterloo North Employees together with particulars of the material terms and conditions of their employment or engagement, including current rates of remuneration, perquisites, commissions, bonus or other incentive compensation (monetary or otherwise), most recent hire date, cumulative years of service, start and end dates of all previous periods of service, benefits, vacation or personal time off entitlements, current positions held and, if available, projected rates of remuneration, and whether the employee is a member of a collective bargaining union or agency and whether the employee is subject to the Waterloo North Collective Agreement.

(b) To the Knowledge of Waterloo, Woolwich and Wellesley, no Waterloo North Employee nor any consultant with whom the applicable members of the Waterloo North Group has contracted, is in violation of any term of any employment contract, contract of engagement, services agreement, proprietary information agreement or any other agreement relating to the right of that individual to be employed, engaged or retained by the applicable members of the Waterloo North Group in any material respect, and, to the Knowledge of Waterloo, Woolwich and Wellesley, the continued employment or engagement by the members of the Waterloo North

Group of the Waterloo North Employees will not result in any such violation. No member of the Waterloo North Group has received any notice alleging that any such violation has occurred.

(c) Except as disclosed in the Data Room, all of the Waterloo North Employees are employed, engaged or retained for an indefinite term and none are subject to written employment agreements, contracts of engagement or services agreements. Waterloo, Woolwich and Wellesley has made available in the Data Room true and complete copies of any written employment agreements, contracts of engagement or services agreements of all Waterloo North Employees. No officer has given notice, oral or written, of an intention to cease being employed with the Waterloo North Group (other than the pending employee retirements disclosed in the Waterloo North Disclosure Schedule), and no members of the Waterloo North Group intends to terminate the employment of any officer.

(d) The members of the Waterloo North Group have operated in compliance with all Laws relating to employees in all material respects, including employment standards and all Laws relating in whole or in part to the protection of employee health and safety, human rights, labour relations and pay equity. Except as disclosed or referred to in the Waterloo North Disclosure Schedule, there have been no Claims within the past three years nor, to the Knowledge of Waterloo, Woolwich and Wellesley, are there any threatened complaints, under such Laws against the members of the Waterloo North Group. To the Knowledge of Waterloo, Woolwich and Wellesley, nothing has occurred which might lead to a Claim or complaint against the members of the Waterloo North Group under any such Laws. There are no outstanding decisions or settlements or pending settlements which place any obligation upon the members of the Waterloo North Group to do or refrain from doing any act.

(e) There is no strike or lockout occurring or affecting, or to the Knowledge of Waterloo, Woolwich and Wellesley, threatened against any member of the Waterloo North Group.

5.28 Unions

(a) Except as disclosed in the Waterloo North Disclosure Schedule, there are no apparent or, to the Knowledge of Waterloo, Woolwich and Wellesley, threatened union organizing activities involving Waterloo North Employees.

(b) No member of the Waterloo North Group has any labour problems that would reasonably be expected to result in a Material Adverse Effect, or lead to any interruption of operations at any location.

(c) No member of the Waterloo North Group has engaged in any lay-off or other activities within the last three years in respect of the Waterloo North Business that would violate or in any way subject the members of the Waterloo North Group to the group termination or lay-off requirements of the Laws of any jurisdiction that apply to the members of the Waterloo North Group.

(d) Except as disclosed in the Waterloo North Disclosure Schedule, no member of the Waterloo North Group is bound by or a party to, either directly or by operation of law, any collective bargaining agreement (the **"Waterloo North Collective Agreement**") with any trade union or association which might qualify as a trade union, and no trade union, association, council of trade unions, employee bargaining agency or affiliated bargaining agent:

(i) holds bargaining rights with respect to any of the Waterloo North Employees by way of certification, interim certification, voluntary recognition, designation or successor rights;

(ii) has, to the Knowledge of Waterloo, Woolwich and Wellesley, applied to be certified or requested to be voluntarily recognized as the bargaining agent of any of the Waterloo North Employees;

(iii) has, to the Knowledge of Waterloo, Woolwich and Wellesley, applied to have any member of the Waterloo North Group declared a related or successor employer under applicable provincial labour or employment Law; or

(iv) has, to the Knowledge of Waterloo, Woolwich and Wellesley, filed a complaint or charge under applicable provincial labour or employment Law within the last three years.

5.29 Employee Benefits Matters

(a) Except as disclosed in the Waterloo North Disclosure Schedule, the members of the Waterloo North Group are not:

(i) a party to, bound by or subject to, and do not have any liability or contingent liability relating to, any employment agreement or any other agreement or arrangement relating to Employee Benefits;

(ii) in arrears in the payment of any contribution or assessment required to be made by them pursuant to any agreements or arrangements relating to Employee Benefits; or

(iii) a party to or bound by or subject to any agreement or arrangement with any labour union or employee association in respect of Employee Benefits and has not made any commitment to or conducted any negotiation or discussion with any labour union or employee association with respect to any future agreement or arrangement in respect of Employee Benefits.

(b) All agreements and arrangements relating to Employee Benefits in respect of Waterloo North Employees set forth in the Waterloo North Disclosure Schedule (other than OMERS, with respect to which Waterloo, Woolwich and Wellesley makes no representation under this Section 5.29(b)) are, and have been, established, registered (where required), and administered without default, in material compliance with (i) the terms thereof; and (ii) all applicable Laws; and no member of the Waterloo North Group has received, in the last four years, any notice from any Person questioning or challenging such compliance (other than in respect of any claim related solely to that Person), nor does Waterloo, Woolwich and Wellesley have any Knowledge of any such notice from any Person questioning or challenging such compliance beyond the last four years. Except as disclosed in the Waterloo North Disclosure Schedule or the Waterloo North Collective Agreement, there have been no improvements, increases or changes to, or promised improvements, increases or changes to, the benefits provided under any such agreement or arrangement within the last four years, nor does any such agreement or arrangement provide for benefit increases or the acceleration of funding obligations that are contingent upon or will be triggered by the execution of this Agreement or the Closing.

(c) Except as disclosed in Waterloo North Disclosure Schedule, no Waterloo North Employee is on long-term disability leave, extended absence or receiving benefits pursuant to the *Workplace Safety and Insurance Act, 1997* (Ontario).

(d) Except as disclosed in the Waterloo North Disclosure Schedule, no agreement or arrangement, other than OMERS, provides benefits beyond retirement or other termination of service to employees or former employees of any member of the Waterloo North Group or to the beneficiaries or dependants of such employees or former employees. Other than OMERS, no such agreement or arrangement requires or permits a retroactive increase in premiums or payments.

(e) All assessments under the *Workplace Safety and Insurance Act, 1997* (Ontario) in relation to the Waterloo North Business have been paid or accrued and no member of the Waterloo North Group is subject to any special or penalty assessment under such legislation which has not been paid.

5.30 Pension Plans

(a) Except as disclosed in the Waterloo North Disclosure Schedule, OMERS is the only pension or retirement plan or arrangement in which Waterloo North Employees participate and/or to which the Waterloo North Group contributes as a participating employer.

(b) All obligations of the Waterloo North Group to or under OMERS (whether pursuant to the terms thereof or any applicable Laws) have been satisfied, and there are no outstanding defaults or violations thereunder by any member of the Waterloo North Group or by any predecessor thereof.

(c) There are no going concerns with respect to unfunded actuarial liabilities, past service unfunded liabilities or solvency deficiencies respecting the Waterloo North Group's participation in OMERS.

(d) All employee data necessary to administer the Waterloo North Group's participation in OMERS and any other agreement or arrangement listed in the Waterloo North Disclosure Schedule is in the possession of the Waterloo North Group and is complete, correct and in a form which is sufficient for the proper administration of the Waterloo North Group's participation in OMERS in accordance with the terms thereof and all applicable Laws.

(e) All employer or employee payments, contributions or premiums required to be remitted or paid by the Waterloo North Group to or in respect of OMERS have been paid or remitted in a timely fashion in accordance with the terms thereof and all Laws, and no Taxes, penalties or fees are owing or exigible on any member of the Waterloo North Group under OMERS.

5.31 Insurance Policies

The Waterloo North Disclosure Schedule lists all Insurance Policies, and also specifies the insurer, the amount of the coverage, the type of insurance, the policy number and any pending Claims with respect to each such Insurance Policy. The Insurance Policies insure all the property and assets of the Waterloo North Group against Loss by all insurable hazards of risk commonly insured against in the industry. All Insurance Policies are in full force and effect and no member of the Waterloo North Group:

(a) is in default, whether as to the payment of premiums or otherwise, under any material term or condition of any of the Insurance Policies; or

(b) has failed to give notice or present any Claim under any of the Insurance Policies in a due and timely fashion.

5.32 Litigation

(a) Except as disclosed or referred to in the Waterloo North Disclosure Schedule, there are no Claims, whether or not purportedly on behalf of Waterloo North Group, pending, commenced, or, to the Knowledge of Waterloo, Woolwich and Wellesley, threatened, which might reasonably be expected to have a Material Adverse Effect on any member of the Waterloo North Group or which might involve the possibility of an Encumbrance against the assets of any member of the Waterloo North Group.

(b) There is no outstanding judgment, decree, order, ruling or injunction involving any member of the Waterloo North Group or relating in any way to the transactions contemplated by this Agreement.

5.33 Withholding

Each member of the Waterloo North Group has withheld from each payment made to any of its past or present employees, officers or directors, and to any non-resident of Canada, the amount of all Taxes and other deductions required to be withheld therefrom, including all employee and employer portions for Workers' Compensation, Canada Pension Plan, Employer Health Tax and Employment Insurance and has paid the same to the proper Governmental Authority within the time required under any applicable Laws.

5.34 No Expropriation

No property or asset of any member of the Waterloo North Group has been taken or expropriated by any Governmental Authority within the last five years, and no notice or proceeding in respect of any such expropriation has been given or commenced or, to the Knowledge of Waterloo, Woolwich and Wellesley, is there any intent or proposal to give any notice or commence any proceeding in respect of any such expropriation.

5.35 Absence of Conflict

None of the execution and delivery of this Agreement, the performance of any member of the Waterloo North Group's obligations under this Agreement, or the completion of the transactions contemplated by this Agreement will:

(a) result in or constitute a breach of any term or provision of, or constitute a default under, the Corporate Articles or the by-laws of such entity, or any Contract to which such entity is a party or by which any of such entity's undertakings, property or assets is bound or affected;

(b) subject to obtaining the third party consents contemplated by Section 7.3(c), constitute an event which would permit any party to any Material Contract with Waterloo North Group to terminate or sue for damages with respect to that Material Contract, or to accelerate the maturity of any indebtedness of Waterloo North Group, or other obligation of Waterloo North Group under that Material Contract;

(c) subject to obtaining the regulatory approvals set forth in Article 9, contravene any applicable Law; or

(d) contravene any judgment, order, writ, injunction or decree of any Governmental Authority.

5.36 Restrictive Covenants

No member of the Waterloo North Group is a party to, or bound or affected by, any Contract containing any covenant expressly limiting its ability to compete in any line of business or to transfer or move any of its assets or operations, or which could reasonably be expected to have a Material Adverse Effect on the Waterloo North Business carried on by the applicable member of the Waterloo North Group.

5.37 Waterloo North Group Business

The business of the Waterloo North Group is limited to the Waterloo North Business.

ARTICLE 6
COVENANTS

6.1 Covenants of Kitchener and Wilmot

(a) **Conduct of Business Before Closing.** During the period beginning on the date of this Agreement and ending at the Closing Time, Kitchener and Wilmot will cause the KPC Group:

(i) to conduct the KPC Business in the ordinary course substantially consistent with past practice (except as may be otherwise required or contemplated by the provisions of this Agreement or with the prior written consent of Waterloo, Woolwich and Wellesley, which shall not be unreasonably withheld);

(ii) except as required by the terms of and in accordance with the KPC Collective Agreement (including as may be required in connection with the renewal of the KPC Collective Agreement) or applicable Law, or with the prior written consent of the Chief Executive Officer of WNHI, which shall not be unreasonably withheld, to refrain from:

(A) hiring, engaging or retaining any new employees or independent contractors to be employed, engaged or retained in connection with the KPC Business except for the engagement of new independent contractors with a term of no greater than 9 months and compensation that does not exceed an aggregate of [redacted] per independent contractor;

(B) terminating any KPC Employees or transferring any KPC Employees to any other position;

(C) increasing remuneration of KPC Employees before the Closing Date, except as consistent with its past practice; and

(D) taking any action to materially amend any Contract with any KPC Employee;

(iii) except with the prior written consent of Waterloo, Woolwich and Wellesley (which shall not be unreasonably withheld), to refrain from entering into any Material Contract;

(iv) to continue in full force the Insurance Policies;

(v) to comply in all material respects with all Laws applicable to the KPC Business; and

(vi) to apply for, maintain in good standing and renew all Permits.

(b) **Access for Investigation**

(i) Kitchener and Wilmot will, and will cause the KPC Group to, permit Waterloo, Woolwich and Wellesley through their authorized Representatives, until the Closing Date, to have reasonable access during normal business hours to the KPC Group Owned Lands and the KPC Group Leased Premises and to all the Books and Records of the KPC Group and to the properties and assets of the KPC Group.

(ii) Kitchener and Wilmot and the KPC Group will co-operate in good faith in arranging any such meetings as Waterloo, Woolwich and Wellesley may reasonably request with:

(A) management of the KPC Group employed in the KPC Business; and

(B) suppliers, distributors, service providers or others who have a business relationship with the KPC Group in respect of the KPC Business.

(iii) Kitchener and Wilmot will also furnish to Waterloo, Woolwich and Wellesley any financial and operating data and other information with respect to the KPC Business as Waterloo, Woolwich and Wellesley reasonably requests to enable confirmation of the accuracy of the matters represented and warranted in Article 4.

(iv) Waterloo, Woolwich and Wellesley will be provided ample opportunity to make a full investigation of all aspects of the financial affairs of the KPC Group.

(v) The exercise of any rights of inspection by or on behalf of Waterloo, Woolwich and Wellesley under this Section 6.1(b) shall not mitigate or otherwise affect any of the representations and warranties of Kitchener and Wilmot hereunder, which will continue in full force and effect as provided in Article 8.

(c) **Termination of KPC Shareholder Agreement.** Before Closing, Kitchener and Wilmot shall terminate the KPC Shareholder Agreement.

(d) **Articles of Amalgamation.** Immediately before Closing, Kitchener and Wilmot shall cause the applicable members of the KPC Group to execute, deliver and duly file under the OBCA the articles of amalgamation that give effect to the Amalgamations.

(e) **Disclosure Supplements.** During the period beginning on the date of this Agreement and ending at the Closing Time, Kitchener and Wilmot will (acting jointly) promptly notify Waterloo, Woolwich and Wellesley with respect to any matter, condition or occurrence arising which, if existing at or occurring before or on the date of this Agreement, would have been required to be set out or described in the KW Disclosure Schedule. The Parties will use commercially reasonable efforts to resolve any issues arising from any such notification, including if necessary amending this Agreement. Where the Parties fail to resolve any such issues and where the effect of such notification would reasonably be expected to cause a Material Adverse Effect in respect of Amalco Holdco, then at the option of any Party, exercisable by written notice to each of the other Parties, this Agreement will terminate and be of no further force and effect with no liability to any of the Parties. Notification under this Section 6.1(e) will not, in any case, be deemed to cure any breach of any representation or warranty made in this Agreement or have any effect on the right of Waterloo, Woolwich and Wellesley to indemnity provided for in under this Agreement or have any effect for the purpose of determining the satisfaction of the conditions set out in Article 7 or the compliance by Kitchener and Wilmot with any covenants or agreements contained in this Agreement.

6.2 Covenants of Waterloo, Woolwich and Wellesley

(a) **Conduct of Business Before Closing.** During the period beginning on the date of this Agreement and ending at the Closing Time, Waterloo, Woolwich and Wellesley will cause the Waterloo North Group, subject to Section 6.2(g):

(i) to conduct the Waterloo North Business in the ordinary course substantially consistent with past practice (except as may be otherwise required or contemplated by the provisions of this Agreement or with the prior written consent of Kitchener and Wilmot (acting jointly), which shall not be unreasonably withheld);

(ii) except as required by the terms of and in accordance with the Waterloo North Collective Agreement (including as may be required in connection with the renewal of the Waterloo North Collective Agreement) or applicable Law, or with the prior written consent of the Chief Executive Officer of KWHI, which shall not be unreasonably withheld, to refrain from:

(A) hiring, engaging or retaining any new employees or independent contractors to be employed, engaged or retained in connection with the Waterloo North Business except for the engagement of new independent contractors with a term of no greater than 9 months and compensation that does not exceed an aggregate of [redacted] per independent contractor;

(B) terminating any Waterloo North Employees or transferring any Waterloo North Employees to any other position;

(C) increasing remuneration of Waterloo North Employees before the Closing Date, except as consistent with its past practice; and

(D) taking any action to materially amend any Contract with any Waterloo North Employee;

(iii) except with the prior written consent of Kitchener and Wilmot (acting jointly) (which shall not be unreasonably withheld), to refrain from entering into any Material Contract;

(iv) to continue in full force the Insurance Policies;

(v) to comply in all material respects with all Laws applicable to the Waterloo North Business; and

(vi) to apply for, maintain in good standing and renew all Permits.

(b) **Access for Investigation**.

(i) Waterloo, Woolwich and Wellesley will, and will cause the Waterloo North Group to, permit Kitchener and Wilmot through their authorized Representatives, until the Closing Date, to have reasonable access during normal business hours to the Waterloo North Group Owned Lands and the Waterloo North Group Leased Premises and to all the Books and Records of the Waterloo North Group and to the properties and assets of the Waterloo North Group.

(ii) Waterloo, Woolwich and Wellesley and the Waterloo North Group will co-operate in good faith in arranging any such meetings as Kitchener and Wilmot (acting jointly) may reasonably request with:

(A) management of the Waterloo North Group employed in the Waterloo North Business; and

(B) suppliers, distributors, service providers or others who have a business relationship with the Waterloo North Group in respect of the Waterloo North Business.

(iii) Waterloo, Woolwich and Wellesley will also furnish to Kitchener and Wilmot any financial and operating data and other information with respect to the Waterloo North Business as Kitchener and Wilmot (acting jointly) reasonably request to enable confirmation of the accuracy of the matters represented and warranted in Article 5.

(iv) Kitchener and Wilmot will be provided ample opportunity (acting jointly) to make a full investigation of all aspects of the financial affairs of the Waterloo North Group.

(v) The exercise of any rights of inspection by or on behalf of Kitchener and Wilmot under this Section 6.2(b) shall not mitigate or otherwise affect any of the representations and warranties of Waterloo, Woolwich and Wellesley hereunder, which will continue in full force and effect as provided in Article 8.

(c) **Termination of Waterloo North Shareholder Agreement.** Before Closing, Waterloo, Woolwich and Wellesley shall terminate the Waterloo North Shareholder Agreement.

(d) **Articles of Amalgamation.** Immediately before Closing, Waterloo, Woolwich and Wellesley shall cause the applicable members of the Waterloo North Group to execute, deliver and duly file under the OBCA the articles of amalgamation that give effect to the Amalgamations.

(e) **Excluded Amounts.** The applicable members of the Waterloo North Group shall, prior to Closing, ensure that none of Amalco Holdco or any of its Subsidiaries or Eyedro shall, as of and following the Closing Date, have any liability or obligation of any kind for any Excluded Amounts.

(f) **Disclosure Supplements.** During the period beginning on the date of this Agreement and ending at the Closing Time, Waterloo, Woolwich and Wellesley will (acting jointly) promptly notify Kitchener and Wilmot with respect to any matter, condition or occurrence arising which, if existing at or occurring before or on the date of this Agreement, would have been required to be set out or described in the Waterloo North Disclosure Schedule. The Parties will use commercially reasonable efforts to resolve any issues arising from any such notification, including if necessary amending this Agreement. Where the Parties fail to resolve any such issues and where the effect of such notification would reasonably be expected to cause a Material Adverse Effect in respect of Amalco Holdco, then at the option of any Party, exercisable by written notice to each of the other Parties, this Agreement will terminate and be of no further force and effect with no liability to any of the Parties. Notification under this Section 6.2(e) will not, in any case, be deemed to cure any breach of any representation or warranty made in this Agreement or have any effect on the right of Kitchener and Wilmot to indemnity provided for in under this Agreement or have any effect for the purpose of determining the satisfaction of the conditions set out in Article 7 or the compliance by Waterloo, Woolwich and Wellesley with any covenants or agreements contained in this Agreement.

(g) **Short Term Notes.** Before Closing, Waterloo, Woolwich and Wellesley shall cause Waterloo North Holdings and WNHI to redeem and terminate the WNH Short Term Notes.

6.3 Mutual Covenants

(a) **Actions to Satisfy Closing Conditions.** Each Party will take or cause to be taken all actions that are within its power to control, and will make all commercially reasonable best efforts to cause other actions to be taken which are not within its power to control, so as to ensure its compliance with, and satisfaction of, all conditions in Article 7 that are for the benefit of the other Parties.

(b) **Personal Information.** The collection, use and disclosure of Personal Information by any of the Parties before the Closing is restricted to those purposes that relate to the transactions contemplated by this Agreement or to other purposes as may be permitted by applicable Law.

(c) **Confidentiality**. The Parties shall treat as confidential this Agreement, the terms and conditions set out herein and all information provided to one another in accordance with this Agreement. All such information shall be deemed received pursuant to the terms of the Confidentiality Agreement, be kept in the strictest confidence and not divulged to any unrelated third party or used by any Party. Each Party that is not a party to or bound by the Confidentiality Agreement hereby agrees, covenants and acknowledges to be bound by the terms and conditions of the Confidentiality Agreement as if it was an original signatory thereto and acknowledges having received a copy of the Confidentiality Agreement on or before the date of this Agreement. Notwithstanding any other provision of this Agreement, nothing shall prevent the disclosure of any agreement or information, and no party shall be held liable for the disclosure of any agreement or information, if and to the extent that any such disclosure is required by applicable Law, including the *Municipal Act, 2001* (Ontario) and the *Municipal Freedom of Information and Protection of Privacy Act* (Ontario).

(d) **Amalco Holdco Shareholders Agreement**. On Closing each of Kitchener, Wilmot, Waterloo, Woolwich and Wellesley shall, and shall cause Amalco Holdco to, execute and deliver the Shareholders Agreement.

(e) **Equity Issuances/Dividends**.

(i) Kitchener and Wilmot shall ensure that no member of the KPC Group issues any additional equity at any time prior to the Closing Time.

(ii) Waterloo, Woolwich and Wellesley shall ensure that no member of the Waterloo North Group issues any additional equity at any time prior to the Closing Time.

(iii) Waterloo, Woolwich and Wellesley shall continue to accept payment of all dividends declared by Waterloo North Holdings in the ordinary course in accordance with past practice (and shall not defer payment of same).

(iv) Kitchener and Wilmot shall continue to accept payment of all dividends declared by KPC in the ordinary course in accordance with past practice (and shall not defer payment of same).

(f) **Location of Facilities and Executive Functions.**

(i) Kitchener, Wilmot, Waterloo, Woolwich and Wellesley will cause LDC Amalco to continue to have a substantial physical and functional presence in each of the two former service territories of KWHI and WNHI.

(ii) Kitchener, Wilmot, Waterloo, Woolwich and Wellesley will cause Amalco Holdco and LDC Amalco to maintain the administration and operations buildings located at 301 Victoria Street South, Kitchener, Ontario N2M 3A2 and to maintain their head office at such location, including the executive functions of Chief Executive Officer and Chief Financial Officer, for an indefinite period following the Closing Date or at such other location within Kitchener as may be approved by Kitchener.

(iii) Kitchener, Wilmot, Waterloo, Woolwich and Wellesley will cause Amalco Holdco and LDC Amalco to maintain the administration and operations buildings located at 526 Country Squire Road, Waterloo, Ontario N2J 4G8, at which activities will include leading innovation and new technology development, along with some executive functions, for an indefinite period from the Closing Date, or at such other location within Waterloo, Woolwich or Wellesley as may be approved by Waterloo, Woolwich and Wellesley (acting jointly).

(g) **Name and Branding.** Amalco Holdco, LDC Amalco, and KESI will be required to adopt new corporate names and a new corporate brand (including logo and other identifying marks) following the Closing Date (together, the "**Amalco Rebranding**"). Amalco Holdco and LDC Amalco will keep Kitchener, Wilmot, Waterloo, Woolwich and Wellesley informed as to all relevant aspects of the Amalco Rebranding and will seek the input and recommendations of Kitchener, Wilmot, Waterloo, Woolwich and Wellesley on the new corporate names.

(h) **Reforestation Grants.** Following Closing each of Kitchener, Wilmot, Waterloo, Woolwich, Wellesley and Amalco Holdco, shall cause LDC Amalco to continue its tree reforestation grant program in the amounts and in a manner consistent with past practice (including, if applicable, periodic increases of such grants) to provide tree reforestation grants to Kitchener, Wilmot, Waterloo, Woolwich and Wellesley.

(i) **Promissory Notes.**

(i) On or prior to the Closing Date, each of Waterloo, Woolwich and Wellesley and Waterloo North Holdings will amend the terms and conditions of the Waterloo, Woolwich and Wellesley Promissory Notes to change the interest rate payable to an amount equal to the interest rate payable by KWHI pursuant to the Kitchener and Wilmot Promissory Notes and to remove any rights of the holders thereof or any member of the Waterloo North Group to convert, redeem or otherwise exchange any of such Waterloo, Woolwich and Wellesley Promissory Notes into any shares or other securities of the Waterloo North Group. Kitchener and Wilmot will not convert, redeem or otherwise exchange any Kitchener and Wilmot Promissory Notes into any shares or other securities of the KPC Group prior to the Closing Date. Waterloo, Woolwich and Wellesley will not convert, redeem or otherwise exchange any Waterloo, Woolwich and Wellesley Promissory Notes into any shares or other securities of the Waterloo North Group prior to the Closing Date.

(ii) Except as set forth in Section 6.3(i)(i), no Party will amend the terms and conditions of the Waterloo, Woolwich and Wellesley Promissory Notes or the Kitchener and Wilmot Promissory Notes, as applicable. For clarity, following the Closing Date, LDC Amalco will be the borrower pursuant to the terms and conditions of the Kitchener and Wilmot Promissory Notes and Amalco Holdco will be the borrower pursuant to the terms of the Waterloo, Woolwich and Wellesley Promissory Notes.

ARTICLE 7
CLOSING CONDITIONS

7.1 Conditions for the Benefit of Waterloo, Woolwich and Wellesley

The obligation of Waterloo, Woolwich and Wellesley to complete the Amalgamations is subject to the fulfilment of the following conditions at or before the Closing Time:

(a) **Representations, Warranties and Covenants.** The representations and warranties of Kitchener and Wilmot made in this Agreement or in any other agreement or document delivered pursuant to this Agreement will be true and accurate in all material respects at the Closing Time with the same force and effect as though those representations and warranties had been made as of the Closing Time. At Closing, Kitchener, Wilmot and the members of the KPC Group will have performed or complied in all material respects with all covenants and agreements agreed to be performed or complied with by them under this Agreement and any other agreement or document delivered pursuant to this Agreement at or before the Closing Time. In addition, each of Kitchener and Wilmot and the applicable members of the KPC Group will have delivered to Waterloo, Woolwich and Wellesley a certificate of a senior officer of each of Kitchener, Wilmot and the members of the KPC Group confirming the same. The receipt of those certificates and the completion of the Closing will not be deemed to constitute a waiver of any of the representations, warranties or covenants of Kitchener and Wilmot or the members of the KPC Group contained in this Agreement or in any other agreement or document delivered pursuant to this Agreement. Those representations, warranties and covenants will continue in full force and effect as provided in Article 8, or, if Article 8 does not apply, the terms of the agreement or document in which they are made.

(b) **No Material Adverse Effect.** Since the date of this Agreement there will not have been any change in any of the assets, financial condition, earnings, results of operations or prospects of the KPC Group, or in the KPC Business (whether or not covered by insurance) that has had, or might reasonably be expected to have, a Material Adverse Effect.

(c) **Consents and Regulatory Approvals**. All filings, notifications, approvals and consents with, to or from Governmental Authorities and third parties, including the parties to the Material Contracts and the lessors of the KPC Group Leased Premises, will have been made, given or obtained on terms acceptable to Waterloo, Woolwich and Wellesley (acting jointly), acting reasonably, so that the transactions contemplated by this Agreement may be completed without resulting in the violation of, or a default under, or any termination, amendment or acceleration of any obligation under any Permit, KPC Real Property Lease, or Material Contract of or affecting the KPC Business, including the OEB Approval and the Competition Act Approval.

(d) **No Transfer Tax.** No Transfer Tax shall be payable by any Party to the Ontario Electricity Financial Corporation in connection with transactions contemplated by this Agreement.

7.2 Waiver or Termination by Waterloo, Woolwich and Wellesley

The conditions contained in Section 7.1 are inserted for the exclusive benefit of Waterloo, Woolwich and Wellesley and may be waived in whole or in part by them at any time without prejudice to any of their rights of termination in the event of non-performance of any other condition in whole or in part. If any of the conditions contained in Section 8.1 are not fulfilled or complied with by the time that is required under this Agreement, Waterloo, Woolwich and Wellesley (acting jointly) may, at or before the Closing Time, terminate this Agreement by notice in writing after that time to Kitchener and Wilmot. In that event, all Parties will be released from all obligations under this Agreement (except as set out in Section 8.3).

7.3 Conditions for the Benefit of Kitchener and Wilmot

The obligation of Kitchener and Wilmot to complete the Amalgamations and the other transactions contemplated by this Agreement is subject to the fulfilment of the following conditions at or before the Closing Time:

(a) **Representations, Warranties and Covenants**. The representations and warranties of Waterloo, Woolwich and Wellesley made in this Agreement or in any other agreement or document delivered pursuant to this Agreement will be true and accurate in all material respects at the Closing Time with the same force and effect as though those representations and warranties had been made as of the Closing Time. At Closing, Waterloo, Woolwich and Wellesley and the members of the Waterloo North Group will have performed or complied in all material respects with all covenants and agreements agreed to be performed or complied with by them under this Agreement and any other agreement or document delivered pursuant to this Agreement at or before the Closing Time. In addition, each of Waterloo, Woolwich and Wellesley and the applicable members of the Waterloo North Group will have delivered to Kitchener and Wilmot a certificate of a senior officer of Waterloo, Woolwich and Wellesley and the members of the Waterloo North Group confirming the same. The receipt of those certificates and the completion of the Closing will not be deemed to constitute a waiver of any of the representations, warranties or covenants of Waterloo, Woolwich and Wellesley or the members of the Waterloo North Group contained in this Agreement or in any other agreement or document delivered pursuant to this Agreement. Those representations, warranties and covenants will continue in full force and effect as provided in Article 8 or, if Article 8 does not apply, the terms of the agreement or document in which they are made.

(b) **No Material Adverse Effect.** Since the date of this Agreement there will not have been any change in any of the assets, financial condition, earnings, results of operations or prospects of the Waterloo North Group or the Waterloo North Business (whether or not covered by insurance) that has had, or might reasonably be expected to have, a Material Adverse Effect.

(c) **Consents and Regulatory Approvals.** All filings, notifications, approvals and consents with, to or from Governmental Authorities and third parties, including the parties to the Material Contracts and the lessors of the Waterloo North Group Leased Premises, will have been made, given or obtained on terms acceptable to Kitchener and Wilmot, acting jointly and reasonably, so that the transactions contemplated by this Agreement may be completed without resulting in the violation of, or a default under, or any termination, amendment or acceleration of any obligation under any Permit, Waterloo North Group Real Property Lease, or Material Contract of or affecting the Waterloo North Business, including the OEB Approval and the Competition Act Approval.

(d) **No Transfer Tax.** No Transfer Tax shall be payable by any Party to the Ontario Electricity Financial Corporation in connection with the transactions contemplated by this Agreement.

7.4 Waiver or Termination by Kitchener and Wilmot

The conditions contained in Section 7.3 are inserted for the exclusive benefit of Kitchener and Wilmot and may be waived in whole or in part by them (acting jointly) at any time without prejudice to any of their rights of termination in the event of non-performance of any other condition in whole or in part. If any of the conditions contained in Section 7.3 are not fulfilled or complied with by the time that is required under this Agreement, Kitchener and Wilmot may (acting jointly), at or before the Closing Time, terminate this Agreement by notice in writing after that time to Waterloo, Woolwich and Wellesley. In that event, all Parties will be released from all obligations under this Agreement (except as set out in Section 8.3).

7.5 Condition Precedent

The Amalgamations are subject to the following condition to be fulfilled at or before the Closing Time, which condition is a true condition precedent to the completion of the transactions contemplated by this Agreement:

(a) No order of any Governmental Authority will be in force, and no action or proceeding will be pending or threatened by any Person:

(i) to restrain or prohibit the completion of the transactions contemplated in this Agreement, including the Amalgamations;

(ii) to restrain or prohibit the carrying on of the Waterloo North Business or the KPC Business, respectively; or

(iii) which would have a Material Adverse Effect (taken as a whole) on the KPC Group or on the Waterloo North Group (taken as a whole).

If this condition precedent has not been fulfilled at or before the Closing Time, unless otherwise agreed by the Parties in writing, this Agreement will be terminated and the Parties will be released from all obligations under this Agreement (except as set out in Section 8.3).

7.6 Termination

(a) This Agreement may be terminated at any time prior to Closing by mutual written consent of Kitchener, Wilmot, Waterloo, Woolwich and Wellesley.

(b) This Agreement may be terminated by Waterloo or Kitchener by written notice to the other Parties if the Closing contemplated by this Agreement shall have not occurred on or before the earlier of (a) the first anniversary of the date of this Agreement, (b) 90 days following OEB Approval. Upon such termination the Parties shall be released from all obligations then remaining under this Agreement, other than the obligations contained in Sections 6.3(c), 11.3 and 11.8 provided that the right to terminate this Agreement under this Section (b) shall not be available to a Party if the acts or omissions of that Party or any of its Affiliates have been the cause of, or result in, the failure of the Closing to occur on or before such date.

(c) This Agreement may be terminated by Waterloo, Woolwich and Wellesley (acting jointly), on the one hand, or Kitchener and Wilmot (acting jointly), on the other hand within 60 days following an Adverse Determination if the Parties cannot agree on any amendments to this Agreement. Upon such termination the Parties shall be released from all obligations then remaining under this Agreement, other than the obligations contained in Sections 6.3(c), 11.3 and 11.8 provided that the right to terminate this Agreement under this Section (b) shall not be available to a Party if the acts or omissions of that Party or any of its Affiliates have been the cause of, or result in, the failure of the Closing to occur on or before such date.

(d) If any condition in Section 7.1 or 7.5 is not satisfied on or before the Closing Date, Waterloo, Woolwich and Wellesley or Waterloo North Holdings may, by notice to the other Parties, terminate this Agreement and thereupon the Parties shall be released from all obligations then remaining under this Agreement, other than the obligations contained in Sections 6.3(c), 11.3 and 11.8; provided that Waterloo, Woolwich and Wellesley, Waterloo North Holdings or WNHI may also bring a Direct Claims against Kitchener and Wilmot, KPC, and KWHI in accordance with Section 8.8 for Losses asserted against or suffered by Waterloo, Woolwich and Wellesley, Waterloo North Holdings and WNHI, or any of them, as a result of the failure to complete the Amalgamations, where the non-performance or non-conformance of the relevant condition is as a result of a breach of covenant, representation or warranty by Kitchener and Wilmot, KPC, or KWHI.

(e) If any condition in Section 7.3 or 7.5 is not satisfied on or before the Closing Date, Kitchener and KPC may, by notice to the other Parties, terminate this Agreement and thereupon the Parties shall be released from all obligations then remaining under this Agreement, other than the obligations contained in Sections 6.3, 11.3 and 11.8; provided that Kitchener, Wilmot, KPC, KWHI or KESI may also bring a Direct Claim against Waterloo, Woolwich, Wellesley, Waterloo North Holdings, and WNHII in accordance with Section 8.8 for Losses asserted against or suffered by Kitchener, Wilmot, KPC, KWHI, KESI or any of them, as a result of the failure to complete the Amalgamations, where the non-performance or non-conformance of the relevant condition is as a result of a breach of covenant, representation or warranty by Waterloo, Woolwich, Wellesley, Waterloo North Holdings, or WNHI.

ARTICLE 8
SURVIVAL AND INDEMNIFICATION

8.1 Survival of Covenants and Representations and Warranties

All of the covenants and representations and warranties contained in this Agreement and in any other agreement or document delivered pursuant to this Agreement, including this Article 8, will survive the Closing.

8.2 Survival Following Termination

If this Agreement is terminated at or before the Closing Time pursuant to Sections 7.2, 7.4 or 7.5, the provisions of Section 6.3(c), 11.3 and 11.8 will remain in full force and effect.

8.3 Mutual Indemnifications for Breaches of Warranty, etc.

Subject to the remaining provisions of this Article 8:

(a) Waterloo, Woolwich and Wellesley agree that if Waterloo, Woolwich and Wellesley or any member of the Waterloo North Group fails to observe or perform any covenant or obligation to be complied with or performed by them in this Agreement, or breach any of their representations and warranties contained in this Agreement (an **"Waterloo North Failure"**), Waterloo, Woolwich and Wellesley will indemnify and hold harmless Kitchener and Wilmot from and against the full amount of any Loss which Kitchener and Wilmot may suffer as a result of such Waterloo North Failure; and

(b) Kitchener and Wilmot agree that if Kitchener and Wilmot or any member of the KPC Group fails to observe or perform any covenant or obligation to be complied with or performed by them in this Agreement, or breach any of their representations and warranties contained in this Agreement (a **"KPC Failure"**), Kitchener and Wilmot will indemnify and hold harmless Waterloo, Woolwich and Wellesley from and against the full amount of any Loss which it/they may suffer as a result of such KPC Failure;

(the Party or Parties making a Claim for indemnification under any provision of this Article 8 being the **"Indemnified Party"**, and the Party or Parties providing indemnification being the **"Indemnifying Party"** for the purposes of this Article 8).

8.4 Limitation on Mutual Indemnification

The indemnification obligations of Waterloo, Woolwich and Wellesley (on the one hand) and Kitchener and Wilmot (on the other hand) pursuant to Section 8.3 are limited and subject to the following:

(a) limited to the sum of [redacted] in respect of Kitchener and limited to the sum of [redacted] in the case of Wilmot in the case of all KPC Failures, provided that:

(i) in respect of any KPC Failure, neither Kitchener nor Wilmot shall be liable in excess of its Pro Rata Share of Losses in respect thereof; and

(ii) there will be no limit with respect to any indemnification arising as a consequence of fraud, wilful misrepresentation or gross negligence on the part of Kitchener and Wilmot or any member of the KPC Group, provided that in respect of any such indemnification arising as a consequence of fraud, wilful misrepresentation or gross negligence, neither Kitchener nor Wilmot shall be liable in excess of its Pro Rata Share of Losses in respect thereof;

(b) limited to the sum of [redacted] in respect of Waterloo, limited to the sum of [redacted] in respect of Woolwich and limited to the sum of [redacted] in respect of Wellesley in the case of all Waterloo North Failures, provided that:

(i) in respect of any Waterloo North Failure, none of Waterloo, Woolwich or Wellesley shall be liable in excess of its Pro Rata Share of Losses in respect thereof; and

(ii) there will be no limit with respect to any indemnification arising as a consequence of fraud, wilful misrepresentation or gross negligence on the part of Waterloo, Woolwich and Wellesley or any member of the Waterloo North Group, provided that in respect of any such indemnification arising as a consequence of fraud, wilful misrepresentation or gross negligence, none of Waterloo, Woolwich or Wellesley shall be liable in excess of its Pro Rata Share of Losses in respect thereof;

(c) in respect of Claims against Waterloo, Woolwich or Wellesley, they shall have no obligations to indemnify an Indemnified Party unless and until the aggregate of all Indemnity Claims to which Waterloo, Woolwich and Wellesley collectively are subject exceeds [redacted], in which case, subject to this Section 8.4, the Indemnifying Party will be obligated to pay the entire amount owing in respect of those Claims without a deductible;

(d) in respect of Claims against Kitchener or Wilmot, they shall have no obligations to indemnify an Indemnified Party unless and until the aggregate of all Indemnity Claims to which Kitchener and Wilmot collectively are subject exceeds [redacted], in which case, subject to this Section 8.4, the Indemnifying Party will be obligated to pay the entire amount owing in respect of those Claims without a deductible; and

(e) where the Claim relates to any Loss in respect of Amalco Holdco or any Subsidiary (or their respective predecessors), each of Amalco Holdco and LDC Amalco shall use its commercially reasonable efforts to seek to recover any insurance proceeds, indemnity, contribution, or other similar payment in connection with such Loss in order to reduce the amount of any Claim arising out of such Loss. Any calculation of Loss for purposes of Section 8.3 shall be reduced to take account of any net Tax benefit received or realized by a Party as a result of any such Loss. Any payment pursuant to Section 8.3 shall initially be made without regard to this Section 8.4 and shall be reduced to reflect any such net Tax benefit only after the Party suffering the Loss has actually realized such benefit. For purposes of this Agreement, the applicable Party shall be deemed to have 'actually realized' a net Tax benefit to the extent that, and at such time as, the amount of Taxes required to be paid by such Party is reduced below the amount of Taxes that it would have been required to pay but for deductibility of the applicable Loss, in each case: (i) during the same Tax year as the year in which the relevant Loss occurred; (ii) calculated so that the items related to the Party's indemnification obligations are the last to be recognized; and (iii) as reasonably determined by such Party. The amount of any reduction hereunder shall be adjusted to reflect any final determination with respect to the applicable Party's liability for Taxes, consistent with the foregoing.

8.5 Additional Indemnities

(a) [redacted]

(i) [redacted]

(ii) [redacted]

(iii) [redacted]

(iv) [redacted]

[redacted]

(b) [redacted]

(i) [redacted]

(ii) [redacted]

(iii) [redacted]

[redacted]

8.6 Notice of Claim

If an Indemnified Party becomes aware of a Loss or potential Loss in respect of which the Indemnifying Party has agreed to indemnify it under this Agreement, the Indemnified Party will promptly give written notice (an **"Indemnity Notice"**) of its Claim or potential Claim for indemnification (an **"Indemnity Claim"**) to the Indemnifying Party. An Indemnity Notice must specify whether the Indemnity Claim arises as the result of a Claim made against the Indemnified Party by a person who is not a Party (a **"Third Party Claim"**) or as a result of a Loss that was suffered directly by an Indemnified Party (a **"Direct Claim"**), and must also specify with reasonable particularity (to the extent that the information is available):

(a) the factual basis for the Indemnity Claim; and

(b) the amount of the Indemnity Claim, if known.

If, through the fault of the Indemnified Party, the Indemnifying Party does not receive an Indemnity Notice of an Indemnity Claim in time to effectively contest the determination of any liability capable of being contested, the Indemnifying Party will be entitled to set off against the amount claimed by the Indemnified Party the amount of any Loss incurred by the Indemnifying Party resulting from the Indemnified Party's failure to give an Indemnity Notice on a timely basis.

8.7 Time Limits for Notice

(a) Subject to, and other than for Indemnity Claims in respect of which a different time period is expressly set out in the remaining provisions of this Section 8.7, no Indemnity Claim may be made under Section 8.3 unless an Indemnity Notice of that Indemnity Claim is delivered to the Indemnifying Party [redacted] after the Closing Date or, in respect of an Indemnity Claim.

(b) No Indemnity Claim arising out of a breach by Kitchener and Wilmot of Section 4.13 may be made unless an Indemnity Notice of that Indemnity Claim is delivered to Kitchener and Wilmot within 180 days after the last day upon which any of the relevant Governmental Authorities is entitled to assess or reassess the

KPC Group with respect to any Tax, having regard to any waivers given by the KPC Group in respect of Tax, and any entitlement of a Governmental Authority to assess or reassess in the event of fraud or misrepresentation or attributable to neglect, carelessness or wilful default.

(c) No Indemnity Claim arising out of a breach by Waterloo, Woolwich and Wellesley of Section 5.13 may be made unless an Indemnity Notice of that Indemnity Claim is delivered to Waterloo, Woolwich and Wellesley within 180 days after the last day upon which any of the relevant Governmental Authorities is entitled to assess or reassess the Waterloo North Group with respect to any Tax, having regard to any waivers given by the Waterloo North Group in respect of Tax, and any entitlement of a Governmental Authority to assess or reassess in the event of fraud or misrepresentation or attributable to neglect, carelessness or wilful default.

(d) An Indemnity Notice of an Indemnity Claim may be delivered to the Indemnifying Party at any time with respect to the following (subject to the applicable statute of limitations):

(i) a breach of the representations and warranties contained in Sections 3.1 (Corporate Existence), 3.2 (Capacity to Enter Agreement), 3.3 (Binding Obligation) or 3.4 (Absence of Conflict);

(ii) a breach of the representations and warranties of Kitchener and Wilmot contained in Sections 4.4 (Share Ownership, Etc.), 4.5 (Corporate Existence of the KPC Group), 4.7 (Capacity and Powers of the KPC Group), 4.9 (Options, Etc.) or 4.35 (Absence of Conflict);

(iii) a breach of the representations and warranties of Waterloo, Woolwich and Wellesley contained in Section 5.4 (Share Ownership, Etc.), 5.5 (Corporate Existence of the Waterloo North Group), 5.7 (Capacity and Powers of the Waterloo North Group), 5.9 (Options, Etc.) or 5.35 (Absence of Conflict);

(iv) a breach of any of the Indemnifying Party's covenants or representations and warranties, if that breach is attributable to fraud, wilful misrepresentation or gross negligence;

(v) a breach of the covenants in Section 6.3(c) (as limited by the provisions of such Section); and

(vi) a breach of the covenants in Section 6.3(f).

8.8 Procedure for Direct Claims

Following receipt of an Indemnity Notice from the Indemnified Party of a Direct Claim, the Indemnifying Party will have 20 Business Days to make any investigations it considers necessary or desirable. For the purpose of those investigations, the Indemnified Party will make available to the Indemnifying Party the information relied upon by the Indemnified Party to substantiate the Direct Claim, together with all other information that the Indemnifying Party may reasonably request. If both Parties agree at or before the expiration of such period (or any mutually agreed upon extension) to the validity and amount of the Direct Claim, the Indemnifying Party will pay immediately to the Indemnified Party the full agreed upon amount of the Loss for which the Direct Claim is made, and no subsequent proceeding will be brought in any court of law concerning that Direct Claim.

8.9 Procedure for Third Party Claims

(a) Despite any other provision of this Agreement, if the Indemnified Party is required by applicable Law to make a payment into court, into escrow, or to any third party, with respect to a Third Party Claim before the completion of related settlement negotiations or legal proceedings, the Indemnified Party may make the required payment and the Indemnifying Party will, promptly after demand by the Indemnified Party, reimburse the Indemnified Party for the required payment made. If the Indemnifying Party makes that reimbursement in full, and if the amount of any liability of the Indemnified Party under the Third Party Claim in respect of which the required payment was made, as finally determined, is less than the amount that was paid by the Indemnifying Party to the Indemnified Party, the Indemnified Party will, promptly after recovery of the surplus amount left over from the required payment, pay that surplus amount to the Indemnifying Party.

(b) The Indemnified Party will promptly deliver to the Indemnifying Party copies of all correspondence, notices, assessments or other written Communication received by the Indemnified Party in respect of any Third Party Claim.

(c) The Indemnified Party will not negotiate, settle, compromise or pay any Third Party Claim with respect to which it has asserted or proposes to assert an Indemnity Claim, without the prior written consent of the Indemnifying Party, which consent will not be unreasonably withheld.

(d) The Indemnified Party will not cause or permit the termination of any right of appeal in respect of any Third Party Claim which is or might become the basis of an Indemnity Claim without giving the Indemnifying Party written notice of the contemplated or potential termination in time to grant the Indemnifying Party an opportunity to contest the Third Party Claim.

(e) If the Indemnifying Party first acknowledges in writing its obligation to satisfy an Indemnity Claim to the extent of any binding determination or settlement in connection with a Third Party Claim (or enters into arrangements otherwise satisfactory to the Indemnified Party), in any legal or administrative proceeding in connection with the matters forming the basis of a Third Party Claim, the following will apply:

(i) the Indemnifying Party will have the right, subject to the rights of any Person having potential liability for it, by written notice delivered to the Indemnified Party within ten Business Days of receipt by the Indemnifying Party of an Indemnity Notice, to assume carriage and control of the negotiation, defence or settlement of a Third Party Claim and the conduct of any related legal or administrative proceedings at the expense of the Indemnifying Party and by its own counsel;

(ii) if the Indemnifying Party elects to assume carriage and control, the Indemnified Party will have the right to participate at its own expense in the negotiation, defence or settlement of a Third Party Claim assisted by counsel of its own choosing;

(iii) each of the Indemnified Party and the Indemnifying Party will make all reasonable efforts to make available to the Party, who has assumed carriage and control of the negotiation, defence or settlement of a Third Party Claim, those employees whose assistance or evidence is necessary to assist that Party in evaluating and defending that Third Party Claim and all documents, records and other materials in the possession or control of that Party required for use in the negotiation, defence or settlement of that Third Party Claim;

(iv) despite Sections 8.9(e)(i), 8.9(e)(ii) and 8.9(e)(iii), the Indemnifying Party will not settle a Third Party Claim or conduct any related legal or administrative proceeding in a manner which would, in the opinion of the Indemnified Party, acting reasonably, have a material adverse effect on the Indemnified Party except with the Indemnified Party's prior written consent; and

(v) subject to Section 8.9(e)(ii), the Indemnifying Party will indemnify and hold harmless the Indemnified Party from and against any Loss incurred or suffered as a result of the Indemnifying Party's settlement of the Third Party Claim or conduct of any related legal or administrative proceeding.

(f) When the amount of the Loss with respect to a Third Party Claim is finally determined in accordance with this Section 8.9, including any amount described in Section 8.9(e)(v), the Indemnifying Party will immediately pay the full amount of that Loss to the Indemnified Party.

(g) If the Indemnified Party has been permitted by the Indemnifying Party to assume the carriage and control of the negotiation, defence, or settlement of the Third Party Claim, the Indemnifying Party will not contest the amount of that Loss.

(h) The Indemnifying Party will have no obligation to make any payment with respect to any Third Party Claim that is settled or contested in violation of the terms of this Section 8.9.

8.10 No Delay

Each Indemnifying Party will pursue any Indemnity Claim made by an Indemnified Party under this Agreement with reasonable diligence and dispatch, and without unnecessary delay, once the circumstances that give rise to that Indemnity Claim are known to it.

8.11 Set-off

Each Indemnified Party will be entitled to set-off the amount of any Loss for which it seeks indemnification under this Article 8 once, if applicable, finally determined in accordance with Section 8.8 or Section 8.9, as the case may be, as damages or by way of indemnification against any other amounts payable by it to the Indemnifying Party whether under this Agreement or otherwise.

8.12 Exclusive Remedy

(a) Subject to Sections 2.4 and 8.12(b), the rights of indemnity in this Article 8 are the sole and exclusive remedy of each Party for any Loss suffered in connection with the transactions contemplated by this Agreement.

(b) Nothing in this Section 8.12 will prevent a Party from seeking equitable remedies with respect to a breach of the confidentiality covenants contained in this Agreement.

(c) Unless otherwise specifically agreed by the Parties, this Section 8.12 will remain in full force and effect in all circumstances and will not be terminated by any breach (fundamental, negligent or otherwise) by any Party of its covenants, representations or warranties in this Agreement or under any agreement or other document delivered pursuant to this Agreement, or by any termination or rescission of this Agreement.

ARTICLE 9
REGULATORY APPROVAL

9.1 OEB Approval and Competition Act Approval

(a) Each of KWHI and WNHI will, as promptly as practicable after the execution of this Agreement (but in no event later than 60 days after the execution of this Agreement), file or caused to be filed with the OEB an application under the OEB Act for the OEB Approval.

(b) The Parties will, as promptly as possible after the execution of this Agreement (but in no event later than 5 days after the execution of this Agreement), file with the Commissioner an application for an advance ruling certificate under Section 102 of the Competition Act or, alternatively, a No-Action Letter, in respect of the transactions contemplated by this Agreement. If an advance ruling certificate or No-Action Letter has not been obtained by the 45th day following such application, the Parties will prepare and file with the Commissioner a pre-merger notification in respect of the transactions contemplated by this Agreement under Section 114 of the Competition Act.

(c) Each of KWHI and WNHI will bear half the cost of the filing fees and professional advisors in respect of the applications for the OEB Approval and the Competition Act Approval. Each of KWHI and Kitchener and Wilmot and Waterloo, Woolwich and Wellesley and WNHI will use its best efforts (which shall not be less than commercially reasonable efforts) to co-operate and assist the other, so that the OEB Approval and the Competition Act Approval can be obtained as soon as practicable and in any event on or prior to June 30, 2022.

9.2 Minister of Finance Notice

(a) KWHI and WNHI will as promptly as practicable after the execution of this Agreement (but in no event later than 60 days prior to the Closing Date), jointly file or cause to be filed with the Ontario Minister of Finance the notification required under subsection 4(2) of Ontario Regulation 124/99 made under the EA.

(b) Each Party will be responsible for the costs incurred by it in connection with the Minister of Finance Notice.

9.3 OEB MAADs Application and Approval

In the event that the KPC Group or Waterloo North Group, as applicable, is of the opinion, acting reasonably, that the OEB Approval decision (i) will reduce the sitout period (i.e., the deferred rebasing period) to less than 10 years and/or reduce the expected savings that may be allocated the direct and indirect shareholders of LDC Amalco during the sitout period pursuant to the policies of the OEB, and/or (ii) does not approve the continuation of Distribution Rate Zones for a minimum period of 20 years post-Closing, which shall be expressly identified as a separate and distinct head of relief under the order requested in the mergers, amalgamations, acquisitions and divestitures (MAADs) application filed by the Parties pursuant to Section 9.1(a) (in each case, an "**Adverse Determination**"), either the KPC Group or Waterloo North Group, as applicable, may provide written notice to the other parties of such potential Adverse Determination. The Parties agree to cooperate and negotiate any desirable or required amendments to this Agreement to address a potential Adverse Determination. For clarity, the mergers, amalgamations, acquisitions and divestitures (MAADs) application filed by the Parties pursuant to Section 9.1(a) will seek, over a minimum period of 20 years following Closing, the harmonization of Zone A and Zone B Rates in a fair and reasonable manner for LDC Amalco's customers.

ARTICLE 10
CLOSING ARRANGEMENTS

10.1 Closing

The Closing will take place at the Closing Time on the Closing Date at such place or places as the Parties may agree.

10.2 Closing Procedures

At the Closing Time, upon fulfilment of all the conditions set out in Article 7 that have not been waived in writing, each Party shall deliver or cause to be delivered to certificates, agreements, documents and instruments as required by the terms of the this Agreement.

ARTICLE 11
GENERAL

11.1 Submission to Jurisdiction

Each of the Parties irrevocably and unconditionally submits and attorns to the non-exclusive jurisdiction of the courts of the Province of Ontario to determine all issues, whether at law or in equity, arising from this Agreement. To the extent permitted by applicable Law, each of the Parties:

(a) irrevocably waives any objection, including any Claim of inconvenient forum, that it may now or in the future have to the venue of any legal proceeding arising out of or relating to this Agreement in the courts of that Province, or that the subject matter of this Agreement may not be enforced in those courts;

(b) irrevocably agrees not to seek, and waives any right to, judicial review by any court which may be called upon to enforce the judgment of the courts referred to in this Section 11.1, of the substantive merits of any suit, action or proceeding; and

(c) to the extent a Party has or may acquire any immunity from the jurisdiction of any court or from any legal process, whether through service or notice, attachment before judgment, attachment in aid of execution, execution or otherwise, with respect to itself or its property, that Party irrevocably waives that immunity in respect of its obligations under this Agreement.

11.2 Tender

Any tender of documents or money under this Agreement may be made upon the Parties or their respective counsel.

11.3 Costs and Expenses

Except as otherwise specified in this Agreement, including Section 9.1(c) and Section 9.2(b), all costs and expenses (including the fees and disbursements of accountants, financial advisors, legal counsel and other professional advisers) incurred in connection with this Agreement, the obligations under this Agreement and the completion of the transactions contemplated by this Agreement, are to be paid by the Party incurring those costs and expenses. If there is a breach of this Agreement or this Agreement is terminated, the obligation of each Party to pay its own costs and expenses is subject to each Party's respective rights arising from such breach or termination.

11.4 Time of Essence

Time is of the essence in all respects of this Agreement.

11.5 Notices

Any Communication must be in writing and either:

(a) delivered personally or by courier;

(b) sent by prepaid registered mail; or

(c) transmitted by facsimile or e-mail.

Any Communication must be sent to the intended recipient at its address as follows:

To: Kitchener

The Corporation of the City of Kitchener
200 King Street West
Kitchener, ON N2G 497

Attention: Dan Chapman, Chief Administrative Officer
Email: dan.chapman@kitchener.ca

And to: Wilmot

Township of Wilmot
60 Snyder's Road West
Baden, ON N3A 1A1

Attention: Sandy Jackson, Acting Chief Administrative Officer

Email: sandy.jackson@wilmot.ca
And to: Waterloo

The Corporation of the City of Waterloo
100 Regina Street South
Waterloo, ON N2J 4A8

Attention: Tim Anderson, Chief Administrative Officer
Email: Tim.Anderson@waterloo.ca

And to: Woolwich

Township of Woolwich
24 Church Street West
Elmira, ON N3B 2Z6

Attention: David Brenneman, Chief Administrative Officer
Email: dbrenneman@woolwich.ca

And to: Wellesley

Township of Wellesley
4639 Lobsinger Line
St. Clements, ON N0B 2M0

Attention: Rik Louwagie, Chief Administrative Officer

Email: rlouwagie@wellesley.ca

And to: KPC, KWHI and KESI:

301 Victoria Street South,
Kitchener, ON N2G 4L2

Attention: Jerry Van Ooteghem, President and CEO
Email: jvanooteghem@kwhydro.ca

And to Waterloo North Holdings, WNHI and Alliance:

526 Country Squire Road,
Waterloo, ON N2J 4G8

Attention: Rene Gatien, President and CEO
Email: rgatien@wnhydro.com

or at any other address as any Party may at any time advise the other Parties by Communication given or made in accordance with this Section 11.5. Any Communication delivered to the Party to whom it is addressed will be deemed to have been given or made and received on the day it is delivered at that Party's address, provided that if that day is not a Business Day then the Communication will be deemed to have been given or made and received on the next Business

Day. Any Communication sent by prepaid registered mail will be deemed to have been given or made and received on the fifth Business Day after which it is mailed. If a strike or lockout of postal employees is then in effect, or generally known to be impending, every Communication must be delivered personally or by courier or transmitted by facsimile or e-mail. Any Communication transmitted by facsimile or e-mail will be deemed to have been given or made and received on the day on which it is transmitted; but if the Communication is transmitted on a day which is not a Business Day or after 5:00 p.m. (local time of the recipient), the Communication will be deemed to have been given or made and received on the next Business Day.

11.6 Further Assurances

Each Party will, at that Party's own cost and expense, execute and deliver any further agreements and documents and provide any further assurances, undertakings and information as may be reasonably required by the requesting Party to give effect to this Agreement and, without limiting the generality of this Section 11.6, will do or cause to be done all acts and things, execute and deliver or cause to be executed and delivered all agreements and documents and provide any assurances, undertakings and information as may be required at any time by all Governmental Authorities.

11.7 No Broker

Each Party represents and warrants to the other Parties that all negotiations relating to this Agreement and the transactions contemplated by this Agreement have been carried on between them directly, without the intervention of any other Person on behalf of any Party in such manner as to give rise to any valid Claim against the KPC Group or the Waterloo North Group for a brokerage commission, finder's fee or other similar payment.

11.8 Public Notice

All public notices to third parties and all other announcements, press releases and publicity concerning this Agreement or the transactions contemplated by this Agreement, must be jointly planned and co-ordinated by each member of the KPC Group, Kitchener and Wilmot, on the one hand, and the Waterloo North Group, Waterloo, Woolwich and Wellesley, on the other hand, and no Party will act unilaterally in this regard without the prior consent of the other Parties.

11.9 Amendment and Waiver

No amendment, discharge, modification, restatement, supplement, termination or waiver of this Agreement or any Section of this Agreement is binding unless it is in writing and executed by the Party to be bound. No waiver of, failure to exercise or delay in exercising, any Section of this Agreement constitutes a waiver of any other Section (whether or not similar) nor does any waiver constitute a continuing waiver unless otherwise expressly provided.

11.10 Assignment and Enurement

Neither this Agreement nor any right or obligation under this Agreement may be assigned by any Party without the prior written consent of the other Parties, which consent will be within their sole discretion. This Agreement enures to the benefit of and is binding upon the Parties and their respective successors (including any successor by amalgamation or operation of law) and permitted assigns.

11.11 Severability

Each Section of this Agreement is distinct and severable. If any Section of this Agreement, in whole or in part, is or becomes illegal, invalid, void, voidable or unenforceable in any jurisdiction by any court of competent jurisdiction, the illegality, invalidity or unenforceability of that Section, in whole or in part, will not affect:

(a) the legality, validity or enforceability of the remaining Sections of this Agreement, in whole or in part; or

(b) the legality, validity or enforceability of that Section, in whole or in part, in any other jurisdiction.

11.12 Counterparts

This Agreement may be executed and delivered by the Parties in one or more counterparts, each of which will be an original, and those counterparts will together constitute one and the same instrument.

11.13 Electronic Execution

Delivery of this Agreement may be effected by one or more Parties by facsimile, e-mail or other electronic transmission of the execution pages hereof to the other Parties. A Party or Parties so delivering this Agreement will thereafter forthwith deliver to the other Parties original execution pages hereof with its/their original signature(s) located thereon, provided, however, that any failure by a Party or Parties to so deliver such original execution pages will not affect the validity or enforceability hereof against that Party or Parties.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

Each Party has executed and delivered this Agreement as of the date noted at the beginning of the Agreement.

THE CORPORATION OF THE CITY OF KITCHENER

Per: ______________________________
Name: Berry Vrbanovic
Title: Mayor

Per: ______________________________
Name: Dianna Saunderson
Title: Deputy Clerk

THE CORPORATION OF THE TOWNSHIP OF WILMOT

Per: ______________________________
Name: Les Armstrong
Title: Mayor

Per: ______________________________
Name: Dawn Mittelholtz
Title: Director of Information and Legislative Services / Municipal Clerk

THE CORPORATION OF THE CITY OF WATERLOO

Per: ______________________________
Name: Dave Jaworsky
Title: Mayor

Per: ______________________________
Name: Julie Scott
Title: City Clerk

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Per: ____________________________
Name: Dianna Saunderson
Title: Deputy Clerk

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Per: Les Armstrong
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Title: Mayor

Per: ____________________________
Name: Dawn Mittelholtz
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Per: ______________________________
Name: Berry Vrbanovic
Title: Mayor

Per: ______________________________
Name: Dianna Saunderson
Title: Deputy Clerk

THE CORPORATION OF THE TOWNSHIP OF WILMOT

Per: ______________________________
Name: Les Armstrong
Title: Mayor

Per: ______________________________
Name: Dawn Mittelholtz
Title: Director of Information and Legislative Services / Municipal Clerk

THE CORPORATION OF THE CITY OF WATERLOO

Per: Dave Jaworsky
Digitally signed by Dave Jaworsky
DN: cn=Dave Jaworsky, o=City of Waterloo, ou=Mayor, email=dave.jaworsky@waterloo.ca, c=CA
Date: 2022.01.12 10:47:57 -05'00'
Name: Dave Jaworsky
Title: Mayor

Per: Julie Scott
2022.01.12 09:36:50 -05'00'
Name: Julie Scott
Title: City Clerk

THE CORPORATION OF THE TOWNSHIP OF WOOLWICH

Per: ______________________________
Name: Sandy Shantz
Title: Mayor

Per: ______________________________
Name: Jeff Smith
Title: Director of Corporate Services and Clerk

THE CORPORATION OF THE TOWNSHIP OF WELLESLEY

Per: ______________________________
Name: Joe Nowak
Title: Mayor

Per: ______________________________
Name: Grace Kosch
Title: Municipal Clerk

KITCHENER POWER CORP.

Per: ______________________________
Name: James C. Phillips
Title: Chair

Per: ______________________________
Name: Jerry Van Ooteghem
Title: President and Chief Executive Officer

THE CORPORATION OF THE TOWNSHIP OF WOOLWICH

Per: ____________________________
Name: Sandy Shantz
Title: Mayor

Per: ____________________________
Name: Jeff Smith
Title: Director of Corporate Services and Clerk

THE CORPORATION OF THE TOWNSHIP OF WELLESLEY

Per: ____________________________
Name: Joe Nowak
Title: Mayor

Per: ____________________________
Name: Grace Kosch
Title: Municipal Clerk

KITCHENER POWER CORP.

Per: J. Phillips
Name: James C. Phillips
Title: Chair

Per: J. Van Ooteghem
Name: Jerry Van Ooteghem
Title: President and Chief Executive Officer

KITCHENER-WILMOT HYDRO INC.

Per: ______________________________
Name: David Schnarr
Title: Chair

Per: ______________________________
Name: Jerry Van Ooteghem
Title: President and Chief Executive Officer

KITCHENER ENERGY SERVICES INC.

Per: ______________________________
Name: James C. Phillips
Title: Chair

Per: ______________________________
Name: Jerry Van Ooteghem
Title: President and Chief Executive Officer

WATERLOO NORTH HYDRO HOLDING CORPORATION

Per: ______________________________
Name: W. David Petras
Title: Chair

Per: ______________________________
Name: Rene W. Gatien
Title: President and Chief Executive Officer

KITCHENER-WILMOT HYDRO INC.

Per: ____________________________
Name: David Schnarr
Title: Chair

Per: ____________________________
Name: Jerry Van Ooteghem
Title: President and Chief Executive Officer

KITCHENER ENERGY SERVICES INC.

Per: ____________________________
Name: James C. Phillips
Title: Chair

Per: ____________________________
Name: Jerry Van Ooteghem
Title: President and Chief Executive Officer

WATERLOO NORTH HYDRO HOLDING CORPORATION

Per: W David Petras
Name: W. David Petras
Title: Chair

Per: Rene W. Gatien
Name: Rene W. Gatien
Title: President and Chief Executive Officer

WATERLOO NORTH HYDRO INC.

Per: Micheal J Kelly

Name: Micheal J. Kelly
Title: Chair

Per: Rene W. Gatien

Name: Rene W. Gatien
Title: President and Chief Executive Officer

ALLIANCE METERING SOLUTIONS INC.

Per:

Name: Steven McCartney
Title: Chair

Per: Rene W. Gatien

Name: Rene W. Gatien
Title: President and Chief Executive Officer

SCHEDULE 1.1
FORM OF SHAREHOLDERS AGREEMENT

See attached.

SCHEDULE 2.6(A)(IV)
ILLUSTRATIVE EXAMPLE OF ADJUSTMENTS

[redacted]

[redacted]

[redacted]

[redacted]

SCHEDULE 2.6(B)
SHARE CAPITAL

A. COMMON SHARES

The following are the rights, privileges, restrictions and conditions attaching to the Common Shares:

1. **Voting Rights:** The holders of the Common Shares shall be entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Corporation and shall be entitled to one (1) vote per Common Share held, except meetings at which only holders of another class of shares are entitled to vote.

2. **Dividends:** The holders of the Common Shares shall be entitled to receive dividends if, as and when declared by the board of directors of the Corporation out of the assets of the Corporation properly applicable to the payment of dividends in such amounts and payable in such manner as the board of directors may from time to time determine.

3. **Participation upon Liquidation, Dissolution or Winding-Up:** In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Common Shares shall be entitled to participate rateably in any distribution of the assets of the Corporation remaining after payment of the Total Class A Redemption Amount to the holders of the Class A Special Shares or the payment of the Total Class B Redemption Amount to the holders of the Class B Special Shares, as applicable.

[redacted] [redacted]

The following are the rights, privileges, restrictions and conditions attaching to the Class A Special Shares:

1. **Voting Rights:** The holders of Class A Special Shares shall not be entitled to receive notice of, attend or vote at any meeting of the Corporation's shareholders.

2. **No Dividends:** The holders of the Class A Special Shares shall not be entitled to receive any dividend payable by the Corporation.

3. [redacted]

[redacted]

[redacted]

"**Merger Participation Agreement**" means the merger participation agreement dated January 12, 2022 among The Corporation of The City of Kitchener, The Corporation of The Township of Wilmot, The Corporation of The City of Waterloo, The Corporation of The Township of Woolwich, The Corporation of The Township of Wellesley, Kitchener Power Corp., Kitchener Energy Services Inc., Kitchener-Wilmot Hydro Inc., Waterloo North Hydro Holding Corporation, Waterloo North Hydro Inc. and Alliance Metering Solutions Inc.

"**Net Adjustment Amount**" has the meaning given to it in the Merger Participation Agreement.

"**Pro Rata Portion**" means in respect of any holder of Class A Special Shares, such holder's ownership percentage of Class A Special Shares reflected by a fraction the numerator of which is the number of Class A Special Shares owned by such holder and the denominator of which is the total number of issued and outstanding Class A Special Shares.

"**Total Class A Redemption Amount**" is defined in Section B.3 above.

4. **Redemption by Corporation:** If any holder of Class A Special Shares fails to deliver a redemption notice as specified in Section B.3 above within 30 days following the determination of the Net Adjustment Amount then the Corporation may, upon giving notice as hereinafter provided, redeem at any time and from time to time all of the then outstanding Class A Special Shares on payment of the Class A Redemption Amount for each share to be redeemed.

Idem: In the case of redemption of Class A Special Shares by the Corporation, the Corporation shall, at least 10 days before the intended redemption date, mail to each person who at the date of mailing is a holder of the Class A Special Shares to be redeemed, a notice in writing of the intention of the Corporation to redeem such shares. Such notice shall be mailed by prepaid mail, addressed to each such holder at its address as it appears on the records of the Corporation or in the event of the address of any such holder not so appearing, then to the last known address of such holder; provided, however, that accidental failure to give any such notice to one or more of such holders shall not affect the validity of such redemption. Such notice shall set out the Class A Redemption Amount and the date on which redemption is to take place. On or after the date so specified for redemption, the Corporation shall pay or cause to be paid to or to the order of the holders of the Class A Special Shares to be redeemed the aggregate Class A Redemption Amount for the Class A Special Shares called for redemption. Such payment by the Corporation shall be made by way of a cheque payable at par at any branch of the Corporation's bankers in Canada. From and after the date specified for redemption in any such notice, the holders of the Class A Special Shares called for redemption shall cease to be entitled to any of the rights of holders of Class A Special Shares in respect thereof, unless payment of the Class A Redemption Amount for each Class A Special Share to be redeemed is not made, in which case the rights of the holders of the said Class A Special Shares shall remain unaffected. The Corporation shall have the right at any time after the mailing of notice of its intention to redeem the Class A Special Shares to deposit the aggregate Class A Redemption Amount of the shares so called for redemption to a special account in any chartered bank or in any trust company in Canada, named, in such notice, to be paid without interest to or to the order of the respective holders of such Class A Special Shares called for redemption, and upon such deposit being made or upon the date specified for redemption in such notice, whichever is the later, the Class A Special Shares in respect whereof such deposit shall have been made shall be redeemed and the rights of the holders thereof after such deposit or such redemption date, as the case may be, shall be limited to receiving without interest their proportionate part of the Total Class A Redemption Amount and any interest allowed on such amount shall belong to the Corporation.

5. **Notice:** Where notice is required by the provisions hereof to be sent, the notice or the time for the notice may be waived or abridged at any time with the consent in writing of the person entitled thereto.

6. **Participation upon Liquidation, Dissolution or Winding-Up:** In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Class A Special Shares will be entitled to receive from the assets of the Corporation a sum equivalent to any then-outstanding Class A Redemption Amounts (if any) owing to them before any amount is paid or any assets are distributed to the holders of the Common Shares or shares of any class ranking junior to the Class A Special Shares.

[redacted] [redacted]

The following are the rights, privileges, restrictions and conditions attaching to the Class B Special Shares:

1. **Voting Rights:** The holders of Class B Special Shares shall not be entitled to receive notice of, attend or vote at any meeting of the Corporation's shareholders.

2. **No Dividends:** The holders of the Class B Special Shares shall not be entitled to receive any dividend payable by the Corporation.

3. [redacted]

[redacted]

[redacted]

"**Merger Participation Agreement**" means the merger participation agreement dated January 12, 2022 among The Corporation of The City of Kitchener, The Corporation of The Township of Wilmot, The Corporation of The City of Waterloo, The Corporation of The Township of Woolwich, The Corporation of The Township of Wellesley, Kitchener Power Corp., Kitchener Energy Services Inc., Kitchener-Wilmot Hydro Inc., Waterloo North Hydro Holding Corporation, Waterloo North Hydro Inc. and Alliance Metering Solutions Inc.

"**Net Adjustment Amount**" has the meaning given to it in the Merger Participation Agreement.

"**Pro Rata Portion**" means in respect of any holder of Class B Special Shares, such holder's ownership percentage of Class B Special Shares reflected by a fraction the numerator of which is the number of Class B Special Shares owned by such holder and the denominator of which is the total number of issued and outstanding Class B Special Shares.

"**Total Class B Redemption Amount**" is defined in Section C.3 above.

4. **Redemption by Corporation:** If any holder of Class B Special Shares fails to deliver a redemption notice as specified in Section C.3 above within 30 days following the determination of the Net Adjustment Amount then the Corporation may, upon giving notice as hereinafter provided, redeem at any time and from time to time all of the then outstanding Class B Special Shares on payment of the Class B Redemption Amount for each share to be redeemed.

Idem: In the case of redemption of Class B Special Shares by the Corporation, the Corporation shall, at least 10 days before the intended redemption date, mail to each person who at the date of mailing is a holder of the Class B Special Shares to be redeemed, a notice in writing of the intention of the Corporation to redeem such shares. Such notice shall be mailed by prepaid mail, addressed to each such holder at its address as it appears on the records of the Corporation or in the event of the address of any such holder not so appearing, then to the last known address of such holder; provided, however, that accidental failure to give any such notice to one or more of such holders shall not affect the validity of such redemption. Such notice shall set out the Class B Redemption Amount and the date on which redemption is to take place. On or after the date so specified for redemption, the Corporation shall pay or cause to be paid to or to the order of the holders of the Class B Special Shares to be redeemed the aggregate Class B Redemption Amount for the Class B Special Shares called for redemption. Such payment by the Corporation shall be made by way of a cheque payable at par at any branch of the Corporation's bankers in Canada. From and after the date specified for redemption in any such notice, the holders of the Class B Special Shares called for redemption shall cease to be entitled to any of the rights of holders of Class B Special Shares in respect thereof, unless payment of the Class B Redemption Amount for each Class B Special Share to be redeemed is not made, in which case the rights of the holders of the said Class B Special Shares shall remain unaffected. The Corporation shall have the right at any time after the mailing of notice of its intention to redeem the Class B Special Shares to deposit the aggregate Class B Redemption Amount of the shares so called for redemption to a special account in any chartered bank or in any trust company in Canada, named, in such notice, to be paid without interest to or to the order of the respective holders of such Class B Special Shares called for redemption, and upon such deposit being made or upon the date specified for redemption in such notice, whichever is the later, the Class B Special Shares in respect whereof such deposit shall have been made shall be redeemed and the rights of the holders thereof after such deposit or such redemption date, as the case may be, shall be limited to receiving without interest their proportionate part of the Total Class B Redemption Amount and any interest allowed on such amount shall belong to the Corporation.

5. **Notice:** Where notice is required by the provisions hereof to be sent, the notice or the time for the notice may be waived or abridged at any time with the consent in writing of the person entitled thereto.

6. **Participation upon Liquidation, Dissolution or Winding-Up:** In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Class B Special Shares will be entitled to receive from the assets of the Corporation a sum equivalent to any then-outstanding Class B Redemption Amounts (if any) owing to them before any amount is paid or any assets are distributed to the holders of the Common Shares or shares of any class ranking junior to the Class B Special Shares.

SCHEDULE 4.1
KW DISCLOSURE SCHEDULE

See attached.

Schedule 4.4 – Share Ownership, Etc.

(e)

Promissory Note dated November 27, 2001 issued by KWHI to Kitchener with a principal amount of $70,997,576.00;

Promissory Note dated November 27, 2001 issued by KWHI to Wilmot with a principal amount of $5,964,566.00;

Schedule 4.10 – Corporate Records/Directors

(b)
KPC

Name of Director	Date of Most Recent Election
James Phillips	June 1, 2021
Berry Vrbanovic	June 1, 2021
Les Armstrong	June 1, 2021
Dave Schnider	June 1, 2021
Paul Singh	June 1, 2021
Rosa Lupo	June 1, 2021
Jerry Van Ooteghem	June 1, 2021

KWHI

Name of Director	Date of Most Recent Election
Dave Schnarr	June 1, 2021
Berry Vrbanovic	June 1, 2021
Les Armstrong	June 1, 2021
Sandra MacGillivray	June 1, 2021
Jim Beingessner	June 1, 2021
Jacinda Reitsma	June 1, 2021
Jerry Van Ooteghem	June 1, 2021

KESI

[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

[redacted]	[redacted]

Schedule 4.12 – Financial Statements

See attached.

Financial Statements of

Kitchener-Wilmot Hydro Inc.

And Independent Auditors' Report thereon

Year ended December 31, 2020
(Expressed in thousands of dollars)

KPMG LLP
115 King Street South
2nd Floor
Waterloo ON N2J 5A3
Canada
Tel 519-747-8800
Fax 519-747-8830

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Kitchener-Wilmot Hydro Inc.

Opinion

We have audited the financial statements of Kitchener-Wilmot Hydro Inc. (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

March 26, 2021

KITCHENER-WILMOT HYDRO INC.

Statement of Financial Position

As at December 31, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

	Note		2020		2019
Assets					
Current assets					
Cash	4	$	6,363	$	13,357
Accounts receivable	5		15,680		17,477
Unbilled revenue			29,865		27,648
Inventory	6		2,458		2,324
Prepaid expenses			1,146		1,347
Income taxes receivable			-		131
Total current assets			55,512		62,284
Non-current assets:					
Property, plant and equipment	7		275,014		259,864
Intangible assets	8		646		629
Total non-current assets			275,660		260,493
Total assets			331,172		322,777
Regulatory deferral account debit balances	10		19,661		9,400
Total assets and regulatory assets		$	350,833	$	332,177

KITCHENER-WILMOT HYDRO INC.

Statement of Financial Position

Year ended December 31, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

	Note	2020	2019
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 37,670	$ 30,048
Income taxes payable		32	-
Current portion of long-term debt	11	-	607
Current portion customer deposits	13	8,945	9,366
Current portion of deferred revenue		1,069	952
Total current liabilities		47,716	40,973
Non-current liabilities:			
Long-term debt	11	76,963	76,963
Employee future benefits	12	5,937	5,858
Long-term customer deposits	13	5,833	6,188
Deferred revenue		39,759	36,385
Deferred tax liability	9	4,415	2,536
Total non-current liabilities		132,907	127,930
Total liabilities		180,623	168,903
Shareholder's equity:			
Share capital - common shares	14	63,689	63,689
Retained earnings		102,645	96,363
Accumulated other comprehensive loss		(620)	(620)
Total shareholder's equity		165,714	159,432
Total liabilities and shareholder's equity		346,337	328,335
Regulatory deferral account credit balances	10	2,276	2,307
Deferred taxes associated with regulatory accounts		2,220	1,535
Impact of COVID-19	26		
Total equity, liabilities and shareholder's equity		$ 350,833	$ 332,177

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

On behalf of the Board:

D.A. Schwan ____________________ Director

J. Van Ooteghem ____________________ Director

KITCHENER-WILMOT HYDRO INC.

Statement of Comprehensive Income

Year ended December 31, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

	Note	2020	2019
Energy sales		$ 239,962	$ 206,409
Cost of energy sold		245,909	207,393
		(5,947)	(984)
Other operating revenue			
Distribution revenue		42,690	38,285
Other income	15	2,975	2,601
Net operating revenue		39,718	39,902
Expenses:			
Operations and maintenance		11,112	11,253
Customer services		5,313	4,474
Administration		5,376	4,165
Amortization		10,022	9,550
		31,823	29,442
Other			
Energy conservation program revenue		(727)	(1,676)
Energy conservation program expense		713	1,676
Net energy conservation programs		(14)	-
Finance income	16	(127)	(417)
Finance charges	16	2,981	4,119
Net finance costs		2,854	3,702
Income before income taxes		5,055	6,758
Income tax expense	9	938	888
Income for the year before movements in regulatory deferral account balances and OCI		4,117	5,870
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement	10	6,847	4,927
Other comprehensive loss	12	-	(342)
Total comprehensive income for the year		$ 10,964	$ 10,455

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

KITCHENER-WILMOT HYDRO INC.

Statement of Changes in Equity

Year ended December 31, 2020, with comparative information for 2019
(In thousands of Canadian dollars)

	Share capital	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at January 1, 2019	$ 63,689	$ (278)	$ 89,600	$ 153,011
Net income before other comprehensive income (loss)	-	-	10,797	10,797
Other comprehensive income (loss)	-	(342)	-	(342)
Dividends	-	-	(4,034)	(4,034)
Balance at December 31, 2019	63,689	(620)	96,363	159,432
Net income before other comprehensive income (loss)	-	-	10,964	10,964
Other comprehensive income	-	-	-	-
Dividends	-	-	(4,682)	(4,682)
Balance at December 31, 2020	$ 63,689	$ (620)	$ 102,645	$ 165,714

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

KITCHENER-WILMOT HYDRO INC.

Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

		2020		2019
Cash flows from operating activities:				
Total comprehensive income for the year	$	10,964	$	10,455
Adjustments to reconcile net income to cash provided by (used in) operations:				
Amortization		10,752		10,251
Amortization of deferred revenue		(1,016)		(908)
Gain on disposal of property, plant and equipment		(149)		(36)
Income tax expense		938		888
Income taxes paid		(797)		(1,515)
Increase in employee future benefits		77		551
		20,769		19,686
Change in non-cash operating working capital:				
Accounts receivable		1,797		1,055
Unbilled revenue		(2,216)		(5,526)
Inventory		(134)		(375)
Prepaid expenses		201		(302)
Accounts payable and accrued liabilities		7,623		7,396
Other current liabilities		(303)		1,339
Change in regulatory assets		(10,261)		(2,035)
Change in regulatory liabilities		654		(4,348)
Change in deferred tax		1,900		516
Net cash from operating activities		20,030		17,406
Cash flows from investing activities:				
Proceeds on disposals of property, plant and equipment		151		40
Purchase of property, plant and equipment		(25,536)		(24,487)
Purchase of intangible assets		(385)		(315)
Net cash used in investing activities		(25,770)		(24,762)
Cash flows from financing activities:				
Net change in customer deposits		(355)		52
Dividends paid out		(4,682)		(4,034)
Change in contributed capital received		4,390		4,383
Repayment of long-term debt		(607)		(1,176)
Net cash from financing activities		(1,254)		(775)
Change in cash and cash equivalents		(6,994)		(8,131)
Cash and cash equivalents, beginning of year		13,357		21,488
Cash and cash equivalents, end of year	$	6,363	$	13,357

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

1. Reporting entity:

Kitchener-Wilmot Hydro Inc. (the “Corporation”) is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the City of Kitchener. The address of the Corporation’s registered office is 301 Victoria Street South, Kitchener, Ontario, Canada.

The Corporation delivers electricity and related energy services to residential and commercial customers in the City of Kitchener and the Township of Wilmot. The Corporation is wholly owned by Kitchener Power Corporation, which is itself wholly owned by the Corporation of the City of Kitchener and the Corporation of the Township of Wilmot.

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

2. Basis of presentation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements were approved by the Board of Directors on March 26, 2021.

(b) Basis of measurement:

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

(i) Where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair value.

(ii) Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 22.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

2. Basis of presentation (continued):

(d) Use of estimates and judgments (continued):

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

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

i) Note 3(b) – Determination of the performance obligation for contributions from customers and the related amortization period
ii) Note 7 – Property, plant and equipment
iii) Note 9 – Deferred tax assets
iv) Note 12 – Employee future benefits
v) Note 17 – Commitments and contingencies

(e) Rate regulation:

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

Rate setting:

Distribution revenue and electricity rates

The OEB sets electricity prices for low-volume consumers based on an estimate of how much it will cost to supply the province with electricity for the next year. All low volume customers without a contract with an energy retailer are charged the OEB mandated rate for electricity. If a customer (regardless of volume) has a retailer agreement, then retailer rates are charged instead. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

2. Basis of presentation (continued):

(e) Rate regulation (continued):

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

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

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

The Corporation filed a COS application on April 30, 2019 for rates effective January 1, 2020 to December 31, 2020.

Electricity rates were impacted by the COVID-19 pandemic, distribution rates were unaffected, which has been discussed further in Note 26.

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:

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

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

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

The Corporation has not entered into derivative instruments.

Hedge accounting has not been used in the preparation of these financial statements.

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

(b) Revenue recognition:

Sale and distribution of electricity

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

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

3. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Capital contributions

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

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

Other revenue

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

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(c) Inventory:

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on a weighted 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:

Items of property, plant and equipment (“PP&E”) used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation. Consistent with IFRS 1, the Corporation elected to use the carrying amount as previously

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

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

determined under Canadian GAAP as the deemed cost at January 1, 2014, the transition date to IFRS.

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.

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 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 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 Corporation 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 amortized until the projects are complete and in service.

The estimated useful lives are as follows:

Buildings	**20-50 years**
Transformer station equipment	**15-50 years**
Distribution station equipment	**15-50 years**
Distribution system	**25-60 years**
Meters	**15-25 years**
SCADA equipment	**15 years**
Other capital assets	**3-10 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 Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Land rights:

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Corporation does not hold title. Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Amortization:

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

Computer software	**3-10 years**
Land rights	**100 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 loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

3. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

(g) Provisions:

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

3. Significant accounting policies (continued):

(h) Regulatory deferral accounts:

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The debit balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

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

The probability of recovery or repayment of the regulatory account balances 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. With the exception of Pension and OEB Forecast Accrual accounts (OPEBs), the rates from January to June 2020 were 2.18%, and July to December 2020 were 0.57%. Prior year rates from January to March 2019 were 2.45%, April to December 2019 were 2.18%.

In 2020, OPEBs were 2.88% for the period January to March, 2.48% for the period April to September and 2.03% for period October to December. In 2019, OPEBs were 3.82% for the period January to March, 3.39% for the period April – June and 2.88% for the period July to December.

3. Significant accounting policies (continued):

(i) Employee future benefits:

(i) Pension plan:

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("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.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. 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 Corporation 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.

3. Significant accounting policies (continued):

(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. Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity, and is amortized to income on a straight-line basis over the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

(k) Leased assets:

This policy is effective for periods before January 1, 2019. Refer to Note 24 for the change in accounting policy to IFRS 16.

Leases, where the terms cause the Corporation to assume substantially all the risks and rewards of ownership, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation's balance sheet. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(l) Finance income and finance costs:

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

Finance charges comprise interest expense on borrowings, finance lease obligations, regulatory liabilities and unwinding of the discount on provisions and impairment losses on financial assets. Finance costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(m) Income taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

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

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

4. Cash:

		2020		2019
Cash	$	6,363	$	13,357

5. Accounts receivable:

		2020		2019
Customer and other trade receivables	$	15,588	$	17,252
Trade receivables from related parties		92		225
	$	15,680	$	17,477

6. Inventory:

The amount of inventory consumed by the Corporation and recognized as an expense during 2020 was $279 (2019 - $363).

(Expressed in thousands of dollars)

7. Property, plant and equipment:

(a) Cost or deemed cost:

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2020	$ 24,729	$ 260,009	$ 12,976	$ 5,487	$ 303,201
Additions	1,709	17,846	5,631	350	25,536
Transfers	-	-	-	-	-
Disposals/Retirements	(5)	(62)	(1,182)	-	(1,249)
Balance at December 31, 2020	$ 26,433	$ 277,793	$ 17,425	$ 5,837	$ 327,488

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2019	$ 24,463	$ 242,418	$ 8,850	$ 3,622	$ 279,353
Additions	279	17,723	4,614	1,865	24,481
Transfers	-	-	-	-	-
Disposals/Retirements	(13)	(132)	(488)	-	(633)
Balance at December 31, 2019	$ 24,729	$ 260,009	$ 12,976	$ 5,487	$ 303,201

(b) Accumulated depreciation:

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2020	$ 2,718	$ 37,766	$ 2,853	$ -	$ 43,337
Depreciation charge	716	8,317	1,351	-	10,384
Disposals/Retirements	(5)	(62)	(1,180)	-	(1,247)
Balance at December 31, 2020	$ 3,429	$ 46,021	$ 3,024	$ -	$ 52,474

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2019	$ 2,053	$ 30,012	$ 2,059	$ -	$ 34,124
Depreciation charge	678	7,886	1,282	-	9,846
Disposals/Retirements	(13)	(132)	(488)	-	(633)
Balance at December 31, 2019	$ 2,718	$ 37,766	$ 2,853	$ -	$ 43,337

(Expressed in thousands of dollars)

7. Property, plant and equipment (continued):

(c) Carrying amounts:

		Land and buildings		Distribution equipment		Other fixed assets		Construction-in-progress		Total
At December 31, 2020	$	23,004	$	231,772	$	14,401	$	5,837	$	275,014
At December 31, 2019	$	22,011	$	222,243	$	10,123	$	5,487	$	259,864

(d) Leased plant and equipment:

The Corporation does not have leases for plant or equipment.

(e) Security:

At December 31, 2019, the Corporation had zero properties subject to a general security agreement.

(f) Borrowing costs:

During the year, borrowing costs of $ nil (2019 - $ nil) were capitalized as part of the cost of property, plant and equipment.

(g) Allocation of depreciation and amortization:

The depreciation of property, plant and equipment and the amortization of intangible assets has been allocated to profit or loss as follows:

		Operations and maintenance expense		Customer services expense		General and administration expense		Energy Conservation expense		Other		Total
December 31, 2020:												
Depreciation of property, plant and equipment	$	717	$	6	$	-	$	7	$	9,654	$	10,384
Amortization of intangible assets		-		-		-		-		368		368
	$	717	$	6	$	-	$	7	$	10,022	$	10,752
December 31, 2019:												
Depreciation of property, plant and equipment	$	688	$	6	$	-	$	7	$	9,145	$	9,846
Amortization of intangible assets		-		-		-		-		405		405
	$	688	$	6	$	-	$	7	$	9,550	$	10,251

(Expressed in thousands of dollars)

8. Intangible assets:

(a) Cost or deemed cost:

	Computer Software	Land Rights	Total
Balance at January 1, 2020	$ 3,120	$ 8	$ 3,128
Additions	385	-	385
Disposals	-	-	-
Balance at December 31, 2020	$ 3,505	$ 8	$ 3,513
Balance at January 1, 2019	$ 2,802	$ 8	$ 2,810
Additions	321	-	321
Disposals	4	-	4
Balance at December 31, 2019	$ 3,119	$ 8	$ 3,127

(b) Accumulated amortization:

	Computer Software	**Land Rights**	**Total**
Balance at January 1, 2020	$ 2,491	$ 8	$ 2,499
Additions	368	-	368
Balance at December 31, 2020	$ 2,859	$ 8	$ 2,867
Balance at January 1, 2019	$ 2,086	$ 8	$ 2,094
Additions	404	-	404
Balance at December 31, 2019	$ 2,490	$ 8	$ 2,498

(c) Carrying amounts:

	Computer Software	**Land Rights**	**Total**
At December 31, 2020	$ 646	$ -	$ 646
At December 31, 2019	$ 629	$ -	$ 629

(Expressed in thousands of dollars)

9. Income tax expense:

		2020		2019
Current period	$	1,292	$	1,129
Adjustment for prior periods		(332)		(194)
	$	960	$	935

Deferred tax expense:

		2020		2019
Original & reversal of temporary differences	$	(21)	$	(47)
Change in unrecognized deductible temporary differences		(1)		-
	$	(22)	$	(47)

Reconciliation of effective tax rate:

		2020		2019
Total comprehensive income for the year	$	10,964	$	10,455
Total income tax expense		938		888
Comprehensive income before income taxes		11,902		11,343
Income tax using the Corporation's statutory tax rate of 26.5%		3,154		3,006
Temporary differences not benefitted		(1,884)		(1,924)
Under (over) provided in prior periods		(332)		(194)
	$	938	$	888

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

		2020		2019
Deferred tax assets (liabilities):				
Plant and equipment	$	(16,989)	$	(14,168)
Non-vested sick leave		168		168
Employee benefits		1,573		1,429
Ontario refundable tax credits		14		18
Actuarial gain/loss		-		123
Deferred revenue - contributed capital		10,819		9,894
	$	(4,415)	$	(2,536)

(Expressed in thousands of dollars)

10. Regulatory deferral account balance:

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

	2019	Balances arising in the period	Recovery/ Reversal	Other	2020	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances						
Group 1 deferred accounts	$ 1,239	$ 2,202	$ 5,428	$ (153)	$ 8,716	Note 1, Note 3
Regulatory asset recovery account	630	285	(141)	-	774	Note 1
Smart meter recovery	13	-	(13)	-	-	1 Year
Deferred tax asset	5790	2,585	-	-	8,375	Note 2
LRAM	837	1,728	(837)	-	1,728	1 Year
Other	891	69	(892)	-	68	1 Year
Total amount related to regulatory deferral account debit balances	**$ 9,400**	**$ 6,869**	**$ 3,545**	**$ (153)**	**$ 19,661**	

	2019	Balances arising in the period	Recovery/ Reversal	Other	2020	Remaining recovery/ reversal period (years)
Regulatory deferral account credit balances						
Group 1 deferred accounts	$ 1,057	$ 975	$ (160)	$ (152)	$ 1,720	Note 1
Regulatory asset recovery account	-	-	-	-	-	Note 1
Other	1,250	2	(696)	-	556	1 Year
Total amount related to regulatory deferral account credit balances	**$ 2,307**	**$ 977**	**$ (856)**	**$ (152)**	**$ 2,276**	

	2020	2019
Movements in regulatory accounts		
Net change in regulatory deferral account debit and credit balances	$ 10,292	$ 6,677
Less movement related to the balance sheet		
Deferred income tax	(2,585)	(933)
Deferred revenue	(860)	(817)
Net movement in regulatory deferral account balances related to profit or loss and the related deferral tax movement	$ 6,847	$ 4,927

Note 1 KWHI expects to be approved for collection of these amounts in its 2021 filing for 2022 rates

Note 2 KWHI has not sought approval for the disposition of this amount as changes in underlying assumptions may reduce the amounts recorded in the account. KWHI may seek refunds in the future.

Note 3 In December 2020, KWHI was informed that beginning June 2015 charges were not included in the monthly power bill for one delivery point for Transmission Network Charges. KWHI has accrued a payable of $6 million, offset by a regulatory asset. These monies are expected to begin being collected through a Board approved rate rider in 2022.

(Expressed in thousands of dollars)

10. Regulatory deferral account balance (continued):

Note 4 COVID-19 Emergency Deferral

The COVID-19 emergency deferral account comprises of five sub-accounts established to track incremental costs and lost revenues related to the COVID-19 pandemic: (i) Billing and System Changes as a Result of the Emergency Order Regarding Time-of-Use Pricing, (ii) Lost Revenues Arising from the COVID-19 Emergency, (iii) Other Incremental Costs, (iv) Foregone Revenues from Postponing Rate Implementation, and (v) Bad Debt.

On December 16, 2020, the OEB Staff released their proposal on the COVID-19 deferral accounts which introduces certain criteria to that may need to be satisfied for amounts to be eligible for recovery. Based on this information, management believes there is high uncertainty in regards to the recoverability of costs and lost revenues related to government and OEB customer relief actions, and therefore a low probability of recovery. Costs directly related to the implementation of safety measures as a result of the COVID-19 pandemic were tracked. $69k has been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2020.

11. Long-term debt:

Effective August 1, 2000, the Corporation incurred unsecured promissory notes payable to the Corporation of the City of Kitchener and the Corporation of the Township of Wilmot, and have an interest rate of 3.23% per annum. Interest is payable in quarterly installments, in arrears, on March 31st, June 30th, September 30th and December 31st. In 2019 the interest rate was 4.88%

Effective February 1, 2010, the Corporation incurred a ten year senior unsecured debenture payable to Ontario Infrastructure Projects Corporation. An initial payment of $7,000 was received February 1, 2010, followed by a second payment of $3 million on May 17, 2010. The debenture had an interest rate of 4.28%, and interest was payable in equal semi-annual installments, in arrears, on May 17th and November 17th each year commencing November 17, 2010. The debenture was paid off in 2020 in accordance with the payment schedule.

		2020		2019
Senior unsecured debentures:				
City of Kitchener	$	70,998	$	70,998
Township of Wilmot		5,965		5,965
Ontario Infrastructure Projects Corporation		-		607
Senior unsecured debentures, net proceeds	$	76,963	$	77,570
Less: current portion of long-term debt	$	-	$	(607)
Total long-term debt	$	76,963	$	76,963

(Expressed in thousands of dollars)

12. Employee future benefits:

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2020 of $5,937 was based on an actuarial valuation completed in 2020 using a discount rate of 3.1% (3.1% in 2019).

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

		2020		2019
Defined benefit obligation, beginning of year	$	5,858	$	5,305
Current service cost		192		160
Interest cost		178		202
Benefits paid during the year		(291)		(274)
Actuarial loss recognized in other comprehensive income		-		465
Accrued benefit liability, end of year	$	5,937	$	5,858

Components of net benefit expense recognized are as follows:

		2020		2019
Current service cost	$	192	$	160
Interest cost		178		202
Net benefit expense recognized	$	370	$	362

Actuarial losses recognized in other comprehensive income:

		2020		2019
Cumulative amount at January 1	$	(620)	$	(278)
Recognized during the year (net of tax)		-		(342)
Cumulative amount at December 31	$	(620)	$	(620)

(Expressed in thousands of dollars)

12. Employee future benefits (continued):

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

		2020	2019
Accrued benefit obligation:			
Discount rate		3.1%	3.1%
Benefit cost for the year:	Age		
Withdrawal rate	18-29	3.50%	3.50%
	30-34	2.00%	2.00%
	35-39	1.7%	1.7%
	40-49	1.3%	1.3%
	50-54	1.0%	1.0%
Assumed health care cost trend rates:			
Initial health care cost trend rate	Health	4.4%	4.2%
	Dental	4.7%	4.5%

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:

	Benefit Obligation	Periodic Benefit Cost
1% increase in health care trend rate	$ 215	$ 22
1% decrease in health care trend rate	$ (193)	$ (19)

Historical Information

Amounts for the current and previous year, for the entire plan, are as follows:

	2020	2019
Defined benefit obligation	$ 5,937	$ 5,858
Experience adjustments	$ -	$ (342)

(Expressed in thousands of dollars)

12. Employee future benefits (continued):

The main actuarial assumptions utilized for the valuation are as follows:

General inflation - future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2% in 2020, and thereafter (2019 - 2%).

Discount (interest) rate - the discount rate used to determine the present value of future liabilities and the expense for the year ended December 31, 2020, was 3.1% (2019 - 3.1%).

Salary levels - future general salary and wage levels were assumed to increase at 3.3% (2019 - 3.3%) per annum.

Medical costs - medical costs were assumed to be 4.4% for 2020, (2019 - 4.5%) increasing annually to 4.9% in 2022.

Dental costs - dental costs were assumed to be 4.7% for 2020 increasing annually to 5.1% in 2022.

13. Customer and IESO deposits:

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

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

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

The Corporation delivers conservation and demand management programs for its customers on behalf of the IESO. Prepayments received from the IESO have been recorded and will be transferred to revenue as programs are delivered and the revenue is earned.

The deposits comprise:

	2020	2019
Customer deposits	$ 6,424	$ 7,414
Construction deposits	7,196	6,982
IESO deposit for energy conservation programs	1,158	1,158
Total customer deposits	$ 14,778	$ 15,554

(Expressed in thousands of dollars)

14. Share capital:

		2020		2019
Authorized:				
Unlimited number of common shares				
Issued:				
10,000 common shares	$	63,689	$	63,689

Dividends:

The holders of the common shares are entitled to receive dividends as declared from time to time. The Corporation paid aggregate dividends in the year on common shares of $4,682 (2019 - $4,034).

15. Other operating revenue:

Other income comprises:

		2020		2019
Specific service charges	$	1,552	$	1,375
Deferred revenue		1,016		908
Scrap sales		101		190
Net gain on disposal of capital assets		149		36
Retailer services		48		44
Sundry		109		48
Total other income	$	2,975	$	2,601

16. Finance income and expense:

		2020		2019
Interest income on bank deposits	$	127	$	417
Finance income		127		417
Interest expense on long-term debt		2,496		3,816
Interest expense on short-term debt		271		-
Interest expense on BMO letter of credit		123		122
Interest expense on deposits		91		170
Other		-		11
		2,981		4,119
Net finance costs recognized in profit or loss	$	2,854	$	3,702

(Expressed in thousands of dollars)

17. Commitments and contingencies:

Contractual Obligations

There are no contractual obligations.

General

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

General Liability Insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2020, no assessments have been made.

18. Guarantees:

Guarantees are not applicable to the Corporation.

19. Pension agreement:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2020, the Corporation made employer contributions of $1,723 to OMERS (2019 - $1,661). The Corporation's net benefit expense has been allocated as follows:

(a) $449 (2019 - $459) capitalized as part of property, plant and equipment;

(b) $1,274 (2019 - $1,202) charged to net income.

The Corporation estimates that a contribution of $1,739 to OMERS will be made during the next fiscal year.

20. Employee benefits:

	2020	2019
Salaries, wages and benefits	$ 19,684	$ 19,022
CPP and EI remittances	732	722
Contributions to OMERS	1,723	1,661
Expenses related to defined benefit plans	370	361
	$ 22,509	$ 21,766

(Expressed in thousands of dollars)

21. Related party transactions:

(a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is Kitchener Power Corp., which in turn is wholly-owned by the Corporation of the City of Kitchener and the Corporation of the Township of Wilmot. The City and the Township produce financial statements that are available for public use.

(b) Entity with significant influence:

The Corporation of the City of Kitchener exercises significant influence over the Corporation through its 92.25% ownership interest in the Corporation.

(c) Key management personnel:

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

	2020	2019
Directors' fees	$ 67	$ 58
Salaries and other short-term benefits	1,061	993
Post employment benefits	19	18
Other long-term benefits (OMERS)	90	84
	$ 1,237	$ 1,153

(d) Transactions with entity with significant influence:

In the ordinary course of business, the Corporation delivers electricity to the Corporation of the City of Kitchener. Electricity is billed to the Corporation of the City of Kitchener at prices and under terms approved by the OEB.

(e) Transactions with ultimate parent (the Corporation of the City of Kitchener):

In 2020, the Corporation had the following significant transactions with its ultimate parent, a government entity:

- construction
- streetlight maintenance services under contract through a related party, Kitchener Energy Services Inc.

22. Financial instruments and risk management:

Fair value disclosure

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

The fair value of the long term debt (senior unsecured debentures issued by the shareholders (Corporation of the City of Kitchener and Corporation of the Township of Wilmot) approximates the carrying value due to the short term nature of the loan.

The fair value of the long term debt (senior unsecured debentures) issued by Ontario Infrastructure Projects Corporation at December 31, 2020 is zero (2019 - $607). The final loan balance was paid in full in 2020. The fair value prior to 2020 was calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at was 4.28%.

Financial risks

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

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Kitchener and the Township of Wilmot. As of December 31, 2020, two customers accounted for more than 1% of total accounts receivable, totaling $341 (or 2.2%) out of a total accounts receivable of $15,680.

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, 2020 is $500 (2019 - $250). The allowance was increased due to an expected increase in Covid-19 related bad debt. An impairment loss of $793 (2019 - $44) was recognized during the year. This included a significant loss of $385 as a result of the bankruptcy of a single customer in 2020, in addition to a general increase due to the pandemic lockdowns. The future impact of the pandemic remains uncertain.

22. Financial instruments and risk management (continued):

(a) Credit risk (continued):

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2020, approximately $314 (2019 - $245) is considered 60 days past due. The Corporation has over 99 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, 2020, the Corporation holds security deposits in the amount of $14,800 (2019 - $15,600).

(b) Market risk:

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

A 1% increase in the interest rate at December 31, 2020 would have increased interest expense on the long-term debt by $nil (2019 - $6), assuming all other variables remain constant as the Infrastructure Ontario loan was paid in full during the year. A 1% decrease in the interest rate would have an equal but opposite effect.

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a $35,000 credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due. As at December 31, 2020, no amounts had been drawn under Bank of Montreal credit facility (2019 - $nil).

The Corporation also has a bilateral facility for $35,000 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $35,000 has been drawn and posted with the IESO (2019 - $35,000).

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

The Company's currently available liquidity is also expected to be sufficient to address any reasonably foreseeable impacts that the COVID-19 pandemic may have on the Company's cash requirements.

(Expressed in thousands of dollars)

22. Financial instruments and risk management (continued):

(d) Capital disclosures:

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

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2020, shareholder's equity amounts to $165,714 (2019 - $159,432) and long-term debt amounts to $76,963 (2019 - $76,963).

23. Revenue from Contracts with Customers

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

		2020		2019
Revenue from Contracts with Customers	$	284,230	$	246,092
Other Revenue:				
CDM programs		727		1,676
Other		1,524		1,620
Total	**$**	**286,481**	**$**	**249,388**

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

		2020		2019
Residential	$	127,780	$	93,701
Commercial		153,515		149,386
Large Users		1,346		1,448
Other		1,589		1,557
Total Revenue	**$**	**284,230**	**$**	**246,092**

24. Change in Accounting Policy

The International Accounting Standards Board (IASB) has issued the following Standards, Interpretations and Amendments to Standards that were adopted by the Company effective January 1, 2020:

- Amendments to Hedge Accounting Requirements - IBOR Reform and its Effects on Financial Reporting (Phase 1)
- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Covid-19-Related Rent Concessions (Amendment to IFRS 16)

The amendments and clarifications did not have an impact on the financial statements.

25. Future accounting pronouncements:

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Company and it is still to be determined if any will have a material impact on the Company's financial statements.

(a) Property, Plant and Equipment -- Proceeds before Intended Use (Amendments to IAS 16)

On May 14, 2020, the IASB issued Property, Plant and Equipment -- Proceeds before Intended Use (Amendments to IAS 16). The amendments clarify that proceeds from selling items before the related item of Property, Plant and Equipment is available for use should be recognised in profit or loss, together with the cost of producing those items. The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

(b) Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

On May 14, 2020, the IASB issued Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37). This amendment clarifies which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted.

25. Future accounting pronouncements (continued):

(c) Annual Improvements to IFRS Standards 2018 -2020

On May 14, 2020, the IASB issued *Annual Improvements to IFRS Standards 2018 -2020.* The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.
IFRS 9 *Financial Instruments*
Clarifies which fees are included for the purpose of performing the `10 per cent test' for derecognition of financial liabilities.
IFRS 16 *Leases*
Removes the illustration of payments from the lessor relating to leasehold improvements.
The impact of adoption of these improvements is not expected to have an impact on the business.

(d) Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

On August 27, 2020, the IASB finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS Standards.

The amendments are effective for annual periods beginning on or after January 1, 2021. Earlier application is permitted. The impact of adoption of these amendments is not expected to have an impact on the business.

26. Impact of COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. On March 17, 2020, the Ontario Government declared a State of Emergency pursuant to the Emergency Management and Civil Protection Act. The Ontario Government renewed the declaration, as required by the legislation, until July 24, 2020. During the State of Emergency, the Ontario Government issued emergency orders under the legislation and extended them as required by the legislation. On July 24, 2020, the Reopening Ontario (A Flexible Response to COVID-19) Act, 2020 came into effect, bringing the declared State of Emergency to an end. The Reopening Ontario Act also enabled the Ontario Government to extend, amend, and revoke the remaining emergency orders in order to facilitate a flexible response to the ongoing COVID-19 risks.

On March 19, 2020, the OEB extended the ban on disconnecting residential customers to July 31, 2020, in light of the COVID-19 pandemic. For the same reason, at the same time, the OEB also banned the disconnection of other low volume customers (as defined in the OEB Act) prior to July 31, 2020. In addition, the Corporation extended its ban on disconnecting residential and low volume customers until the transition back into the OEB’s annual recurring winter disconnection ban on November 15, 2020.

26. Impact of COVID-19 Pandemic (continued):

On March 24, 2020, the Ontario Government issued an emergency order setting TOU rates for on-peak, mid-peak, and off-peak at 10.1 cents per kWh, which prior to the emergency order was the TOU off-peak rate. That emergency order was effective through May 7, 2020. On May 6, 2020, the Ontario Government issued an emergency order extending those TOU rates through May 31, 2020. On May 30, 2020, the Ontario Government announced the COVID19 Recovery Rate, setting a fixed TOU electricity price at 12.8 cents per kWh, 24 hours a day, seven days a week, effective June 1, 2020 until October 31, 2020. On October 13, 2020, the OEB announced new TOU rates for on-peak, mid-peak, and off-peak, that once again vary according to when electricity is used, effective November 1, 2020. There was no impact to net income to the Corporation.

On March 25, 2020, the OEB established a deferral account for regulatory balances to record the costs of changes to billing systems resulting from the Ontario Government's TOU emergency order, other incremental costs and lost revenues associated with the COVID-19 pandemic. On May 14, 2020, the OEB launched a consultation process to inform its decision-making with respect to how the account will operate, including eligibility requirements, and the process and timing for the disposition. On December 16, 2020, OEB staff issued a proposal with respect to the deferral account and related consultation [note 8].

On August 20, 2020, the Ontario Government amended O. Reg. 95/05 Classes of Consumers and Determination of Rates. Accordingly, customers on the RPP have the choice to pay TOU rates or tiered rates, effective November 1, 2020. By default, RPP customers will pay TOU rates. RPP customers who choose to pay tiered rates will pay a lower rate for consumption below a monthly threshold, and a higher rate for consumption above that threshold. The tiered rates and the threshold are set by the OEB twice per year, at the same time as the OEB sets TOU rates. There was no impact to net income to the Corporation.

On December 15, 2020, the OEB announced new RPP TOU and tiered rates to reflect a decrease in supply cost resulting from the Ontario Government's decision to remove certain renewable generation costs from the global adjustment and funding them directly through the tax base. The reduction was accompanied by a corresponding reduction to the Ontario Electricity Rebate. There was no net income impact to the Corporation.

On December 22, 2020, the Ontario Government amended O. Reg. 95/05 Classes of Consumers and Determination of Rates, setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.5 cents per kWh. That regulatory amendment was effective through January 28, 2021, and most recently extended until February 22, 2021. On February 23, 2021, residential and small business customers resumed paying TOU and tiered pricing under the RPP at prices that were set by the OEB on December 15, 2020. There was no net income impact to the Corporation.

SCHEDULE 5.1
WATERLOO NORTH DISCLOSURE SCHEDULE

See attached.

WATERLOO NORTH DISCLOSURE SCHEDULES
to the

MERGER PARTICIPATION AGREEMENT

dated as of January 12, 2022

between

THE CORPORATION OF THE CITY OF KITCHENER

– and –

THE CORPORATION OF THE TOWNSHIP OF WILMOT

– and –

THE CORPORATION OF THE CITY OF WATERLOO

– and –

THE CORPORATION OF THE TOWNSHIP OF WOOLWICH

– and –

THE CORPORATION OF THE TOWNSHIP OF WELLESLEY

– and –

KITCHENER POWER CORPORATION

– and –

KITCHENER-WILMOT HYDRO INC.

– and –

KITCHENER ENERGY SERVICES INC.

– and –

WATERLOO NORTH HYDRO HOLDING CORPORATION

– and –

WATERLOO NORTH HYDRO INC.

– and –

ALLIANCE METERING SOLUTIONS INC.

PREAMBLE

These disclosure schedules (collectively, the "**Schedules**") have been prepared and are being delivered in connection with the execution and delivery of that certain merger participation agreement (the "**Merger Participation Agreement**"), dated as of January 12, 2022, between The Corporation of The City of Waterloo, The Corporation of The Township of Woolwich, The Corporation of the Township of Wellesley (collectively "**Waterloo North**"), The Corporation of The City of Kitchener, The Corporation of the Township of Wilmot, Kitchener Power Corporation, Kitchener-Wilmot Hydro Inc., Kitchener Energy Services Inc., Waterloo North Hydro Holding Corporation, Waterloo North Hydro Inc. and Alliance Metering Solutions Inc.

Capitalized terms used but not otherwise defined in the Schedules shall have the respective meanings ascribed to such terms in the Merger Participation Agreement.

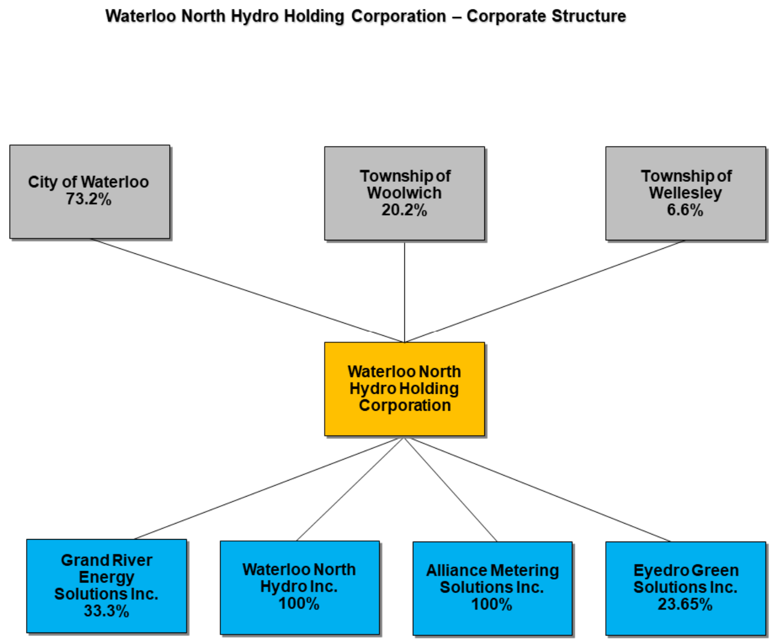
The purpose of these Schedules is to set forth exceptions to representations and warranties of, and other information required to be given by Waterloo North, under the Merger Participation Agreement.

Disclosure of any information in these Schedules that is not strictly required under the Merger Participation Agreement has been made for informational purposes only. Disclosures in these Schedules are deemed to be made for purposes of the section or subsection of the Merger Participation Agreement to which they correspond in number, and for each other section or subsection of the Merger Participation Agreement to the extent that it is reasonably apparent that such disclosure is relevant to such other section or subsection.

All of the information contained in these Schedules is provided as of the date of these Schedules. These Schedules form an integral part of the Merger Participation Agreement for all purposes thereof and all references to the Merger Participation Agreement include these Schedules.

The headings contained in the schedules are for reference purposes only and shall not affect in any way the meaning or interpretation of the schedules. The attachments referenced in the schedules form an integral part of the schedules and are incorporated by reference for all purposes as if set forth fully herein.

Schedule 5.4(j) – Share Ownership, Etc.



Schedule 5.10(b) – Corporate Records/Directors

Waterloo North Hydro Holding Corporation

Director	Date Elected as Director
Arnold Drung	May 20, 2021
Dave Jaworsky	May 20, 2021
David Petras (Chair)	May 20, 2021
Janet Peddigrew	May 20, 2021
Jeff Henry	May 20, 2021
Joe Nowak	May 20, 2021
John Milloy	May 20, 2021
Sandy Shantz	May 20, 2021
Steve McCartney (Vice-Chair)	May 20, 2021

Waterloo North Hydro Inc.

Director	Date Elected as Director
Arnold Drung (Vice-Chair)	April 15, 2021
Jeff Henry	April 15, 2021
David (Dave) Jaworsky	April 15, 2021
Micheal Kelly (Chair)	April 15, 2021
Carol Leaman	April 15, 2021
Tim Martin	April 15, 2021
Joe Nowak	April 15, 2021
Sandy Shantz	April 15, 2021

Alliance Metering Solutions Inc.

[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

Schedule 5.12 – Financial Statements

[redacted]

Financial Statements of

Waterloo North Hydro Inc.

Year ended December 31, 2020

KPMG LLP
115 King Street South
2nd Floor
Waterloo ON N2J 5A3 Canada
Tel 519-747-8800
Fax 519-747-8830

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Waterloo North Hydro Inc.

Opinion

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

- the statement of financial position as at December 31, 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

April 16, 2021

STATEMENT OF FINANCIAL POSITION

As at December 31, 2020, with comparative information for 2019

	Note	**December 31 2020 $**	**December 31 2019 $**
ASSETS			
Current			
Cash		**2,308,798**	-
Accounts receivable	*4*	**14,481,590**	12,752,608
Unbilled revenue		**20,725,083**	18,342,989
Income tax receivable		**342,445**	379,694
Inventories		**3,278,249**	3,721,642
Prepaid expenses		**415,622**	296,937
Short-term loan to shareholder	*19*	**500,000**	-
Total current assets		**42,051,787**	35,493,870
Non-current assets			
Property, plant and equipment	*5*	**250,812,258**	243,340,517
Intangible assets	*6*	**4,613,198**	3,972,640
Total non-current assets		**255,425,456**	247,313,157
Total assets		**297,477,243**	282,807,027
Regulatory deferral account debit balances	*8*	**17,458,341**	15,293,596
Total assets and regulatory deferral account debit balances		**314,935,584**	298,100,623

Waterloo North Hydro Inc.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2020, with comparative information for 2019

	Note	**December 31 2020 $**	**December 31 2019 $**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current			
Accounts payable and accrued liabilities		**20,617,226**	19,446,854
Short-term bank debt	*9*	**-**	396,819
Current portion of long-term debt	*9*	**5,552,334**	6,264,000
Current portion of customer deposits	*12*	**3,353,624**	2,816,795
Total current liabilities		**29,523,184**	28,924,468
Long-term			
Long-term debt	*9*	**78,353,774**	72,478,147
Note payable to shareholder	*10*	**33,513,211**	33,513,211
Derivative liability	*9*	**8,832,392**	3,188,963
Customer deposits	*12*	**3,485,605**	4,026,940
Deferred revenue		**27,612,623**	25,862,609
Post employment benefits	*11*	**4,013,408**	4,008,911
Deferred tax liability	*7*	**8,730,589**	8,547,257
Total long-term liabilities		**164,541,602**	151,626,038
Total liabilities		**194,064,786**	180,550,506
Shareholder's equity			
Share capital	*13*	**26,887,104**	26,887,104
Retained earnings		**74,610,582**	75,575,289
Total shareholder's equity		**101,497,686**	102,462,393
Total liabilities and shareholder's equity		**295,562,472**	283,012,899
Regulatory deferral account credit balances	*8*	**19,373,112**	15,087,724
Total equity, liabilities and regulatory deferral account credit balances		**314,935,584**	298,100,623

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

On behalf of the Board:

Michael Pley, Chair

Micheal Kelly, Vice Chair

Waterloo North Hydro Inc.

STATEMENT OF COMPREHENSIVE INCOME

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

	Note	**2020**	2019
		$	$
REVENUES			
Sales of electricity		**192,999,055**	173,746,381
Distribution services revenue		**35,959,195**	35,895,518
	14	**228,958,250**	209,641,899
Power purchased		**194,633,759**	175,424,055
Net operating revenue		**34,324,491**	34,217,844
Other revenues	*14*	**1,737,730**	1,825,877
		36,062,221	36,043,721
EXPENSES			
Distribution		**7,757,005**	7,987,531
Billing and collecting		**2,934,620**	3,110,860
General administration		**3,545,102**	3,426,755
Property taxes		**397,460**	458,134
Amortization	*5*	**10,567,784**	9,952,224
Total expenses		**25,201,971**	24,935,504
Income before undernoted items		**10,860,250**	11,108,217
Net interest expense	*15*	**(5,000,291)**	(4,920,773)
Unrealized gain (loss) from derivatives	*9*	**(5,643,429)**	(1,493,869)
Income from operations before PILs		**216,530**	4,693,575
PILs expense	*7*	**324,663**	1,446,346
Income from operations for the year before movement in regulatory deferral account balances		**(108,133)**	3,247,229
Other comprehensive income:			
Remeasurement of employee future benefits net of taxes		**-**	428,531
Total comprehensive income for the year before movement in regulatory deferral account balances		**(108,133)**	3,675,760
Net movement in regulatory deferral account balances, net of taxes	*8*	**2,680,426**	3,328,624
Net income and comprehensive income		**2,572,293**	7,004,384

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

Waterloo North Hydro Inc.

STATEMENT OF CHANGES IN EQUITY

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

	Note	**Share Capital**	**Retained Earnings**	**Total**
Balance at January 1, 2019		**26,887,104**	**72,346,905**	**99,234,009**
Net income and net movement in regulatory balances			7,004,384	7,004,384
Dividends paid	*13*		(3,776,000)	(3,776,000)
Balance at December 31, 2019		**26,887,104**	**75,575,289**	**102,462,393**
Net income and net movement in regulatory balances			**2,572,293**	**2,572,293**
Dividends paid	*13*		**(3,537,000)**	**(3,537,000)**
Balance at December 31, 2020		**26,887,104**	**74,610,582**	**101,497,686**

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

STATEMENT OF CASH FLOWS

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

	Note	**2020**	**2019**
		$	**$**
OPERATING ACTIVITIES			
Net income		**2,572,293**	7,004,384
Add (deduct) charges to operations not requiring a current cash payment:			
Provision for PILs	*7*	**324,663**	1,600,851
PILs paid		**(104,082)**	(358,122)
Amortization	*5,6*	**11,243,689**	10,687,801
Loss (gain) on disposal of property, plant and equipment		**50,762**	54,685
Amortization of deferred revenue		**(791,716)**	(725,656)
Increase (decrease) in regulatory liabilities		**2,120,643**	(2,946,368)
Increase (decrease) in post employment benefits liability		**4,497**	(569,903)
Unrealized loss on derivatives	*9*	**5,643,429**	1,493,869
Net change in non-cash operating working capital		**(2,615,996)**	(1,093,282)
Cash provided by operating activities		**18,448,182**	15,148,259
INVESTING ACTIVITIES			
Additions to property, plant and equipment and intangibles	*5,6*	**(19,704,135)**	(19,811,379)
Proceeds on disposal of property, plant and equipment		**297,385**	255,365
Cash applied to investing activities		**(19,406,750)**	(19,556,014)
FINANCING ACTIVITIES			
Increase (decrease) in customer deposits		**(4,506)**	(6,159)
Increase in long-term debt	*9*	**11,600,000**	6,000,000
Long-term debt - repayment		**(6,436,039)**	(5,981,496)
Decrease (increase) in short-term loan receivable		**(500,000)**	100,000
Capital contributions received		**2,541,730**	2,110,940
Dividends paid	*13*	**(3,537,000)**	(3,776,000)
Cash provided by financing activities		**3,664,185**	(1,552,715)
Net cash provided during year		**2,705,617**	(5,960,470)
Cash and cash equivalents, beginning of year		**(396,819)**	5,563,651
Cash and cash equivalents, end of year		**2,308,798**	(396,819)

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

NOTES TO FINANCIAL STATEMENTS

1. Reporting Entity

Waterloo North Hydro Inc. (the "Company") is a rate regulated, municipally owned electricity distribution company incorporated under the Business Corporations Act (Ontario) on May 1, 2000. The incorporation was required in accordance with the provincial government's Electricity Competition Act (Bill 35). The Company is located in the Township of Woolwich. The address of the Company's registered office is 526 Country Squire Rd, Waterloo, Ontario, N2J 4G8.

The Company delivers electricity and related energy services to residential and commercial customers in the City of Waterloo and the Townships of Wellesley and Woolwich. The Company is also engaged in the delivery of Conservation Demand Management ("CDM") activities and provides street lighting services.

The Company is wholly-owned by Waterloo North Hydro Holding Corporation whose shareholders are the City of Waterloo and the Townships of Wellesley and Woolwich.

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

2. Basis of Presentation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors on April 15, 2021.

(b) Basis of measurement

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

(i) Where held, financial instruments at fair value through profit or loss.

(ii) Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 20.

(c) Functional and presentation currency

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

2. Basis of Presentation (continued)

(d) Use of estimates and judgments

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

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

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

(i) Note 3(b) – Revenue Recognition – determination of the performance obligation for contributions from customers and the related amortization period
(ii) Note 3(d) - Capital assets (Property, plant and equipment)
(iii) Note 11 - Employee post-employment benefits
(iv) Note 16 - Commitments and contingencies

(e) Rate regulation

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

Rate setting:

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. Rates are approved based upon this review including any required revisions.

2. Basis of Presentation (continued)

(e) Rate regulation (continued)

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 "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.

In 2019, the Company applied and received approval for IRM rates effective January 1, 2020. The distribution rates were increased by 1.7%.

In 2020, the Company applied and received approval for COS rates effective January 1, 2021. The average distribution rates will be increased by 2.1%.

Electricity rates

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Company is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

(f) Conservation and Demand Management Activities

The Independent Electricity System Operator ("IESO") supports Conservation and Demand Management (CDM) plans during their design and throughout their entire lifespan, including the sharing of best practices, offering of program delivery services, and the building of awareness in the marketplace through marketing and communication. The IESO provides centralized customer service, technical support, market research, program evaluation, measurement and training.

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the license of each licensed electricity distributor to require the electricity distributor, as a condition of its license, to make CDM programs available to customers in its licensed service area and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. The objective of the CDM efforts was to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which the Company's share was 82.38 GWh of energy savings.

2. Basis of Presentation (continued)

(f) Conservation and Demand Management Activities (continued)

The Company signed an energy conservation agreement with the IESO for the delivery of these CDM programs over the 2015-2020 period with funding of approximately $21.192 million, which included participant incentives and the Company's program administration and delivery costs. The Company provided the IESO with its plan for achieving its CDM target, received approval and will continue to submit results.

The Company elected full cost recovery funding for all programs under the current plan. The IESO will reimburse the Company for all adequately documented costs incurred, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review performed by the IESO for the 2015-2017 period. In 2018 the IESO awarded a mid-term incentive of $536,753. The Company recognized 50% ($268,377) in Other Revenues in 2018 and the remainder in 2019 ($268,376).

On March 21, 2019 the Minister of Energy, Northern Development and Mines directed the IESO to discontinue the current 2015-2020 Conservation First Framework (CFF) and implement a new interim framework, in support of the government's goal to reduce electricity costs for customers. LDCs will wind down the projects and programs and will recover costs for CFF Wind Down activities per their approved CFF Wind Down budgets. As of March 21, 2019, no further payments of LDC performance incentives will be made.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently in all years presented in these financial statements, except where otherwise described in Note 21 – Changes in Accounting Policies.

(a) Financial instruments

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

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

Derivative assets are always classified as fair value through profit or loss on inception.

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

3. Significant Accounting Policies (continued)

(b) Revenue Recognition

Sale and distribution of electricity

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

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

Capital contributions

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

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

Other revenue

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

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(c) Inventory

Inventories consist of repair parts, supplies and materials held for future capital expansion and are valued at lower of weighted average cost and net realizable value. 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 in items of property, plant and equipment ("PP&E") used in rate–regulated activities 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. Major spare parts and standby equipment are recognized as items of PP&E.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the actual cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct.

When parts of an item of PP&E have different useful lives, they are accounted for and depreciated 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.

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 on the cost basis of the asset 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 PP&E. Land and land rights are 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	15-60 years
Transformer and substation equipment	15-50 years
Supervisory control and data acquisition equipment	15 years
Distribution system	15-50 years
Meters	15-25 years
General equipment	5-15 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 amortization.

(ii) Land Rights

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Company does not hold title and are not amortized.

(iii) 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	5-10 years
Land rights	no amortization period

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 measured at amortized cost:

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than 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.

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

(ii) Non-financial Assets (continued):

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

(g) Provisions

A provision is recognized if, as a result of a past event, the 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) Regulatory deferral accounts

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the 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.

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. From January 1, 2020 to June 30, 2020 the rate was 2.18%. From July 1, 2020 to December 31, 2020 the rate was 0.57%.

3. Significant Accounting Policies (continued)

(i) Employee post-employment benefits

(i) Pension Plan:

Waterloo North Hydro Inc. provides a pension plan for its employees through the 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, public utilities and school boards. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

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 *(note 17).* The Company recognizes the expense related to this plan as contributions are made.

(ii) Post-employment Benefits:

Post-employment benefits provided by the Company include health, dental and life insurance benefits. These plans provide benefits for some of its retired employees. Post-employment benefit expense is recognized in the period in which the employees render the services.

Post-employment benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management’s best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees’ services rendered in the period. Gains and losses are recognized in the current year. Actuarial gains and losses arising from defined benefit plans are recognized immediately in other comprehensive income and reported in retained earnings.

(j) Interest income and interest costs

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

Interest costs comprise interest expense on borrowings, customer deposits and regulatory liabilities. Interest costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

3. Significant Accounting Policies (continued)

(k) Corporate Income taxes

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by municipalities. This tax-exempt status might be lost in a number of circumstances, including if the shareholder (municipalities) ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company is required, under the Electricity Act, 1998, to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998 and related regulations.

As a result of becoming subject to payments in lieu of corporate income taxes ("PILs"), the Company's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Company was therefore deemed to have disposed of each of its assets at its then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Company was deemed to be a new company and, as a result, tax credits or tax losses not previously utilized by the Company would not be available to it after the change in tax status. Essentially, the Company was taxed as though it had a "fresh start" at the time of its change in tax status.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

4. Accounts Receivable

	December 31 2020	December 31 2019
Trade receivables	**$ 12,655,663**	$ 11,943,020
Accrued receivables	**537,521**	266,225
Miscellaneous receivables	**1,243,283**	652,483
Allowance for bad debt	**(200,000)**	(200,000)
Other	**245,123**	90,880
	$ 14,481,590	$ 12,752,608

5. Property, Plant and Equipment

(a) Cost or deemed cost:

	Distribution Equipment	Land & Building	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2020	**$ 208,110,670**	**$ 31,824,462**	**$ 54,084,057**	**$ 2,889,399**	**$ 296,908,588**
Additions	**14,862,955**	**28,840**	**2,785,773**	**600,460**	**18,278,028**
Disposal/retirements	**(297,385)**	**-**	**(153,432)**	**-**	**(450,817)**
Balance at December 31, 2020	**$ 222,676,240**	**$ 31,853,302**	**$ 56,716,398**	**$ 3,489,859**	**$ 314,735,799**

	Distribution Equipment	Land & Building	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2019	$ 192,738,013	$ 31,763,245	$ 50,705,940	$ 3,409,416	$ 278,616,614
Additions	15,613,291	61,217	3,675,880	(520,017)	18,830,371
Disposal/retirements	(240,634)	-	(297,763)	-	(538,397)
Balance at December 31, 2019	**$ 208,110,670**	**$ 31,824,462**	**$ 54,084,057**	**$ 2,889,399**	**$ 296,908,588**

5. Property, Plant and Equipment (continued)

(b) Accumulated depreciation:

	Distribution Equipment	Land & Building	Other Fixed Assets	Total
Balance at January 1, 2020	**$ 27,287,972**	**$ 5,148,532**	**$ 21,131,567**	**$ 53,568,071**
Depreciation charge	**5,918,326**	**875,394**	**3,713,271**	**10,506,991**
Disposal/retirements	**-**	**-**	**(151,521)**	**(151,521)**
Balance at December 31, 2020	**$ 33,206,298**	**$ 6,023,926**	**$ 24,693,317**	**$ 63,923,541**

	Distribution Equipment	Land & Building	Other Fixed Assets	Total
Balance at January 1, 2019	$ 21,723,339	$ 4,275,061	$ 17,662,259	$ 43,660,659
Depreciation charge	5,564,633	873,471	3,697,654	10,135,758
Disposal/retirements	-	-	(228,346)	(228,346)
Balance at December 31, 2019	$ 27,287,972	$ 5,148,532	$ 21,131,567	$ 53,568,071

Carrying amounts

	Distribution Equipment	Land & Building	Other Fixed Assets	Construction in Progress	Total
At December 31, 2020	$ 189,469,942	$ 25,829,376	$ 32,023,081	$ 3,489,859	$ 250,812,258
At December 31, 2019	180,822,698	26,675,930	32,952,490	2,889,399	243,340,517

5. Property, Plant and Equipment (continued)

(c) Allocation of depreciation and amortization

The depreciation of property, plant and equipment and the amortization of intangible assets have been allocated to profit or loss as follows:

	Distribution Expenses	Amortization	Total
December 31, 2020:			
Depreciation of property, plant and equipment	**$ 675,905**	**$ 9,831,086**	**$ 10,506,991**
Amortization of intangible assets	**-**	**736,698**	**736,698**
	$ 675,905	**$ 10,567,784**	**$ 11,243,689**
December 31, 2019:			
Depreciation of property, plant and equipment	$ 735,577	$ 9,400,181	$ 10,135,758
Amortization of intangible assets	-	552,043	552,043
	$ 735,577	**$ 9,952,224**	**$ 10,687,801**

6. Intangible assets

(a) Cost or deemed cost:

	Computer Software	Land Rights	Work in Progress	Total
Balance at January 1, 2020	**$ 5,009,456**	**$ 1,124,311**	**$ 809,186**	**$ 6,942,953**
Additions	**1,558,926**	**46,936**	**(179,755)**	**1,426,107**
Disposal/retirements	**(475,321)**	**-**	**-**	**(475,321)**
Balance at December 31, 2020	**$ 6,093,061**	**$ 1,171,247**	**$ 629,431**	**$ 7,893,739**

	Computer Software	Land Rights	Work in Progress	Total
Balance at January 1, 2019	$ 4,773,458	$ 1,059,625	$ 128,862	$ 5,961,945
Additions	235,998	64,686	680,324	981,008
Balance at December 31, 2019	**$ 5,009,456**	**$ 1,124,311**	**$ 809,186**	**$ 6,942,953**

6. Intangible Assets (continued)

(b) Accumulated amortization:

		Computer Software		Land Rights		Total
Balance at January 1, 2020	**$**	**2,970,313**	**$**	**-**	**$**	**2,970,313**
Amortization charge		**736,698**		**-**		**736,698**
Disposal/retirements		**(426,470)**		**-**		**(426,470)**
Balance at December 31, 2020	**$**	**3,280,541**	**$**	**-**	**$**	**3,280,541**

		Computer Software		Land Rights		Total
Balance at January 1, 2019	$	2,418,270	**$**	**-**	$	2,418,270
Amortization charge		552,043		**-**		552,043
Balance at December 31, 2019	**$**	**2,970,313**	**$**	**-**	**$**	**2,970,313**

Carrying amounts

		Computer Software		Land Rights		Work in Progress		Total
At December 31, 2020	$	2,812,520	$	1,171,247	$	629,431	$	4,613,198
At December 31, 2019		2,039,143		1,124,311		809,186		3,972,640

7. Income Tax Expense

Tax expense:

	2020	2019
	$	$
Current	**141,331**	(121,376)
Deferred	**1,678,841**	1,963,597
Deferred recovery on unrealized gain on derivatives	**(1,495,509)**	(395,875)
	324,663	1,446,346

Reconciliation of effective tax rate:

	2020	2019
	$	$
Income from operations before income taxes	**216,530**	4,693,575
Statutory Canadian federal and provincial income tax rate	**26.50%**	26.50%
Expected taxes on income	**57,380**	1,243,797
Changes in income taxes resulting from:		
Permanent differences	**5,929**	12,771
Other temporary differences	**475,558**	299,428
Adjustment for prior periods	**(214,204)**	(109,650)
	267,283	202,549
Income tax expense	**324,663**	1,446,346

Permanent difference is due mainly to non deductible portion of meals and entertainment.

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

	December 31 2020	December 31 2019
	$	$
Deferred tax assets (liabilities):		
Plant and equipment	**(19,792,640)**	(17,426,549)
Deferred revenue	**7,317,345**	6,853,591
Employee benefits	**1,163,613**	1,156,338
Loss on derivatives	**2,340,584**	845,075
Corporate minimum tax	**221,120**	15,521
Other	**19,389**	8,767
	$ (8,730,589)	$ (8,547,257)

8. Regulatory Deferral Account Balance

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

	2020 Opening $	Balances arising in the period	Recovery / reversal	2020 Ending $	Recovery / reversal period (years)
Regulatory deferral account debit balances					
Group 1	1,785,939	189,083	(1,014,255)	960,767	1 year
Group 2	695,930	484,857	(94,996)	1,085,791	1 year
Stranded meters	-	-	-	-	3 years
Other regulatory accounts	-	21,739	-	21,739	
Deferred tax liability	12,811,727	2,578,317	-	15,390,044	n/a
Total amount related to regulatory deferral account debit balances	**15,293,596**	**3,273,996**	**(1,109,251)**	**17,458,341**	

	2020 Opening $	Balances arising in the period	Recovery / reversal	2020 Ending $	Recovery / reversal period (years)
Regulatory deferral account credit balances					
Group 1	1,045,562	1,327,973	(305,278)	2,068,257	1 year
Group 2	1,474,438	1,145,643	-	2,620,081	1 year
Stranded meters	26,528	-	-	26,528	-
Other regulatory accounts	75,314	8,700	(18,653)	65,361	50 years
Other regulated accounts	9,070,774	1,443,749	-	10,514,523	-
Deferred tax associated with regulatory accounts	3,395,108	683,254		4,078,362	n/a
Total amount related to regulatory deferral account credit balances	**15,087,724**	**4,609,319**	**(323,931)**	**19,373,112**	

8. Regulatory Deferral Account Balance (continued)

	2019 Opening $	Balances arising in the period	Recovery / reversal	2019 Ending $	Recovery / reversal period (years)
Regulatory deferral account debit balances					
Group 1	1,910,047	1,268,555	(1,392,663)	1,785,939	1 year
Group 2	521,312	269,622	(95,004)	695,930	1 year
Stranded meters	14,823	-	(14,823)	-	3 years
Other regulatory accounts	-	-	-	-	
Deferred tax liability	9,113,631	3,698,096	-	12,811,727	n/a
Total amount related to regulatory deferral account debit balances	**11,559,813**	**5,236,273**	**(1,502,490)**	**15,293,596**	

	2019 Opening $	Balances arising in the period	Recovery / reversal	2019 Ending $	Recovery / reversal period (years)
Regulatory deferral account credit balances					
Group 1	3,248,422	218,970	(2,421,830)	1,045,562	1 year
Group 2	670,336	804,102	-	1,474,438	1 year
Stranded meters	-	26,528	-	26,528	-
Other regulatory accounts	100,109	-	(24,795)	75,314	50 years
Other regulated accounts	8,439,989	630,785	-	9,070,774	-
Deferred tax associated with regulatory accounts	1,841,453	1,553,655		3,395,108	n/a
Total amount related to regulatory deferral account credit balances	**14,300,309**	**3,234,040**	**(2,446,625)**	**15,087,724**	

Net movement in regulatory deferred account balances net of taxes of $2,680,426 consists of the regulatory deferred tax expense of $1,895,063, the regulatory treatment on the Accelerated Investment Incentive tax program of ($849,341) and the difference between the Power Purchased and the Sale of Electricity of $1,634,704.

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 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.

Settlement of the Group 1 deferral accounts, arising primarily from timing differences for the cost of power billing to customers, is done on an annual basis through application to the OEB. The 2020 IRM application was approved to collect $671,318 of the Group 1 deferral accounts. At January 1, 2020 the approved account balances have been moved to the regulatory settlement account.

Settlement of the Group 2 deferral accounts, created by accounting policy changes, is done at the time of the COS application. The amount of the Group 2 accounts that were approved in the COS application for rates effective January 1, 2021 is to disperse $680,661.

Other regulated accounts consist of timing difference on monies received and paid for CDM programs, Ontario Clean Energy Benefit and the IESO cost of power variance.

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.

The COVID-19 emergency deferral account comprises of five sub-accounts established to track incremental costs and lost revenues related to the COVID-19 pandemic: (i) Billing and System Changes as a Result of the Emergency Order Regarding Time-of-Use Pricing, (ii) Lost Revenues Arising from the COVID-19 Emergency, (iii) Other Incremental Costs, (iv) Foregone Revenues from Postponing Rate Implementation, and (v) Bad Debt.

On December 16, 2020, the OEB Staff released their proposal on the COVID-19 deferral accounts which introduces certain criteria to that may need to be satisfied for amounts to be eligible for recovery. Based on this information, management believes there is high uncertainty in regards to the recoverability of costs and lost revenues related to government and OEB customer relief actions, and therefore a low probability of recovery. LDC continues to track incremental expenditures directly related to the COVID-19 pandemic but no amounts have been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2020.

9. Short-Term & Long-Term Debt

The long-term bank debt is subject to a master bank agreement whereby each loan has a contractual maturity date of April 30, 2022. Full repayment is required at this date unless refinanced prior to the contractual maturity date.

For both the short-term and long-term bank debt the Company has a general security agreement creating in favour of CIBC a first priority security interest covering all company assets.

9. Short-Term & Long-Term Debt (continued)

Short-term debt		2020 $	2019 $
Line of Credit	Bank debt, bearing a variable interest rate of Prime Rate less 0.30% per annum. Amounts are repayable immediately in whole or in part, on demand. The operating credit limit is $15M.	-	396,819
		-	396,819

Long-term debt

Each loan has a 30 day banker's acceptance rate + 1% interest rate and is hedged by an interest rate swap at the rate per annum below.

Loan	Swap rate	Monthly payments ($)	Amortization date	2020 $	2019 $
Mortgage 2012	3.950%	88,667	April 1, 2037	**17,371,019**	18,411,867
Smart Meter 2013	2.980%	129,167	January 29, 2021	**258,217**	1,805,313
Term Loan 2013	4.434%	62,500	July 4, 2033	**9,433,348**	10,170,487
Term Loan 2014	4.035%	62,500	June 4, 2034	**10,120,950**	10,855,642
Term Loan 2015	3.430%	41,667	May 18, 2035	**7,205,522**	7,694,304
Term Loan 2016	2.505%	37,500	July 15, 2036	**7,009,695**	7,450,261
Term Loan 2017	3.565%	41,667	July 2, 2037	**8,412,963**	8,901,776
Term Loan 2018	3.854%	33,333	June 1, 2038	**7,096,876**	7,487,475
Term Loan 2019	3.271%	40,000	October 1, 2039	**9,150,972**	5,965,022
Term Loan 2020	2.642%	33,333	May 1, 2040	**7,846,546**	-
				83,906,108	78,742,147
Less: Current Portion				**(5,552,334)**	(6,264,000)
				78,353,774	72,478,147

The aggregate amount of expected principal repayments under the original amortization period are as follows:

2021	5,552,334
2022	5,294,000
2023	5,294,000
2024	5,294,000
2025	5,294,000
Thereafter	57,177,774
	83,906,108

9. Short-Term & Long-Term Debt (continued)

Long-term debt (continued)

In April 2020, the Company borrowed an additional tranche of $3,600,000 on the 2019 Term Loan. The 2020 Term Loan is split into five separate tranches, two of which were in 2020 and three that are scheduled for 2021. The Company borrowed $4,000,000 in June and another $4,000,000 in September 2020. In 2021 drawings are scheduled for April, July and October at $3,000,000, $3,000,000 and $4,000,000, respectively.

Interest rate swaps

The Company has entered into interest rate swap agreements with a high quality Canadian chartered bank for the purpose of eliminating the risk of fluctuating interest rates and removing the economic impact of interest rate volatility on the majority of its long-term debt. The CPA Handbook requires the Company to determine and record the fair value of its interest rate swap agreements on the Statement of Financial Position, with changes in fair values being recorded in the Statement of Comprehensive Income.

As a result, the Company has recorded a non-current derivative liability of $8,832,392 (2019 - $3,188,963) and a non-cash charge of $5,643,429 (2019 - $1,493,869). A deferred tax recovery of $1,495,509 (2019 – $395,875) was also recorded to reflect the deferred tax impact. There is no impact on current tax PILs payable. Over the term of the long-term debt, the non-cash charge and liability will reverse into income. The Company borrows funds using 30 day banker's acceptances at the bankers' acceptance floating rate. The swap instruments result in the Company receiving interest at the 30 day banker's acceptance floating rate and require the Company to pay the fixed rate in the swap instrument. The swaps have a put provision whereby on the five year anniversary of each swap, either party can unilaterally elect to terminate the contract requiring a cash payment upon settlement based on the fair value of the swap instrument on that date. The term of each individual swap instrument matches the amortization period of the corresponding bank loan.

By way of example, the disclosure on the 2012 loan which applies to all of the other loans is explained in detail as follows:

> Bank debt, available (at the company's option), at Prime less 0.3% or Banker's Acceptances (durations up to 6 months) plus 1%, payable in monthly payments of $88,667. Maturity date of the debt facility is June 30, 2022. The Company has entered into an interest rate swap to hedge the interest rate risk on the bank debt, wherein the company pays a fixed rate of 2.95% per annum and receives variable interest at the one month Banker's Acceptance rate, with net interest settlements paid monthly. The interest rate swap matures on April 1, 2037 and may be cancelled by either party on every 5 year anniversary. To the extent the Company continues to choose to borrow at the 1 month BA rate, the combined net effect of the borrowing and swap contract is a fixed cost of borrowing of 3.95% per annum until the maturity date of the debt facility.

10. Note Payable to Shareholder

	2020	2019
	$	$
Senior long-term note payable (a)	**17,266,271**	17,266,271
Junior long-term note payable (b)	**16,246,940**	16,246,940
	33,513,211	33,513,211

(a) The senior long-term note payable due to Waterloo North Hydro Holding Corporation, the Company's parent, bears interest at a rate of 6.0% per annum, has no set principal repayment terms and is due 270 days following demand by Waterloo North Hydro Holding Corporation. Interest is payable in equal quarterly installments, in arrears, March 30, June 30, September 30 and December 31 each year commencing July 1, 2009.

Waterloo North Hydro Holding Corporation has waived the right to demand repayment of any portion of the note during the next fiscal year.

(b) The junior long-term note payable due to Waterloo North Hydro Holding Corporation, bears interest at a rate of 1.125% per annum above the interest rate on debt which the Ontario Energy Board permits the Company to pay for rate making purposes in the establishment of distribution rates, has no set principal repayment terms and is due on demand. The 2016 OEB deemed rate was 4.54% which was effective up to December 31, 2020. As of January 1, 2021 the new OEB deemed rate for long-term debt is 2.85%.

Waterloo North Hydro Holding Corporation has waived the right to demand repayment of any portion of the note during the next fiscal year.

11. Employee Post-Employment 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, 2020 of $4,013,408 is based on an extrapolation of the actuarial valuation done at December 31, 2019 using a discount rate of 4.0%.

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

	2020	**2019**
	$	**$**
Accrued benefit obligation		
Balance, beginning of year	**4,008,911**	4,578,814
Current service cost	**126,141**	121,291
Interest cost	**157,300**	179,819
Benefits Paid	**(278,944)**	(287,977)
Actuarial gains recognized in other comprehensive income	**-**	(583,036)
Accrued benefit liability, end of year	**4,013,408**	4,008,911

Components of net benefit expense recognized are a follows:

	2020	**2019**
	$	**$**
Current service cost	**126,141**	121,291
Interest cost	**157,300**	179,819
Net benefit expense recognized	**283,441**	301,110

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

	2020	**2019**
	%	**%**
Discount rate	**4.0**	4.0
Future general salary and wage levels increase	**2.0**	2.0
Dental costs increase	**4.0**	4.0
Medical costs increase	**5.0 reducing to 4.0% after 6 years**	5.0 reducing to 4.0% after 6 years

The approximate effect on the accrued benefit obligation of the entire plan and the estimated net benefit expense of the entire plan if the health care trend rate assumption was increased or decreased by 1%, and all other assumptions were held constant, is as follows:

	2020	**2019**
	$	**$**
1% increase in trend rate	**$56,100**	$51,700
1% decrease in trend rate	**(48,600)**	(45,000)

12. 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.

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

Customer deposits comprise:

	2020	**2019**
	$	**$**
Current		
Customer deposits	**540,208**	300,834
Contruction deposits	**2,713,416**	2,415,961
Performance bond	**100,000**	100,000
	3,353,624	2,816,795
Long-term		
Customer deposits	**3,485,605**	4,026,940
	3,485,605	4,026,940

13. Share Capital

		2020	2019
		$	$
Authorized			
Unlimited	Common shares		
Unlimited	Class A special shares		
Issued			
1,000	Common shares	**24,370,424**	24,370,424
251,668	Class A special shares - $10 Par value		
	Non-voting, non cumulative	**2,516,680**	2,516,680
		26,887,104	26,887,104

Dividends

The holder of the common shares is entitled to receive dividends as declared from time to time.

The Company paid aggregate dividends in the year on common shares of $3,537 per share (2019 - $3,776), which amounts to total dividends paid in the year of $3,537,000 (2019 - $3,776,000).

Calculation of Operating Income for Dividend Purposes:

	2020	2019
	$	$
Net Income and Comprehensive Income	**2,572,293**	7,004,384
Less: unrealized gain/(loss) from derivatives net of tax	**(4,147,920)**	(1,097,994)
Net Operating Income	**6,720,213**	8,102,378

14. Revenue

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

	2020	**2019**
	$	**$**
Revenue from contracts with customers	**228,958,250**	209,641,899
Other revenue		
CDM programs	**92,165**	259,093
Gain (loss) on disposal of assets	**(50,762)**	(54,685)
Late payment charges	**156,251**	139,736
Miscellaneous charges	**380,897**	389,063
Recognized deferred revenue	**791,716**	725,656
Rental income	**283,553**	288,865
Sale of scrap	**83,910**	78,149
Total other revenue	**1,737,730**	1,825,877
	230,695,980	211,467,776

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

	2020	**2019**
	$	**$**
Residential	**80,872,562**	61,472,897
Commercial	**129,330,217**	131,729,401
Large users	**12,564,228**	9,928,949
Other	**6,191,243**	6,510,652
	228,958,250	209,641,899

15. Interest Income and Expense

	2020	2019
	$	$
Interest income on bank deposits	**(13,803)**	(51,568)
Interest income other	**(11,195)**	(1,140)
	(24,998)	(52,708)
Interest on debt with Waterloo North Hydro Holding Corporation:		
Senior long-term note payable	**1,038,815**	1,035,977
Junior long-term note payable	**922,909**	920,387
Interest expense on long term debt	**3,012,592**	2,865,356
Interest expense on short tem debt	**57,325**	87,210
Interest expense on deposits	**29,685**	82,201
Interest expense other	**-**	3,250
	5,061,326	4,994,381
Net interest cost	**5,036,328**	4,941,673
Regulatory Interest		
Interest expense	**29,495**	60,115
Interest income	**(65,532)**	(81,015)
Net regulatory interest income	**(36,037)**	(20,900)
Net interest cost recognized in profit or loss	**5,000,291**	4,920,773

16. 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, 2020, no assessments have been made.

To December 31, 2020, the Company has not been made aware of any additional assessments. Participation in MEARIE expires December 31, 2020. Notice to withdraw from MEARIE must be given six months prior to the commencement of the next underwriting term.

17. 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 2020, the Company made employer contributions of $1,197,931 to OMERS (2019 - $1,137,784). The Company's net benefit expense has been allocated as follows:

(a) $406,744 (2019 - $378,086) capitalized as part of labour in PP&E and

(b) $791,187 (2019 - $759,698) recorded as an expense against net income.

The Company estimates a contribution of $1,188,881 to OMERS during the next fiscal year.

18. Employee Benefits

	2020 $	2019 $
Salary, wages and benefits	**13,358,197**	13,436,448
CPP and EI remittances	**482,408**	498,516
Contributions to OMERS	**1,197,931**	1,137,784
	15,038,536	15,072,748

19. Related Party Transactions

(a) Parent and ultimate controlling party

The sole shareholder of the Company is Waterloo North Hydro Holding Corporation which in turn is owned by the City of Waterloo and the Townships of Wellesley and Woolwich.

(b) Entity with significant influence

The City of Waterloo and the Township of Woolwich control and exercise significant influence over the Company through their indirect ownership interest in the Company of 73.2% and 20.2% respectively.

(c) Key management personnel

The key management personnel of the Company have been defined as members of its Board of Directors and executive management team members, and are summarized below:

	2020 $	2019 $
Directors' fees	**117,634**	89,709
Executive compensation and benefits	**1,191,353**	1,136,000
	1,308,987	1,225,709

19. Related Party Transactions (continued)

(d) Transactions with entity with significant influence

In the ordinary course of business, the Company delivers electricity to the City of Waterloo and the Township of Woolwich. Electricity is billed to the City of Waterloo and the Township of Woolwich at prices and under terms approved by the OEB.

(e) Transactions with ultimate parent (the City and Townships)

In 2020 the Company had the following significant transactions with its ultimate parent, a government entity:

The Company delivers electricity to the City of Waterloo and the Townships of Wellesley and Woolwich and its related organizations throughout the year for their electricity needs. Electricity delivery charges are at prices and under terms approved by the OEB. The Company also provides the following services to the City of Waterloo and the Townships of Wellesley and Woolwich:

- streetlight maintenance services
- streetlight construction services

The Company conducted transactions with related parties during the year ended December 31, 2020. These transactions are in the normal course of operations and are measured at fair value.

	2020	**2019**
	$	**$**
City of Waterloo		
Energy	**2,888,393**	3,354,773
Street light energy	**404,297**	408,197
Street light maintenance	**177,514**	149,933
Street light construction	**730,529**	112,004
Township of Wellesley		
Energy	**146,607**	185,157
Street light energy	**19,080**	18,612
Street light maintenance	**227**	11,028
Street light construction	**18,024**	13,196
Township of Woolwich		
Energy	**532,645**	730,869
Street light energy	**118,673**	114,048
Street light maintenance	**24,211**	24,579
Street light construction	**76,380**	76,962
Total for the year	**5,136,580**	5,199,358

19. Related Party Transactions (continued)

(e) Transactions with ultimate parent (the City and Townships) (continued)

The Company paid property taxes to the following:

	2020	2019
	$	$
Township of Woolwich	**291,524**	357,829
City of Waterloo	**99,550**	94,088
Township of Wellesley	**6,386**	6,217
Total for the year	**397,460**	458,134

In March 2020 the parent Waterloo North Hydro Holding Corporation borrowed from the Company $500,000 at an interest rate of prime less 0.30% (2.15%). This loan is outstanding as of December 31, 2020 and is due on demand.

20. Financial Instruments and Risk Management

Fair value disclosure

Cash and cash equivalents are measured at fair value. The carrying value of receivables, unbilled energy receivable, accounts payable and accrued charges approximate fair value due to the short maturity of these instruments. The carrying value of the customer deposits approximates fair value since the amounts are payable on demand.

The Company's activities provide for a variety of risks, particularly credit risk, market risk and liquidity risk.

The fair value of the long term debt approximates its carrying value due to the short maturity and/or the variable interest rates.

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 its revenue from a broad base of customers located in the City of Waterloo, the Townships of Wellesley and Woolwich. No single customer accounts for a balance in excess of 6.31% of total accounts receivable.

20. Financial Instruments and Risk Management (continued)

(a) Credit risk (continued)

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 expected credit losses at December 31, 2020 is $200,000 (2019 - $200,000).

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2020, approximately $316,941 (2019 - $320,353) is considered 60 days past due. The Company has over 58,400 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, 2020, the Company holds security deposits in the amount of $4,025,813 (2019 - $4,327,774).

(b) Market risk

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have any material commodity or foreign exchange risk. To mitigate interest rate risk the Company has secured fixed rate swap agreements for the majority of its debt. The company issues 30 day banker's acceptances at a floating rate but pays interest at a fixed rate guaranteed by the interest rate swap.

(c) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a $15M credit facility and 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, 2020, $nil had been drawn under CIBC's $15M operating credit facility (2019 - $396,819).

In 2020 the Company was assigned an Issuer Rate of A (low), Stable, from DBRS Limited. This is consistent with the 2019 rating. The Company's financial risk profile is reasonable with key metrics that are supportive of the "A" rating.

(d) Capital disclosures

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

The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2020, shareholder's equity amounts to $101,382,219 (2019 - $102,462,393) and long-term debt including shareholder debt amounts to $117,419,319 (2019 - $112,255,358).

21. Changes in Accounting Policies

The International Accounting Standards Board (IASB) has issued the following Standards, Interpretations and Amendments to Standards that were adopted by the Company effective January 1, 2020:

i. Amendments to Hedge Accounting Requirements – IBOR Reform and its Effects on Financial Reporting (Phase 1)

ii. Amendments to References to Conceptual Framework in IFRS Standards.

iii. Definition of a Business (Amendments to IFRS 3).

iv. Definition of Material (Amendments to IAS 1 and IAS 8).

v. COVID-19-Related Rent Concessions (Amendments to IFRS 16)

The amendments and clarifications did not have an impact on the financial statements.

22. Future Changes in Accounting Policy and Disclosures

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Company and it is still to be determined if any will have a material impact on the Company's financial statements.

i. Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)

ii. Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

iii. Annual Improvements to IFRS Standards 2018-2020

iv. Clarification on IFRS 9 Financial Instruments

v. Clarification on IFRS 16 Leases

vi. Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

23. Comparative Figures

Certain of the prior year comparative figures have been restated to conform to the current year’s presentation.

24. Impact of COVID-19

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. On March 17, 2020, the Ontario Government declared a State of Emergency pursuant to the Emergency Management and Civil Protection Act. The Ontario Government renewed the declaration, as required by the legislation, until July 24, 2020. During the State of Emergency, the Ontario Government issued emergency orders under the legislation and extended them as required by the legislation. On July 24, 2020, the Reopening Ontario (A Flexible Response to COVID-19) Act, 2020 came into effect, bringing the declared State of Emergency to an end. The Reopening Ontario Act also enabled the Ontario Government to extend, amend, and revoke the remaining emergency orders in order to facilitate a flexible response to the ongoing COVID-19 risks.

On March 19, 2020, the OEB extended the ban on disconnecting residential customers to July 31, 2020, in light of the COVID-19 pandemic. For the same reason, at the same time, the OEB also banned the disconnection of other low volume customers (as defined in the OEB Act) prior to July 31, 2020. In addition, the Company extended its ban on disconnecting residential and low volume customers until the transition back into the OEB’s annual recurring winter disconnection ban on November 15, 2020.

On March 24, 2020, the Ontario Government issued an emergency order setting TOU rates for on-peak, mid-peak, and off-peak at 10.1 cents per kWh, which prior to the emergency order was the TOU off-peak rate. That emergency order was effective through May 7, 2020. On May 6, 2020, the Ontario Government issued an emergency order extending those TOU rates through May 31, 2020. On May 30, 2020, the Ontario Government announced the COVID19 Recovery Rate, setting a fixed TOU electricity price at 12.8 cents per kWh, 24 hours a day, seven days a week, effective June 1, 2020 until October 31, 2020. On October 13, 2020, the OEB announced new TOU rates for on-peak, mid-peak, and off-peak, that once again vary according to when electricity is used, effective November 1, 2020. There was no impact to net income to the Company.

On August 20, 2020, the Ontario Government amended O. Reg. 95/05 Classes of Consumers and Determination of Rates. Accordingly, customers on the RPP have the choice to pay TOU rates or tiered rates, effective November 1, 2020. By default, RPP customers will pay TOU rates. RPP customers who choose to pay tiered rates will pay a lower rate for consumption below a monthly threshold, and a higher rate for consumption above that threshold. The tiered rates and the threshold are set by the OEB twice per year, at the same time as the OEB sets TOU rates. There was no impact to net income to the Company.

On December 15, 2020, the OEB announced new RPP TOU and tiered rates to reflect a decrease in supply cost resulting from the Ontario Government’s decision to remove certain renewable generation costs from the global adjustment and funding them directly through the tax base. The reduction was accompanied by a corresponding reduction to the Ontario Electricity Rebate. There was no net income impact to the Company.

On December 22, 2020, the Ontario Government amended O. Reg. 95/05 Classes of Consumers and Determination of Rates, setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.5 cents per kWh. That regulatory amendment was effective through January 28, 2021, and most recently extended until February 22, 2021. On February 23, 2021, residential and small business customers resumed paying TOU and tiered pricing under the RPP at prices that were set by the OEB on December 15, 2020. There was no net income impact to the Company.

ATTACHMENT J

Resolutions

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January 28, 2022

Jerry Van Ooteghem
President & CEO, Kitchener-Wilmot Hydro Inc.
301 Victoria St.S.
Kitchener ON N2M 3A2

Dear Mr. Van Ooteghem:

This is to advise that City Council, at a meeting held on December 13, 2021, passed the following resolution:

> "That Council provide final approval to proceed with the proposed merger between Kitchener Power Corp. and Waterloo North Hydro Holding Corporation and their subsidiaries Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.;
>
> WHEREAS on October 4, 2021 Council of The Corporation of the City of Kitchener approved the Memorandum of Understanding (MOU) between The Corporation of the City of Kitchener, The Corporation of the Township of Wilmot, The Corporation of the City of Waterloo, The Corporation of the Township of Woolwich, The Corporation of the Township of Wellesley, Kitchener Power Corp. (KPC), and Waterloo North Hydro Holding Corporation (WNH), regarding the proposed merger between Kitchener Power Corp. and Waterloo North Hydro Holding Corporation and their subsidiaries Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.;
>
> AND WHEREAS The Corporation of the City of Kitchener is the beneficial and registered owner of 92.25% of the issued and outstanding shares in the capital of KPC and The Corporation of the Township of Wilmot is the beneficial and registered owner of 7.75% of the issued and outstanding shares in the capital of KPC;
>
> AND WHEREAS the Corporation of the City of Waterloo is the beneficial and registered owner of 73.2% of the issued and outstanding shares in the capital of WNH, the Corporation of the Township of Woolwich is the beneficial and registered owner of 20.2% of the issued and outstanding shares in the capital of WNH, and The Corporation of the Township of Wellesley is the beneficial and registered owner of 6.6% of the issued and outstanding shares in the capital of WNH;

AND WHEREAS KPC owns all of the issued and outstanding shares in the capital of Kitchener-Wilmot Hydro Inc. (“KWHI”) (an OEB-regulated electricity distributor) and Kitchener Energy Services Inc. (“KESI”), and has minority interest in Grand River Energy Solutions Inc.;

AND WHEREAS WNH owns all of the issued and outstanding shares in the capital of Waterloo North Hydro Inc. (“WNHI”) (an OEB-regulated electricity distributor) and Alliance Metering Solutions Inc. (“AMS”), and has a minority interest in Grand River Energy Solutions Inc. and Eyedro Green Solutions Inc.

AND WHEREAS the conditions set out in the MOU have been satisfied and incorporated into a more detailed “Merger Participation Agreement” (MPA), to be signed by all parties;

AND WHEREAS KPC and WNH recently completed a public input process related to the proposed merger, referred to as “Connecting Local Power”, with no major concerns being raised by members of the public that would prevent the parties from proceeding with the proposed transaction;

AND WHEREAS all parties agree that it is beneficial for KPC and WNH to proceed with a proposed merger to amalgamate KPC and WNH and related subsidiaries under a new municipally owned corporation (Amalco Holdco) with municipal ownership share as follows (rounded):

City of Kitchener 53.4%
City of Waterloo 30.8%
Township of Woolwich 8.5%
Township of Wilmot 4.5%
Township of Wellesley 2.8%

AND WHEREAS a Unanimous Shareholders’ Agreement (USA) has been prepared, to be signed by all parties after the merger has been approved by the Ontario Energy Board, that outlines governance and other corporate considerations for the newly formed entity;

NOW THEREFORE IT BE RESOLVED that the Council of The Corporation of the City of Kitchener hereby grants its approval as Shareholder, to proceed with the proposed merger between Kitchener Power Corp. and Waterloo North Hydro Holding Corporation and their subsidiaries Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.; in accordance with the provisions of the MPA and USA Agreements; and further

That the Mayor and Clerk be authorized to execute the MPA and USA agreements as well as any incidental documentation determined to be necessary, by their Legal Counsel in consultation with the City's Chief Administrative Officer, to complete this merger; said agreements /documentation to be to the satisfaction of the City's Legal Counsel; and

Further that an application (MAADs application) under the Ontario Energy Board Act 1998 be submitted jointly by KWHI and WNHI to seek approval of the merger and related relief from the Ontario Energy Board."

Yours truly,

D. Saunderson
Manager of Council/Committee Services & Deputy Clerk

Resolution of the Council of The Corporation of the City of Waterloo

Council Meeting
December 13, 2021

Report Number: CORP2021-047

RE: Proposed Merger between Waterloo North Hydro Holding Corporation and Kitchener Power Corp. and their subsidiaries Waterloo North Hydro Inc. and Kitchener-Wilmot Hydro Inc.

I, Julie Scott, City Clerk of The Corporation of the City of Waterloo, do hereby certify the foregoing to be a true copy of a resolution ratified by Council of The Corporation of the City of Waterloo at a meeting held on December 13, 2021.

1. That Council approve report CORP2021-047

2. That Council approve the following resolutions:

   That Council provide final approval to proceed with the proposed merger between Waterloo North Hydro Holding Corporation and Kitchener Power Corp. and their subsidiaries Waterloo North Hydro Inc. and Kitchener-Wilmot Hydro Inc.;

   WHEREAS on October 4, 2021 Council of The Corporation of the City of Waterloo approved the Memorandum of Understanding (MOU) between The Corporation of the City of Waterloo, The Corporation of the Township of Woolwich, The Corporation of the Township of Wellesley, The Corporation of the City of Kitchener, The Corporation of the Township of Wilmot, Kitchener Power Corp. (KPC), and Waterloo North Hydro Holding Corporation (WNH), regarding the proposed merger between Waterloo North Hydro Holding Corporation and Kitchener Power Corp. and their subsidiaries Waterloo North Hydro Inc. and Kitchener-Wilmot Hydro Inc.;

   AND WHEREAS the Corporation of the City of Waterloo is the beneficial and registered owner of 73.2% of the issued and outstanding shares in the capital of WNH, the Corporation of the Township of Woolwich is the beneficial and registered owner of

20.2% of the issued and outstanding shares in the capital of WNH, and The Corporation of the Township of Wellesley is the beneficial and registered owner of 6.6% of the issued and outstanding shares in the capital of WNH;

AND WHEREAS The Corporation of the City of Kitchener is the beneficial and registered owner of 92.25% of the issued and outstanding shares in the capital of KPC and The Corporation of the Township of Wilmot is the beneficial and registered owner of 7.75% of the issued and outstanding shares in the capital of KPC;

AND WHEREAS WNH owns all of the issued and outstanding shares in the capital of Waterloo North Hydro Inc. ("WNHI") (an OEB-regulated electricity distributor) and Alliance Metering Solutions Inc. ("AMS"), and has a minority interest in Grand River Energy Solutions Inc. and Eyedro Green Solutions Inc.

AND WHEREAS KPC owns all of the issued and outstanding shares in the capital of Kitchener-Wilmot Hydro Inc. ("KWHI") (an OEB-regulated electricity distributor) and Kitchener Energy Services Inc. ("KESI"), and has minority interest in Grand River Energy Solutions Inc.;

AND WHEREAS the conditions set out in the MOU have been satisfied and incorporated into a more detailed "Merger Participation Agreement" (MPA), to be signed by all parties;

AND WHEREAS WNH and KPC recently completed a public input process related to the proposed merger, referred to as "Connecting Local Power", with no major concerns being raised by members of the public that would prevent the parties from proceeding with the proposed transaction;

AND WHEREAS all parties agree that it is beneficial for WNH and KPC to proceed with a proposed merger to amalgamate WNH and KPC and related subsidiaries under a new municipally owned corporation (Amalco Holdco) with municipal ownership share as follows (rounded):

- City of Kitchener 53.4%
- City of Waterloo 30.8%
- Township of Woolwich 8.5%
- Township of Wilmot 4.5%

- Township of Wellesley 2.8%

AND WHEREAS a Unanimous Shareholders' Agreement (USA) has been prepared, to be signed by all parties after the merger has been approved by the Ontario Energy Board, that outlines governance and other corporate considerations for the newly formed entity;

NOW THEREFORE IT BE RESOLVED that the Council of The Corporation of the City of Waterloo hereby grants its approval as Shareholder, to proceed with the proposed merger between Waterloo North Hydro Holding Corporation and Kitchener Power Corp. and their subsidiaries Waterloo North Hydro Inc. and Kitchener-Wilmot Hydro Inc.; in accordance with the provisions of the MPA and USA Agreements; and further

That the Mayor and Clerk be authorized to execute the MPA and USA agreements as well as any incidental documentation determined to be necessary, by their Legal Counsel in consultation with the City's Chief Administrative Officer, to complete this merger; said agreements /documentation to be to the satisfaction of the City's Legal Counsel; and

Further that an application (MAADs application) under the Ontario Energy Board Act 1998 be submitted jointly by WNHI and KWHI to seek approval of the merger and related relief from the Ontario Energy Board.

Carried Unanimously

Dated this 26th day of January, 2022.

Julie Scott

Julie Scott
City Clerk
Corporate Services
City of Waterloo, 100 Regina Street South
PO Box 337, STN Waterloo
Waterloo ON N2J 4A8

December 8, 2021

Saleem Sandhu
Treasurer (via email)

Regarding: Resolution No. 222 – Proposed Merger of Waterloo North Hydro and Kitchener-Wilmot Hydro

Please be advised that the following resolution was passed at the Regular Council Meeting of the Wellesley Township Municipal Council held remotely on December 7, 2021:

> "That the Council of the Township of Wellesley, receive report A./F. & P. 35/2021; and further,
>
> That the Council of the Township of Wellesley, respecting the merger of Waterloo North Hydro and Kitchener-Wilmot Hydro, and their respective parent holding companies, by adopting the following resolutions:
>
> WHEREAS on October 5, 2021 Council of The Township of Wellesley approved the Memorandum of Understanding (MOU) between The Corporation of the City of Waterloo, The Corporation of the Township of Woolwich, The Corporation of the Township of Wellesley, The Corporation of the City of Kitchener, The Corporation of the Township of Wilmot, Kitchener Power Corp. (KPC), and Waterloo North Hydro Holding Corporation (WNH), regarding the proposed merger between Waterloo North Hydro Holding Corporation and Kitchener Power Corp. and their subsidiaries Waterloo North Hydro Inc. and Kitchener-Wilmot Hydro Inc.;
>
> AND WHEREAS the Corporation of the City of Waterloo is the beneficia and registered owner of 73.2% of the issued and outstanding shares in the capital of WNH, the Corporation of the Township of Woolwich is the beneficial and registered owner of 20.2% of the issued and outstanding shares in the capital of WNH, and The Corporation of the Township of Wellesley is the beneficial and registered owner of 6.6% of the issued and outstanding shares in the capital of WNH;
>
> AND WEHREAS The Corporation of the City of Kitchener is the beneficial and registered owner of 92.25% of the issued and outstanding shares in the capital of KPC and The Corporation of the Township of Wilmot is the beneficial and registered owner of 7.75% of the issued and outstanding shares in the capital of KPC;

4639 Lobsinger Line, St. Clements, Ontario N0B 2M0
P| 519-699-4611 F| 519-699-4540

AND WHEREAS WNH owns all of the issued and outstanding shares in the capital of Waterloo North Hydro Inc. ("WNHI") (an OEB-regulated electricity distributor) and Alliance Metering Solutions Inc. ("AMS"), and has a minority interest in Grand River Energy Solutions Inc. and Eyedro Green Solutions Inc.;

AND WHEREAS KPC owns all of the issued and outstanding shares in the capital of Kitchener-Wilmot Hydro Inc. ("KWHI") (an OEB-regulated electricity distributor) and Kitchener Energy Services Inc. ("KESI"), and has minority interest in Grand River Energy Solutions Inc.;

AND WHEREAS the conditions set out in the MOU have been satisfied and incorporated into a more detailed "Merger Participation Agreement" (MPA), to be signed by all parties;

AND WHEREAS WNH and KPC recently completed a public input process related to the proposed merger, referred to as "Connecting Local Power", with no major concerns being raised by members of the public that would prevent the parties from proceeding with the proposed transaction;

AND WHEREAS all parties agree that it is beneficial for WNH and KPC to proceed with a proposed merger to amalgamate WNH and KPC and related subsidiaries under a new municipally owned corporation (Amalco Holdco) with municipal ownership share as follows (rounded):

- City of Kitchener 53.4%
- City of Waterloo 30.8%
- Township of Woolwich 8.5%
- Township of Wilmot 4.5%
- Township of Wellesley 2.8%

AND WHEREAS a Unanimous Shareholders' Agreement (USA) has been prepared, to be signed by all parties after the merger has been approved by the Ontario Energy Board, that outlines governance and other corporate considerations for the newly formed entity;

NOW THEREFORE IT BE RESOLVED that the Council of The Township of Wellesley hereby grants its approval as Shareholder, to proceed with the proposed merger between Kitchener Power Corp. and Waterloo North Hydro Holding Corporation and their subsidiaries Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.; in accordance with the provision of the MPA and USA Agreements; and further

That the Mayor and Clerk be authorized to execute the MPA and USA agreements as well as any incidental documentation determined to be necessary, by their Legal Counsel in consultation with the Township's Chief Administrative Officer, to complete this merger; said agreements/documentation to be to the satisfaction of the Township's Legal Counsel; and

Further that an application (MAADs application) under the Ontario Energy Board Act 1998 be submitted jointly by KWHI and WNHI to seek approval of the merger and related relief from the Ontario Energy Board."

Carried

If you have any questions or concerns, please feel free to contact me at (519) 699-3946 at your earliest convenience.

Yours truly,

Grace Kosch, Clerk
Township of Wellesley
P: 519-699-3946 F: 519-699-4540
gkosch@wellesley.ca

60 Snyder's Road West, Baden, ON N3A 1A1

Information and Legislative Services Department
T: 519-634-8444
F:519-634-5044

December 8, 2021

Jerry Van Ooteghem

RE: Township of Wilmot Council Resolution

Dear Jerry,

At it's Regular Council Meeting on Monday December 6, 2021, Township of Wilmot Council passed the following resolution:

WHEREAS on October 4, 2021 Council of The Corporation of the Township of Wilmot approved the Memorandum of Understanding (MOU) between The Corporation of the Township of Wilmot, The Corporation of the City of Kitchener, The Corporation of the City of Waterloo, The Corporation of the Township of Woolwich, The Corporation of the Township of Wellesley, Kitchener Power Corp. (KPC), and Waterloo North Hydro Holding Corporation (WNH), regarding the proposed merger between Kitchener Power Corp. and Waterloo North Hydro Holding Corporation and their subsidiaries Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.;

AND WHEREAS The Corporation of the Township of Wilmot is the beneficial and registered owner of 7.75% of the issued and outstanding shares in the capital of KPC and The Corporation of the City of Kitchener is the beneficial and registered owner of 92.25% of the issued and outstanding shares in the capital of KPC;

AND WHEREAS the Corporation of the City of Waterloo is the beneficial and registered owner of 73.2% of the issued and outstanding shares in the capital of WNH, the Corporation of the Township of Woolwich is the beneficial and registered owner of 20.2% of the issued and outstanding shares in the capital of WNH, and The Corporation of the Township of Wellesley is the beneficial and registered owner of 6.6% of the issued and outstanding shares in the capital of WNH;

AND WHEREAS KPC owns all of the issued and outstanding shares in the capital of Kitchener-Wilmot Hydro Inc. ("KWHI") (an OEB-regulated electricity distributor) and Kitchener Energy Services Inc. ("KESI"), and has minority interest in Grand River Energy Solutions Inc.;

AND WHEREAS WNH owns all of the issued and outstanding shares in the capital of Waterloo North Hydro Inc. ("WNHI") (an OEB-regulated electricity distributor) and Alliance Metering Solutions Inc. ("AMS"), and has a minority interest in Grand River Energy Solutions Inc. and Eyedro Green Solutions Inc.;

AND WHEREAS the conditions set out in the MOU have been satisfied and incorporated into a more detailed “Merger Participation Agreement” (MPA), to be signed by all parties; AND WHEREAS KPC and WNH recently completed a public input process related to the proposed merger, referred to as “Connecting Local Power”, with no major concerns being raised by members of the public that would prevent the parties from proceeding with the proposed transaction;

AND WHEREAS all parties agree that it is beneficial for KPC and WNH to proceed with a proposed merger to amalgamate KPC and WNH and related subsidiaries under a new municipally owned corporation (Amalco Holdco) with municipal ownership share as follows (rounded):

• City of Kitchener 53.4%
• City of Waterloo 30.8%
• Township of Woolwich 8.5%
• Township of Wilmot 4.5%
• Township of Wellesley 2.8%

AND WHEREAS a Unanimous Shareholders’ Agreement (USA) has been prepared, to be signed by all parties after the merger has been approved by the Ontario Energy Board, that outlines governance and other corporate considerations for the newly formed entity;

NOW THEREFORE IT BE RESOLVED that the Council of The Corporation of the Township of Wilmot hereby grants its approval as Shareholder, to proceed with the proposed merger between Kitchener Power Corp. and Waterloo North Hydro Holding Corporation and their subsidiaries Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.; in accordance with the provisions of the MPA and USA Agreements; and further,

THAT the Mayor and Clerk be authorized to execute the MPA and USA agreements as well as any incidental documentation determined to be necessary, by their Legal Counsel in consultation with the Township’s Director of Corporate Services / Treasurer, to complete this merger; said agreements /documentation to be to the satisfaction of the Township Solicitor; and further THAT an application (MAADs application) under the Ontario Energy Board Act 1998 be submitted jointly by KWHI and WNHI to seek approval of the merger and related relief from the Ontario Energy Board.

Sincerely,

T. Murray

Tracey Murray
Manager of Information and Legislative Serivces / Deputy Clerk

Cc: Patrick Kelly

THE TOWNSHIP OF
WOOLWICH

BOX 158, 24 CHURCH ST. W.
ELMIRA, ONTARIO N3B 2Z6
TEL. 519-669-1647 / 1-877-969-0094
COUNCIL/CAO/CLERKS FAX 519-669-1820
PLANNING/ENGINEERING/BUILDING FAX 519-669-4669
FINANCE/RECREATION/FACILITIES FAX 519-669-9348

January 26, 2022

Rene Gatien
Waterloo North Hydro
526 Country Squire Road
Waterloo, ON
N2J 4G8

To Whom it May Concern:

RE: Resolutions Passed by Woolwich Township Council – Proposed Merger Waterloo North Hydro and Kitchener Wilmot Hydro

This letter is to inform you that the Council of the Township of Woolwich endorsed the following resolution at their meeting held on December 14, 2021:

That the Council of the Township of Woolwich, considering Report F22-2021 respecting the proposed merger of Waterloo North Hydro and Kitchener-Wilmot Hydro, approve the following resolution:

WHEREAS on October 5, 2021 Council of The Corporation of the Township of Woolwich approved the Memorandum of Understanding (MOU) between The Corporation of the City of Kitchener, The Corporation of the Township of Wilmot, The Corporation of the City of Waterloo, The Corporation of the Township of Woolwich, The Corporation of the Township of Wellesley, Kitchener Power Corp. (KPC), and Waterloo North Hydro Holding Corporation (WNH), regarding the proposed merger between Kitchener Power Corp. and Waterloo North Hydro Holding Corporation and their subsidiaries Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.;

AND WHEREAS The Corporation of the City of Kitchener is the beneficial and registered owner of 92.25% of the issued and outstanding shares in the capital of KPC and The Corporation of the Township of Wilmot is the beneficial and registered owner of 7.75% of the issued and outstanding shares in the capital of KPC;

AND WHEREAS the Corporation of the City of Waterloo is the beneficial and registered owner of 73.2% of the issued and outstanding shares in the capital of WNH, the Corporation of the Township of Woolwich is the beneficial and

registered owner of 20.2% of the issued and outstanding shares in the capital of WNH, and The Corporation of the Township of Wellesley is the beneficial and registered owner of 6.6% of the issued and outstanding shares in the capital of WNH;

AND WHEREAS KPC owns all of the issued and outstanding shares in the capital of Kitchener-Wilmot Hydro Inc. ("KWHI") (an OEB-regulated electricity distributor) and Kitchener Energy Services Inc. ("KESI"), and has minority interest in Grand River Energy Solutions Inc.;

AND WHEREAS WNH owns all of the issued and outstanding shares in the capital of Waterloo North Hydro Inc. ("WNHI") (an OEB-regulated electricity distributor) and Alliance Metering Solutions Inc. ("AMS"), and has a minority interest in Grand River Energy Solutions Inc. and Eyedro Green Solutions Inc.

AND WHEREAS the conditions set out in the MOU have been satisfied and incorporated into a more detailed "Merger Participation Agreement" (MPA), to be signed by all parties;

AND WHEREAS KPC and WNH recently completed a public input process related to the proposed merger, referred to as "Connecting Local Power", with no major concerns being raised by members of the public that would prevent the parties from proceeding with the proposed transaction;

AND WHEREAS all parties agree that it is beneficial for KPC and WNH to proceed with a proposed merger to amalgamate KPC and WNH and related subsidiaries under a new municipally owned corporation (Amalco Holdco) with municipal ownership share as follows (rounded):

- **City of Kitchener 53.4%**
- **City of Waterloo 30.8%**
- **Township of Woolwich 8.5%**
- **Township of Wilmot 4.5%**
- **Township of Wellesley 2.8%**

AND WHEREAS a Unanimous Shareholders' Agreement (USA) has been prepared, to be signed by all parties after the merger has been approved by the Ontario Energy Board, that outlines governance and other corporate considerations for the newly formed entity;

NOW THEREFORE IT BE RESOLVED that the Council of The Corporation of the Township of Woolwich hereby grants its approval as Shareholder, to proceed with the proposed merger between Kitchener Power Corp. and Waterloo North Hydro Holding Corporation and their subsidiaries Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.; in accordance with the provisions of the MPA and USA Agreements; and further

That the Mayor and Clerk be authorized to execute the MPA and USA agreements as well as any incidental documentation determined to be necessary, by their Legal Counsel in consultation with the Township's Chief Administrative Officer, to complete this merger; said agreements /documentation to be to the satisfaction of the Township's Legal Counsel; and

Further that an application (MAADs application) under the *Ontario Energy Board Act 1998* be submitted jointly by KWHI and WNHI to seek approval of the merger and related relief from the Ontario Energy Board.

Should you have any questions, please contact Alex Smyth, by email at asmyth@woolwich.ca or by phone at 519-669-6004.

Yours truly,

Jeff Smith
Municipal Clerk
Corporate Services
Township of Woolwich

RESOLUTION OF THE BOARD OF DIRECTORS

OF

KITCHENER POWER CORP.
(the "**Corporation**")

Approving the Execution of the Merger Participation Agreement

WHEREAS:

A. Management of the Corporation and the PGR Committee have been engaged in reviewing the potential amalgamation of the Corporation with Waterloo North Hydro Holding Corporation ("**WNHHC**") and the simultaneous amalgamation of the Kitchener-Wilmot Hydro Inc. ("**KWHI**") and Waterloo North Hydro Inc. ("**WNHI**") (the "**Proposed Transaction**").

B. On October 6, 2021 a Memorandum of Understanding ("**MOU**") was entered into between The Corporation of the City of Kitchener, The Corporation of the Township of Wilmot, the Corporation of the City of Waterloo, The Corporation of the Township of Woolwich, The Corporation of the Township of Wellesley, WNHHC and the Corporation with respect to the Proposed Transaction.

C. The Corporation and the other parties to the MOU have negotiated a Merger Participation Agreement in respect of the Proposed Transaction (the "**MPA**") and an Unanimous Shareholders Agreement to govern the new entity which will result from the amalgamation of the Corporation and WNHHC (the "**USA**").

D. Given that the MPA and USA incorporate certain terms required by the shareholders of the Corporation the PGR Committee has determined that the Proposed Transaction is in the best interest of the Corporation and has recommended that the Corporation enter into the MPA.

RESOLVED THAT:

1. The Corporation be and it is hereby authorized to enter into the MPA to be substantially in the form previously circulated to the directors with such amendments thereto as the Chief Executive Officer and Chair of the Corporation may approve, whose approval shall be conclusively evidenced by their execution thereof, and the performance by the Corporation of its obligations under the MPA is hereby authorized and approved.

2. The execution, delivery and performance of all other agreements, documents, certificates and instruments as may be contemplated by the MPA are hereby authorized, ratified and approved.

3. Any two directors or officers of the Corporation are authorized and directed to take all such actions and to execute all such documents, instruments and agreements, with or without the corporate seal affixed, and with any additions, deletions or other changes that they may approve, that approval to be conclusively evidenced by their execution and delivery of those documents, instruments and agreements, and to perform and to do all acts or things as, in their sole discretion, he or she deems necessary or desirable in order to complete the transactions contemplated by these Resolutions.

4. These Resolutions may be executed in counterparts and will be effective whether executed in original ink, by facsimile or in electronic PDF format.

The foregoing resolution was approved by the Board of Directors at a Board meeting on December 3, 2021.

DATED: December 3, 2021

James Phillips	Jerry Van Ooteghem

CERTIFIED COPY

Waterloo North Hydro Holding Corporation
(the "Corporation")

RE: <u>Project Grand River (PGR) – MPA Approval and Authorization to Execute Agreement</u>

The undersigned, being the duly appointed **Secretary** of the Corporation, hereby certifies for and on behalf of the Corporation that:

1. attached hereto as Appendix "A" is a true copy of an extract of the Board Meeting Minutes of the Corporation dated December 2, 2021 approving, among other things, the [Merger Participation Agreement]; and

2. the resolutions contained in the attached Minutes are in full force and effect and such resolutions have not been amended, varied, rescinded or revoked, in whole or in part as of the date hereof.

DATED as of the 2nd day of December, 2021.

A.P. Singh

____
Name: Albert P. Singh
Title: Vice-President Finance and CFO,
Secretary of the Corporation

APPENDIX "A"

Extract of the Board Meeting Minutes of the Corporation approving, among other things, the Merger Participation Agreement

RESOLUTIONS OF THE DIRECTORS
OF
Waterloo North Hydro Holding Corporation (the "**Corporation**")

RE: Project Grand River (PGR) – MPA Approval and Authorization to Execute Agreement

Following the presentation to the Boards of Waterloo North Hydro Holding Corporation (WNHH) and Waterloo North Hydro Inc. (WNHI), David Petras Chair for Waterloo North Hydro Holding Corporation Board, asked for a motion in connection with the proposed merger with Kitchener Power Corp and Kitchener-Wilmot Hydro Inc. based on the following resolutions:

Moved by Janet Peddigrew and seconded by Steve McCartney

"**THAT** the Board of Directors of Waterloo North Hydro Holding Corporation (WNHH) recommends the following:

NOW THEREFORE BE IT RESOLVED THAT:

(a) WNHH hereby recommends to each of the Municipalities that it authorize each of WNHH, WNH and Alliance to enter into the Merger Participation Agreement;

(b) WNHH hereby recommends to each of the Municipalities that each of them enters into the Merger Participation Agreement;

(c) Subject to the approval of the Municipalities:

(i) WNHH hereby authorizes and approves entry into the Merger Participation Agreement by each of WNHH, WNH and Alliance;

(ii) WNHH hereby authorizes and approves entry into the Holdco Amalgamation Agreement by WNHH;

(iii) WNHH is hereby authorized to carry out the Holdco Amalgamation;

(iv) WNHH hereby authorizes and approves entry into the LDC Amalgamation Agreement by WNH;

(v) WNH is hereby authorized to submit, jointly with KWH, an application under the *Ontario Energy Board Act 1998* to seek approval of the Amalgamations and related relief from the Ontario Energy Board;

(vi) WNHH hereby authorizes and directs the Chief Executive Officer, or his designate, to execute and deliver, in WNHH's capacity as the sole shareholder of each of

WNH and Alliance, a resolution authorizing and approving the Merger Participation Agreement;

(vii) WNHH hereby authorizes and directs each of the Chair of the Board and the Chief Executive Officers (each a "**CEO**") of WNHH, WNH and Alliance, or each such officer's designate, for and on behalf of each such corporation, to execute and deliver, as applicable, the Merger Participation Agreement, the Holdco Amalgamation Agreement and the LDC Amalgamation Agreement (the "**Principal Agreements**"), with such amendments to such Principal Agreements as may be acceptable to the CEO or the Chair, in their discretion; and

(viii) WNHH hereby authorizes and directs the Chair and each CEO, or such officer's designate, to do all such other things or acts necessary to effect the transactions contemplated by the Principal Agreements, or otherwise to carry out the intention of this resolution, the doing of any such other act or thing by such person being conclusive evidence of such determination."

Carried Unanimously

RESOLUTION OF THE BOARD OF DIRECTORS

OF

KITCHENER-WILMOT HYDRO INC.
(the “**Corporation**”)

Approving the Execution of the Merger Participation Agreement

WHEREAS:

A. Management of the Corporation and the PGR Committee have been engaged in reviewing the potential amalgamation of the Kitchener Power Corp. (“**KPC**”) with Waterloo North Hydro Holding Corporation (“**WNHHC**”) and the simultaneous amalgamation of the Corporation and Waterloo North Hydro Inc. (“**WNHI**”) (the “**Proposed Transaction**”).

B. On October 6, 2021 a Memorandum of Understanding (“**MOU**”) was entered into between The Corporation of the City of Kitchener, The Corporation of the Township of Wilmot, the Corporation of the City of Waterloo, The Corporation of the Township of Woolwich, The Corporation of the Township of Wellesley, WNHHC and KPC with respect to the Proposed Transaction.

C. The parties to the MOU have negotiated a Merger Participation Agreement in respect of the Proposed Transaction (the “**MPA**”) and an Unanimous Shareholders Agreement to govern the new entity which will result from the amalgamation of KPC and WNHHC (the “**USA**”).

D. Given that the MPA and USA incorporate certain terms required by the shareholders of KPC, the PGR Committee has determined that the Proposed Transaction is in the best interest of KPC and its subsidiaries, including the Corporation and has recommended that the Corporation enter into the MPA.

RESOLVED THAT:

1. The Corporation be and it is hereby authorized to enter into the MPA to be substantially in the form previously circulated to the directors with such amendments thereto as the Chief Executive Officer and Chair of the Corporation may approve, whose approval shall be conclusively evidenced by their execution thereof, and the performance by the Corporation of its obligations under the MPA is hereby authorized and approved.

2. The execution, delivery and performance of all other agreements, documents, certificates and instruments as may be contemplated by the MPA are hereby authorized, ratified and approved.

3. Any two directors or officers of the Corporation are authorized and directed to take all such actions and to execute all such documents, instruments and agreements, with or without the corporate seal affixed, and with any additions, deletions or other changes that they may approve, that approval to be conclusively evidenced by their execution and delivery of those documents, instruments and agreements, and to perform and to do all acts or things as, in their sole discretion, he or she deems necessary or desirable in order to complete the transactions contemplated by these Resolutions.

4. These Resolutions may be executed in counterparts and will be effective whether executed in original ink, by facsimile or in electronic PDF format.

The foregoing resolution was approved by the Board of Directors at a Board meeting on December 3, 2021.

DATED: December 3, 2021

Dave Schnarr

Jerry Van Ooteghem

CERTIFIED COPY

Waterloo North Hydro Inc.
(the "Corporation")

RE: <u>Project Grand River (PGR) – MPA Approval and Authorization to Execute Agreement</u>

The undersigned, being the duly appointed **Secretary** of the Corporation, hereby certifies for and on behalf of the Corporation that:

1. attached hereto as Appendix "A" is a true copy of an extract of the Board Meeting Minutes of the Corporation dated December 2, 2021 approving, among other things, the [Merger Participation Agreement]; and

2. the resolutions contained in the attached Minutes are in full force and effect and such resolutions have not been amended, varied, rescinded or revoked, in whole or in part as of the date hereof.

DATED as of the 2nd day of December, 2021.

A.P. Singh

____
Name: Albert P. Singh
Title: Vice-President Finance and CFO,
Secretary of the Corporation

APPENDIX "A"

Extract of the Board Meeting Minutes of the Corporation approving, among other things, the Merger Participation Agreement

RESOLUTIONS OF THE DIRECTORS
OF
Waterloo North Hydro Inc. (the "Corporation")

RE: Project Grand River (PGR) – MPA Approval and Authorization to Execute Agreement

Following the presentation to the Boards of Waterloo North Hydro Holding Corporation (WNHH) and Waterloo North Hydro Inc. (WNH), Arnold Drung, Acting Chair for Waterloo North Hydro Inc. Board, asked for a motion in connection with the proposed merger with Kitchener Power Corp and Kitchener-Wilmot Hydro Inc:

Moved by Tim Martin and seconded by Jeff Henry

"THAT the Board of Directors of Waterloo North Hydro Inc. (WNH) recommends the following:

NOW THEREFORE BE IT RESOLVED THAT:

1.1 WNH hereby recommends to the Municipalities and WNHH that they authorize WNH to enter into the Merger Participation Agreement and the LDC Amalgamation Agreement; and

1.2 Subject to the approval of the Municipalities and WNHH:

1. WNH hereby authorizes and approves entry into the Merger Participation Agreement and the LDC Amalgamation Agreement (together, the "**Principal Agreements**");

2. WNH is authorized to carry out the LDC Amalgamation;

3. WNH hereby authorizes and directs the Chair of the Board and Chief Executive Officer ("**CEO**") of WNH, or such officer's designate, for and on behalf of WNH to execute and deliver the Principal Agreements, with such amendments to such Principal Agreements as may be acceptable to the CEO or the Chair their discretion; and

4. WNH hereby authorizes and directs the Chair and CEO, or such officer's designate, to do all such other things or acts necessary to effect the LDC Amalgamation, or otherwise to carry out the intention of this resolution, the doing of any such other act or thing by such person being conclusive evidence of such determination.

Carried Unanimously

CERTIFIED COPY

Alliance Metering Solutions Inc.
(the "Corporation")

RE: <u>Project Grand River (PGR) – MPA Approval and Authorization to Execute Agreement</u>

The undersigned, being the duly appointed **Secretary** of the Corporation, hereby certifies for and on behalf of the Corporation that:

1. attached hereto as Appendix "A" is a true copy of an extract of the Board Meeting Minutes of the Corporation dated December 2, 2021 approving, among other things, the [Merger Participation Agreement]; and

2. the resolutions contained in the attached Minutes are in full force and effect and such resolutions have not been amended, varied, rescinded or revoked, in whole or in part as of the date hereof.

DATED as of the 2nd day of December, 2021.

A.P. Singh

____
Name: Albert P. Singh
Title: Vice-President Finance and CFO,
Secretary of the Corporation

APPENDIX "A"

Extract of the Board Meeting Minutes of the Corporation approving, among other things, the Merger Participation Agreement

RESOLUTIONS OF THE DIRECTORS
OF
Alliance Metering Solutions Inc. (the "**Corporation**")

<u>RE: Project Grand River (PGR) – MPA Approval and Authorization to Execute Agreement</u>

Following the presentation to the Boards of Waterloo North Hydro Holding Corporation (WNHH) and Waterloo North Hydro Inc. (WNHI), Steve McCartney Chair for Alliance Metering Solutions Board, asked for a motion in connection with the proposed merger with Kitchener Power Corp and Kitchener-Wilmot Hydro Inc. based on the following resolutions:

Moved by Arnold Drung and seconded by Janet Peddigrew

"THAT the Board of Directors of Alliance Metering Solutions Inc. (Alliance) recommends the following:

NOW THEREFORE BE IT RESOLVED THAT:

(a) Alliance hereby recommends to the Municipalities and WNHH that they authorize Alliance to enter into the Merger Participation Agreement; and

(b) Subject to the approval of the Municipalities and WNHH:

(i) Alliance hereby authorizes and approves entry into the Merger Participation Agreement;

(ii) Alliance hereby authorizes and directs the Chair of the Board and the Chief Executive Officer ("**CEO**") of Alliance, or such officer's designate, for and on behalf of Alliance to execute and deliver the Merger Participation Agreement, with such amendments to such Merger Participation Agreement as may be acceptable to the CEO or the Chair in their discretion; and

(iii) Alliance hereby authorizes and directs the Chair and CEO, or such officer's designate, to do all such other things or acts necessary in connection with the Merger Participation Agreement, or otherwise to carry out the intention of this resolution, the doing of any such other act or thing by such person being conclusive evidence of such determination."

Carried Unanimously

RESOLUTION OF THE BOARD OF DIRECTORS

OF

KITCHENER ENERGY SERVICES INC.
(the “**Corporation**”)

Approving the Execution of the Merger Participation Agreement

WHEREAS:

A. Management of the Corporation and the PGR Committee have been engaged in reviewing the potential amalgamation of the Kitchener Power Corp. (“**KPC**”) with Waterloo North Hydro Holding Corporation (“**WNHHC**”) and the simultaneous amalgamation of Kitchener-Wilmot Hydro Inc. (“**KWHI**”) and Waterloo North Hydro Inc. (“**WNHI**”) (the “**Proposed Transaction**”).

B. On October 6, 2021 a Memorandum of Understanding (“**MOU**”) was entered into between The Corporation of the City of Kitchener, The Corporation of the Township of Wilmot, the Corporation of the City of Waterloo, The Corporation of the Township of Woolwich, The Corporation of the Township of Wellesley, WNHHC and KPC with respect to the Proposed Transaction.

C. The parties to the MOU have negotiated a Merger Participation Agreement in respect of the Proposed Transaction (the “**MPA**”) and an Unanimous Shareholders Agreement to govern the new entity which will result from the amalgamation of KPC and WNHHC (the “**USA**”).

D. Given that the MPA and USA incorporate certain terms required by the shareholders of KPC, the PGR Committee has determined that the Proposed Transaction is in the best interest of KPC and its subsidiaries, including the Corporation and has recommended that the Corporation enter into the MPA.

RESOLVED THAT:

1. The Corporation be and it is hereby authorized to enter into the MPA to be substantially in the form previously circulated to the directors with such amendments thereto as the Chief Executive Officer and Chair of the Corporation may approve, whose approval shall be conclusively evidenced by their execution thereof, and the performance by the Corporation of its obligations under the MPA is hereby authorized and approved.

2. The execution, delivery and performance of all other agreements, documents, certificates and instruments as may be contemplated by the MPA are hereby authorized, ratified and approved.

3. Any two directors or officers of the Corporation are authorized and directed to take all such actions and to execute all such documents, instruments and agreements, with or without the corporate seal affixed, and with any additions, deletions or other changes that they may approve, that approval to be conclusively evidenced by their execution and delivery of those documents, instruments and agreements, and to perform and to do all acts or things as, in their sole discretion, he or she deems necessary or desirable in order to complete the transactions contemplated by these Resolutions.

4. These Resolutions may be executed in counterparts and will be effective whether executed in original ink, by facsimile or in electronic PDF format.

The foregoing resolution was approved by the Board of Directors at a Board meeting on December 3, 2021.

DATED: December 3, 2021

James Phillips	Jerry Van Ooteghem

ATTACHMENT K

KWHI 2020 Scorecard

Scorecard - Kitchener-Wilmot Hydro Inc.

9/28/2021

Performance Outcomes	Performance Categories	Measures		2016	2017	2018	2019	2020	Trend	Target: Industry	Target: Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	**Service Quality**	New Residential/Small Business Services Connected on Time		92.50%	98.93%	99.14%	98.53%	98.84%		90.00%	
		Scheduled Appointments Met On Time		97.50%	97.93%	99.18%	99.39%	98.62%		90.00%	
		Telephone Calls Answered On Time		78.40%	92.80%	91.90%	90.14%	87.97%		65.00%	
	Customer Satisfaction	First Contact Resolution		99.4%	99.6%	99.03%	98.78%	99.28%			
		Billing Accuracy		100.00%	99.58%	97.37%	99.99%	99.98%		98.00%	
		Customer Satisfaction Survey Results		A	A	A	A	A			
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	**Safety**	Level of Public Awareness		83.00%	83.00%	83.00%	83.00%	82.00%			
		Level of Compliance with Ontario Regulation 22/04 [1]		C	C	C	C	C			C
		Serious Electrical Incident Index	Number of General Public Incidents	0	0	3	3	1			1
			Rate per 10, 100, 1000 km of line	0.000	0.000	1.524	1.520	0.505			0.426
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted [2]		1.11	0.92	0.70	1.02	0.53			0.86
		Average Number of Times that Power to a Customer is Interrupted [2]		1.11	1.03	0.97	1.05	0.92			0.98
	Asset Management	Distribution System Plan Implementation Progress		In Progress	In Progress	In Progress	In Progress	On Target			
	Cost Control	Efficiency Assessment		2	2	2	2	2			
		Total Cost per Customer [3]		$494	$487	$519	$524	$519			
		Total Cost per Km of Line [3]		$23,866	$23,707	$25,447	$25,873	$25,789			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	**Connection of Renewable Generation**	Renewable Generation Connection Impact Assessments Completed On Time		100.00%	100.00%	100.00%	100.00%	100.00%			
		New Micro-embedded Generation Facilities Connected On Time		100.00%	100.00%	100.00%				90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	**Financial Ratios**	Liquidity: Current Ratio (Current Assets/Current Liabilities)		1.96	1.99	2.01	1.56	1.19			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		0.57	0.54	0.51	0.49	0.46			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	9.36%	9.36%	9.36%	9.36%	8.52%			
			Achieved	10.18%	9.59%	9.06%	8.73%	10.14%			

1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).
2. An upward arrow indicates decreasing reliability while downward indicates improving reliability.
3. A benchmarking analysis determines the total cost figures from the distributor 's reported information.
4. The CDM measure is based on the now discontinued 2015-2020 Conservation First Framework. 2019 results include savings reported to the IESO up until the end of February 2020.

Legend:
5-year trend: up, down, flat
Current year: target met, target not met

2020 Scorecard Management Discussion and Analysis (“2020 Scorecard MD&A”)

The link below provides a document titled “Scorecard - Performance Measure Descriptions” that has the technical definition, plain language description and how the measure may be compared for each of the Scorecard’s measures in the 2020 Scorecard MD&A:
http://www.ontarioenergyboard.ca/OEB/_Documents/scorecard/Scorecard_Performance_Measure_Descriptions.pdf

Scorecard MD&A – General Overview

Kitchener-Wilmot Hydro Inc. (KWHI) has been a trusted community partner for more than 100 years. As the energy industry continues to grow and evolve, KWHI consistently delivers safe, reliable, and efficient electricity distribution services at a reasonable cost to its customers.

In 2020, KWHI proudly exceeded industry targets for all Scorecard measures, achieving exceptional ratings in customer satisfaction, billing accuracy, service quality, and safety while maintaining some of the lowest distribution rates in the province. In addition, KWHI has the seventh (7th) lowest total cost per customer out of 59 Ontario distributors. KWHI continues to carefully pace and prioritize capital investments to effectively manage distribution system assets, complete necessary infrastructure improvements, and reduce outage frequency and duration to improve customer experience.

KWHI’s team of 184 employees effectively manage a distribution system that serves 99,700 customers spanning 425 square kilometres and includes more than 1,990 kilometres of overhead and underground distribution lines, 23,000 power poles, 11,000 transformers and eight (8) transformer stations.

Service Quality

- **New Residential/Small Business Services Connected on Time**

In 2020, KWHI connected 1,445 low-voltage residential and small business customers within the five-day timeline prescribed by the Ontario Energy Board, achieving 98.84% of its total service connections on time.

- **Scheduled Appointments Met on Time**

In 2020, KWHI scheduled more than 1,630 customer appointments where the customer or representative was required to be present. KWHI staff were on time for the appointment 98.62% of the time, once again exceeding the industry standard of 90% of scheduled appointments met on time.

- **Telephone Calls Answered on Time**

In 2020, calls and emails to KWHI's call center increased due to the pandemic. 88% of the more than 63,500 telephone calls answered by KWHI's Customer Care team were answered within 30 seconds, exceeding the industry standard of 65% as set by the Ontario Energy Board. KWHI continues to develop new ways for customers to connect with our staff quickly and easily to reduce wait times and call volumes and improve customer satisfaction.

Customer Satisfaction

- **First Contact Resolution**

In 2014, LDC's were given an opportunity to define this measure in the manner that provides the most meaningful assessment. KWHI defines First Contact Resolution as all telephone calls resolved by the Call Centre on first contact, and strives to handle each customer interaction quickly, efficiently and to the customer's satisfaction. As this measure is evolving, KWHI continues to monitor its progress and track best practices of other LDCs to improve its own customer service offering.

In 2020, 99.28% of phone calls received by the Call Centre achieved First Contact Resolution thanks to the thoughtful, proactive service provided by KWHI's Customer Care team.

- **Billing Accuracy**

  An accurate bill is defined as a bill that contains correct customer information, correct meter readings and correct rates. In 2020, KWHI issued more than 1,192,000 electricity bills to over 99,000 customers and achieved a billing accuracy percentage of 99.98%. KWHI is also proud to have been recognized with two awards from the Independent Electricity System Operator for the second year in a row for outstanding achievement in billing - one for 100% Synchronization Success with the Meter Data Management and Repository system and another for Highest Billing Success Rate.

- **Customer Satisfaction Survey Results**

  In 2019, KWHI engaged a third party to conduct a customer satisfaction survey which invited customers to provide feedback in a variety of areas including customer service, reliability, service value, billing, and outages, and received an "A" for its overall performance. KWHI continues to review the results along with feedback received in other areas to improve its customer service offering.

Safety

- **Public Safety**

  KWHI's extensive public safety outreach program educates customers on overhead power line safety, underground electrical contact/locates, electrical safety and emergency preparedness, including participation in Fire Prevention Week, Emergency Preparedness Week, and the Electrical Safety Authority's Powerline Safety Week.

  On an ongoing basis, KWHI shares public electrical safety messages through radio and newspaper advertising, on its website, social media channels and other outlets, providing businesses, seniors, farmers, volunteers, parents, and children in its service area with seasonally relevant public safety reminders. KWHI also provides funding for electrical safety education at the Waterloo Regional Police Service's Children's Safety Village and sponsors the Children's Hero Awards.

  In 2020, KWHI provided electrical safety education to 1,200 grade five and six students in 17 schools. The program was delivered in person until the pandemic began and KWHI was forced to rethink its safety programming. The in-person program was adapted for online, virtual delivery that teachers could easily access for their classes.

KWHI's safety program includes the award winning one-minute animated videos featuring "Lucky the Squirrel" who teaches viewers how to be safe around electricity in areas ranging from Call Before You Dig to proximity to overhead power lines. The videos are shared on KWHI's social channels, used in KWHI's school safety program, and modified versions are played three (3) times at every Kitchener Ranger's Ontario Hockey League home game during the regular season. Online, the videos have well over 130,000 views.

- **Component A – Public Awareness of Electrical Safety**

This component of the public safety measure is intended to measure the level of safety awareness of the general public within the electricity distributor's service territory.

KWHI's score of 82% is the result of a standard survey performed by a third party in March 2020. KWHI is using the information gathered in this survey to develop and target its safety messages going forward.

- **Component B – Compliance with Ontario Regulation 22/04**

This component of the public safety measure addresses the level of distributor compliance to Ontario Regulation 22/04, which governs the safe design and construction of electrical distribution systems. Measurement includes an audit and declaration of compliance submitted by the distributor and due diligence inspections completed by the Electrical Safety Authority. KWHI fully complies with the Ontario Regulation 22/04 safety standard.

- **Component C – Serious Electrical Incident Index**

A Serious Electrical Incident is defined as electrical contact, fire or explosion or equipment failure in the distribution system that causes or has the potential to cause loss of life or critical injury to a member of the general public. The guideline for reporting Serious Electrical Incidents was revised in 2017 to include a broader definition of incidents that now qualify. This component of Public Safety measures the number of serious electrical incidents involving members of the general public in KWHI's service territory. KWHI had one (1) serious electrical incident in the 2020 reporting period. KWHI continues to make public safety a priority through its educational activities and programs.

System Reliability

In 2020, KWHI continued its program of focused investments in animal control and vegetation management to improve system reliability. In addition, inferior or end-of-life equipment is replaced with new components with better performance, such as polymer insulators and switches. Real-time information about current outages can be found on KWHI's outage map at http://outages.kwhydro.ca/gridvu/

- **Average Number of Hours that Power to a Customer is Interrupted**

In 2020, KWHI saw a decrease in the number of hours that power was interrupted to a customer. KWHI's average number of hours that power is interrupted to a customer of 31.8 minutes is less than the provincial average.

- **Average Number of Times that Power to a Customer is Interrupted**

The average number of times a KWHI customer was without power during the year decreased slightly in 2020. At 0.92 times, KWHI remains below the provincial average of 2.15 times for this measure and continues to carefully monitor and assess its investments to maintain the high reliability standards KWHI's customers have come to expect.

Asset Management

- **Distribution System Plan Implementation Progress**

KWHI has a long-term asset management plan that allows it to effectively pace infrastructure replacement and investments. KWHI has incorporated elements of its ongoing asset management plan into a Distribution System Plan (DSP). KWHI measures the progress of its DSP implementation by comparing actual total capital expenditures in service each year to the total amount of planned capital expenditures in the 2020-2024 DSP for the corresponding year. A variance target of +/-10% is used to determine if the DSP is on target. The result for 2020 is -1% (99%) and shows that the DSP progress is currently "On Target".

Cost Control

The following section commentary is based on figures generated by the Ontario Energy Board based on total cost benchmarking analysis conducted by the Pacific Economics Group Research LLC. The model used by the Ontario Energy Board is based on econometrics. This model establishes relationships between business conditions (i.e. number of customers, kWh deliveries, length of lines) and distributor cost. Many adjustments are made to ensure fair comparison between distributors.

- **Efficiency Assessment**

The efficiency assessment measure compares distributors' actual costs to costs predicted by the Ontario Energy Board model described above. Those LDCs with lower actual costs than predicted are considered to be better cost performers. KWHI ranked seventh (7^{th}) in the province for lowest cost per customer in 2020, has maintained its Group 2 cost efficiency level for the past eight years, while continuing to provide exceptional customer service and high reliability performance.

- **Total Cost per Customer**

KWHI's total cost per customer compares favourably to other LDC's for providing distribution services to its customers. Distribution services includes design, maintenance and construction of infrastructure, customer services and customer education. KWHI's total cost per customer of $519 per year is lower than the provincial average.

- **Total Cost per Km of Line**

KWHI's total cost per kilometre of line compares favourably to other LDCs. KWHI's total cost per kilometre of line of $25,789 ranks in the top half of all provincial LDC's.

Connection of Renewable Generation

- **Renewable Generation Connection Impact Assessments Completed on Time**

  In 2020, KWHI performed no connection impact assessments (CIA). Distributors are required to connect CIAs within 60 days of receiving a complete application from a customer. KWHI has connected 100% of its CIA reviews on time over the past five years.

- **New Micro-embedded Generation Facilities Connected on Time**

  In 2020, KWHI connected no micro-embedded generation facilities. KWHI has consistently connected 100% of its micro-embedded generation facilities on time, exceeding the industry target of 90%.

Financial Ratios

- **Liquidity: Current Ratio (Current Assets/Current Liabilities)**

  The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term debt obligations. To gauge this financial metric, the current ratio considers the total current assets of a company relative to that company's total current liabilities. KWHI is maintaining a current ratio that allows it to have a margin of safety to cover financial obligations on a timely basis.

- **Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio**

  The Ontario Energy Board uses a deemed capital structure of 60% debt and 40% equity for distributors when establishing rates. This equates to a debt to equity ratio of 1:5. KWHI's actual debt to equity ratio of 0.46 ensures a strong balance sheet.

- **Profitability: Regulatory Return on Equity – Deemed (included in rates)**

  KWHI's current distribution rates were approved by the Ontario Energy Board effective January 1, 2021. In 2020, rates included an expected (deemed) regulatory return on equity of 8.52%. The Ontario Energy Board allows a distributor to earn within +/- 3% of the expected return on equity.

- **Profitability: Regulatory Return on Equity – Achieved**

  In 2020, KWHI's regulatory return on equity achieved was 10.14%, which is above the deemed regulatory return on equity but is well within the +/-3% range allowed by the Ontario Energy Board. The average return over the past five years was 9.5% which is also well within the allowed return included in KWHI's approved rates. KWHI is mindful of declining kW demand and kWh energy consumption due to conservation efforts and actively seeks productivity savings arising from related process improvement initiatives.

Note to Readers of 2020 Scorecard MD&A

The information provided by distributors on their future performance (or what can be construed as forward-looking information) may be subject to a number of risks, uncertainties and other factors that may cause actual events, conditions or results to differ materially from historical results or those contemplated by the distributor regarding their future performance. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and the weather. For these reasons, the information on future performance is intended to be management's best judgement on the reporting date of the performance scorecard and could be markedly different in the future.

ATTACHMENT L

WNHI 2020 Scorecard

Scorecard - Waterloo North Hydro Inc.

9/28/2021

Performance Outcomes	Performance Categories	Measures		2016	2017	2018	2019	2020	Trend	Target: Industry	Target: Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time		100.00%	100.00%	100.00%	100.00%	100.00%	→	90.00%	
		Scheduled Appointments Met On Time		98.10%	96.40%	99.33%	98.58%	99.68%	↑	90.00%	
		Telephone Calls Answered On Time		86.70%	72.77%	92.72%	90.73%	86.59%	↑	65.00%	
	Customer Satisfaction	First Contact Resolution		99.92%	99.90%	99.87%	99.82%	99.90%			
		Billing Accuracy		99.73%	99.97%	99.97%	99.89%	99.97%	↑	98.00%	
		Customer Satisfaction Survey Results		92%	92%	96%	96%	96%			
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public Awareness		82.00%	82.00%	82.00%	82.00%	82.00%			
		Level of Compliance with Ontario Regulation 22/04 [1]		C	C	C	C	C	→		C
		Serious Electrical Incident Index	Number of General Public Incidents	1	1	6	1	3	↑		1
			Rate per 10, 100, 1000 km of line	0.618	0.618	3.645	0.605	1.820	↑		0.857
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted [2]		0.71	0.76	0.92	0.85	0.80	↑		0.79
		Average Number of Times that Power to a Customer is Interrupted [2]		1.15	1.50	1.32	1.29	1.02	↓		1.33
	Asset Management	Distribution System Plan Implementation Progress		23.05%	41.81%	61.36%	82.07%	101.83%			
	Cost Control	Efficiency Assessment		4	3	3	3	3			
		Total Cost per Customer [3]		$809	$773	$819	$833	$797			
		Total Cost per Km of Line [3]		$28,094	$26,800	$28,499	$29,241	$28,166			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time		80.00%	100.00%	100.00%	100.00%	100.00%			
		New Micro-embedded Generation Facilities Connected On Time		100.00%	100.00%	100.00%	100.00%	100.00%	→	90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)		1.01	1.08	1.08	0.93	1.04			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		1.23	1.18	1.14	1.13	1.24			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	9.19%	9.19%	9.19%	9.19%	9.19%			
			Achieved	10.13%	8.37%	8.20%	7.13%	7.94%			

1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).
2. An upward arrow indicates decreasing reliability while downward indicates improving reliability.
3. A benchmarking analysis determines the total cost figures from the distributor's reported information.
4. The CDM measure is based on the now discontinued 2015-2020 Conservation First Framework. 2019 results include savings reported to the IESO up until the end of February 2020.

Legend:
5-year trend: ↑ up ↓ down → flat
Current year: target met / target not met

2020 Scorecard Management Discussion and Analysis ("2020 Scorecard MD&A")

The link below provides a document titled "Scorecard - Performance Measure Descriptions" that has the technical definition, plain language description, and how the measure may be compared for each of the Scorecard's measures in the 2020 Scorecard MD&A: **http://www.ontarioenergyboard.ca/OEB/_Documents/scorecard/Scorecard_Performance_Measure_Descriptions.pdf**

Scorecard MD&A - General Overview

Waterloo North Hydro Inc. (WNH) exceeded all performance targets in 2020 with the exception of Average Number of Hours that Power to a Customer is Interrupted.

WNH discovered a material misstatement in the data used for capital additions in 2016 (see the section on cost control) and made a request to the Ontario Energy Board (OEB) to correct this error. The error was verified with OEB staff in 2017 and corrected on the Benchmarking Reports, however, the OEB will not reflect the correct information on the Scorecard for 2016 as a matter of policy.

Service Quality

- **New Residential/Small Business Services Connected on Time**

In 2020, WNH connected 100% of the 600 eligible low-voltage residential and small business customers (those utilizing connections under 750 volts) to its system within the five-day timeline prescribed by the OEB. This maintains the high level of service from the previous year and is above the OEB-mandated threshold of 90%. WNH works with customers and customer representatives to ensure very timely responses to their requests and expects to maintain this level of service in 2021.

- **Scheduled Appointments Met On Time**

WNH scheduled over 300 appointments with its customers in 2020 to complete work requested by customers, read meters, reconnect services, or perform necessary maintenance. The utility met 99.68% (2019 – 98.58%) of these appointments on time, which significantly exceeds the industry target of 90%. WNH focuses on ensuring high levels of customer service when requested to meet with customers or customer representatives. It is very rare for WNH to miss an appointment or require an appointment to be rescheduled. Where this could occur is during a major outage, inclement weather, or illness. WNH expects to continue this level of service in 2021.

- **Telephone Calls Answered On Time**

  WNH's customer contact centre received over 25,000 calls from customers in 2020. The call centre agents answered 86.59% of these calls in 30 seconds or less, representing a minor decrease from 2019 (90.73%). This performance exceeds the industry target of 65.0% for timely call response. With the OEB regulatory and rate changes impact due to COVID-19 such as TOU rate changes, and COVID-19 Emergency Assistance Program (CEAP) for Residential and Small Commercial, there was a sudden increase in call volumes. Another surge of call volumes in the fall of 2020 was due to the regulatory change of allowing customers the option of opting-in for Tiered Pricing. Although OEB's target is 65%, WNH has an internal target of 90% to maintain its high level of customer satisfaction rating and expects that the call response percentage will increase back to normal levels in 2021.

Customer Satisfaction

- **First Contact Resolution**

  First Contact Resolution is measured based on the number of calls escalated to a supervisor after a call centre agent first assisted the customer. In 2020, only 26 calls needed escalation to a supervisor after the first contact resulting in a 99.90% resolution on first contact (2019 – 99.82%). WNH expects this level of resolution to continue in 2021.

- **Billing Accuracy**

  During 2020, WNH issued more than 708,000 bills and achieved a billing accuracy of 99.97% (2019 – 99.89%). This compares favourably to the industry target of 98%. WNH expects this level of accuracy to continue in 2021.

- **Customer Satisfaction Survey Results**

  The OEB introduced the Customer Satisfaction Survey measure in 2013. Electricity distributors are required to measure and report customer satisfaction results at least every other year.

  In 2020, WNH engaged an independent third party to conduct customer satisfaction surveys. The survey asks customers questions on a wide range of topics including: overall satisfaction with WNH, customer service, outages, cost, billing and corporate image, customer expectations and needs. This feedback is incorporated into WNH's planning process and forms the basis of plans to improve customer satisfaction, meet the needs of customers, and address areas of improvement. In 2020, WNH received a satisfaction score of 96% from its customers which is consistent with the 2018 survey of 96%, WNH's results are above the provincial average of 9%. WNH believes that its customer feedback and satisfaction score reflects efforts that it continues to make in the community by listening to customer feedback and incorporating it into business plans. WNH's next customer satisfaction survey is scheduled to occur in 2022.

Safety

- **Public Safety**

  - **Component A – Public Awareness of Electrical Safety**

In 2015, the OEB introduced the Level of Public Awareness indicator which attempts to measure the level of awareness of key electrical safety precautions among the public in the electricity distributor's service territory. Utilities are required to carry out a survey developed by the Electrical Safety Authority every two years. WNH was able to maintain a score of 82% in 2019, which was the same score received in the first and second surveys conducted in 2015 and 2017. While WNH is satisfied with these results, the utility will strive to improve upon this score through public education initiatives going forward. The next survey is scheduled to be completed in 2021.

  - **Component B – Compliance with Ontario Regulation 22/04**

This measure addresses the level of distributor compliance to Ontario Regulation 22/04, Electrical Distribution Safety. This regulation establishes a standard for safety performance that deals with electrical safety requirements for the design, construction, and maintenance of electrical distribution systems. It includes an audit of compliance, declaration of compliance, reports evaluated (e.g., due diligence inspections, audits, public safety concerns, etc.), and outcome (e.g., compliant, needs improvement, non-compliant). The performance target for the level of compliance with Ontario Regulation 22/04 is for the distributor to be fully compliant with Ontario Regulation 22/04. WNH has been compliant with Ontario Regulation 22/04 since the measure was initially tracked in 2010 through to 2020.

  - **Component C – Serious Electrical Incident Index**

The Serious Electrical Incident Index component of the public safety measure is intended to address the resultant impact in improving public electrical safety on the distribution networks over time. It measures the number of and rate of serious electrical incidents occurring on a distributor's assets and is normalized per 1,000 km of line. Both the actual number and the rate per km of line are shown on the Scorecard.

The performance target for Serious Electrical Incident Index is set based on a distributor's specific performance target using the distributor's historical data and prior performance.

The data reported on the 2020 scorecard are the results from the 2020 ESA audit of 2019 events. In 2019 there were three serious electrical incidents within Waterloo North Hydro's service territory. Two of the three incidents were initiated as a result of items beyond the control of WNH (motor vehicle accidents). The third incident was a result of equipment failure. It is important to note that there were no personal injuries in the events noted. The resulting rate for the 2020 scorecard is 1.820 (2019 ESA Audit – 0.605). This rate is above the established performance target of 0.857 incidents per 1,000 km. On March 23, 2017 the ESA provided new mandatory guidelines which lowered the threshold for serious incidents which in turn increased the amount of events that are reported on WNH's scorecard. WNH consistently sees a similar number of total incidents, however with the changes to the guidelines the serious incident number increased. WNH takes a diligent and highly cooperative approach to the ESA audits in order to be proactive and ensure the safest environment possible. WNH reviews these incidents and makes appropriate adjustments to system renewal and maintenance activities as required.

System Reliability

- **Average Number of Hours that Power to a Customer is Interrupted**

During 2020, there were 667 interruptions resulting in 74,159 total customer interruptions with an average duration of 0.80 hours per customer. This average represents a decrease from the 2019 duration period (0.85 hours per customer), and is close to the target of 0.79 hours per interruption.

WNH continues to view the reliability of electricity service as a high priority for its customers and as such developed programs several years ago for the continuous improvement of reliability. The program includes a constant review of reliability within the 24/7 control room and a response plan for any areas of the distribution system experiencing a degradation in reliability. This, combined with WNH's commitment to review the worst performing feeders on an ongoing basis to improve reliability, will ensure customers continue to receive high value from their electricity service.

- **Average Number of Times that Power to a Customer is Interrupted**

WNH's Average Number of Times that Power to a Customer is Interrupted for 2020 was 1.02 times per customer. This rate is below WNH's target of 1.33 and has decreased from 2019 (1.29). WNH has adopted a proactive, balanced approach to distribution system planning and infrastructure investment and replacement programs to address immediate risks associated with end-of-life assets, to manage distribution system risks, to ensure the safe and reliable delivery of electricity, and to balance customer and utility affordability.

Asset Management

- **Distribution System Plan Implementation Progress**

Distribution System Plan (DSP) implementation progress is a performance measure instituted by the OEB in 2014. Consistent with other new measures, utilities were given an opportunity to define it in the manner that best fits their organization. The DSP outlines WNH's forecasted capital expenditures over the next five (5) years that are required to maintain and expand the electricity system to serve current and future customers. The "Distribution System Plan Implementation Progress" measure is intended to assess WNH's effectiveness at planning and implementing the DSP.

WNH filed an application with the OEB for a full review of its rates effective January 1, 2016, that included a DSP. The application and DSP were approved by the OEB in the Fall of 2015. In 2020, during the fifth year of the current five year DSP (2016-2020), WNH has reported 101.83% in its Distribution System Plan Implementation Progress as of December 31, 2020. This measure was calculated by comparing WNH's actual capital expenditures from 2016-2020 compared to the total five-year capital expenditures as per the DSP.

Cost Control

- **Efficiency Assessment**

The total costs for Ontario's local electricity distribution companies are evaluated by the OEB to produce a single efficiency ranking. The electricity distributors are divided into five groups based on the magnitude of the difference between their respective actual and predicted costs. In 2020, WNH maintained its place in Group 3, where a Group 3 distributor is defined as having actual costs within +/- 10 percent of predicted costs. Group 3 is considered "average efficiency" – in other words, WNH's costs are within the average cost range for distributors in the Province of Ontario. WNH's forward-looking goal is to maintain its efficiency ranking.

When the 2016 Scorecard was published, WNH had made a request to the OEB to correct a material misstatement in the data used for capital additions in 2016. The error was verified with OEB staff in 2017 and reflected on the 2017-2020 Benchmarking Reports, however, the OEB will not change this to reflect the correct information on the Scorecard as a matter of policy. The actual verified data places WNH in Group 3 for 2016, however, the Scorecard has the original incorrect information placing WNH in Group 4.

- **Total Cost per Customer**

  Total cost per customer is calculated as the sum of WNH's capital and operating costs per customer. The cost performance result for 2020 is $797/customer which represents a decrease of 4.3% from 2019 ($833).

  WNH's initial cost performance result for 2016 was $809/customer at the time the 2016 Scorecard was published. As noted above, WNH discovered a material misstatement in the data used for capital additions in 2016 and made a request to the OEB to correct this error. WNH had submitted to the OEB revised data on capital additions that would have resulted in a Total Cost per Customer of $785/customer. The error has been verified with OEB staff and is reflected in the 2017-2020 Benchmarking Reports, however, the OEB will not change this to reflect the correct information on the 2016 data on Scorecards as a matter of policy.

  WNH will continue to replace distribution assets proactively, along a carefully managed timeframe in a manner that balances system risks and customer rate impacts as demonstrated in the 2016 rate application. WNH will continue to implement productivity improvement initiatives to help offset some of the costs associated with future system improvements and enhancements.

- **Total Cost per Km of Line**

  This measure uses the same total cost that is used in the Cost per Customer calculation above - the total cost is divided by the kilometers of line that WNH operates. WNH's 2020 rate is $28,166 per Km of line, a 3.7% decrease from 2019 ($29,241). WNH continues to seek innovative solutions to help ensure cost/km of line remains competitive and is affordable for customers.

  The Scorecard has the incorrect Total Cost per Km Line for 2016 ($28,094) as the OEB will not change the 2016 data on the Scorecard as a matter of policy. The 2016 rate should be $27,251 (verified and corrected).

Connection of Renewable Generation

- **Renewable Generation Connection Impact Assessments Completed on Time**

  Electricity distributors are required to conduct Connection Impact Assessments (CIAs) within 60 days of receiving authorization from the Electrical Safety Authority. In 2020, WNH completed four CIAs within the prescribed time limit for a rate of 100.00% (2019 – 100.00%).

- **New Micro-embedded Generation Facilities Connected On Time**

  In 2020, WNH connected one new micro-embedded generation facility (microFIT and net-meter projects of less than 10 kW) within the prescribed time frame of five business days (2020-100%, 2019 – 100%). The minimum acceptable performance level for this measure is 90%. WNH's workflow to connect these projects is streamlined and transparent with customers. WNH works closely with its customers and their contractors to resolve any connection issues to ensure projects are connected on time.

Financial Ratios

- **Liquidity: Current Ratio (Current Assets/Current Liabilities)**

  As an indicator of financial health, a current ratio of 1.0 or greater is considered good as it indicates that a company can meet its short-term financial obligations.

  WNH's current ratio increased from 0.93 to 1.04 from 2019 to 2020. 2019's lower current ratio was mainly attributed to the OEB Time-Of-Use rate changes effective November 1, 2019, which affected the working capital, however in 2020, WNH was able to increase its cash management and is in line with 2010 – 2018 results.

- **Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio**

  The OEB uses a deemed capital structure of 60% debt, 40% equity for electricity distributors when establishing rates. This deemed capital mix is equal to a debt to equity ratio of 1.5 (60/40). Debt to equity ratio of more than 1.5 indicates that a distributor is more highly levered than the deemed capital structure. A high debt to equity ratio may indicate that an electricity distributor may have difficulty generating sufficient cash flows to make its debt payments. Debt to equity ratio of less than 1.5 indicates that the distributor is less levered than the deemed capital structure. WNH's 2020 ratio of 1.24 (2019 – 1.13) is well below the OEB threshold of 1.5.

- **Profitability: Regulatory Return on Equity – Deemed (included in rates)**

  WNH's current distribution rates were approved by the OEB and include an expected (deemed) regulatory return on equity of 9.19%. The OEB allows a distributor to earn within +/- 3% of the deemed return on equity. When a distributor performs outside of this range, the actual performance may trigger a regulatory review by the OEB of the distributor's revenues and costs structure .

- **Profitability: Regulatory Return on Equity – Achieved**

  WNH's return achieved in 2020 was 7.94%, which is within the +/-3% range allowed by the OEB. The average return over the past 3 years was 7.76%, which is also within the return included in WNH's approved rates.

Note to Readers of 2020 Scorecard MD&A

The information provided by distributors on their future performance (or what can be construed as forward-looking information) may be subject to a number of risks, uncertainties, and other factors that may cause actual events, conditions, or results to differ materially from historical results or those contemplated by the distributor regarding their future performance. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions, and the weather. For these reasons, the information on future performance is intended to be management's best judgement on the reporting date of the performance scorecard and could be markedly different in the future.

ATTACHMENT M

2019 & 2020 KWHI Financial Statements

Financial Statements of

Kitchener-Wilmot Hydro Inc.

And Independent Auditors' Report thereon

Year ended December 31, 2019
(Expressed in thousands of dollars)

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Kitchener-Wilmot Hydro Inc.

Opinion

We have audited the financial statements of Kitchener-Wilmot Hydro Inc. (the Entity), which comprise:

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

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as 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 Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

March 27, 2020

KITCHENER-WILMOT HYDRO INC.

Statement of Financial Position

As at December 31, 2019, with comparative information for 2018
(Expressed in thousands of dollars)

	Note		2019		2018
Assets					
Current assets					
Cash	4	$	13,357	$	21,488
Accounts receivable	5		17,477		18,532
Unbilled revenue			27,648		22,122
Inventory	6		2,324		1,949
Prepaid expenses			1,347		1,045
Income taxes receivable			131		-
Total current assets			62,284		65,136
Non-current assets:					
Property, plant and equipment	7		259,864		245,229
Intangible assets	8		629		716
Total non-current assets			260,493		245,945
Total assets			322,777		311,081
Regulatory deferral account debit balances	10		9,400		7,366
Total assets and regulatory assets		$	332,177	$	318,447

KITCHENER-WILMOT HYDRO INC.

Statement of Financial Position

Year ended December 31, 2019, with comparative information for 2018
(Expressed in thousands of dollars)

	Note	2019	2018
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 30,048	$ 22,655
Income taxes payable		-	449
Current portion of long-term debt	11	607	1,176
Current portion customer deposits	13	9,366	8,123
Current portion of deferred revenue		952	855
Total current liabilities		40,973	33,258
Non-current liabilities:			
Long-term debt	11	76,963	77,569
Employee future benefits	12	5,858	5,305
Long-term customer deposits	13	6,188	6,136
Deferred revenue		36,385	32,910
Deferred tax liability	9	2,536	2,021
Total non-current liabilities		127,930	123,941
Total liabilities		168,903	157,199
Shareholder's equity:			
Share capital - common shares	14	63,689	63,689
Retained earnings		96,363	89,600
Accumulated other comprehensive loss		(620)	(278)
Total shareholder's equity		159,432	153,011
Total liabilities and shareholder's equity		328,335	310,210
Regulatory deferral account credit balances	10	2,307	6,950
Deferred taxes associated with regulatory accounts		1,535	1,287
Total equity, liabilities and shareholder's equity		$ 332,177	$ 318,447

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

On behalf of the Board:

D.A. Schuan _______________ Director   J. Van Ooteghem _______________ Director

KITCHENER-WILMOT HYDRO INC.

Statement of Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018
(Expressed in thousands of dollars)

	Note	2019	2018
Energy sales		$ 206,409	$ 197,253
Cost of energy sold		207,393	194,142
		(984)	3,111
Other operating revenue			
Distribution revenue		38,285	38,354
Other income	15	2,601	2,353
Net operating revenue		39,902	43,818
Expenses:			
Operations and maintenance		11,253	11,373
Customer services		4,474	4,544
Administration		4,165	4,086
Amortization		9,550	9,104
		29,442	29,107
Other			
Energy conservation program revenue		(1,676)	(4,971)
Energy conservation program expense		1,676	3,674
Net energy conservation programs		-	(1,297)
Finance income	16	(417)	(492)
Finance charges	16	4,119	4,119
Net finance costs		3,702	3,627
Income before income taxes		6,758	12,381
Income tax expense	9	888	1,935
Income for the year before movements in regulatory deferral account balances and OCI		5,870	10,446
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement	10	4,927	639
Other comprehensive loss	12	(342)	-
Total comprehensive income for the year		$ 10,455	$ 11,085

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

KITCHENER-WILMOT HYDRO INC.

Statement of Changes in Equity

Year ended December 31, 2019, with comparative information for 2018
(In thousands of Canadian dollars)

	Share capital	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at January 1, 2018	$ 63,689	$ (278)	$ 84,086	$ 147,497
Net income before OCI			11,085	11,085
Other comprehensive income		-	-	-
Dividends			(5,571)	(5,571)
Balance at December 31, 2018	63,689	(278)	89,600	153,011
Net income before OCI		-	10,797	10,797
Other comprehensive income		(342)		(342)
Dividends		-	(4,034)	(4,034)
Balance at December 31, 2019	$ 63,689	$ (620)	$ 96,363	$ 159,432

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

KITCHENER-WILMOT HYDRO INC.

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018
(Expressed in thousands of dollars)

		2019		2018
Cash flows from operating activities:				
Total comprehensive income for the year	$	10,455	$	11,085
Adjustments to reconcile net income to cash provided by (used in) operations:				
Amortization		10,251		9,789
Amortization of deferred revenue		(908)		(782)
Gain on disposal of property, plant and equipment		(36)		(128)
Income tax expense		888		1,935
Income taxes paid		(1,515)		(1,798)
Increase in employee future benefits		551		92
		19,686		20,193
Change in non-cash operating working capital:				
Accounts receivable		1,055		(365)
Unbilled revenue		(5,526)		(268)
Inventory		(375)		260
Prepaid expenses		(302)		(235)
Accounts payable and accrued liabilities		7,396		(3,376)
Other current liabilities		1,339		(392)
Change in regulatory assets		(2,035)		2,707
Change in regulatory liabilities		(4,348)		(3,912)
Change in deferred tax		516		486
Net cash from operating activities		17,406		15,098
Cash flows from investing activities:				
Proceeds on disposals of property, plant and equipment		40		136
Purchase of property, plant and equipment		(24,487)		(20,361)
Purchase of intangible assets		(315)		(276)
Net cash used in investing activities		(24,762)		(20,501)
Cash flows from financing activities:				
Net change in customer deposits		52		250
Dividends paid out		(4,034)		(5,571)
Change in contributed capital received		4,383		4,574
Repayment of long-term debt		(1,176)		(1,127)
Net cash from financing activities		(775)		(1,874)
Change in cash and cash equivalents		(8,131)		(7,277)
Cash and cash equivalents, beginning of year		21,488		28,765
Cash and cash equivalents, end of year	$	13,357	$	21,488

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

1. Reporting entity:

Kitchener-Wilmot Hydro Inc. (the “Corporation”) is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the City of Kitchener. The address of the Corporation’s registered office is 301 Victoria Street South, Kitchener, Ontario, Canada.

The Corporation delivers electricity and related energy services to residential and commercial customers in the City of Kitchener and the Township of Wilmot. The Corporation is wholly owned by Kitchener Power Corporation, which is itself wholly owned by the Corporation of the City of Kitchener and the Corporation of the Township of Wilmot.

The financial statements are for the Corporation as at and for the year ended December 31, 2019.

2. Basis of presentation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements were approved by the Board of Directors on March 27, 2020.

(b) Basis of measurement:

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

(i) Where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair value.

(ii) Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 22.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

2. Basis of presentation (continued):

(d) Use of estimates and judgments (continued):

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

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

i) Note 3(b) – Determination of the performance obligation for contributions from customers and the related amortization period
ii) Note 7 – Property, plant and equipment
iii) Note 9 – Deferred tax assets
iv) Note 12 – Employee future benefits
v) Note 17 – Commitments and contingencies

(e) Rate regulation:

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

Rate setting:

Distribution revenue and electricity rates

The OEB sets electricity prices for low-volume consumers based on an estimate of how much it will cost to supply the province with electricity for the next year. All low volume customers without a contract with an energy retailer are charged the OEB mandated rate for electricity. If a customer (regardless of volume) has a retailer agreement, then retailer rates are charged instead. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

2. Basis of presentation (continued):

(e) Rate regulation (continued):

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

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

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

The Corporation filed a COS application on June 21, 2013 for rates effective January 1, 2014 to December 31, 2014. The GDP IPI-FDD for 2019 is 1.5%, the Corporation's productivity factor is 0% and the stretch factor is 0.15%, resulting in a net adjustment of 1.35% to the previous year's rates. In addition, a COS application was filed April 30, 2019 for rates effective January 1, 2020 to December 31, 2020.

3. Significant accounting policies:

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

(a) Financial instruments:

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

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

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

The Corporation has not entered into derivative instruments.

Hedge accounting has not been used in the preparation of these financial statements.

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

(b) Revenue recognition:

Sale and distribution of electricity

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

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

3. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Capital contributions

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

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

Other revenue

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

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(c) Inventory:

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on a weighted 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:

Items of property, plant and equipment (“PP&E”) used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation. Consistent with IFRS 1, the Corporation elected to use the carrying amount as previously

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

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

determined under Canadian GAAP as the deemed cost at January 1, 2014, the transition date to IFRS.

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.

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 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 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 Corporation 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 amortized until the projects are complete and in service.

The estimated useful lives are as follows:

Buildings	**20-50 years**
Transformer station equipment	**15-50 years**
Distribution station equipment	**15-50 years**
Distribution system	**25-60 years**
Meters	**15-25 years**
SCADA equipment	**15 years**
Other capital assets	**3-10 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 Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Land rights:

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Corporation does not hold title. Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Amortization:

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

Computer software	**3-10 years**
Land rights	**100 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 loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

3. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

(g) Provisions:

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

3. Significant accounting policies (continued):

(h) Regulatory deferral accounts:

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The debit balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

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

The probability of recovery or repayment of the regulatory account balances 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. With the exception of Pension and OEB Forecast Accrual accounts (OPEBs), the rates from January to March 2019 were 2.45%, April to June 2019 were 2.18% and July to December 2019 were 2.18%. Prior year rates from January to March 2018 were 1.5%, April to September 2018 were 1.89% and October to December 2018 were 2.17%.

In 2019, OPEBs were 3.82%, 3.39% and 2.88% for the same time periods noted above and in 2018 January to March 2.99%, and April to December 3.35%.

3. Significant accounting policies (continued):

(i) Employee future benefits:

(i) Pension plan:

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“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.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. 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 Corporation 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.

3. Significant accounting policies (continued):

(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. Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity, and is amortized to income on a straight-line basis over the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

(k) Leased assets:

This policy is effective for periods before January 1, 2019. Refer to Note 24 for the change in accounting policy to IFRS 16.

Leases, where the terms cause the Corporation to assume substantially all the risks and rewards of ownership, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation’s balance sheet. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(l) Finance income and finance costs:

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

Finance charges comprise interest expense on borrowings, finance lease obligations, regulatory liabilities and unwinding of the discount on provisions and impairment losses on financial assets. Finance costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(m) Income taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

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

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

4. Cash:

	2019	2018
Cash	$ 13,357	$ 21,488

5. Accounts receivable:

	2019	2018
Customer and other trade receivables	$ 17,252	$ 18,431
Trade receivables from related parties	225	101
	$ 17,477	$ 18,532

6. Inventory:

The amount of inventories consumed by the Corporation and recognized as an expense during 2019 was $363 (2018 - $311).

(Expressed in thousands of dollars)

7. Property, plant and equipment:

(a) Cost or deemed cost:

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2019	$ 24,463	$ 242,418	$ 8,850	$ 3,622	$ 279,353
Additions	279	17,723	4,614	1,865	24,481
Transfers	-	-	-	-	-
Disposals/Retirements	(13)	(132)	(488)	-	(633)
Balance at December 31, 2019	$ 24,729	$ 260,009	$ 12,976	$ 5,487	$ 303,201

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2018	$ 23,598	$ 224,431	$ 7,091	$ 4,342	$ 259,462
Additions	936	18,141	2,004	-	21,081
Transfers	-	-	-	(720)	(720)
Disposals/Retirements	(71)	(154)	(245)	-	(470)
Balance at December 31, 2018	$ 24,463	$ 242,418	$ 8,850	$ 3,622	$ 279,353

(b) Accumulated depreciation:

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2019	$ 2,053	$ 30,012	$ 2,059	$ -	$ 34,124
Depreciation charge	678	7,886	1,282	-	9,846
Disposals/Retirements	(13)	(132)	(488)	-	(633)
Balance at December 31, 2019	$ 2,718	$ 37,766	$ 2,853	$ -	$ 43,337

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2018	$ 1,461	$ 22,699	$ 1,087	$ -	$ 25,247
Depreciation charge	663	7,467	1,209	-	9,339
Disposals/Retirements	(71)	(154)	(237)	-	(462)
Balance at December 31, 2018	$ 2,053	$ 30,012	$ 2,059	$ -	$ 34,124

(Expressed in thousands of dollars)

7. Property, plant and equipment (continued):

(c) Carrying amounts:

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
At December 31, 2019	$ 22,011	$ 222,243	$ 10,123	$ 5,487	$ 259,864
At December 31, 2018	$ 22,410	$ 212,406	$ 6,791	$ 3,622	$ 245,229

(d) Leased plant and equipment:

The Corporation does not have leases for plant or equipment.

(e) Security:

At December 31, 2019, the Corporation had zero properties subject to a general security agreement.

(f) Borrowing costs:

During the year, borrowing costs of $ nil (2018 - $ nil) were capitalized as part of the cost of property, plant and equipment.

(g) Allocation of depreciation and amortization:

The depreciation of property, plant and equipment and the amortization of intangible assets has been allocated to profit or loss as follows:

	Operations and maintenance expense	Customer services expense	General and administration expense	Energy Conservation expense	Other	Total
December 31, 2019:						
Depreciation of property, plant and equipment	$ 688	$ 6	$ -	$ 7	$ 9,145	$ 9,846
Amortization of intangible assets	-	-	-	-	405	405
	$ 688	$ 6	$ -	$ 7	$ 9,550	$ 10,251
December 31, 2018:						
Depreciation of property, plant and equipment	$ 672	$ 6	$ -	$ 7	$ 8,654	$ 9,339
Amortization of intangible assets	-	-	-	-	450	450
	$ 672	$ 6	$ -	$ 7	$ 9,104	$ 9,789

(Expressed in thousands of dollars)

8. Intangible assets:

(a) Cost or deemed cost:

	Computer Software	Land Rights	Total
Balance at January 1, 2019	$ 2,802	$ 8	$ 2,810
Additions	321	-	321
Disposals	4	-	4
Balance at December 31, 2019	$ 3,119	$ 8	$ 3,127
Balance at January 1, 2018	$ 2,526	$ 8	$ 2,534
Additions	276	-	276
Balance at December 31, 2018	$ 2,802	$ 8	$ 2,810

(b) Accumulated amortization:

	Computer Software	**Land Rights**	**Total**
Balance at January 1, 2019	$ 2,086	$ 8	$ 2,094
Additions	404	-	404
Balance at December 31, 2019	$ 2,490	$ 8	$ 2,498
Balance at January 1, 2018	$ 1,636	$ 8	$ 1,644
Additions	450	-	450
Balance at December 31, 2018	$ 2,086	$ 8	$ 2,094

(c) Carrying amounts:

	Computer Software	**Land Rights**	**Total**
At December 31, 2019	$ 629	$ -	$ 629
At December 31, 2018	$ 716	$ -	$ 716

(Expressed in thousands of dollars)

9. Income tax expense:

		2019		2018
Current period	$	1,129	$	2,115
Adjustment for prior periods		(194)		(155)
	$	935	$	1,960

Deferred tax expense:

		2019		2018
Original & reversal of temporary differences	$	(47)	$	(25)
	$	(47)	$	(25)

Reconciliation of effective tax rate:

		2019		2018
Total comprehensive income for the year	$	10,455	$	11,085
Total income tax expense		888		1,935
Comprehensive income before income taxes		11,343		13,020
Income tax using the Corporation's statutory tax rate of 26.5%		3,006		3,450
Temporary differences not benefitted		(1,924)		(1,360)
Under (over) provided in prior periods		(194)		(155)
	$	888	$	1,935

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

		2019		2018
Deferred tax assets (liabilities):				
Plant and equipment	$	(14,168)	$	(12,519)
Non-vested sick leave		168		144
Employee benefits		1,429		1,406
Ontario refundable tax credits		18		-
Actuarial gain/loss		123		-
Regulatory deferral account balances				
Deferred revenue - contributed capital		9,894		8,948
	$	(2,536)	$	(2,021)

(Expressed in thousands of dollars)

10. Regulatory deferral account balance:

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

	2018	Balances arising in the period	Recovery/ Reversal	Other	2019	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances						
Group 1 deferred accounts	$ 1,812	$ (2,661)	$ 971	$ 1,117	$ 1,239	Note 1
Regulatory asset recovery account	-	4,557	(2,216)	(1,711)	630	Note 1
Smart meter recovery	13	-	-	-	13	1 Year
Deferred tax asset	4857	933	-	-	5,790	Note 2
LRAM	-	837	-	-	837	1 Year
Other	684	182	-	25	891	1 Year
Total amount related to regulatory deferral account debit balances	**$ 7,366**	**$ 3,848**	**$ (1,245)**	**$ (569)**	**$ 9,400**	

	2018	Balances arising in the period	Recovery/ Reversal	Other	2019	Remaining recovery/ reversal period (years)
Regulatory deferral account credit balances						
Group 1 deferred accounts	$ 4,868	$ (3,653)	$ (1,276)	$ 1,118	$ 1,057	Note 1
Regulatory asset recovery account	1,711	-	-	(1,711)	-	Note 1
Other	371	854	-	25	1,250	1 Year
Total amount related to regulatory deferral account credit balances	**$ 6,950**	**$ (2,799)**	**$ (1,276)**	**$ (568)**	**$ 2,307**	

	2019	2018
Movements in regulatory accounts		
Net change in regulatory deferral account debit and credit balances	$ 6,677	$ 1,363
Less movement related to the balance sheet		
Deferred income tax	(933)	(693)
Deferred revenue	(817)	(31)
Net movement in regulatory deferral account balances related to profit or loss and the related deferral tax movement	$ 4,927	$ 639

Note 1 KWHI has been approved for collection of these amounts in its 2019 filing for 2020 rates.

Note 2 KWHI has not sought approval for the disposition of this amount as changes in underlying assumptions may reduce the amounts recorded in the account. KWHI may seek refunds in the future.

(Expressed in thousands of dollars)

11. Long-term debt:

Effective August 1, 2000, the Corporation incurred unsecured promissory notes payable to the Corporation of the City of Kitchener and the Corporation of the Township of Wilmot, and have an interest rate of 4.88% per annum. Interest is payable in quarterly installments, in arrears, on March 31st, June 30th, September 30th and December 31st. Beginning in 2020, the interest rate has been adjusted to 3.23%.

Effective February 1, 2010, the Corporation entered into a ten year senior unsecured debenture payable to Ontario Infrastructure Projects Corporation. An initial payment of $7,000 was received February 1, 2010, followed by a second payment of $3,000 on May 17, 2010. The debenture has an interest rate of 4.28%, and interest is payable in equal semi-annual installments, in arrears, on May 17th and November 17th each year commencing November 17, 2010 until maturity in 2020.

	2019	2018
Senior unsecured debentures:		
City of Kitchener	$ 70,998	$ 70,998
Township of Wilmot	5,965	5,965
Ontario Infrastructure Projects Corporation	607	1,782
Senior unsecured debentures, net proceeds	$ 77,570	$ 78,745
Less: current portion of long-term debt	$ (607)	$ (1,176)
Total long-term debt	$ 76,963	$ 77,569

12. Employee future benefits:

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2019 of $5,858 was based on an actuarial valuation completed in 2020 using a discount rate of 3.1% (3.9% in prior years).

(Expressed in thousands of dollars)

12. Employee future benefits (continued):

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

		2019		2018
Defined benefit obligation, beginning of year	$	5,305	$	5,213
Current service cost		160		162
Interest cost		202		199
Benefits paid during the year		(274)		(269)
Actuarial loss recognized in other comprehensive income		465		-
Accrued benefit liability, end of year	$	5,858	$	5,305

Components of net benefit expense recognized are as follows:

		2019		2018
Current service cost	$	160	$	162
Interest cost		202		199
Net benefit expense recognized	$	362	$	361

Actuarial losses recognized in other comprehensive income:

		2019		2018
Cumulative amount at January 1	$	(278)	$	(278)
Recognized during the year		(342)		-
Cumulative amount at December 31	$	(620)	$	(278)

(Expressed in thousands of dollars)

12. Employee future benefits (continued):

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

		2019	2018
Accrued benefit obligation:			
Discount rate		3.1%	3.9%
Benefit cost for the year:	Age		
Withdrawal rate	18-29	3.50%	3.50%
	30-34	2.00%	2.50%
	35-39	1.7%	2.2%
	40-49	1.3%	1.8%
	50-54	1.0%	1.4%
Assumed health care cost trend rates:			
Initial health care cost trend rate	Health	4.2%	6.2%
	Dental	4.5%	4.5%

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:

	Benefit Obligation	Periodic Benefit Cost
1% increase in health care trend rate	$ 212	$ 22
1% decrease in health care trend rate	$ (190)	$ (19)

Historical Information

Amounts for the current and previous year, for the entire plan, are as follows:

	2019	2018
Defined benefit obligation	$ 5,858	$ 5,305
Experience adjustments	$ (342)	$ -

(Expressed in thousands of dollars)

12. Employee future benefits (continued):

The main actuarial assumptions utilized for the valuation are as follows:

General inflation - future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2% in 2019, and thereafter (2018 - 2%).

Discount (interest) rate - the discount rate used to determine the present value of future liabilities and the expense for the year ended December 31, 2019, was 3.1% (2018 – 3.9%).

Salary levels - future general salary and wage levels were assumed to increase at 3.3% (2018 - 3.3%) per annum.

Medical costs - medical costs were assumed to be 4.5% for 2019 (5.99% for 2018), increasing annually to 5.3% in 2025.

Dental costs - dental costs were assumed to be 4.5% for 2019, increasing annually to 5.6% in 2025.

13. Customer and IESO deposits:

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

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

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

The Corporation delivers conservation and demand management programs for its customers on behalf of the IESO. Prepayments received from the IESO have been recorded and will be transferred to revenue as programs are delivered and the revenue is earned.

The deposits comprise:

		2019		**2018**
Customer deposits	$	7,414	$	7,471
Construction deposits		6,982		5,630
IESO deposit for energy conservation programs		1,158		1,158
Total customer deposits	$	15,554	$	14,259

(Expressed in thousands of dollars)

14. Share capital:

		2019		2018
Authorized:				
Unlimited number of common shares				
Issued:				
10,000 common shares	$	63,689	$	63,689

Dividends:

The holder of the common shares is entitled to receive dividends as declared from time to time.

The Corporation paid aggregate dividends in the year on common shares of $4,034 (2018 - $5,571).

15. Other operating revenue:

Other income comprises:

		2019		2018
Specific service charges	$	1,375	$	1,163
Deferred revenue		908		782
Scrap sales		190		175
Net gain on disposal of capital assets		36		128
Retailer services		44		28
Sundry		48		77
Total other income	$	2,601	$	2,353

16. Finance income and expense:

		2019		2018
Interest income on bank deposits	$	417	$	492
Finance income		417		492
Interest expense on long-term debt		3,816		3,864
Interest expense on BMO letter of credit		122		123
Interest expense on deposits		170		121
Other		11		11
		4,119		4,119
Net finance costs recognized in profit or loss	$	3,702	$	3,627

(Expressed in thousands of dollars)

17. Commitments and contingencies:

Contractual Obligations

There are no contractual obligations.

General

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

General Liability Insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the 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. Guarantees:

Guarantees are not applicable to the Corporation.

19. Pension agreement:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2019, the Corporation made employer contributions of $1,661 to OMERS (2018 - $1,601). The Corporation's net benefit expense has been allocated as follows:

(a) $459 (2018 - $444) capitalized as part of property, plant and equipment;

(b) $1,202 (2018 - $1,157) charged to net income.

The Corporation estimates that a contribution of $1,738 to OMERS will be made during the next fiscal year.

20. Employee benefits:

	2019	2018
Salaries, wages and benefits	$ 19,022	$ 18,592
CPP and EI remittances	722	697
Contributions to OMERS	1,661	1,601
Expenses related to defined benefit plans	361	361
	$ 21,766	$ 21,251

(Expressed in thousands of dollars)

21. Related party transactions:

(a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is Kitchener Power Corp., which in turn is wholly-owned by the Corporation of the City of Kitchener and the Corporation of the Township of Wilmot. The City and the Township produce financial statements that are available for public use.

(b) Entity with significant influence:

The Corporation of the City of Kitchener exercises significant influence over the Corporation through its 92.25% ownership interest in the Corporation.

(c) Key management personnel:

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

	2019	2018
Directors' fees	$ 58	$ 61
Salaries and other short-term benefits	993	925
Post employment benefits	18	17
Other long-term benefits (OMERS)	84	77
	$ 1,153	$ 1,080

(d) Transactions with entity with significant influence:

In the ordinary course of business, the Corporation delivers electricity to the Corporation of the City of Kitchener. Electricity is billed to the Corporation of the City of Kitchener at prices and under terms approved by the OEB.

(e) Transactions with ultimate parent (the Corporation of the City of Kitchener):

In 2019, the Corporation had the following significant transactions with its ultimate parent, a government entity:

- construction
- streetlight maintenance services under contract through a related party, Kitchener Energy Services Inc.

22. Financial instruments and risk management:

Fair value disclosure

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

The fair value of the long term debt (senior unsecured debentures issued by the shareholders (Corporation of the City of Kitchener and Corporation of the Township of Wilmot) approximates the carrying value due to the short term nature of the loan.

The fair value of the long term debt (senior unsecured debentures) issued by Ontario Infrastructure Projects Corporation at December 31, 2019 is $607 (2018 - $1,800). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2019 was 4.28% (2018 – 4.28%).

Financial risks

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

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Kitchener and the Township of Wilmot. As of December 31, 2019, two customers accounted for more than 1% of total accounts receivable, totaling $756 (or 4.3%) out of a total accounts receivable of $17,477.

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 $250 (2017 - $250). An impairment loss of $44 (2018 - $183) was recognized during the year.

22. Financial instruments and risk management (continued):

(a) Credit risk (continued):

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2019, approximately $245 (2018 - $242) is considered 60 days past due. The Corporation has over 97 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 Corporation holds security deposits in the amount of $15,600 (2018 - $14,300).

(b) Market risk:

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

A 1% increase in the interest rate at December 31, 2019 would have increased interest expense on the long-term debt by $6 (2018 - $18), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a $5,000 credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due. As at December 31, 2019, no amounts had been drawn under Bank of Montreal credit facility (2018 - $ nil).

The Corporation also has a bilateral facility for $35,000 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $35,000 has been drawn and posted with the IESO (2018 - $35,000).

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

(Expressed in thousands of dollars)

22. Financial instruments and risk management (continued):

(d) Capital disclosures:

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

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2019, shareholder's equity amounts to $159,432 (2018 - $153,011) and long-term debt amounts to $76,963 (2018 - $77,569).

23. Revenue from Contracts with Customers

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

		2019		2018
Revenue from Contracts with Customers	$	246,092	$	236,777
Other Revenue:				
CDM programs		1,676		4,971
Other		1,620		1,675
Total	**$**	**249,388**	**$**	**243,423**

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

		2019		2018
Residential	$	93,701	$	89,870
Commercial		149,386		144,107
Large Users		1,448		1,382
Other		1,557		1,418
Total Revenue	**$**	**246,092**	**$**	**236,777**

24. Change in Accounting Policy

Corporation adopted IFRS 16 in its financial statements for the annual period beginning January 1, 2019. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by the lessor. Other areas of the lease accounting model have been impacted, including the definition of a lease.

The Corporation has no leases under the definition provided by IFRS 16, or previously under IAS 17. Therefore, there was no impact from IFRS 16 on the results of operations, financial position and disclosures.

25. Future accounting pronouncements:

At the date of authorization of these financial statements, several new, but not yet effective, standards and amendments to existing standards, and Interpretations have been published by the IASB. None of these standards or amendments to existing standards have been adopted early by the Corporation.

New standards, amendments and interpretations not adopted in the current year include the following:

Amendments to References to Conceptual Framework in IFRS Standards.

Definition of a Business (Amendments to IFRS 3).

Definition of Material (Amendments to IAS 1 and IAS 8).

Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The Corporation is currently assessing the impact of these standards.

26. Subsequent Event:

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Ontario resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect our business is not known at this time.

Financial Statements of

Kitchener-Wilmot Hydro Inc.

And Independent Auditors' Report thereon

Year ended December 31, 2020
(Expressed in thousands of dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Kitchener-Wilmot Hydro Inc.

Opinion

We have audited the financial statements of Kitchener-Wilmot Hydro Inc. (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

March 26, 2021

KITCHENER-WILMOT HYDRO INC.

Statement of Financial Position

As at December 31, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

	Note	2020	2019
Assets			
Current assets			
Cash	4	$ 6,363	$ 13,357
Accounts receivable	5	15,680	17,477
Unbilled revenue		29,865	27,648
Inventory	6	2,458	2,324
Prepaid expenses		1,146	1,347
Income taxes receivable		-	131
Total current assets		55,512	62,284
Non-current assets:			
Property, plant and equipment	7	275,014	259,864
Intangible assets	8	646	629
Total non-current assets		275,660	260,493
Total assets		331,172	322,777
Regulatory deferral account debit balances	10	19,661	9,400
Total assets and regulatory assets		$ 350,833	$ 332,177

KITCHENER-WILMOT HYDRO INC.

Statement of Financial Position

Year ended December 31, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

	Note		2020		2019
Liabilities and Shareholder's Equity					
Current liabilities:					
Accounts payable and accrued liabilities		$	37,670	$	30,048
Income taxes payable			32		-
Current portion of long-term debt	11		-		607
Current portion customer deposits	13		8,945		9,366
Current portion of deferred revenue			1,069		952
Total current liabilities			47,716		40,973
Non-current liabilities:					
Long-term debt	11		76,963		76,963
Employee future benefits	12		5,937		5,858
Long-term customer deposits	13		5,833		6,188
Deferred revenue			39,759		36,385
Deferred tax liability	9		4,415		2,536
Total non-current liabilities			132,907		127,930
Total liabilities			180,623		168,903
Shareholder's equity:					
Share capital - common shares	14		63,689		63,689
Retained earnings			102,645		96,363
Accumulated other comprehensive loss			(620)		(620)
Total shareholder's equity			165,714		159,432
Total liabilities and shareholder's equity			346,337		328,335
Regulatory deferral account credit balances	10		2,276		2,307
Deferred taxes associated with regulatory accounts			2,220		1,535
Impact of COVID-19	26				
Total equity, liabilities and shareholder's equity		$	350,833	$	332,177

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

On behalf of the Board:

D.A. Schuan _____________ Director

J. Van Ooteghem _____________ Director

KITCHENER-WILMOT HYDRO INC.

Statement of Comprehensive Income

Year ended December 31, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

	Note	2020	2019
Energy sales		$ 239,962	$ 206,409
Cost of energy sold		245,909	207,393
		(5,947)	(984)
Other operating revenue			
Distribution revenue		42,690	38,285
Other income	15	2,975	2,601
Net operating revenue		39,718	39,902
Expenses:			
Operations and maintenance		11,112	11,253
Customer services		5,313	4,474
Administration		5,376	4,165
Amortization		10,022	9,550
		31,823	29,442
Other			
Energy conservation program revenue		(727)	(1,676)
Energy conservation program expense		713	1,676
Net energy conservation programs		(14)	-
Finance income	16	(127)	(417)
Finance charges	16	2,981	4,119
Net finance costs		2,854	3,702
Income before income taxes		5,055	6,758
Income tax expense	9	938	888
Income for the year before movements in regulatory deferral account balances and OCI		4,117	5,870
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement	10	6,847	4,927
Other comprehensive loss	12	-	(342)
Total comprehensive income for the year		$ 10,964	$ 10,455

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

KITCHENER-WILMOT HYDRO INC.

Statement of Changes in Equity

Year ended December 31, 2020, with comparative information for 2019
(In thousands of Canadian dollars)

	Share capital	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at January 1, 2019	$ 63,689	$ (278)	$ 89,600	$ 153,011
Net income before other comprehensive income (loss)	-	-	10,797	10,797
Other comprehensive income (loss)	-	(342)	-	(342)
Dividends	-	-	(4,034)	(4,034)
Balance at December 31, 2019	63,689	(620)	96,363	159,432
Net income before other comprehensive income (loss)	-	-	10,964	10,964
Other comprehensive income	-	-	-	-
Dividends	-	-	(4,682)	(4,682)
Balance at December 31, 2020	$ 63,689	$ (620)	$ 102,645	$ 165,714

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

KITCHENER-WILMOT HYDRO INC.

Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

	2020	2019
Cash flows from operating activities:		
Total comprehensive income for the year	$ 10,964	$ 10,455
Adjustments to reconcile net income to cash provided by (used in) operations:		
Amortization	10,752	10,251
Amortization of deferred revenue	(1,016)	(908)
Gain on disposal of property, plant and equipment	(149)	(36)
Income tax expense	938	888
Income taxes paid	(797)	(1,515)
Increase in employee future benefits	77	551
	20,769	19,686
Change in non-cash operating working capital:		
Accounts receivable	1,797	1,055
Unbilled revenue	(2,216)	(5,526)
Inventory	(134)	(375)
Prepaid expenses	201	(302)
Accounts payable and accrued liabilities	7,623	7,396
Other current liabilities	(303)	1,339
Change in regulatory assets	(10,261)	(2,035)
Change in regulatory liabilities	654	(4,348)
Change in deferred tax	1,900	516
Net cash from operating activities	20,030	17,406
Cash flows from investing activities:		
Proceeds on disposals of property, plant and equipment	151	40
Purchase of property, plant and equipment	(25,536)	(24,487)
Purchase of intangible assets	(385)	(315)
Net cash used in investing activities	(25,770)	(24,762)
Cash flows from financing activities:		
Net change in customer deposits	(355)	52
Dividends paid out	(4,682)	(4,034)
Change in contributed capital received	4,390	4,383
Repayment of long-term debt	(607)	(1,176)
Net cash from financing activities	(1,254)	(775)
Change in cash and cash equivalents	(6,994)	(8,131)
Cash and cash equivalents, beginning of year	13,357	21,488
Cash and cash equivalents, end of year	$ 6,363	$ 13,357

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

1. Reporting entity:

Kitchener-Wilmot Hydro Inc. (the "Corporation") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the City of Kitchener. The address of the Corporation's registered office is 301 Victoria Street South, Kitchener, Ontario, Canada.

The Corporation delivers electricity and related energy services to residential and commercial customers in the City of Kitchener and the Township of Wilmot. The Corporation is wholly owned by Kitchener Power Corporation, which is itself wholly owned by the Corporation of the City of Kitchener and the Corporation of the Township of Wilmot.

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

2. Basis of presentation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements were approved by the Board of Directors on March 26, 2021.

(b) Basis of measurement:

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

(i) Where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair value.

(ii) Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 22.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

2. Basis of presentation (continued):

(d) Use of estimates and judgments (continued):

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

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

i) Note 3(b) – Determination of the performance obligation for contributions from customers and the related amortization period
ii) Note 7 – Property, plant and equipment
iii) Note 9 – Deferred tax assets
iv) Note 12 – Employee future benefits
v) Note 17 – Commitments and contingencies

(e) Rate regulation:

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

Rate setting:

Distribution revenue and electricity rates

The OEB sets electricity prices for low-volume consumers based on an estimate of how much it will cost to supply the province with electricity for the next year. All low volume customers without a contract with an energy retailer are charged the OEB mandated rate for electricity. If a customer (regardless of volume) has a retailer agreement, then retailer rates are charged instead. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

2. Basis of presentation (continued):

(e) Rate regulation (continued):

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

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

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

The Corporation filed a COS application on April 30, 2019 for rates effective January 1, 2020 to December 31, 2020.

Electricity rates were impacted by the COVID-19 pandemic, distribution rates were unaffected, which has been discussed further in Note 26.

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:

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

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

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

The Corporation has not entered into derivative instruments.

Hedge accounting has not been used in the preparation of these financial statements.

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

(b) Revenue recognition:

Sale and distribution of electricity

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

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

3. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Capital contributions

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

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

Other revenue

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

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(c) Inventory:

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on a weighted 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:

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation. Consistent with IFRS 1, the Corporation elected to use the carrying amount as previously

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

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

determined under Canadian GAAP as the deemed cost at January 1, 2014, the transition date to IFRS.

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.

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 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 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 Corporation 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 amortized until the projects are complete and in service.

The estimated useful lives are as follows:

Buildings	**20-50 years**
Transformer station equipment	**15-50 years**
Distribution station equipment	**15-50 years**
Distribution system	**25-60 years**
Meters	**15-25 years**
SCADA equipment	**15 years**
Other capital assets	**3-10 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 Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Land rights:

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Corporation does not hold title. Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Amortization:

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

Computer software	**3-10 years**
Land rights	**100 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 loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

3. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

(g) Provisions:

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

3. Significant accounting policies (continued):

(h) Regulatory deferral accounts:

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The debit balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

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

The probability of recovery or repayment of the regulatory account balances 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. With the exception of Pension and OEB Forecast Accrual accounts (OPEBs), the rates from January to June 2020 were 2.18%, and July to December 2020 were 0.57%. Prior year rates from January to March 2019 were 2.45%, April to December 2019 were 2.18%.

In 2020, OPEBs were 2.88% for the period January to March, 2.48% for the period April to September and 2.03% for period October to December. In 2019, OPEBs were 3.82% for the period January to March, 3.39% for the period April – June and 2.88% for the period July to December.

3. Significant accounting policies (continued):

(i) Employee future benefits:

(i) Pension plan:

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("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.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. 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 Corporation 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.

3. Significant accounting policies (continued):

(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. Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity, and is amortized to income on a straight-line basis over the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

(k) Leased assets:

This policy is effective for periods before January 1, 2019. Refer to Note 24 for the change in accounting policy to IFRS 16.

Leases, where the terms cause the Corporation to assume substantially all the risks and rewards of ownership, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation’s balance sheet. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(l) Finance income and finance costs:

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

Finance charges comprise interest expense on borrowings, finance lease obligations, regulatory liabilities and unwinding of the discount on provisions and impairment losses on financial assets. Finance costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(m) Income taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

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

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

4. Cash:

	2020	2019
Cash	$ 6,363	$ 13,357

5. Accounts receivable:

	2020	2019
Customer and other trade receivables	$ 15,588	$ 17,252
Trade receivables from related parties	92	225
	$ 15,680	$ 17,477

6. Inventory:

The amount of inventory consumed by the Corporation and recognized as an expense during 2020 was $279 (2019 - $363).

(Expressed in thousands of dollars)

7. Property, plant and equipment:

(a) Cost or deemed cost:

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2020	$ 24,729	$ 260,009	$ 12,976	$ 5,487	$ 303,201
Additions	1,709	17,846	5,631	350	25,536
Transfers	-	-	-	-	-
Disposals/Retirements	(5)	(62)	(1,182)	-	(1,249)
Balance at December 31, 2020	$ 26,433	$ 277,793	$ 17,425	$ 5,837	$ 327,488

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2019	$ 24,463	$ 242,418	$ 8,850	$ 3,622	$ 279,353
Additions	279	17,723	4,614	1,865	24,481
Transfers	-	-	-	-	-
Disposals/Retirements	(13)	(132)	(488)	-	(633)
Balance at December 31, 2019	$ 24,729	$ 260,009	$ 12,976	$ 5,487	$ 303,201

(b) Accumulated depreciation:

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2020	$ 2,718	$ 37,766	$ 2,853	$ -	$ 43,337
Depreciation charge	716	8,317	1,351	-	10,384
Disposals/Retirements	(5)	(62)	(1,180)	-	(1,247)
Balance at December 31, 2020	$ 3,429	$ 46,021	$ 3,024	$ -	$ 52,474

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
Balance at January 1, 2019	$ 2,053	$ 30,012	$ 2,059	$ -	$ 34,124
Depreciation charge	678	7,886	1,282	-	9,846
Disposals/Retirements	(13)	(132)	(488)	-	(633)
Balance at December 31, 2019	$ 2,718	$ 37,766	$ 2,853	$ -	$ 43,337

(Expressed in thousands of dollars)

7. Property, plant and equipment (continued):

(c) Carrying amounts:

	Land and buildings	Distribution equipment	Other fixed assets	Construction-in-progress	Total
At December 31, 2020	$ 23,004	$ 231,772	$ 14,401	$ 5,837	$ 275,014
At December 31, 2019	$ 22,011	$ 222,243	$ 10,123	$ 5,487	$ 259,864

(d) Leased plant and equipment:

The Corporation does not have leases for plant or equipment.

(e) Security:

At December 31, 2019, the Corporation had zero properties subject to a general security agreement.

(f) Borrowing costs:

During the year, borrowing costs of $ nil (2019 - $ nil) were capitalized as part of the cost of property, plant and equipment.

(g) Allocation of depreciation and amortization:

The depreciation of property, plant and equipment and the amortization of intangible assets has been allocated to profit or loss as follows:

	Operations and maintenance expense	Customer services expense	General and administration expense	Energy Conservation expense	Other	Total
December 31, 2020:						
Depreciation of property, plant and equipment	$ 717	$ 6	$ -	$ 7	$ 9,654	$ 10,384
Amortization of intangible assets	-	-	-	-	368	368
	$ 717	$ 6	$ -	$ 7	$ 10,022	$ 10,752
December 31, 2019:						
Depreciation of property, plant and equipment	$ 688	$ 6	$ -	$ 7	$ 9,145	$ 9,846
Amortization of intangible assets	-	-	-	-	405	405
	$ 688	$ 6	$ -	$ 7	$ 9,550	$ 10,251

(Expressed in thousands of dollars)

8. Intangible assets:

(a) Cost or deemed cost:

	Computer Software	Land Rights	Total
Balance at January 1, 2020	$ 3,120	$ 8	$ 3,128
Additions	385	-	385
Disposals	-	-	-
Balance at December 31, 2020	$ 3,505	$ 8	$ 3,513
Balance at January 1, 2019	$ 2,802	$ 8	$ 2,810
Additions	321	-	321
Disposals	4	-	4
Balance at December 31, 2019	$ 3,119	$ 8	$ 3,127

(b) Accumulated amortization:

	Computer Software	**Land Rights**	**Total**
Balance at January 1, 2020	$ 2,491	$ 8	$ 2,499
Additions	368	-	368
Balance at December 31, 2020	$ 2,859	$ 8	$ 2,867
Balance at January 1, 2019	$ 2,086	$ 8	$ 2,094
Additions	404	-	404
Balance at December 31, 2019	$ 2,490	$ 8	$ 2,498

(c) Carrying amounts:

	Computer Software	**Land Rights**	**Total**
At December 31, 2020	$ 646	$ -	$ 646
At December 31, 2019	$ 629	$ -	$ 629

(Expressed in thousands of dollars)

9. Income tax expense:

		2020		2019
Current period	$	1,292	$	1,129
Adjustment for prior periods		(332)		(194)
	$	960	$	935

Deferred tax expense:

		2020		2019
Original & reversal of temporary differences	$	(21)	$	(47)
Change in unrecognized deductible temporary differences		(1)		-
	$	(22)	$	(47)

Reconciliation of effective tax rate:

		2020		2019
Total comprehensive income for the year	$	10,964	$	10,455
Total income tax expense		938		888
Comprehensive income before income taxes		11,902		11,343
Income tax using the Corporation's statutory tax rate of 26.5%		3,154		3,006
Temporary differences not benefitted		(1,884)		(1,924)
Under (over) provided in prior periods		(332)		(194)
	$	938	$	888

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

		2020		2019
Deferred tax assets (liabilities):				
Plant and equipment	$	(16,989)	$	(14,168)
Non-vested sick leave		168		168
Employee benefits		1,573		1,429
Ontario refundable tax credits		14		18
Actuarial gain/loss		-		123
Deferred revenue - contributed capital		10,819		9,894
	$	(4,415)	$	(2,536)

(Expressed in thousands of dollars)

10. Regulatory deferral account balance:

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

	2019	Balances arising in the period	Recovery/ Reversal	Other	2020	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances						
Group 1 deferred accounts	$ 1,239	$ 2,202	$ 5,428	$ (153)	$ 8,716	Note 1, Note 3
Regulatory asset recovery account	630	285	(141)	-	774	Note 1
Smart meter recovery	13	-	(13)	-	-	1 Year
Deferred tax asset	5790	2,585	-	-	8,375	Note 2
LRAM	837	1,728	(837)	-	1,728	1 Year
Other	891	69	(892)	-	68	1 Year
Total amount related to regulatory deferral account debit balances	**$ 9,400**	**$ 6,869**	**$ 3,545**	**$ (153)**	**$ 19,661**	

	2019	Balances arising in the period	Recovery/ Reversal	Other	2020	Remaining recovery/ reversal period (years)
Regulatory deferral account credit balances						
Group 1 deferred accounts	$ 1,057	$ 975	$ (160)	$ (152)	$ 1,720	Note 1
Regulatory asset recovery account	-	-	-	-	-	Note 1
Other	1,250	2	(696)	-	556	1 Year
Total amount related to regulatory deferral account credit balances	**$ 2,307**	**$ 977**	**$ (856)**	**$ (152)**	**$ 2,276**	

	2020	2019
Movements in regulatory accounts		
Net change in regulatory deferral account debit and credit balances	$ 10,292	$ 6,677
Less movement related to the balance sheet		
Deferred income tax	(2,585)	(933)
Deferred revenue	(860)	(817)
Net movement in regulatory deferral account balances related to profit or loss and the related deferral tax movement	$ 6,847	$ 4,927

Note 1 KWHI expects to be approved for collection of these amounts in its 2021 filing for 2022 rates

Note 2 KWHI has not sought approval for the disposition of this amount as changes in underlying assumptions may reduce the amounts recorded in the account. KWHI may seek refunds in the future.

Note 3 In December 2020, KWHI was informed that beginning June 2015 charges were not included in the monthly power bill for one delivery point for Transmission Network Charges. KWHI has accrued a payable of $6 million, offset by a regulatory asset. These monies are expected to begin being collected through a Board approved rate rider in 2022.

(Expressed in thousands of dollars)

10. Regulatory deferral account balance (continued):

Note 4 COVID-19 Emergency Deferral

The COVID-19 emergency deferral account comprises of five sub-accounts established to track incremental costs and lost revenues related to the COVID-19 pandemic: (i) Billing and System Changes as a Result of the Emergency Order Regarding Time-of-Use Pricing, (ii) Lost Revenues Arising from the COVID-19 Emergency, (iii) Other Incremental Costs, (iv) Foregone Revenues from Postponing Rate Implementation, and (v) Bad Debt.

On December 16, 2020, the OEB Staff released their proposal on the COVID-19 deferral accounts which introduces certain criteria to that may need to be satisfied for amounts to be eligible for recovery. Based on this information, management believes there is high uncertainty in regards to the recoverability of costs and lost revenues related to government and OEB customer relief actions, and therefore a low probability of recovery. Costs directly related to the implementation of safety measures as a result of the COVID-19 pandemic were tracked. $69k has been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2020.

11. Long-term debt:

Effective August 1, 2000, the Corporation incurred unsecured promissory notes payable to the Corporation of the City of Kitchener and the Corporation of the Township of Wilmot, and have an interest rate of 3.23% per annum. Interest is payable in quarterly installments, in arrears, on March 31st, June 30th, September 30th and December 31st. In 2019 the interest rate was 4.88%

Effective February 1, 2010, the Corporation incurred a ten year senior unsecured debenture payable to Ontario Infrastructure Projects Corporation. An initial payment of $7,000 was received February 1, 2010, followed by a second payment of $3 million on May 17, 2010. The debenture had an interest rate of 4.28%, and interest was payable in equal semi-annual installments, in arrears, on May 17th and November 17th each year commencing November 17, 2010. The debenture was paid off in 2020 in accordance with the payment schedule.

		2020		2019
Senior unsecured debentures:				
City of Kitchener	$	70,998	$	70,998
Township of Wilmot		5,965		5,965
Ontario Infrastructure Projects Corporation		-		607
Senior unsecured debentures, net proceeds	$	76,963	$	77,570
Less: current portion of long-term debt	$	-	$	(607)
Total long-term debt	$	76,963	$	76,963

(Expressed in thousands of dollars)

12. Employee future benefits:

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability at December 31, 2020 of $5,937 was based on an actuarial valuation completed in 2020 using a discount rate of 3.1% (3.1% in 2019).

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

		2020		2019
Defined benefit obligation, beginning of year	$	5,858	$	5,305
Current service cost		192		160
Interest cost		178		202
Benefits paid during the year		(291)		(274)
Actuarial loss recognized in other comprehensive income		-		465
Accrued benefit liability, end of year	$	5,937	$	5,858

Components of net benefit expense recognized are as follows:

		2020		2019
Current service cost	$	192	$	160
Interest cost		178		202
Net benefit expense recognized	$	370	$	362

Actuarial losses recognized in other comprehensive income:

		2020		2019
Cumulative amount at January 1	$	(620)	$	(278)
Recognized during the year (net of tax)		-		(342)
Cumulative amount at December 31	$	(620)	$	(620)

(Expressed in thousands of dollars)

12. Employee future benefits (continued):

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

		2020	2019
Accrued benefit obligation:			
Discount rate		3.1%	3.1%
Benefit cost for the year:	Age		
Withdrawal rate	18-29	3.50%	3.50%
	30-34	2.00%	2.00%
	35-39	1.7%	1.7%
	40-49	1.3%	1.3%
	50-54	1.0%	1.0%
Assumed health care cost trend rates:			
Initial health care cost trend rate	Health	4.4%	4.2%
	Dental	4.7%	4.5%

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:

	Benefit Obligation	Periodic Benefit Cost
1% increase in health care trend rate	$ 215	$ 22
1% decrease in health care trend rate	$ (193)	$ (19)

Historical Information

Amounts for the current and previous year, for the entire plan, are as follows:

	2020	2019
Defined benefit obligation	$ 5,937	$ 5,858
Experience adjustments	$ -	$ (342)

(Expressed in thousands of dollars)

12. Employee future benefits (continued):

The main actuarial assumptions utilized for the valuation are as follows:

General inflation - future general inflation levels, as measured by the changes in the Consumer Price Index, were assumed at 2% in 2020, and thereafter (2019 - 2%).

Discount (interest) rate - the discount rate used to determine the present value of future liabilities and the expense for the year ended December 31, 2020, was 3.1% (2019 - 3.1%).

Salary levels - future general salary and wage levels were assumed to increase at 3.3% (2019 - 3.3%) per annum.

Medical costs - medical costs were assumed to be 4.4% for 2020, (2019 - 4.5%) increasing annually to 4.9% in 2022.

Dental costs - dental costs were assumed to be 4.7% for 2020 increasing annually to 5.1% in 2022.

13. Customer and IESO deposits:

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

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

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

The Corporation delivers conservation and demand management programs for its customers on behalf of the IESO. Prepayments received from the IESO have been recorded and will be transferred to revenue as programs are delivered and the revenue is earned.

The deposits comprise:

	2020	2019
Customer deposits	$ 6,424	$ 7,414
Construction deposits	7,196	6,982
IESO deposit for energy conservation programs	1,158	1,158
Total customer deposits	$ 14,778	$ 15,554

(Expressed in thousands of dollars)

14. Share capital:

		2020		2019
Authorized:				
Unlimited number of common shares				
Issued:				
10,000 common shares	$	63,689	$	63,689

Dividends:

The holders of the common shares are entitled to receive dividends as declared from time to time. The Corporation paid aggregate dividends in the year on common shares of $4,682 (2019 - $4,034).

15. Other operating revenue:

Other income comprises:

		2020		2019
Specific service charges	$	1,552	$	1,375
Deferred revenue		1,016		908
Scrap sales		101		190
Net gain on disposal of capital assets		149		36
Retailer services		48		44
Sundry		109		48
Total other income	$	2,975	$	2,601

16. Finance income and expense:

		2020		2019
Interest income on bank deposits	$	127	$	417
Finance income		127		417
Interest expense on long-term debt		2,496		3,816
Interest expense on short-term debt		271		-
Interest expense on BMO letter of credit		123		122
Interest expense on deposits		91		170
Other		-		11
		2,981		4,119
Net finance costs recognized in profit or loss	$	2,854	$	3,702

(Expressed in thousands of dollars)

17. Commitments and contingencies:

Contractual Obligations

There are no contractual obligations.

General

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

General Liability Insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2020, no assessments have been made.

18. Guarantees:

Guarantees are not applicable to the Corporation.

19. Pension agreement:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2020, the Corporation made employer contributions of $1,723 to OMERS (2019 - $1,661). The Corporation's net benefit expense has been allocated as follows:

(a) $449 (2019 - $459) capitalized as part of property, plant and equipment;

(b) $1,274 (2019 - $1,202) charged to net income.

The Corporation estimates that a contribution of $1,739 to OMERS will be made during the next fiscal year.

20. Employee benefits:

	2020	2019
Salaries, wages and benefits	$ 19,684	$ 19,022
CPP and EI remittances	732	722
Contributions to OMERS	1,723	1,661
Expenses related to defined benefit plans	370	361
	$ 22,509	$ 21,766

(Expressed in thousands of dollars)

21. Related party transactions:

(a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is Kitchener Power Corp., which in turn is wholly-owned by the Corporation of the City of Kitchener and the Corporation of the Township of Wilmot. The City and the Township produce financial statements that are available for public use.

(b) Entity with significant influence:

The Corporation of the City of Kitchener exercises significant influence over the Corporation through its 92.25% ownership interest in the Corporation.

(c) Key management personnel:

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

	2020	2019
Directors' fees	$ 67	$ 58
Salaries and other short-term benefits	1,061	993
Post employment benefits	19	18
Other long-term benefits (OMERS)	90	84
	$ 1,237	$ 1,153

(d) Transactions with entity with significant influence:

In the ordinary course of business, the Corporation delivers electricity to the Corporation of the City of Kitchener. Electricity is billed to the Corporation of the City of Kitchener at prices and under terms approved by the OEB.

(e) Transactions with ultimate parent (the Corporation of the City of Kitchener):

In 2020, the Corporation had the following significant transactions with its ultimate parent, a government entity:

- construction
- streetlight maintenance services under contract through a related party, Kitchener Energy Services Inc.

22. Financial instruments and risk management:

Fair value disclosure

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

The fair value of the long term debt (senior unsecured debentures issued by the shareholders (Corporation of the City of Kitchener and Corporation of the Township of Wilmot) approximates the carrying value due to the short term nature of the loan.

The fair value of the long term debt (senior unsecured debentures) issued by Ontario Infrastructure Projects Corporation at December 31, 2020 is zero (2019 - $607). The final loan balance was paid in full in 2020. The fair value prior to 2020 was calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at was 4.28%.

Financial risks

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

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Kitchener and the Township of Wilmot. As of December 31, 2020, two customers accounted for more than 1% of total accounts receivable, totaling $341 (or 2.2%) out of a total accounts receivable of $15,680.

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, 2020 is $500 (2019 - $250). The allowance was increased due to an expected increase in Covid-19 related bad debt. An impairment loss of $793 (2019 - $44) was recognized during the year. This included a significant loss of $385 as a result of the bankruptcy of a single customer in 2020, in addition to a general increase due to the pandemic lockdowns. The future impact of the pandemic remains uncertain.

22. Financial instruments and risk management (continued):

(a) Credit risk (continued):

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2020, approximately $314 (2019 - $245) is considered 60 days past due. The Corporation has over 99 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, 2020, the Corporation holds security deposits in the amount of $14,800 (2019 - $15,600).

(b) Market risk:

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

A 1% increase in the interest rate at December 31, 2020 would have increased interest expense on the long-term debt by $nil (2019 - $6), assuming all other variables remain constant as the Infrastructure Ontario loan was paid in full during the year. A 1% decrease in the interest rate would have an equal but opposite effect.

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a $35,000 credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due. As at December 31, 2020, no amounts had been drawn under Bank of Montreal credit facility (2019 - $nil).

The Corporation also has a bilateral facility for $35,000 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $35,000 has been drawn and posted with the IESO (2019 - $35,000).

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

The Company's currently available liquidity is also expected to be sufficient to address any reasonably foreseeable impacts that the COVID-19 pandemic may have on the Company's cash requirements.

(Expressed in thousands of dollars)

22. Financial instruments and risk management (continued):

(d) Capital disclosures:

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

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2020, shareholder's equity amounts to $165,714 (2019 - $159,432) and long-term debt amounts to $76,963 (2019 - $76,963).

23. Revenue from Contracts with Customers

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

		2020		2019
Revenue from Contracts with Customers	$	284,230	$	246,092
Other Revenue:				
CDM programs		727		1,676
Other		1,524		1,620
Total	**$**	**286,481**	**$**	**249,388**

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

		2020		2019
Residential	$	127,780	$	93,701
Commercial		153,515		149,386
Large Users		1,346		1,448
Other		1,589		1,557
Total Revenue	**$**	**284,230**	**$**	**246,092**

24. Change in Accounting Policy

The International Accounting Standards Board (IASB) has issued the following Standards, Interpretations and Amendments to Standards that were adopted by the Company effective January 1, 2020:

- Amendments to Hedge Accounting Requirements - IBOR Reform and its Effects on Financial Reporting (Phase 1)
- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Covid-19-Related Rent Concessions (Amendment to IFRS 16)

The amendments and clarifications did not have an impact on the financial statements.

25. Future accounting pronouncements:

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Company and it is still to be determined if any will have a material impact on the Company's financial statements.

(a) Property, Plant and Equipment -- Proceeds before Intended Use (Amendments to IAS 16)

On May 14, 2020, the IASB issued Property, Plant and Equipment -- Proceeds before Intended Use (Amendments to IAS 16). The amendments clarify that proceeds from selling items before the related item of Property, Plant and Equipment is available for use should be recognised in profit or loss, together with the cost of producing those items. The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

(b) Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

On May 14, 2020, the IASB issued Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37). This amendment clarifies which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted.

25. Future accounting pronouncements (continued):

(c) Annual Improvements to IFRS Standards 2018 -2020

On May 14, 2020, the IASB issued *Annual Improvements to IFRS Standards 2018 -2020.*
The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.
IFRS 9 *Financial Instruments*
Clarifies which fees are included for the purpose of performing the `10 per cent test' for derecognition of financial liabilities.
IFRS 16 *Leases*
Removes the illustration of payments from the lessor relating to leasehold improvements.
The impact of adoption of these improvements is not expected to have an impact on the business.

(d) Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

On August 27, 2020, the IASB finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS Standards.

The amendments are effective for annual periods beginning on or after January 1, 2021. Earlier application is permitted. The impact of adoption of these amendments is not expected to have an impact on the business.

26. Impact of COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. On March 17, 2020, the Ontario Government declared a State of Emergency pursuant to the Emergency Management and Civil Protection Act. The Ontario Government renewed the declaration, as required by the legislation, until July 24, 2020. During the State of Emergency, the Ontario Government issued emergency orders under the legislation and extended them as required by the legislation. On July 24, 2020, the Reopening Ontario (A Flexible Response to COVID-19) Act, 2020 came into effect, bringing the declared State of Emergency to an end. The Reopening Ontario Act also enabled the Ontario Government to extend, amend, and revoke the remaining emergency orders in order to facilitate a flexible response to the ongoing COVID-19 risks.

On March 19, 2020, the OEB extended the ban on disconnecting residential customers to July 31, 2020, in light of the COVID-19 pandemic. For the same reason, at the same time, the OEB also banned the disconnection of other low volume customers (as defined in the OEB Act) prior to July 31, 2020. In addition, the Corporation extended its ban on disconnecting residential and low volume customers until the transition back into the OEB’s annual recurring winter disconnection ban on November 15, 2020.

26. Impact of COVID-19 Pandemic (continued):

On March 24, 2020, the Ontario Government issued an emergency order setting TOU rates for on-peak, mid-peak, and off-peak at 10.1 cents per kWh, which prior to the emergency order was the TOU off-peak rate. That emergency order was effective through May 7, 2020. On May 6, 2020, the Ontario Government issued an emergency order extending those TOU rates through May 31, 2020. On May 30, 2020, the Ontario Government announced the COVID19 Recovery Rate, setting a fixed TOU electricity price at 12.8 cents per kWh, 24 hours a day, seven days a week, effective June 1, 2020 until October 31, 2020. On October 13, 2020, the OEB announced new TOU rates for on-peak, mid-peak, and off-peak, that once again vary according to when electricity is used, effective November 1, 2020. There was no impact to net income to the Corporation.

On March 25, 2020, the OEB established a deferral account for regulatory balances to record the costs of changes to billing systems resulting from the Ontario Government's TOU emergency order, other incremental costs and lost revenues associated with the COVID-19 pandemic. On May 14, 2020, the OEB launched a consultation process to inform its decision-making with respect to how the account will operate, including eligibility requirements, and the process and timing for the disposition. On December 16, 2020, OEB staff issued a proposal with respect to the deferral account and related consultation [note 8].

On August 20, 2020, the Ontario Government amended O. Reg. 95/05 Classes of Consumers and Determination of Rates. Accordingly, customers on the RPP have the choice to pay TOU rates or tiered rates, effective November 1, 2020. By default, RPP customers will pay TOU rates. RPP customers who choose to pay tiered rates will pay a lower rate for consumption below a monthly threshold, and a higher rate for consumption above that threshold. The tiered rates and the threshold are set by the OEB twice per year, at the same time as the OEB sets TOU rates. There was no impact to net income to the Corporation.

On December 15, 2020, the OEB announced new RPP TOU and tiered rates to reflect a decrease in supply cost resulting from the Ontario Government's decision to remove certain renewable generation costs from the global adjustment and funding them directly through the tax base. The reduction was accompanied by a corresponding reduction to the Ontario Electricity Rebate. There was no net income impact to the Corporation.

On December 22, 2020, the Ontario Government amended O. Reg. 95/05 Classes of Consumers and Determination of Rates, setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.5 cents per kWh. That regulatory amendment was effective through January 28, 2021, and most recently extended until February 22, 2021. On February 23, 2021, residential and small business customers resumed paying TOU and tiered pricing under the RPP at prices that were set by the OEB on December 15, 2020. There was no net income impact to the Corporation.

ATTACHMENT N

2019 & 2020 WNHI Financial Statements

Financial Statements of

Waterloo North Hydro Inc.

Year ended December 31, 2019

KPMG LLP
115 King Street South
2nd Floor
Waterloo ON N2J 5A3
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Waterloo North Hydro Inc.

Opinion

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

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

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as 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 Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada
April 16, 2020

Waterloo North Hydro Inc.

STATEMENT OF FINANCIAL POSITION

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

	Note	December 31 2019 $	December 31 2018 $
ASSETS			
Current			
Cash		**-**	5,563,651
Accounts receivable	*4*	**12,752,608**	14,667,770
Unbilled revenue		**18,342,989**	16,842,546
Income tax receivable		**379,694**	-
Inventories		**3,721,642**	2,983,865
Prepaid expenses		**296,937**	640,759
Short-term loan to shareholder	*19*	**-**	100,000
Total current assets		**35,493,870**	40,798,591
Non-current assets			
Property, plant and equipment	*5*	**243,340,517**	234,955,955
Intangible assets	*6*	**3,972,640**	3,543,675
Total non-current assets		**247,313,157**	238,499,630
Total assets		**282,807,027**	279,298,221
Regulatory deferral account debit balances	*8*	**14,520,430**	12,340,302
Total asssets and regulatory deferral account debit balances		**297,327,457**	291,638,523

Waterloo North Hydro Inc.

STATEMENT OF FINANCIAL POSITION

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

	Note	**December 31 2019 $**	**December 31 2018 $**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current			
Accounts payable and accrued liabilities		**19,446,854**	20,560,901
Short-term bank debt	*9*	**396,819**	-
Current portion of long-term debt	*9*	**6,264,000**	5,964,000
Income tax payable		**-**	99,804
Current portion of customer deposits	*12*	**2,816,795**	2,861,592
Total current liabilities		**28,924,468**	29,486,297
Long-term			
Long-term debt	*9*	**72,478,147**	72,759,643
Note payable to shareholder	*10*	**33,513,211**	33,513,211
Derivative liability	*9*	**3,188,963**	1,695,094
Customer deposits	*12*	**4,026,940**	3,988,302
Deferred revenue		**25,862,609**	24,477,325
Post employment benefits	*11*	**4,008,911**	4,578,814
Deferred tax liability	*7*	**8,547,257**	6,825,030
Total long-term liabilities		**151,626,038**	147,837,419
Total liabilities		**180,550,506**	177,323,716
Shareholder's equity			
Share capital	*13*	**26,887,104**	26,887,104
Retained earnings		**75,575,289**	72,346,905
Total shareholder's equity		**102,462,393**	99,234,009
Total liabilities and shareholder's equity		**283,012,899**	276,557,725
Regulatory deferral account credit balances	*8*	**14,314,558**	15,080,798
Total equity, liabilities and regulatory deferral account credit balances		**297,327,457**	291,638,523

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

On behalf of the Board:

Michael Pley, Chair

Micheal Kelly, Vice Chair

Waterloo North Hydro Inc.

STATEMENT OF COMPREHENSIVE INCOME

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

	Note	**2019**	2018
		$	$
REVENUES			
Sales of electricity		**173,746,381**	168,153,027
Distribution services revenue		**35,895,518**	35,500,485
	14	**209,641,899**	203,653,512
Power purchased		**175,424,055**	169,449,010
Net operating revenue		**34,217,844**	34,204,502
Other revenues	*14*	**1,825,877**	2,064,076
		36,043,721	36,268,578
EXPENSES			
Distribution		**7,987,531**	8,244,749
Billing and collecting		**3,110,860**	3,272,050
General administration		**3,426,755**	3,153,965
Property taxes		**458,134**	444,419
Amortization	*5*	**9,952,224**	9,628,663
Total expenses		**24,935,504**	24,743,846
Income before undernoted items		**11,108,217**	11,524,732
Net interest expense	*15*	**(4,920,773)**	(4,853,586)
Unrealized gain (loss) from derivatives	*9*	**(1,493,869)**	429,267
Income from operations before PILs		**4,693,575**	7,100,413
PILs expense	*7*	**1,446,346**	2,145,113
Income from operations for the year before movement in regulatory deferral account balances		**3,247,229**	4,955,300
Other comprehensive income:			
Remeasurement of employee future benefits net of taxes		**428,531**	-
Total comprehensive income for the year before movement in regulatory deferral account balances		**3,675,760**	4,955,300
Net movement in regulatory deferral account balances, net of taxes	*8*	**3,328,624**	2,911,344
Net income and comprehensive income		**7,004,384**	7,866,644

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

Waterloo North Hydro Inc.

STATEMENT OF CHANGES IN EQUITY

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

	Note	Share Capital	Retained Earnings	Total
Balance at January 1, 2018		**26,887,104**	**68,655,261**	**95,542,365**
Net income and net movement in regulatory balances			7,866,644	7,866,644
Dividends paid	*13*		(4,175,000)	(4,175,000)
Balance at December 31, 2018		**26,887,104**	**72,346,905**	**99,234,009**
Net income and net movement in regulatory balances			**7,004,384**	**7,004,384**
Dividends paid	*13*		**(3,776,000)**	**(3,776,000)**
Balance at December 31, 2019		**26,887,104**	**75,575,289**	**102,462,393**

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

Waterloo North Hydro Inc.

STATEMENT OF CASH FLOWS

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

	Note	**2019**	**2018**
		$	**$**
OPERATING ACTIVITIES			
Net income		**7,004,384**	7,866,644
Add (deduct) charges to operations not requiring a current cash payment:			
Provision for PILs	*7*	**1,600,851**	2,145,113
PILs paid		**(358,122)**	(316,226)
Amortization		**10,687,801**	10,395,015
Loss (gain) on disposal of property, plant and equipment		**54,685**	(72,578)
Amortization of deferred revenue		**(725,656)**	(673,002)
Increase (decrease) in regulatory liabilities		**(2,946,368)**	(2,521,573)
Increase (decrease) in post employment benefits liability		**(569,903)**	54,066
Unrealized gain on derivatives	*9*	**1,493,869**	(429,267)
Net change in non-cash operating working capital		**(1,093,282)**	705,406
Cash provided by operating activities		**15,148,259**	17,153,598
INVESTING ACTIVITIES			
Additions to property, plant and equipment and intangibles	*5,6*	**(19,811,379)**	(18,221,985)
Proceeds on disposal of property, plant and equipment		**255,365**	430,720
Cash applied to investing activities		**(19,556,014)**	(17,791,265)
FINANCING ACTIVITIES			
Increase (decrease) in customer deposits		**(6,159)**	736,656
Increase in long-term debt	*9*	**6,000,000**	8,000,000
Long-term debt - repayment		**(5,981,496)**	(5,717,208)
Decrease in short-term debt	*19*	**-**	(1,000,000)
Decrease (increase) in short-term loan receivable		**100,000**	(100,000)
Capital contributions received		**2,110,940**	2,968,930
Dividends paid	*13*	**(3,776,000)**	(4,175,000)
Cash provided by financing activities		**(1,552,715)**	713,378
Net cash provided during year		**(5,960,470)**	75,711
Cash and cash equivalents, beginning of year		**5,563,651**	5,487,940
Cash and cash equivalents, end of year		**(396,819)**	5,563,651

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

NOTES TO FINANCIAL STATEMENTS

1. Reporting Entity

Waterloo North Hydro Inc. (the "Company") is a rate regulated, municipally owned hydro distribution company incorporated under the Business Corporations Act (Ontario) on May 1, 2000. The incorporation was required in accordance with the provincial government's Electricity Competition Act (Bill 35). The Company is located in the Township of Woolwich. The address of the Company's registered office is 526 Country Squire Rd, Waterloo, Ontario, N2J 4G8.

The Company delivers electricity and related energy services to residential and commercial customers in the City of Waterloo and the Townships of Wellesley and Woolwich. The Company is also engaged in the delivery of Conservation Demand Management ("CDM") activities and provides street lighting services.

The Company is wholly-owned by Waterloo North Hydro Holding Corporation whose shareholders are the City of Waterloo and the Townships of Wellesley and Woolwich.

The financial statements are for the Company as at and for the year ended December 31, 2019.

2. Basis of Presentation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors on April 16, 2020.

(b) Basis of measurement

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

(i) Where held, financial instruments at fair value through profit or loss.

(ii) Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 20.

(c) Functional and presentation currency

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

2. Basis of Presentation (continued)

(d) Use of estimates and judgments

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

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

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

(i) Note 3(b) – Revenue Recognition – determination of the performance obligation for contributions from customers and the related amortization period
(ii) Note 3(d) - Capital assets (Property, plant and equipment)
(iii) Note 11 - Employee post-employment benefits
(iv) Note 16 - Commitments and contingencies

(e) Rate regulation

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

Rate setting:

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. Rates are approved based upon this review including any required revisions.

2. Basis of Presentation (continued)

(e) Rate regulation (continued)

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 "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.

In 2018, the Company applied and received approval for IRM rates effective January 1, 2019. The distribution rates will be increased by 1.2%.

In 2019, the Company applied and received approval for IRM rates effective January 1, 2020. The distribution rates will be increased by 1.7%.

Electricity rates

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Company is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

(f) Conservation and Demand Management Activities

The Independent Electricity System Operator ("IESO") supports Conservation and Demand Management (CDM) plans during their design and throughout their entire lifespan, including the sharing of best practices, offering of program delivery services, and the building of awareness in the marketplace through marketing and communication. The IESO provides centralized customer service, technical support, market research, program evaluation, measurement and training.

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the license of each licensed electricity distributor to require the electricity distributor, as a condition of its license, to make CDM programs available to customers in its licensed service area and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. The objective of the new CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which the Company's share is 82.38 GWh of energy savings. In 2019, through strong participation by local commercial customers in energy efficiency programs and lower costs spent, the Company was able to achieve a net cumulative energy savings of 87.49 GWh which is higher than 83% of the total 6 year budget being 68.65 GWh.

2. Basis of Presentation (continued)

(f) Conservation and Demand Management Activities (continued)

The Company has signed an energy conservation agreement with the IESO for the delivery of these CDM programs over the 2015-2020 period with funding of approximately $21.192 million, which includes participant incentives and the Company's program administration and delivery costs. The Company provided the IESO with its plan for achieving its CDM target, received approval and will continue to submit an updated CDM plan annually.

The Company elected full cost recovery funding for all programs under the current plan. The IESO will reimburse the Company for all adequately documented costs incurred, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review performed by the IESO for the 2015-2017 period. In 2018 the IESO awarded a mid-term incentive of $536,753 subject to review in 2019. The Company recognized 50% ($268,377) in Other Revenues in 2018 and has recognized the remainder in 2019 ($268,376).

On March 21, 2019 the Minister of Energy, Northern Development and Mines directed the IESO to discontinue the current 2015-2020 Conservation First Framework (CFF) and implement a new interim framework, in support of the government's goal to reduce electricity costs for customers. The IESO will centrally deliver a reduced suite of energy-efficiency programs with a focus on business and industrial programs and continued programming for low-income consumers and Indigenous communities beginning April 1, 2019 until December 31, 2020. LDCs will wind down current activities with customers and no further payment of LDC performance incentives will be paid.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently in all years presented in these financial statements, except where otherwise described in Note 21 – Changes in Accounting Policies.

(a) Financial instruments

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

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

Derivative assets are always classified as fair value through profit or loss on inception.

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

3. Significant Accounting Policies (continued)

(b) Revenue Recognition

Sale and distribution of electricity

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

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

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

Capital contributions

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

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

Other revenue

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

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

3. Significant Accounting Policies (continued)

(c) Inventory

Inventories consist of repair parts, supplies and materials held for future capital expansion and are valued at lower of weighted average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

(d) Property, Plant and Equipment

Cost in items of property, plant and equipment ("PP&E") used in rate–regulated activities 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. Major spare parts and standby equipment are recognized as items of PP&E.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the actual cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct.

When parts of an item of PP&E have different useful lives, they are accounted for and depreciated 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.

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 on the cost basis of the asset 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 PP&E. Land and land rights are 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	15-60 years
Transformer and substation equipment	15-50 years
Supervisory control and data acquisition equipment	15 years
Distribution system	15-50 years
Meters	15-25 years
General equipment	5-15 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 amortization.

(ii) Land Rights

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Company does not hold title and are not amortized.

(iii) 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	5-10 years
Land rights	no amortization period

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 measured at amortized cost:

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than 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.

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

(ii) Non-financial Assets (continued):

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

(g) Provisions

A provision is recognized if, as a result of a past event, the 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) Regulatory deferral accounts

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the 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.

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. From January 1, 2016 to September 30, 2017 the rate was 1.10%. On October 1, 2017 the rate was increased to 1.50%. On April 1, 2018 the rate was increased to 1.89%. On October 1, 2018 the rate was increased to 2.17%. Beginning of January 1, 2019, the rate was increased to 2.45% and then reduced on April 1, 2019 to 2.18%.

3. Significant Accounting Policies (continued)

(i) Employee post-employment benefits

(i) Pension Plan:

Waterloo North Hydro Inc. provides a pension plan for its employees through the 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, public utilities and school boards. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

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 *(note 17).* The Company recognizes the expense related to this plan as contributions are made.

(ii) Post-employment Benefits:

Post-employment benefits provided by the Company include health, dental and life insurance benefits. These plans provide benefits for some of its retired employees. Post-employment benefit expense is recognized in the period in which the employees render the services.

Post-employment benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management’s best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees’ services rendered in the period. Gains and losses are recognized in the current year. Actuarial gains and losses arising from defined benefit plans are recognized immediately in other comprehensive income and reported in retained earnings.

(j) Interest income and interest costs

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

Interest costs comprise interest expense on borrowings, customer deposits and regulatory liabilities. Interest costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

3. Significant Accounting Policies (continued)

(k) Corporate Income taxes

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by municipalities. This tax-exempt status might be lost in a number of circumstances, including if the shareholder (municipalities) ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company is required, under the Electricity Act, 1998, to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998 and related regulations.

As a result of becoming subject to payments in lieu of corporate income taxes ("PILs"), the Company's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Company was therefore deemed to have disposed of each of its assets at its then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Company was deemed to be a new company and, as a result, tax credits or tax losses not previously utilized by the Company would not be available to it after the change in tax status. Essentially, the Company was taxed as though it had a "fresh start" at the time of its change in tax status.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2019

4. Accounts Receivable

	December 31 2019	December 31 2018
Trade receivables	**$ 11,943,020**	$ 13,349,675
Accrued receivables	**266,225**	372,886
Miscellaneous receivables	**652,483**	1,065,999
Allowance for bad debt	**(200,000)**	(200,000)
Other	**90,880**	79,210
	$ 12,752,608	$ 14,667,770

5. Property, Plant and Equipment

(a) Cost or deemed cost:

	Distribution Equipment	Land & Building	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2019	**$ 192,738,013**	**$ 31,763,245**	**$ 50,705,940**	**$ 3,409,416**	**$ 278,616,614**
Additions	**15,613,291**	**61,217**	**3,675,880**	**(520,017)**	**18,830,371**
Disposal/retirements	**(240,634)**	**-**	**(297,763)**	**-**	**(538,397)**
Balance at December 31, 2019	**$ 208,110,670**	**$ 31,824,462**	**$ 54,084,057**	**$ 2,889,399**	**$ 296,908,588**

	Distribution Equipment	Land & Building	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2018	$ 177,431,255	$ 31,622,946	$ 49,340,550	$ 4,482,574	$ 262,877,325
Additions	15,596,773	140,299	2,742,412	(1,073,158)	17,406,326
Disposal/retirements	(290,015)	-	(1,377,022)	-	(1,667,037)
Balance at December 31, 2018	**$ 192,738,013**	**$ 31,763,245**	**$ 50,705,940**	**$ 3,409,416**	**$ 278,616,614**

5. Property, Plant and Equipment (continued)

(b) Accumulated depreciation:

	Distribution Equipment	Land & Building	Other Fixed Assets	Total
Balance at January 1, 2019	**$ 21,723,339**	**$ 4,275,061**	**$ 17,662,259**	**$ 43,660,659**
Depreciation charge	**5,564,633**	**873,471**	**3,697,654**	**10,135,758**
Disposal/retirements	**-**	**-**	**(228,346)**	**(228,346)**
Balance at December 31, 2019	**$ 27,287,972**	**$ 5,148,532**	**$ 21,131,567**	**$ 53,568,071**

	Distribution Equipment	Land & Building	Other Fixed Assets	Total
Balance at January 1, 2018	$ 16,517,161	$ 3,403,010	$ 15,231,518	$ 35,151,689
Depreciation charge	5,206,178	872,051	3,739,636	9,817,865
Disposal/retirements	-	-	(1,308,895)	(1,308,895)
Balance at December 31, 2018	$ 21,723,339	$ 4,275,061	$ 17,662,259	$ 43,660,659

Carrying amounts

	Distribution Equipment	Land & Building	Other Fixed Assets	Construction in Progress	Total
At December 31, 2019	$ 180,822,698	$ 26,675,930	$ 32,952,490	$ 2,889,399	$ 243,340,517
At December 31, 2018	171,014,674	27,488,184	33,043,681	3,409,416	234,955,955

5. Property, Plant and Equipment (continued)

(c) Allocation of depreciation and amortization

The depreciation of property, plant and equipment and the amortization of intangible assets have been allocated to profit or loss as follows:

	Distribution Expenses	Amortization	Total
December 31, 2019:			
Depreciation of property, plant and equipment	**$ 735,577**	**$ 9,400,181**	**$ 10,135,758**
Amortization of intangible assets	**-**	**552,043**	**552,043**
	$ 735,577	**$ 9,952,224**	**$ 10,687,801**
December 31, 2018:			
Depreciation of property, plant and equipment	$ 766,352	$ 9,051,513	$ 9,817,865
Amortization of intangible assets	-	577,150	577,150
	$ 766,352	**$ 9,628,663**	**$ 10,395,015**

6. Intangible assets

(a) Cost or deemed cost:

	Computer Software	Land Rights	Work in Progress	Total
Balance at January 1, 2019	**$ 4,773,458**	**$ 1,059,625**	**$ 128,862**	**$ 5,961,945**
Additions	**235,998**	**64,686**	**680,324**	**981,008**
Balance at December 31, 2019	**$ 5,009,456**	**$ 1,124,311**	**$ 809,186**	**$ 6,942,953**

	Computer Software	Land Rights	Work in Progress	Total
Balance at January 1, 2018	$ 3,792,887	$ 982,250	$ 371,149	$ 5,146,286
Additions	980,571	77,375	(242,287)	815,659
Balance at December 31, 2018	**$ 4,773,458**	**$ 1,059,625**	**$ 128,862**	**$ 5,961,945**

6. Intangible Assets (continued)

(b) Accumulated amortization:

	Computer Software	Land Rights	Total
Balance at January 1, 2019	**$ 2,418,270**	**$ -**	**$ 2,418,270**
Amortization charge	**552,043**	**-**	**552,043**
Balance at December 31, 2019	**$ 2,970,313**	**$ -**	**$ 2,970,313**

	Computer Software	Land Rights	Total
Balance at January 1, 2018	$ 1,841,120	**$ -**	$ 1,841,120
Amortization charge	577,150	-	577,150
Balance at December 31, 2018	**$ 2,418,270**	**$ -**	**$ 2,418,270**

Carrying amounts

	Computer Software	Land Rights	Work in Progress	Total
At December 31, 2019	$ 2,039,143	$ 1,124,311	$ 809,186	$ 3,972,640
At December 31, 2018	2,355,188	1,059,625	128,862	3,543,675

7. Income Tax Expense

Tax expense:

	2019	2018
	$	$
Current	**(121,376)**	432,242
Deferred	**1,963,597**	1,599,115
Deferred recovery on unrealized gain on derivatives	**(395,875)**	113,756
	1,446,346	2,145,113

Reconciliation of effective tax rate:

	2019	2018
	$	$
Income from operations before income taxes	**4,693,575**	7,100,413
Statutory Canadian federal and provincial income tax rate	**26.50%**	26.50%
Expected taxes on income	**1,243,797**	1,881,609
Changes in income taxes resulting from:		
Permanent differences	**12,771**	6,253
Other temporary differences	**299,428**	370,875
Adjustment for prior periods	**(109,650)**	(113,624)
	202,549	263,504
Income tax expense	**1,446,346**	2,145,113

Permanent difference is due mainly to non deductible portion of meals and entertainment.

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

	December 31 2019	December 31 2018
	$	$
Deferred tax assets (liabilities):		
Plant and equipment	**(17,426,549)**	(15,069,247)
Deferred revenue	**6,853,591**	6,486,491
Employee benefits	**1,156,338**	1,257,578
Loss on derivatives	**845,075**	449,200
Other	**24,288**	50,948
	$ (8,547,257)	$ (6,825,030)

8. Regulatory Deferral Account Balance

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

	2019 Opening $	Balances arising in the period	Recovery / reversal	2019 Ending $	Recovery / reversal period (years)
Regulatory deferral account debit balances					
Group 1	1,910,047	1,268,555	(1,392,663)	1,785,939	1 year
Group 2	521,312	269,622	(95,004)	695,930	1 year
Stranded meters	14,823	-	(14,823)	-	3 years
Other regulatory accounts	-	-	-	-	
Deferred tax liability	9,894,120	2,144,441	-	12,038,561	n/a
Total amount related to regulatory deferral account debit balances	**12,340,302**	**3,682,618**	**(1,502,490)**	**14,520,430**	

	2019 Opening $	Balances arising in the period	Recovery / reversal	2019 Ending $	Recovery / reversal period (years)
Regulatory deferral account credit balances					
Group 1	3,248,422	218,970	(2,421,830)	1,045,562	1 year
Group 2	670,336	804,102	-	1,474,438	1 year
Stranded meters	-	26,528	-	26,528	-
Other regulatory accounts	100,109	-	(24,795)	75,314	50 years
Other regulated accounts	11,061,931	630,785	-	11,692,716	-
Total amount related to regulatory deferral account credit balances	**15,080,798**	**1,680,385**	**(2,446,625)**	**14,314,558**	

8. Regulatory Deferral Account Balance (continued)

	2018 Opening $	Balances arising in the period	Recovery / reversal	2018 Ending $	Recovery / reversal period (years)
Regulatory deferral account debit balances					
Group 1	2,580,293	396,273	(1,066,519)	1,910,047	1 year
Group 2	515,661	100,743	(95,092)	521,312	1 year
Stranded meters	462,526	-	(447,703)	14,823	3 years
Other regulatory accounts	5,373	-	(5,373)	-	
Deferred tax liability	7,696,350	2,197,770	-	9,894,120	n/a
Total amount related to regulatory deferral account debit balances	**11,260,203**	**2,694,786**	**(1,614,687)**	**12,340,302**	

	2018 Opening $	Balances arising in the period	Recovery / reversal	2018 Ending $	Recovery / reversal period (years)
Regulatory deferral account credit balances					
Group 1	4,863,717	273,913	(1,889,208)	3,248,422	1 year
Group 2	632,600	37,736	-	670,336	1 year
Other regulatory accounts	119,762	3,855	(23,508)	100,109	50 years
Other regulated accounts	10,906,193	155,738	-	11,061,931	-
Total amount related to regulatory deferral account credit balances	**16,522,272**	**471,242**	**(1,912,716)**	**15,080,798**	

Net movement in regulatory deferred account balances net of taxes of $3,328,624 consists of the regulatory deferred tax expense of $2,144,441, the regulatory treatment on the Accelerated Investment Incentive tax program of ($493,491) and the difference between the Power Purchased and the Sale of Electricity of $1,677,674.

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 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.

Settlement of the Group 1 deferral accounts, arising primarily from timing differences for the cost of power billing to customers, is done on an annual basis through application to the OEB. The 2019 IRM application was approved to disperse $1,786,823 of the Group 1 deferral accounts. At January 1, 2019 the approved account balances have been moved to the regulatory settlement account.

Settlement of the Group 2 deferral accounts, created by accounting policy changes, is done at the time of the COS application. The amount of the Group 2 accounts that was recovered totaled $26,528 for the settlement of stranded meters. This rate rider ended on December 31, 2018. The amount of Group 2 accounts accumulated in 2019 totaled $6,927 which will be approved for disposal at the next COS.

Other regulated accounts consist of timing difference on monies received and paid for CDM programs, Ontario Clean Energy Benefit and the IESO cost of power variance.

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. Short-Term & Long-Term Debt

The long-term bank debt is subject to a master bank agreement whereby each loan has a maturity date of June 30, 2021 in order to classify the balance owing as a long-term liability.

For both the short-term and long-term bank debt the Company has a general security agreement creating in favour of CIBC a first priority security interest covering all company assets.

9. Short-Term & Long-Term Debt (continued)

Short-term debt		**2019**	**2018**
		$	**$**
Line of Credit	Bank debt, bearing a variable interest rate of Prime Rate less 0.30% per annum. Amounts are repayable immediately in whole or in part, on demand. The operating credit limit is $15M.	396,819	-
		396,819	-

Long-term debt

Each loan has a 30 day banker's acceptance rate + 1% interest rate and is hedged by an interest rate swap at the rate per annum below.

Loan	Swap rate	Monthly payments ($)	Term date	2019 $	2018 $
Mortgage 2012	3.950%	88,667	April 1, 2037	**18,411,867**	19,472,139
Smart Meter 2013	2.980%	129,167	January 29, 2021	**1,805,313**	3,352,389
Term Loan 2013	4.434%	62,500	July 4, 2033	**10,170,487**	10,918,141
Term Loan 2014	4.035%	62,500	June 4, 2034	**10,855,642**	11,603,726
Term Loan 2015	3.430%	41,667	May 18, 2035	**7,694,304**	8,192,737
Term Loan 2016	2.505%	37,500	July 15, 2036	**7,450,261**	7,898,495
Term Loan 2017	3.565%	41,667	July 2, 2037	**8,901,776**	9,399,999
Term Loan 2018	3.854%	33,333	June 1, 2038	**7,487,475**	7,886,017
Term Loan 2019	3.271%	25,000	October 1, 2039	**5,965,022**	
				78,742,147	78,723,643
Less: Current Portion				**(6,264,000)**	(5,964,000)
				72,478,147	72,759,643

The aggregate amount of expected principal payments required is as follows:

2020	6,264,000
2021	4,972,333
2022	4,714,000
2023	4,714,000
2024	4,714,000
Thereafter	53,363,814
	78,742,147

9. Short-Term & Long-Term Debt (continued)

Interest rate swaps

The Company has entered into interest rate swap agreements with a high quality Canadian chartered bank for the purpose of eliminating the risk of fluctuating interest rates and removing the economic impact of interest rate volatility on the majority of its long-term debt. The CPA Handbook requires the Company to determine and record the fair value of its interest rate swap agreements on the Statement of Financial Position, with changes in fair values being recorded in the Statement of Comprehensive Income.

As a result, the Company has recorded a non-current derivative liability of $3,188,963 (2018 - $1,695,094) and a non-cash charge of ($1,493,869) (2018 - $429,267). A deferred tax recovery of ($395,875) (2018 – $113,756) was also recorded to reflect the deferred tax impact. There is no impact on current tax PILs payable. Over the term of the long-term debt, the non-cash charge and liability will reverse into income. The Company borrows funds using 30 day banker’s acceptances at the bankers’ acceptance floating rate. The swap instruments result in the Company receiving interest at the 30 day banker’s acceptance floating rate and require the Company to pay the fixed rate in the swap instrument. The swaps have a put provision whereby on the five year anniversary of each swap, either party can unilaterally elect to terminate the contract requiring a cash payment upon settlement based on the fair value of the swap instrument on that date. The term of each individual swap instrument matches the amortization period of the corresponding bank loan.

By way of example, the disclosure on the 2012 loan which applies to all of the other loans is explained in detail as follows:

> Bank debt, available (at the company's option), at Prime less 0.3% or Banker's Acceptances (durations up to 6 months) plus 1%, payable in monthly payments of $88,667. Maturity date of the debt facility is June 30, 2021. The Company has entered into an interest rate swap to hedge the interest rate risk on the bank debt, wherein the company pays a fixed rate of 2.95% per annum and receives variable interest at the one month Banker's Acceptance rate, with net interest settlements paid monthly. The interest rate swap matures on April 1, 2037 and may be cancelled by either party on every 5 year anniversary. To the extent the Company continues to choose to borrow at the 1 month BA rate, the combined net effect of the borrowing and swap contract is a fixed cost of borrowing of 3.95% per annum until the maturity date of the debt facility.

10. Note Payable to Shareholder

	2019	2018
	$	$
Senior long-term note payable (a)	**17,266,271**	17,266,271
Junior long-term note payable (b)	**16,246,940**	16,246,940
	33,513,211	33,513,211

(a) The senior long-term note payable due to Waterloo North Hydro Holding Corporation, the Company's parent, bears interest at a rate of 6.0% per annum, has no set principal repayment terms and is due 270 days following demand by Waterloo North Hydro Holding Corporation. Interest is payable in equal quarterly installments, in arrears, March 30, June 30, September 30 and December 31 each year commencing July 1, 2009.

Waterloo North Hydro Holding Corporation has waived the right to demand repayment of any portion of the note during the next fiscal year.

(b) The junior long-term note payable due to Waterloo North Hydro Holding Corporation, bears interest at a rate of 1.125% per annum above the interest rate on debt which the Ontario Energy Board permits the Company to pay for rate making purposes in the establishment of distribution rates, has no set principal repayment terms and is due on demand. The 2016 OEB deemed rate was 4.54% which shall be effective until 2021, the next Cost of Service filing year for the Company.

Waterloo North Hydro Holding Corporation has waived the right to demand repayment of any portion of the note during the next fiscal year.

11. Employee Post-Employment 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 $4,008,911 is based on the actuarial valuation done at December 31, 2019 using a discount rate of 4.0%.

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

	2019 $	2018 $
Accrued benefit obligation		
Balance, beginning of year	**4,578,814**	4,524,748
Current service cost	**121,291**	177,912
Interest cost	**179,819**	178,501
Benefits Paid	**(287,977)**	(302,347)
Actuarial gains recognized in other comprehensive income	**(583,036)**	-
Accrued benefit liability, end of year	**4,008,911**	4,578,814

Components of net benefit expense recognized are a follows:

	2019 $	2018 $
Current service cost	**121,291**	177,912
Interest cost	**179,819**	178,501
Net benefit expense recognized	**301,110**	356,413

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

	2019 %	2018 %
Discount rate	**4.0**	4.0
Future general salary and wage levels increase	**2.0**	2.0
Dental costs increase	**4.0**	4.0
Medical costs increase	**5.0 reducing to 4.0% after 6 years**	7.0 reducing to 5.0% after 6 years

The approximate effect on the accrued benefit obligation of the entire plan and the estimated net benefit expense of the entire plan if the health care trend rate assumption was increased or decreased by 1%, and all other assumptions were held constant, is as follows:

	2019 $	2018 $
1% increase in trend rate	**$51,700**	$154,300
1% decrease in trend rate	**(45,000)**	(137,300)

12. 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.

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

Customer deposits comprise:

	2019 $	2018 $
Current		
Customer deposits	**300,834**	634,567
Contruction deposits	**2,415,961**	2,027,025
Performance bond	**100,000**	200,000
	2,816,795	2,861,592
Long-term		
Customer deposits	**4,026,940**	3,988,302
	4,026,940	3,988,302

13. Share Capital

		2019 $	2018 $
Authorized			
Unlimited	Common shares		
Unlimited	Class A special shares		
Issued			
1,000	Common shares	**24,370,424**	24,370,424
251,668	Class A special shares - $10 Par value		
	Non-voting, non cumulative	**2,516,680**	2,516,680
		26,887,104	26,887,104

Dividends

The holder of the common shares is entitled to receive dividends as declared from time to time.

The Company paid aggregate dividends in the year on common shares of $3,776 per share (2018 - $4,175), which amounts to total dividends paid in the year of $3,776,000 (2018 - $4,175,000).

Calculation of Operating Income for Dividend Purposes:

	2019 $	2018 $
Net Income and Comprehensive Income	**7,004,384**	7,866,644
Less: unrealized gain/(loss) from derivatives net of tax	**(1,097,994)**	315,511
Net Operating Income	**8,102,378**	7,551,133

14. Revenue

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

	2019 $	2018 $
Revenue from contracts with customers	**209,641,899**	203,653,512
Other revenue		
CDM programs	**259,093**	268,377
Gain (loss) on disposal of assets	**(54,685)**	72,578
Late payment charges	**139,736**	139,850
Miscellaneous charges	**389,063**	523,952
Recognized deferred revenue	**725,656**	673,002
Rental income	**288,865**	281,708
Sale of scrap	**78,149**	104,609
Total other revenue	**1,825,877**	2,064,076
	211,467,776	205,717,588

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

	2019 $	2018 $
Residential	**61,472,897**	61,624,479
Commercial	**131,729,401**	128,252,070
Large users	**9,928,949**	8,046,587
Other	**6,510,652**	5,730,376
	209,641,899	203,653,512

15. Interest Income and Expense

	2019	2018
	$	$
Interest income on bank deposits	**(51,568)**	(80,901)
Interest income other	**(1,140)**	(1,146)
	(52,708)	(82,047)
Interest on debt with Waterloo North Hydro Holding Corporation:		
Senior long-term note payable	**1,035,977**	1,035,977
Junior long-term note payable	**920,387**	920,387
Interest expense on long term debt	**2,865,356**	2,857,506
Interest expense on short tem debt	**87,210**	32,265
Interest expense on deposits	**82,201**	63,641
Interest expense other	**3,250**	3,366
	4,994,381	4,913,142
Net interest cost	**4,941,673**	4,831,095
Regulatory Interest		
Interest expense	**60,115**	114,342
Interest income	**(81,015)**	(91,851)
Net regulatory interest income	**(20,900)**	22,491
Net interest cost recognized in profit or loss	**4,920,773**	4,853,586

16. 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.

To December 31, 2019, the Company has not been made aware of any additional assessments. Participation in MEARIE expires December 31, 2020. Notice to withdraw from MEARIE must be given six months prior to the commencement of the next underwriting term.

17. 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 $1,137,784 to OMERS (2018 - $1,111,275). The Company's net benefit expense has been allocated as follows:

(a) $378,086 (2018 - $350,496) capitalized as part of labour in PP&E and

(b) $759,698 (2018 - $760,779) recorded as an expense against net income.

The Company estimates a contribution of $1,130,568 to OMERS during the next fiscal year.

18. Employee Benefits

	2019	**2018**
	$	**$**
Salary, wages and benefits	**13,436,448**	14,149,159
CPP and EI remittances	**498,516**	475,709
Contributions to OMERS	**1,137,784**	1,111,275
	15,072,748	15,736,143

19. Related Party Transactions

(a) Parent and ultimate controlling party

The sole shareholder of the Company is Waterloo North Hydro Holding Corporation which in turn is owned by the City of Waterloo and the Townships of Wellesley and Woolwich.

(b) Entity with significant influence

The City of Waterloo and the Township of Woolwich control and exercise significant influence over the Company through their indirect ownership interest in the Company of 73.2% and 20.2% respectively.

(c) Key management personnel

The key management personnel of the Company have been defined as members of its Board of Directors and executive management team members, and are summarized below:

	2019	**2018**
	$	**$**
Directors' fees	**89,709**	84,596
Executive compensation and benefits	**1,136,000**	1,339,145
	1,225,709	1,423,741

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2019

19. Related Party Transactions (continued)

(d) Transactions with entity with significant influence

In the ordinary course of business, the Company delivers electricity to the City of Waterloo and the Township of Woolwich. Electricity is billed to the City of Waterloo and the Township of Woolwich at prices and under terms approved by the OEB.

(e) Transactions with ultimate parent (the City and Townships)

In 2019 the Company had the following significant transactions with its ultimate parent, a government entity:

The Company delivers electricity to the City of Waterloo and the Townships of Wellesley and Woolwich and its related organizations throughout the year for their electricity needs. Electricity delivery charges are at prices and under terms approved by the OEB. The Company also provides the following services to the City of Waterloo and the Townships of Wellesley and Woolwich:

- streetlight maintenance services
- streetlight construction services

The Company conducted transactions with related parties during the year ended December 31, 2019. These transactions are in the normal course of operations and are measured at fair value.

	2019	**2018**
	$	**$**
City of Waterloo		
Energy	**3,354,773**	3,331,347
Street light energy	**408,197**	388,020
Street light maintenance	**149,933**	137,180
Street light construction	**112,004**	89,985
Township of Wellesley		
Energy	**185,157**	185,675
Street light energy	**18,612**	17,441
Street light maintenance	**11,028**	12,159
Street light construction	**13,196**	22,832
Township of Woolwich		
Energy	**730,869**	689,644
Street light energy	**114,048**	107,075
Street light maintenance	**24,579**	33,858
Street light construction	**76,962**	365,403
Total for the year	**5,199,358**	5,380,619

19. Related Party Transactions (continued)

(e) Transactions with ultimate parent (the City and Townships) (continued)

The Company paid property taxes to the following:

	2019	2018
	$	$
Township of Woolwich	**357,829**	348,643
City of Waterloo	**94,088**	89,700
Township of Wellesley	**6,217**	6,076
Total for the year	**458,134**	444,419

In 2018 the parent Waterloo North Hydro Holding Corporation borrowed from the Company $100,000 at an interest rate of prime less 0.30% (3.65%). The loan was repaid in full on April 19, 2019.

20. Financial Instruments and Risk Management

Fair value disclosure

Cash and cash equivalents are measured at fair value. The carrying value of receivables, unbilled energy receivable, accounts payable and accrued charges approximate fair value due to the short maturity of these instruments. The carrying value of the customer deposits approximates fair value since the amounts are payable on demand.

The Company's activities provide for a variety of risks, particularly credit risk, market risk and liquidity risk.

The fair value of the long term debt approximates its carrying value due to the short maturity and/or the variable interest rates.

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 its revenue from a broad base of customers located in the City of Waterloo, the Townships of Wellesley and Woolwich. No single customer accounts for a balance in excess of 5.84% of total accounts receivable.

20. Financial Instruments and Risk Management (continued)

(a) Credit risk (continued)

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 expected credit losses at December 31, 2019 is $200,000 (2018 - $200,000).

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2019, approximately $320,353 (2018 - $337,221) is considered 60 days past due. The Company has over 57,800 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 $4,327,774 (2018 - $4,622,869).

(b) Market risk

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have any material commodity or foreign exchange risk. To mitigate interest rate risk the Company has secured fixed rate swap agreements for the majority of its debt. The company issues 30 day banker's acceptances at a floating rate but pays interest at a fixed rate guaranteed by the interest rate swap.

(c) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a $15M credit facility and 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, $396,819 had been drawn under CIBC's $15M operating credit facility (2018 - $nil).

In 2019 the Company was assigned an Issuer Rate of A (low), Stable, from DBRS Limited. This is consistent with the 2018 rating. The Company's financial risk profile is reasonable with key metrics that are supportive of the "A" rating.

(d) Capital disclosures

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

The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2019, shareholder's equity amounts to $102,462,393 (2018 - $99,234,009) and long-term debt including shareholder debt amounts to $112,255,358 (2018 - $112,236,854).

21. Changes in Accounting Policies

Effective January 1, 2019, the Corporation has adopted new IFRS standards and applied the new accounting policies in preparing the financial statements. Except for the changes below, the Corporation has consistently applied the accounting policies to all periods presented in these financial statements.

Leases (IFRS 16)

The Corporation has applied IFRS 16 Leases with a date of initial application of January 1, 2019. The Corporation applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019.

Previously, the Corporation determined, at contract inception, whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, 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.. On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which contracts are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether they contained a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

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

There were no transitional impacts to report as the Corporation has not entered into leasing arrangements and has determined that there are no arrangements that contain a lease.

Uncertainty over income tax treatments

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

22. Future Changes in Accounting Policy and Disclosures

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

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

i. Amendments to References to Conceptual Framework in IFRS Standards.

ii. Definition of a Business (Amendments to IFRS 3).

iii. Definition of Material (Amendments to IAS 1 and IAS 8).

iv. Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

23. Comparative Figures

Certain of the prior year comparative figures have been restated to conform to the current year's presentation.

24. Subsequent Event

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, closure of non-essential businesses and workplaces, and social distancing, have caused material disruption to businesses globally and in Ontario resulting in an economic slowdown. Specifically, the ban on residential and small business disconnections for non-payment of accounts until July 31, 2020 will adversely affect cash flow and may result in additional bad debt losses. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect our business is not known at this time.

Financial Statements of

Waterloo North Hydro Inc.

Year ended December 31, 2020

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Waterloo North Hydro Inc.

Opinion

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

- the statement of financial position as at December 31, 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

April 16, 2021

STATEMENT OF FINANCIAL POSITION

As at December 31, 2020, with comparative information for 2019

	Note	**December 31 2020 $**	**December 31 2019 $**
ASSETS			
Current			
Cash		**2,308,798**	-
Accounts receivable	*4*	**14,481,590**	12,752,608
Unbilled revenue		**20,725,083**	18,342,989
Income tax receivable		**342,445**	379,694
Inventories		**3,278,249**	3,721,642
Prepaid expenses		**415,622**	296,937
Short-term loan to shareholder	*19*	**500,000**	-
Total current assets		**42,051,787**	35,493,870
Non-current assets			
Property, plant and equipment	*5*	**250,812,258**	243,340,517
Intangible assets	*6*	**4,613,198**	3,972,640
Total non-current assets		**255,425,456**	247,313,157
Total assets		**297,477,243**	282,807,027
Regulatory deferral account debit balances	*8*	**17,458,341**	15,293,596
Total assets and regulatory deferral account debit balances		**314,935,584**	298,100,623

Waterloo North Hydro Inc.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2020, with comparative information for 2019

	Note	December 31 2020 $	December 31 2019 $
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current			
Accounts payable and accrued liabilities		**20,617,226**	19,446,854
Short-term bank debt	*9*	**-**	396,819
Current portion of long-term debt	*9*	**5,552,334**	6,264,000
Current portion of customer deposits	*12*	**3,353,624**	2,816,795
Total current liabilities		**29,523,184**	28,924,468
Long-term			
Long-term debt	*9*	**78,353,774**	72,478,147
Note payable to shareholder	*10*	**33,513,211**	33,513,211
Derivative liability	*9*	**8,832,392**	3,188,963
Customer deposits	*12*	**3,485,605**	4,026,940
Deferred revenue		**27,612,623**	25,862,609
Post employment benefits	*11*	**4,013,408**	4,008,911
Deferred tax liability	*7*	**8,730,589**	8,547,257
Total long-term liabilities		**164,541,602**	151,626,038
Total liabilities		**194,064,786**	180,550,506
Shareholder's equity			
Share capital	*13*	**26,887,104**	26,887,104
Retained earnings		**74,610,582**	75,575,289
Total shareholder's equity		**101,497,686**	102,462,393
Total liabilities and shareholder's equity		**295,562,472**	283,012,899
Regulatory deferral account credit balances	*8*	**19,373,112**	15,087,724
Total equity, liabilities and regulatory deferral account credit balances		**314,935,584**	298,100,623

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

On behalf of the Board:

Michael Pley, Chair

Micheal Kelly, Vice Chair

Waterloo North Hydro Inc.

STATEMENT OF COMPREHENSIVE INCOME

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

	Note	**2020**	2019
		$	$
REVENUES			
Sales of electricity		**192,999,055**	173,746,381
Distribution services revenue		**35,959,195**	35,895,518
	14	**228,958,250**	209,641,899
Power purchased		**194,633,759**	175,424,055
Net operating revenue		**34,324,491**	34,217,844
Other revenues	*14*	**1,737,730**	1,825,877
		36,062,221	36,043,721
EXPENSES			
Distribution		**7,757,005**	7,987,531
Billing and collecting		**2,934,620**	3,110,860
General administration		**3,545,102**	3,426,755
Property taxes		**397,460**	458,134
Amortization	*5*	**10,567,784**	9,952,224
Total expenses		**25,201,971**	24,935,504
Income before undernoted items		**10,860,250**	11,108,217
Net interest expense	*15*	**(5,000,291)**	(4,920,773)
Unrealized gain (loss) from derivatives	*9*	**(5,643,429)**	(1,493,869)
Income from operations before PILs		**216,530**	4,693,575
PILs expense	*7*	**324,663**	1,446,346
Income from operations for the year before movement in regulatory deferral account balances		**(108,133)**	3,247,229
Other comprehensive income:			
Remeasurement of employee future benefits net of taxes		**-**	428,531
Total comprehensive income for the year before movement in regulatory deferral account balances		**(108,133)**	3,675,760
Net movement in regulatory deferral account balances, net of taxes	*8*	**2,680,426**	3,328,624
Net income and comprehensive income		**2,572,293**	7,004,384

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

Waterloo North Hydro Inc.

STATEMENT OF CHANGES IN EQUITY

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

	Note	**Share Capital**	**Retained Earnings**	**Total**
Balance at January 1, 2019		**26,887,104**	**72,346,905**	**99,234,009**
Net income and net movement in regulatory balances			7,004,384	7,004,384
Dividends paid	*13*		(3,776,000)	(3,776,000)
Balance at December 31, 2019		**26,887,104**	**75,575,289**	**102,462,393**
Net income and net movement in regulatory balances			**2,572,293**	**2,572,293**
Dividends paid	*13*		**(3,537,000)**	**(3,537,000)**
Balance at December 31, 2020		**26,887,104**	**74,610,582**	**101,497,686**

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

Waterloo North Hydro Inc.

STATEMENT OF CASH FLOWS

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

	Note	2020 $	2019 $
OPERATING ACTIVITIES			
Net income		**2,572,293**	7,004,384
Add (deduct) charges to operations not requiring a current cash payment:			
Provision for PILs	*7*	**324,663**	1,600,851
PILs paid		**(104,082)**	(358,122)
Amortization	*5,6*	**11,243,689**	10,687,801
Loss (gain) on disposal of property, plant and equipment		**50,762**	54,685
Amortization of deferred revenue		**(791,716)**	(725,656)
Increase (decrease) in regulatory liabilities		**2,120,643**	(2,946,368)
Increase (decrease) in post employment benefits liability		**4,497**	(569,903)
Unrealized loss on derivatives	*9*	**5,643,429**	1,493,869
Net change in non-cash operating working capital		**(2,615,996)**	(1,093,282)
Cash provided by operating activities		**18,448,182**	15,148,259
INVESTING ACTIVITIES			
Additions to property, plant and equipment and intangibles	*5,6*	**(19,704,135)**	(19,811,379)
Proceeds on disposal of property, plant and equipment		**297,385**	255,365
Cash applied to investing activities		**(19,406,750)**	(19,556,014)
FINANCING ACTIVITIES			
Increase (decrease) in customer deposits		**(4,506)**	(6,159)
Increase in long-term debt	*9*	**11,600,000**	6,000,000
Long-term debt - repayment		**(6,436,039)**	(5,981,496)
Decrease (increase) in short-term loan receivable		**(500,000)**	100,000
Capital contributions received		**2,541,730**	2,110,940
Dividends paid	*13*	**(3,537,000)**	(3,776,000)
Cash provided by financing activities		**3,664,185**	(1,552,715)
Net cash provided during year		**2,705,617**	(5,960,470)
Cash and cash equivalents, beginning of year		**(396,819)**	5,563,651
Cash and cash equivalents, end of year		**2,308,798**	(396,819)

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

NOTES TO FINANCIAL STATEMENTS

1. Reporting Entity

Waterloo North Hydro Inc. (the "Company") is a rate regulated, municipally owned electricity distribution company incorporated under the Business Corporations Act (Ontario) on May 1, 2000. The incorporation was required in accordance with the provincial government's Electricity Competition Act (Bill 35). The Company is located in the Township of Woolwich. The address of the Company's registered office is 526 Country Squire Rd, Waterloo, Ontario, N2J 4G8.

The Company delivers electricity and related energy services to residential and commercial customers in the City of Waterloo and the Townships of Wellesley and Woolwich. The Company is also engaged in the delivery of Conservation Demand Management ("CDM") activities and provides street lighting services.

The Company is wholly-owned by Waterloo North Hydro Holding Corporation whose shareholders are the City of Waterloo and the Townships of Wellesley and Woolwich.

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

2. Basis of Presentation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors on April 15, 2021.

(b) Basis of measurement

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

(i) Where held, financial instruments at fair value through profit or loss.

(ii) Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 20.

(c) Functional and presentation currency

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

2. Basis of Presentation (continued)

(d) Use of estimates and judgments

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

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

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

(i) Note 3(b) – Revenue Recognition – determination of the performance obligation for contributions from customers and the related amortization period
(ii) Note 3(d) - Capital assets (Property, plant and equipment)
(iii) Note 11 - Employee post-employment benefits
(iv) Note 16 - Commitments and contingencies

(e) Rate regulation

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

Rate setting:

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. Rates are approved based upon this review including any required revisions.

2. Basis of Presentation (continued)

(e) Rate regulation (continued)

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 "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.

In 2019, the Company applied and received approval for IRM rates effective January 1, 2020. The distribution rates were increased by 1.7%.

In 2020, the Company applied and received approval for COS rates effective January 1, 2021. The average distribution rates will be increased by 2.1%.

Electricity rates

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Company is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

(f) Conservation and Demand Management Activities

The Independent Electricity System Operator ("IESO") supports Conservation and Demand Management (CDM) plans during their design and throughout their entire lifespan, including the sharing of best practices, offering of program delivery services, and the building of awareness in the marketplace through marketing and communication. The IESO provides centralized customer service, technical support, market research, program evaluation, measurement and training.

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the license of each licensed electricity distributor to require the electricity distributor, as a condition of its license, to make CDM programs available to customers in its licensed service area and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. The objective of the CDM efforts was to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which the Company's share was 82.38 GWh of energy savings.

2. Basis of Presentation (continued)

(f) Conservation and Demand Management Activities (continued)

The Company signed an energy conservation agreement with the IESO for the delivery of these CDM programs over the 2015-2020 period with funding of approximately $21.192 million, which included participant incentives and the Company's program administration and delivery costs. The Company provided the IESO with its plan for achieving its CDM target, received approval and will continue to submit results.

The Company elected full cost recovery funding for all programs under the current plan. The IESO will reimburse the Company for all adequately documented costs incurred, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review performed by the IESO for the 2015-2017 period. In 2018 the IESO awarded a mid-term incentive of $536,753. The Company recognized 50% ($268,377) in Other Revenues in 2018 and the remainder in 2019 ($268,376).

On March 21, 2019 the Minister of Energy, Northern Development and Mines directed the IESO to discontinue the current 2015-2020 Conservation First Framework (CFF) and implement a new interim framework, in support of the government's goal to reduce electricity costs for customers. LDCs will wind down the projects and programs and will recover costs for CFF Wind Down activities per their approved CFF Wind Down budgets. As of March 21, 2019, no further payments of LDC performance incentives will be made.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently in all years presented in these financial statements, except where otherwise described in Note 21 – Changes in Accounting Policies.

(a) Financial instruments

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

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

Derivative assets are always classified as fair value through profit or loss on inception.

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

3. Significant Accounting Policies (continued)

(b) Revenue Recognition

Sale and distribution of electricity

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

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

Capital contributions

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

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

Other revenue

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

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(c) Inventory

Inventories consist of repair parts, supplies and materials held for future capital expansion and are valued at lower of weighted average cost and net realizable value. 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 in items of property, plant and equipment ("PP&E") used in rate–regulated activities 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. Major spare parts and standby equipment are recognized as items of PP&E.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the actual cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct.

When parts of an item of PP&E have different useful lives, they are accounted for and depreciated 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.

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 on the cost basis of the asset 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 PP&E. Land and land rights are 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	15-60 years
Transformer and substation equipment	15-50 years
Supervisory control and data acquisition equipment	15 years
Distribution system	15-50 years
Meters	15-25 years
General equipment	5-15 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 amortization.

(ii) Land Rights

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Company does not hold title and are not amortized.

(iii) 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	5-10 years
Land rights	no amortization period

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 measured at amortized cost:

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than 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.

3. Significant Accounting Policies (continued)

(f) Impairment (continued)

(ii) Non-financial Assets (continued):

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

(g) Provisions

A provision is recognized if, as a result of a past event, the 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) Regulatory deferral accounts

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the 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.

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. From January 1, 2020 to June 30, 2020 the rate was 2.18%. From July 1, 2020 to December 31, 2020 the rate was 0.57%.

3. Significant Accounting Policies (continued)

(i) Employee post-employment benefits

(i) Pension Plan:

Waterloo North Hydro Inc. provides a pension plan for its employees through the 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, public utilities and school boards. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

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 *(note 17).* The Company recognizes the expense related to this plan as contributions are made.

(ii) Post-employment Benefits:

Post-employment benefits provided by the Company include health, dental and life insurance benefits. These plans provide benefits for some of its retired employees. Post-employment benefit expense is recognized in the period in which the employees render the services.

Post-employment benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Gains and losses are recognized in the current year. Actuarial gains and losses arising from defined benefit plans are recognized immediately in other comprehensive income and reported in retained earnings.

(j) Interest income and interest costs

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

Interest costs comprise interest expense on borrowings, customer deposits and regulatory liabilities. Interest costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

3. Significant Accounting Policies (continued)

(k) Corporate Income taxes

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by municipalities. This tax-exempt status might be lost in a number of circumstances, including if the shareholder (municipalities) ceases to own 90% or more of the shares or capital of the Company, or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company is required, under the Electricity Act, 1998, to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998 and related regulations.

As a result of becoming subject to payments in lieu of corporate income taxes ("PILs"), the Company's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Company was therefore deemed to have disposed of each of its assets at its then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Company was deemed to be a new company and, as a result, tax credits or tax losses not previously utilized by the Company would not be available to it after the change in tax status. Essentially, the Company was taxed as though it had a "fresh start" at the time of its change in tax status.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

4. Accounts Receivable

	December 31 2020	December 31 2019
Trade receivables	**$ 12,655,663**	$ 11,943,020
Accrued receivables	**537,521**	266,225
Miscellaneous receivables	**1,243,283**	652,483
Allowance for bad debt	**(200,000)**	(200,000)
Other	**245,123**	90,880
	$ 14,481,590	$ 12,752,608

5. Property, Plant and Equipment

(a) Cost or deemed cost:

	Distribution Equipment	Land & Building	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2020	**$ 208,110,670**	**$ 31,824,462**	**$ 54,084,057**	**$ 2,889,399**	**$ 296,908,588**
Additions	**14,862,955**	**28,840**	**2,785,773**	**600,460**	**18,278,028**
Disposal/retirements	**(297,385)**	**-**	**(153,432)**	**-**	**(450,817)**
Balance at December 31, 2020	**$ 222,676,240**	**$ 31,853,302**	**$ 56,716,398**	**$ 3,489,859**	**$ 314,735,799**

	Distribution Equipment	Land & Building	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2019	$ 192,738,013	$ 31,763,245	$ 50,705,940	$ 3,409,416	$ 278,616,614
Additions	15,613,291	61,217	3,675,880	(520,017)	18,830,371
Disposal/retirements	(240,634)	-	(297,763)	-	(538,397)
Balance at December 31, 2019	**$ 208,110,670**	**$ 31,824,462**	**$ 54,084,057**	**$ 2,889,399**	**$ 296,908,588**

5. Property, Plant and Equipment (continued)

(b) Accumulated depreciation:

	Distribution Equipment	Land & Building	Other Fixed Assets	Total
Balance at January 1, 2020	**$ 27,287,972**	**$ 5,148,532**	**$ 21,131,567**	**$ 53,568,071**
Depreciation charge	**5,918,326**	**875,394**	**3,713,271**	**10,506,991**
Disposal/retirements	**-**	**-**	**(151,521)**	**(151,521)**
Balance at December 31, 2020	**$ 33,206,298**	**$ 6,023,926**	**$ 24,693,317**	**$ 63,923,541**

	Distribution Equipment	Land & Building	Other Fixed Assets	Total
Balance at January 1, 2019	$ 21,723,339	$ 4,275,061	$ 17,662,259	$ 43,660,659
Depreciation charge	5,564,633	873,471	3,697,654	10,135,758
Disposal/retirements	-	-	(228,346)	(228,346)
Balance at December 31, 2019	$ 27,287,972	$ 5,148,532	$ 21,131,567	$ 53,568,071

Carrying amounts

	Distribution Equipment	Land & Building	Other Fixed Assets	Construction in Progress	Total
At December 31, 2020	$ 189,469,942	$ 25,829,376	$ 32,023,081	$ 3,489,859	$ 250,812,258
At December 31, 2019	180,822,698	26,675,930	32,952,490	2,889,399	243,340,517

5. Property, Plant and Equipment (continued)

(c) Allocation of depreciation and amortization

The depreciation of property, plant and equipment and the amortization of intangible assets have been allocated to profit or loss as follows:

	Distribution Expenses	Amortization	Total
December 31, 2020:			
Depreciation of property, plant and equipment	**$ 675,905**	**$ 9,831,086**	**$ 10,506,991**
Amortization of intangible assets	**-**	**736,698**	**736,698**
	$ 675,905	**$ 10,567,784**	**$ 11,243,689**
December 31, 2019:			
Depreciation of property, plant and equipment	$ 735,577	$ 9,400,181	$ 10,135,758
Amortization of intangible assets	-	552,043	552,043
	$ 735,577	**$ 9,952,224**	**$ 10,687,801**

6. Intangible assets

(a) Cost or deemed cost:

	Computer Software	Land Rights	Work in Progress	Total
Balance at January 1, 2020	**$ 5,009,456**	**$ 1,124,311**	**$ 809,186**	**$ 6,942,953**
Additions	**1,558,926**	**46,936**	**(179,755)**	**1,426,107**
Disposal/retirements	**(475,321)**	**-**	**-**	**(475,321)**
Balance at December 31, 2020	**$ 6,093,061**	**$ 1,171,247**	**$ 629,431**	**$ 7,893,739**

	Computer Software	Land Rights	Work in Progress	Total
Balance at January 1, 2019	$ 4,773,458	$ 1,059,625	$ 128,862	$ 5,961,945
Additions	235,998	64,686	680,324	981,008
Balance at December 31, 2019	**$ 5,009,456**	**$ 1,124,311**	**$ 809,186**	**$ 6,942,953**

6. Intangible Assets (continued)

(b) Accumulated amortization:

	Computer Software	Land Rights	Total
Balance at January 1, 2020	**$ 2,970,313**	**$ -**	**$ 2,970,313**
Amortization charge	**736,698**	**-**	**736,698**
Disposal/retirements	**(426,470)**	**-**	**(426,470)**
Balance at December 31, 2020	**$ 3,280,541**	**$ -**	**$ 3,280,541**

	Computer Software	Land Rights	Total
Balance at January 1, 2019	$ 2,418,270	**$ -**	$ 2,418,270
Amortization charge	552,043	**-**	552,043
Balance at December 31, 2019	**$ 2,970,313**	**$ -**	**$ 2,970,313**

Carrying amounts

	Computer Software	Land Rights	Work in Progress	Total
At December 31, 2020	$ 2,812,520	$ 1,171,247	$ 629,431	$ 4,613,198
At December 31, 2019	2,039,143	1,124,311	809,186	3,972,640

7. Income Tax Expense

Tax expense:

	2020	2019
	$	$
Current	**141,331**	(121,376)
Deferred	**1,678,841**	1,963,597
Deferred recovery on unrealized gain on derivatives	**(1,495,509)**	(395,875)
	324,663	1,446,346

Reconciliation of effective tax rate:

	2020	2019
	$	$
Income from operations before income taxes	**216,530**	4,693,575
Statutory Canadian federal and provincial income tax rate	**26.50%**	26.50%
Expected taxes on income	**57,380**	1,243,797
Changes in income taxes resulting from:		
Permanent differences	**5,929**	12,771
Other temporary differences	**475,558**	299,428
Adjustment for prior periods	**(214,204)**	(109,650)
	267,283	202,549
Income tax expense	**324,663**	1,446,346

Permanent difference is due mainly to non deductible portion of meals and entertainment.

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

	December 31 2020	December 31 2019
	$	$
Deferred tax assets (liabilities):		
Plant and equipment	**(19,792,640)**	(17,426,549)
Deferred revenue	**7,317,345**	6,853,591
Employee benefits	**1,163,613**	1,156,338
Loss on derivatives	**2,340,584**	845,075
Corporate minimum tax	**221,120**	15,521
Other	**19,389**	8,767
	$ (8,730,589)	$ (8,547,257)

8. Regulatory Deferral Account Balance

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

	2020 Opening $	Balances arising in the period	Recovery / reversal	2020 Ending $	Recovery / reversal period (years)
Regulatory deferral account debit balances					
Group 1	1,785,939	189,083	(1,014,255)	960,767	1 year
Group 2	695,930	484,857	(94,996)	1,085,791	1 year
Stranded meters	-	-	-	-	3 years
Other regulatory accounts	-	21,739	-	21,739	
Deferred tax liability	12,811,727	2,578,317	-	15,390,044	n/a
Total amount related to regulatory deferral account debit balances	**15,293,596**	**3,273,996**	**(1,109,251)**	**17,458,341**	

	2020 Opening $	Balances arising in the period	Recovery / reversal	2020 Ending $	Recovery / reversal period (years)
Regulatory deferral account credit balances					
Group 1	1,045,562	1,327,973	(305,278)	2,068,257	1 year
Group 2	1,474,438	1,145,643	-	2,620,081	1 year
Stranded meters	26,528	-	-	26,528	-
Other regulatory accounts	75,314	8,700	(18,653)	65,361	50 years
Other regulated accounts	9,070,774	1,443,749	-	10,514,523	-
Deferred tax associated with regulatory accounts	3,395,108	683,254		4,078,362	n/a
Total amount related to regulatory deferral account credit balances	**15,087,724**	**4,609,319**	**(323,931)**	**19,373,112**	

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Year ended December 31, 2020

8. Regulatory Deferral Account Balance (continued)

	2019 Opening $	Balances arising in the period	Recovery / reversal	2019 Ending $	Recovery / reversal period (years)
Regulatory deferral account debit balances					
Group 1	1,910,047	1,268,555	(1,392,663)	1,785,939	1 year
Group 2	521,312	269,622	(95,004)	695,930	1 year
Stranded meters	14,823	-	(14,823)	-	3 years
Other regulatory accounts	-	-	-	-	
Deferred tax liability	9,113,631	3,698,096	-	12,811,727	n/a
Total amount related to regulatory deferral account debit balances	**11,559,813**	**5,236,273**	**(1,502,490)**	**15,293,596**	

	2019 Opening $	Balances arising in the period	Recovery / reversal	2019 Ending $	Recovery / reversal period (years)
Regulatory deferral account credit balances					
Group 1	3,248,422	218,970	(2,421,830)	1,045,562	1 year
Group 2	670,336	804,102	-	1,474,438	1 year
Stranded meters	-	26,528	-	26,528	-
Other regulatory accounts	100,109	-	(24,795)	75,314	50 years
Other regulated accounts	8,439,989	630,785	-	9,070,774	-
Deferred tax associated with regulatory accounts	1,841,453	1,553,655		3,395,108	n/a
Total amount related to regulatory deferral account credit balances	**14,300,309**	**3,234,040**	**(2,446,625)**	**15,087,724**	

Net movement in regulatory deferred account balances net of taxes of $2,680,426 consists of the regulatory deferred tax expense of $1,895,063, the regulatory treatment on the Accelerated Investment Incentive tax program of ($849,341) and the difference between the Power Purchased and the Sale of Electricity of $1,634,704.

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 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.

Settlement of the Group 1 deferral accounts, arising primarily from timing differences for the cost of power billing to customers, is done on an annual basis through application to the OEB. The 2020 IRM application was approved to collect $671,318 of the Group 1 deferral accounts. At January 1, 2020 the approved account balances have been moved to the regulatory settlement account.

Settlement of the Group 2 deferral accounts, created by accounting policy changes, is done at the time of the COS application. The amount of the Group 2 accounts that were approved in the COS application for rates effective January 1, 2021 is to disperse $680,661.

Other regulated accounts consist of timing difference on monies received and paid for CDM programs, Ontario Clean Energy Benefit and the IESO cost of power variance.

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.

The COVID-19 emergency deferral account comprises of five sub-accounts established to track incremental costs and lost revenues related to the COVID-19 pandemic: (i) Billing and System Changes as a Result of the Emergency Order Regarding Time-of-Use Pricing, (ii) Lost Revenues Arising from the COVID-19 Emergency, (iii) Other Incremental Costs, (iv) Foregone Revenues from Postponing Rate Implementation, and (v) Bad Debt.

On December 16, 2020, the OEB Staff released their proposal on the COVID-19 deferral accounts which introduces certain criteria to that may need to be satisfied for amounts to be eligible for recovery. Based on this information, management believes there is high uncertainty in regards to the recoverability of costs and lost revenues related to government and OEB customer relief actions, and therefore a low probability of recovery. LDC continues to track incremental expenditures directly related to the COVID-19 pandemic but no amounts have been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2020.

9. Short-Term & Long-Term Debt

The long-term bank debt is subject to a master bank agreement whereby each loan has a contractual maturity date of April 30, 2022. Full repayment is required at this date unless refinanced prior to the contractual maturity date.

For both the short-term and long-term bank debt the Company has a general security agreement creating in favour of CIBC a first priority security interest covering all company assets.

9. Short-Term & Long-Term Debt (continued)

Short-term debt		**2020** $	**2019** $
Line of Credit	Bank debt, bearing a variable interest rate of Prime Rate less 0.30% per annum. Amounts are repayable immediately in whole or in part, on demand. The operating credit limit is $15M.	-	396,819
		-	396,819

Long-term debt

Each loan has a 30 day banker's acceptance rate + 1% interest rate and is hedged by an interest rate swap at the rate per annum below.

Loan	Swap rate	Monthly payments ($)	Amortization date	2020 $	2019 $
Mortgage 2012	3.950%	88,667	April 1, 2037	**17,371,019**	18,411,867
Smart Meter 2013	2.980%	129,167	January 29, 2021	**258,217**	1,805,313
Term Loan 2013	4.434%	62,500	July 4, 2033	**9,433,348**	10,170,487
Term Loan 2014	4.035%	62,500	June 4, 2034	**10,120,950**	10,855,642
Term Loan 2015	3.430%	41,667	May 18, 2035	**7,205,522**	7,694,304
Term Loan 2016	2.505%	37,500	July 15, 2036	**7,009,695**	7,450,261
Term Loan 2017	3.565%	41,667	July 2, 2037	**8,412,963**	8,901,776
Term Loan 2018	3.854%	33,333	June 1, 2038	**7,096,876**	7,487,475
Term Loan 2019	3.271%	40,000	October 1, 2039	**9,150,972**	5,965,022
Term Loan 2020	2.642%	33,333	May 1, 2040	**7,846,546**	-
				83,906,108	78,742,147
Less: Current Portion				**(5,552,334)**	(6,264,000)
				78,353,774	72,478,147

The aggregate amount of expected principal repayments under the original amortization period are as follows:

2021	5,552,334
2022	5,294,000
2023	5,294,000
2024	5,294,000
2025	5,294,000
Thereafter	57,177,774
	83,906,108

9. Short-Term & Long-Term Debt (continued)

Long-term debt (continued)

In April 2020, the Company borrowed an additional tranche of $3,600,000 on the 2019 Term Loan. The 2020 Term Loan is split into five separate tranches, two of which were in 2020 and three that are scheduled for 2021. The Company borrowed $4,000,000 in June and another $4,000,000 in September 2020. In 2021 drawings are scheduled for April, July and October at $3,000,000, $3,000,000 and $4,000,000, respectively.

Interest rate swaps

The Company has entered into interest rate swap agreements with a high quality Canadian chartered bank for the purpose of eliminating the risk of fluctuating interest rates and removing the economic impact of interest rate volatility on the majority of its long-term debt. The CPA Handbook requires the Company to determine and record the fair value of its interest rate swap agreements on the Statement of Financial Position, with changes in fair values being recorded in the Statement of Comprehensive Income.

As a result, the Company has recorded a non-current derivative liability of $8,832,392 (2019 - $3,188,963) and a non-cash charge of $5,643,429 (2019 - $1,493,869). A deferred tax recovery of $1,495,509 (2019 – $395,875) was also recorded to reflect the deferred tax impact. There is no impact on current tax PILs payable. Over the term of the long-term debt, the non-cash charge and liability will reverse into income. The Company borrows funds using 30 day banker's acceptances at the bankers' acceptance floating rate. The swap instruments result in the Company receiving interest at the 30 day banker's acceptance floating rate and require the Company to pay the fixed rate in the swap instrument. The swaps have a put provision whereby on the five year anniversary of each swap, either party can unilaterally elect to terminate the contract requiring a cash payment upon settlement based on the fair value of the swap instrument on that date. The term of each individual swap instrument matches the amortization period of the corresponding bank loan.

By way of example, the disclosure on the 2012 loan which applies to all of the other loans is explained in detail as follows:

> Bank debt, available (at the company's option), at Prime less 0.3% or Banker's Acceptances (durations up to 6 months) plus 1%, payable in monthly payments of $88,667. Maturity date of the debt facility is June 30, 2022. The Company has entered into an interest rate swap to hedge the interest rate risk on the bank debt, wherein the company pays a fixed rate of 2.95% per annum and receives variable interest at the one month Banker's Acceptance rate, with net interest settlements paid monthly. The interest rate swap matures on April 1, 2037 and may be cancelled by either party on every 5 year anniversary. To the extent the Company continues to choose to borrow at the 1 month BA rate, the combined net effect of the borrowing and swap contract is a fixed cost of borrowing of 3.95% per annum until the maturity date of the debt facility.

10. Note Payable to Shareholder

	2020	2019
	$	**$**
Senior long-term note payable (a)	**17,266,271**	17,266,271
Junior long-term note payable (b)	**16,246,940**	16,246,940
	33,513,211	33,513,211

(a) The senior long-term note payable due to Waterloo North Hydro Holding Corporation, the Company's parent, bears interest at a rate of 6.0% per annum, has no set principal repayment terms and is due 270 days following demand by Waterloo North Hydro Holding Corporation. Interest is payable in equal quarterly installments, in arrears, March 30, June 30, September 30 and December 31 each year commencing July 1, 2009.

Waterloo North Hydro Holding Corporation has waived the right to demand repayment of any portion of the note during the next fiscal year.

(b) The junior long-term note payable due to Waterloo North Hydro Holding Corporation, bears interest at a rate of 1.125% per annum above the interest rate on debt which the Ontario Energy Board permits the Company to pay for rate making purposes in the establishment of distribution rates, has no set principal repayment terms and is due on demand. The 2016 OEB deemed rate was 4.54% which was effective up to December 31, 2020. As of January 1, 2021 the new OEB deemed rate for long-term debt is 2.85%.

Waterloo North Hydro Holding Corporation has waived the right to demand repayment of any portion of the note during the next fiscal year.

11. Employee Post-Employment 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, 2020 of $4,013,408 is based on an extrapolation of the actuarial valuation done at December 31, 2019 using a discount rate of 4.0%.

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

	2020 $	2019 $
Accrued benefit obligation		
Balance, beginning of year	**4,008,911**	4,578,814
Current service cost	**126,141**	121,291
Interest cost	**157,300**	179,819
Benefits Paid	**(278,944)**	(287,977)
Actuarial gains recognized in other comprehensive income	**-**	(583,036)
Accrued benefit liability, end of year	**4,013,408**	4,008,911

Components of net benefit expense recognized are a follows:

	2020 $	2019 $
Current service cost	**126,141**	121,291
Interest cost	**157,300**	179,819
Net benefit expense recognized	**283,441**	301,110

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

	2020 %	2019 %
Discount rate	**4.0**	4.0
Future general salary and wage levels increase	**2.0**	2.0
Dental costs increase	**4.0**	4.0
Medical costs increase	**5.0 reducing to 4.0% after 6 years**	5.0 reducing to 4.0% after 6 years

The approximate effect on the accrued benefit obligation of the entire plan and the estimated net benefit expense of the entire plan if the health care trend rate assumption was increased or decreased by 1%, and all other assumptions were held constant, is as follows:

	2020 $	2019 $
1% increase in trend rate	**$56,100**	$51,700
1% decrease in trend rate	**(48,600)**	(45,000)

12. 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.

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

Customer deposits comprise:

	2020	**2019**
	$	**$**
Current		
Customer deposits	**540,208**	300,834
Contruction deposits	**2,713,416**	2,415,961
Performance bond	**100,000**	100,000
	3,353,624	2,816,795
Long-term		
Customer deposits	**3,485,605**	4,026,940
	3,485,605	4,026,940

13. Share Capital

		2020	2019
		$	$
Authorized			
Unlimited	Common shares		
Unlimited	Class A special shares		
Issued			
1,000	Common shares	**24,370,424**	24,370,424
251,668	Class A special shares - $10 Par value		
	Non-voting, non cumulative	**2,516,680**	2,516,680
		26,887,104	26,887,104

Dividends

The holder of the common shares is entitled to receive dividends as declared from time to time.

The Company paid aggregate dividends in the year on common shares of $3,537 per share (2019 - $3,776), which amounts to total dividends paid in the year of $3,537,000 (2019 - $3,776,000).

Calculation of Operating Income for Dividend Purposes:

	2020	2019
	$	$
Net Income and Comprehensive Income	**2,572,293**	7,004,384
Less: unrealized gain/(loss) from derivatives net of tax	**(4,147,920)**	(1,097,994)
Net Operating Income	**6,720,213**	8,102,378

14. Revenue

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

	2020 $	2019 $
Revenue from contracts with customers	**228,958,250**	209,641,899
Other revenue		
CDM programs	**92,165**	259,093
Gain (loss) on disposal of assets	**(50,762)**	(54,685)
Late payment charges	**156,251**	139,736
Miscellaneous charges	**380,897**	389,063
Recognized deferred revenue	**791,716**	725,656
Rental income	**283,553**	288,865
Sale of scrap	**83,910**	78,149
Total other revenue	**1,737,730**	1,825,877
	230,695,980	211,467,776

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

	2020 $	2019 $
Residential	**80,872,562**	61,472,897
Commercial	**129,330,217**	131,729,401
Large users	**12,564,228**	9,928,949
Other	**6,191,243**	6,510,652
	228,958,250	209,641,899

15. Interest Income and Expense

	2020	2019
	$	$
Interest income on bank deposits	**(13,803)**	(51,568)
Interest income other	**(11,195)**	(1,140)
	(24,998)	(52,708)
Interest on debt with Waterloo North Hydro Holding Corporation:		
Senior long-term note payable	**1,038,815**	1,035,977
Junior long-term note payable	**922,909**	920,387
Interest expense on long term debt	**3,012,592**	2,865,356
Interest expense on short tem debt	**57,325**	87,210
Interest expense on deposits	**29,685**	82,201
Interest expense other	**-**	3,250
	5,061,326	4,994,381
Net interest cost	**5,036,328**	4,941,673
Regulatory Interest		
Interest expense	**29,495**	60,115
Interest income	**(65,532)**	(81,015)
Net regulatory interest income	**(36,037)**	(20,900)
Net interest cost recognized in profit or loss	**5,000,291**	4,920,773

16. 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, 2020, no assessments have been made.

To December 31, 2020, the Company has not been made aware of any additional assessments. Participation in MEARIE expires December 31, 2020. Notice to withdraw from MEARIE must be given six months prior to the commencement of the next underwriting term.

17. 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 2020, the Company made employer contributions of $1,197,931 to OMERS (2019 - $1,137,784). The Company's net benefit expense has been allocated as follows:

(a) $406,744 (2019 - $378,086) capitalized as part of labour in PP&E and

(b) $791,187 (2019 - $759,698) recorded as an expense against net income.

The Company estimates a contribution of $1,188,881 to OMERS during the next fiscal year.

18. Employee Benefits

	2020 **$**	**2019** **$**
Salary, wages and benefits	**13,358,197**	13,436,448
CPP and EI remittances	**482,408**	498,516
Contributions to OMERS	**1,197,931**	1,137,784
	15,038,536	15,072,748

19. Related Party Transactions

(a) Parent and ultimate controlling party

The sole shareholder of the Company is Waterloo North Hydro Holding Corporation which in turn is owned by the City of Waterloo and the Townships of Wellesley and Woolwich.

(b) Entity with significant influence

The City of Waterloo and the Township of Woolwich control and exercise significant influence over the Company through their indirect ownership interest in the Company of 73.2% and 20.2% respectively.

(c) Key management personnel

The key management personnel of the Company have been defined as members of its Board of Directors and executive management team members, and are summarized below:

	2020 **$**	**2019** **$**
Directors' fees	**117,634**	89,709
Executive compensation and benefits	**1,191,353**	1,136,000
	1,308,987	1,225,709

19. Related Party Transactions (continued)

(d) Transactions with entity with significant influence

In the ordinary course of business, the Company delivers electricity to the City of Waterloo and the Township of Woolwich. Electricity is billed to the City of Waterloo and the Township of Woolwich at prices and under terms approved by the OEB.

(e) Transactions with ultimate parent (the City and Townships)

In 2020 the Company had the following significant transactions with its ultimate parent, a government entity:

The Company delivers electricity to the City of Waterloo and the Townships of Wellesley and Woolwich and its related organizations throughout the year for their electricity needs. Electricity delivery charges are at prices and under terms approved by the OEB. The Company also provides the following services to the City of Waterloo and the Townships of Wellesley and Woolwich:

- streetlight maintenance services
- streetlight construction services

The Company conducted transactions with related parties during the year ended December 31, 2020. These transactions are in the normal course of operations and are measured at fair value.

	2020 $	2019 $
City of Waterloo		
Energy	**2,888,393**	3,354,773
Street light energy	**404,297**	408,197
Street light maintenance	**177,514**	149,933
Street light construction	**730,529**	112,004
Township of Wellesley		
Energy	**146,607**	185,157
Street light energy	**19,080**	18,612
Street light maintenance	**227**	11,028
Street light construction	**18,024**	13,196
Township of Woolwich		
Energy	**532,645**	730,869
Street light energy	**118,673**	114,048
Street light maintenance	**24,211**	24,579
Street light construction	**76,380**	76,962
Total for the year	**5,136,580**	5,199,358

19. Related Party Transactions (continued)

(e) Transactions with ultimate parent (the City and Townships) (continued)

The Company paid property taxes to the following:

	2020	**2019**
	$	**$**
Township of Woolwich	**291,524**	357,829
City of Waterloo	**99,550**	94,088
Township of Wellesley	**6,386**	6,217
Total for the year	**397,460**	458,134

In March 2020 the parent Waterloo North Hydro Holding Corporation borrowed from the Company $500,000 at an interest rate of prime less 0.30% (2.15%). This loan is outstanding as of December 31, 2020 and is due on demand.

20. Financial Instruments and Risk Management

Fair value disclosure

Cash and cash equivalents are measured at fair value. The carrying value of receivables, unbilled energy receivable, accounts payable and accrued charges approximate fair value due to the short maturity of these instruments. The carrying value of the customer deposits approximates fair value since the amounts are payable on demand.

The Company's activities provide for a variety of risks, particularly credit risk, market risk and liquidity risk.

The fair value of the long term debt approximates its carrying value due to the short maturity and/or the variable interest rates.

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 its revenue from a broad base of customers located in the City of Waterloo, the Townships of Wellesley and Woolwich. No single customer accounts for a balance in excess of 6.31% of total accounts receivable.

20. Financial Instruments and Risk Management (continued)

(a) Credit risk (continued)

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 expected credit losses at December 31, 2020 is $200,000 (2019 - $200,000).

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2020, approximately $316,941 (2019 - $320,353) is considered 60 days past due. The Company has over 58,400 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, 2020, the Company holds security deposits in the amount of $4,025,813 (2019 - $4,327,774).

(b) Market risk

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have any material commodity or foreign exchange risk. To mitigate interest rate risk the Company has secured fixed rate swap agreements for the majority of its debt. The company issues 30 day banker's acceptances at a floating rate but pays interest at a fixed rate guaranteed by the interest rate swap.

(c) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a $15M credit facility and 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, 2020, $nil had been drawn under CIBC's $15M operating credit facility (2019 - $396,819).

In 2020 the Company was assigned an Issuer Rate of A (low), Stable, from DBRS Limited. This is consistent with the 2019 rating. The Company's financial risk profile is reasonable with key metrics that are supportive of the "A" rating.

(d) Capital disclosures

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

The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2020, shareholder's equity amounts to $101,382,219 (2019 - $102,462,393) and long-term debt including shareholder debt amounts to $117,419,319 (2019 - $112,255,358).

21. Changes in Accounting Policies

The International Accounting Standards Board (IASB) has issued the following Standards, Interpretations and Amendments to Standards that were adopted by the Company effective January 1, 2020:

i. Amendments to Hedge Accounting Requirements – IBOR Reform and its Effects on Financial Reporting (Phase 1)

ii. Amendments to References to Conceptual Framework in IFRS Standards.

iii. Definition of a Business (Amendments to IFRS 3).

iv. Definition of Material (Amendments to IAS 1 and IAS 8).

v. COVID-19-Related Rent Concessions (Amendments to IFRS 16)

The amendments and clarifications did not have an impact on the financial statements.

22. Future Changes in Accounting Policy and Disclosures

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Company and it is still to be determined if any will have a material impact on the Company's financial statements.

i. Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)

ii. Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

iii. Annual Improvements to IFRS Standards 2018-2020

iv. Clarification on IFRS 9 Financial Instruments

v. Clarification on IFRS 16 Leases

vi. Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

23. Comparative Figures

Certain of the prior year comparative figures have been restated to conform to the current year’s presentation.

24. Impact of COVID-19

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. On March 17, 2020, the Ontario Government declared a State of Emergency pursuant to the Emergency Management and Civil Protection Act. The Ontario Government renewed the declaration, as required by the legislation, until July 24, 2020. During the State of Emergency, the Ontario Government issued emergency orders under the legislation and extended them as required by the legislation. On July 24, 2020, the Reopening Ontario (A Flexible Response to COVID-19) Act, 2020 came into effect, bringing the declared State of Emergency to an end. The Reopening Ontario Act also enabled the Ontario Government to extend, amend, and revoke the remaining emergency orders in order to facilitate a flexible response to the ongoing COVID-19 risks.

On March 19, 2020, the OEB extended the ban on disconnecting residential customers to July 31, 2020, in light of the COVID-19 pandemic. For the same reason, at the same time, the OEB also banned the disconnection of other low volume customers (as defined in the OEB Act) prior to July 31, 2020. In addition, the Company extended its ban on disconnecting residential and low volume customers until the transition back into the OEB's annual recurring winter disconnection ban on November 15, 2020.

On March 24, 2020, the Ontario Government issued an emergency order setting TOU rates for on-peak, mid-peak, and off-peak at 10.1 cents per kWh, which prior to the emergency order was the TOU off-peak rate. That emergency order was effective through May 7, 2020. On May 6, 2020, the Ontario Government issued an emergency order extending those TOU rates through May 31, 2020. On May 30, 2020, the Ontario Government announced the COVID19 Recovery Rate, setting a fixed TOU electricity price at 12.8 cents per kWh, 24 hours a day, seven days a week, effective June 1, 2020 until October 31, 2020. On October 13, 2020, the OEB announced new TOU rates for on-peak, mid-peak, and off-peak, that once again vary according to when electricity is used, effective November 1, 2020. There was no impact to net income to the Company.

On August 20, 2020, the Ontario Government amended O. Reg. 95/05 Classes of Consumers and Determination of Rates. Accordingly, customers on the RPP have the choice to pay TOU rates or tiered rates, effective November 1, 2020. By default, RPP customers will pay TOU rates. RPP customers who choose to pay tiered rates will pay a lower rate for consumption below a monthly threshold, and a higher rate for consumption above that threshold. The tiered rates and the threshold are set by the OEB twice per year, at the same time as the OEB sets TOU rates. There was no impact to net income to the Company.

On December 15, 2020, the OEB announced new RPP TOU and tiered rates to reflect a decrease in supply cost resulting from the Ontario Government's decision to remove certain renewable generation costs from the global adjustment and funding them directly through the tax base. The reduction was accompanied by a corresponding reduction to the Ontario Electricity Rebate. There was no net income impact to the Company.

On December 22, 2020, the Ontario Government amended O. Reg. 95/05 Classes of Consumers and Determination of Rates, setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.5 cents per kWh. That regulatory amendment was effective through January 28, 2021, and most recently extended until February 22, 2021. On February 23, 2021, residential and small business customers resumed paying TOU and tiered pricing under the RPP at prices that were set by the OEB on December 15, 2020. There was no net income impact to the Company.

ATTACHMENT O

Pro Forma Financial Statement Year 1

LDC Mergeco Pro Forma

STATEMENT OF COMPREHENSIVE INCOME

($000,s)

		Year 1 Forecast
REVENUES		
Sales of Electricity	$	419,307
Distribution Services Revenue		86,680
Other Income		5,126
Total Revenues		**511,113**
EXPENSES		
Energy Purchases		419,307
Operating Expenses		35,720
Depreciation & Amortization		24,575
Total Expenses		**479,602**
Income from Operating Activities		**31,511**
Net Interest (Expense) Income		**(6,637)**
Income from operations before PILs		**24,874**
PILs expense		1,332
Net Income from Operations	**$**	**23,542**

LDC Mergeco Pro Forma

STATEMENT OF FINANCIAL POSITION

($000,s)

		Year 1 Forecast
ASSETS		
Current		
Cash	$	-
Accounts receivable		55,326
Unbilled revenue		35,683
Inventories		6,668
Prepaid expenses		1,458
Total current assets		99,135
Non-current assets		
Fixed Assets & Intangibles		595,217
Regulatory Assets		6,209
Deferred taxes		17,382
Total non-current assets		618,808
Total Assets		717,943
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts Payable		61,075
Current Portion of Long-Term Debt		6,259
Current Portion of Customer Deposits		3,049
Other Current Liabilities		9,689
Total Current Liabilities		80,072
Long-Term		
Long-Term Debt		192,585
Derivative Liability		2,124
Customer Deposits		10,573
Deferred Revenue		85,229
Regulatory Liabilities		5,171
Post Employment Benefits		10,345
Deferred Tax Liability		24,297
Total Long-Term Liabilities		330,324
Total Liabilities		410,396
Shareholders' Equity		
Equity		307,547
Total Shareholders' Equity		307,547
Total Liabilities and Shareholders' Equity		717,943

LDC Mergeco Pro Forma

STATEMENT OF CASH FLOWS

($000,s)

		Year 1 Forecast
OPERATING ACTIVITIES		
Net Income	$	23,542
Add (deduct) charges to operations not requiring a current cash payment:		
Amortization		26,016
Net change in non-cash operating working capital		(420)
Net change in other assets/liabilities		362
Cash provided by operating activities		49,501
INVESTING ACTIVITIES		
Gross capital expenditures		(47,079)
Net change in regulatory Liabilities		2,030
Cash applied to investing activities		(45,049)
FINANCING ACTIVITIES		
Increase in long term debt		7,200
Long term debt - repayment		(6,079)
Deferred Revenue		4,900
Dividends paid		(10,929)
Other		457
Cash provided by financing activities		(4,451)
Net cash provided (applied) during year		0
Cash, beginning of year		-
Cash, end of year		0

ATTACHMENT P

Proposed Electricity Distribution License Application

Ontario

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

Application for Electricity Distribution 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

Application Instructions

1. Purpose of this form

The purpose of this form is to collect information to determine whether the Applicant will be granted a licence to distribute electricity.

2. Structure of the Application Form

This form contains the following sections:
A General Information;
B Distribution Facilities Information;
C Supporting Information
D Notice and Consent and
E Acknowledgement

Note: The information in section C16 shall be kept confidential, with the exception of names and positions held of key individuals. All other information filed as part of this application will be considered public. Where the applicant objects to public disclosure of the information, the applicant must follow the Ontario Energy Board's approved Guidelines for Treatment of Filing made in Confidence, effective March19, 2001.

3. Completion Instructions

PRINT CLEARLY or TYPE all information in BLACK. Please send two copies of the completed form and all attachments to:

Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319, 26th Floor
Toronto, ON M4P 1E4

4. Licence Fees:

A non-refundable application fee is required to process your application. Please enclose a cheque or money order made payable to the **ONTARIO ENERGY BOARD**.

Note: If a licence is issued, the Licensee will be required to pay an annual fee of $800.00.

5. Important Information:

As a licenced Electricity Distributor, the licencee may be subject to additional obligations as required by the Independent Electricity System Operator (IESO) and as established under section 70 or section 78 of the *Ontario Energy Board Act, 1998*.

REMARQUE:
Ce document est disponible en français.

OEB App05A - July/05

Ontario Energy Board
Commission de l'Énergie de l'Ontario
Application for Electricity Distribution Licence

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

For Office Use Only	
Application Number	
Date Received	

A. General information

1. Type of Application

New licence ☑

Renewal ☐

Amendment to an existing Licence ☐

2. Ownership/Operation

Please indicate whether the Application is for:

☑ Ownership and Operation of a distribution system

This application is being made in conjunction with a "MAADs" application to the OEB under s.86 of the Ontario Energy Board Act, 1998, is amended for the relief necessary to effect the amalgamation of Kitchener Wilmot Hydro Inc. (ED-2002-0573) and Waterloo North Hydro Inc. (ED-2002-0575) into a single, licenced, rate regulated electricity distirbutor that will serve over 157,000 customers. As part of the MAADs application, the two consolidating utilities are requesting that the OEB transfer their existing Distirbutor Licences, to the new, consolidated distributor (LDC MergeCo).

☐ Ownership of a distribution system only. Please provide the name and licence no., if any, of the operator of the distribution system?

☐ Operation of a distribution system only. Please provide the name and licence no., if any, of the owner of the distribution system?

3. Applicant

Please provide the following information about the Applicant:

Full Legal Name of Applicant	Ontario Corporation Number, Canadian Corporation Number or Business Registration Number	Date of Formation or Incorporation
LDC MergeCo (Legal name to be determined)	Will be available within thirty days following receipt of OEB approval for the proposed amalgamation	Within thirty days following receipt of OEB approval for the proposed amalgamation

Business Address:

Either 301 Victoria St S, Kitchener, N2G 4L2 or 526 Country Squire Rd, Waterloo, N2J 4G8. A decision on the business address will be available within thirty days following receipt of OEB approval for the proposed amalgamation.

City	Province	Country	Postal/Zip Code
see Business Address above	Ontario	Canada	see Business Address above

Phone Number	FAX Number	E-Mail Address (if applicable)

4. Primary Contact for this Application

Please provide the following information about the Primary Contact for this Application:

See Section 4 Attachment

Mr. ☐ Mrs. ☐ Miss ☐ Ms. ☐ Other: ________	Last Name:	Full First Name:	Initial:
	Position Held:		

Contact Address (if R.R., give Lot, Concession No. and Township)

City	Province	Country	Postal/Zip Code

Phone Number	FAX Number	E-mail Address (if applicable)

5. Service Area

Please indicate the location (name of municipality or unorganized territory) of the Applicant's distribution facilities and provide a description of the extent (size, length, coverage) of the distribution facilities involved in this Application. This description will be used for the purpose of stating a service area in which the licensee would be authorized to distribute electricity:

LDC MergeCo's service area will consist of the current service areas of Kitchener-Wilmot Hydro Inc. (ED-2002-0573) and Waterloo North Hydro Inc. (ED-2002-0575). These service areas are described in detail in Section 5 Attachment. A map providing an overview of the service area resulting from the proposed amalgamation is provided in the MAADs application, Attachment B.

6. Facilities Use

	Yes	No
Please indicate whether the distribution facilities are for exclusive use by the Applicant.	☑	☐

B. Distribution Facilities Information

7. Facilities Type

Please indicate whether the Applicant's distribution facilities are:

☐ New assets to be constructed? Proposed In-service date: ______________________________

If Applicant is to be the owner, please attach a statement explaining the financing arrangements.

☑ Existing assets presently owned and/or operated by the Applicant?

LDC MergeCo's distribution facilities will be comprised of the existing assets of Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.

☐ Existing assets not presently owned and/or operated by the Applicant (ie to be purchased)?

If Applicant is to be the owner please indicate:

a) from whom assets will be purchased:

b) when application for sale has/will be filed with the Board?

☐ Other (please describe):

8. Facilities Purpose

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

☑	To provide a connection between a generator and a transmission/distribution system.
☑	To provide a connection between a transmission/distribution system and a load customer or customers.
☑	To provide a connection between a generator and a load customer or customers.
☑	To provide distribution services to the general public.
☐	Other (please describe):

9. Description of Facilities

Please describe the Applicant's distribution facilities indicating operating voltage(s) (kV), length of distribution line (km), number of substations and approximate total supply capacity (MW):

KWHI owns and operates 8 transformer stations and 6 distribution stations with a combined capacity of 584 MVA of which 500.7 MVA is provided at 13.8 kV, 83.3 MVA is provided at 27.6 kV and 30 MVA is provided at 8.32 kV from the distribution stations fed from the above 27.6 kV system. KWHI distribution system is supplied by 102 distribution feeders: 5 at 27.6 kV, 80 at 13.8 kV and 17 at 8.32 kV. Power is distributed across 1,993 circuit-length-km of line (3,625 conductor-length-km); 987 circuit-length-km (1,337 conductor-length-km) which are installed underground with the remaining 1,006 circuit-length-km (2,288 conductor-length-km) carried on 23,256 KWHI poles.

WNH is serviced by 2 Hydro One-owned transformer stations and 1 Kitchener Wilmot Hydro-owned transformer station. WNH is supplied from 10 transmission, sub-transmission and distribution feeders: 2 at 230kV, 2 at 115kV, 1 at 44kV, and 5 at 27.6kV. WNH owns and operates 4 transformer stations, and 5 distribution stations with a combined transformation capacity of 366.8 MVA of which 27.8 MVA is at 8.32kV, 254 MVA is at 13.8kV and 85 MVA is at 27.6kV. Power is distributed across 1,657 circuit-length-km of line (3,183 conductor-length-km); 586 circuit-length-km of line (719 conductor-length-km) which are installed underground with the remainder 1,071 circuit-length-km of line (2,463 conductor-length-km) carried on 21,739 WNH owned poles.

10. Location of Facilities

Please indicate whether the distribution facilities will be located on, over or under public streets or highways.	Yes	No
	☑	☐

C. Supporting Information Organizational Information

11. Business Classification

Sole Proprietor	☐
Partnership	☐
Corporation	☑
Other	☐

12. Affiliates of the Applicant

a) Please provide the following information for all Affiliates of the Applicant (attach a copy of 12(a) for each affiliate).

Full Legal Name of Affiliate Company:

MergeCo Holdco (to be named later) (Merged Holdco will be the holding company of the Applicant),Kitchener Energy Solutions Inc, Alliance Metering Solutions, Grand River Energy Solutions Corporation and Eyedro Green Solutions Inc.

Business Address:

City	Province	Country	Postal/Zip Code

Tel. Number	FAX Number	E-Mail Address (if applicable)

Description of Business Activities:

Please refer to Section 2.5 - Corporate Relationships of the Applicant's MAADs application for descriptions of the Affiliates of the Applicant.

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.

A corporate organization chart is provided as part of the Applicant's MAADs Application, as referenced in Section 4.1.4 - Change of Control Attachment .

13. 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: Please see Section 13 Attachment	Licence/Registration Number:
Jurisdiction: Ontario	Type of Business Activity (e.g. Generation, Transmission, Distribution):

Technical Capability and Experience Information

14. Business Activities

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

Electricity distribution, as detailed in the Applicant's MAADs application.

15. 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.

The Applicant is the distributor that will be created by the consolidation of Kitchener-Wilmot Hydro Inc. and Waterloo Nroth Hydro Inc. These predecessor LDCs of LDC MergeCo have operated as electricity distributors in Ontario for many years, and both hold OEB licences in good standings. LDC MergeCo intends to continue providing reliable and high quality distribution services with employees transferred from its predecessor companies. In respect of the functions identified below, the Applicant will continue to use its own staffing resources to undertake most of these functions. Where a decision is made to engage an outside vendor or contractor to undertake all or any part of these functions, LDC MergeCo will apply its policy of only engaging duly qualified and experienced vendors and contractors pursuant to its procurement policy.

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

☑ Design	Contracted to:
☑ Construction	Contracted to:
☑ Inspection & Maintenance	Contracted to:
☑ Operation	Contracted to:
☑ Customer Connection	Contracted to:
☐ Standard Supply Service	Contracted to:
☑ Metering & Metering Services	Contracted to:
☑ Settlement & Billing	Contracted to:
☐ Other (describe):	Contracted to:

16. Information About Each Key Individual

Mr. ☐ Mrs.☐ Miss ☐ Ms. ☐ Other: ________	Last Name:	Full First Name:	Initial:
	Position Held:		

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

Kitchener-Wilmot Hydro Inc. - Officers:
Jerry Van Ooteghem, President & CEO; Margaret Nanninga, VP Finance & CFO

Waterloo North Hydro Inc, - Officers:
Rene Gatien, President & CEO; Albert Singh, VP Finance & CFO

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 ☐

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

Please see Section 16 Attachment

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 ☐

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

Please see Section 16 Attachment

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 ☐

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

Please see Section 16 Attachment

Note:
Attach a copy of Item 16 for each Key Individual: Officer and Director, Partner or sole Proprietor.

Financial Information
17. Financial Statements

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.

The Applicant has provided the predecessor distributors' financial statements for 2019 and 2020 as referenced in the MAADs application.

Other Information
18. Delivery

Please indicate whether the Applicant's distribution facilities are to be used to deliver electricity to one or more parties other than the Applicant. If yes, please provide the following information:

Yes ☑ No ☐

a) if the purpose of the Applicant's distribution facilities is to provide distribution services to specific generators or load customers rather than the general public (see question #8) please indicate the names of these participants:

Not Applicable

b) a summary of the business plans relating to the Applicant's proposed distribution business for the next five years. This should include the following:

- a forecast of annual growth in terms of factors such as the amount of electricity distributed (MW and/or MWH), number of customers served, amount of distribution facilities (lines and/or stations), etc.

- annual pro forma financial statements including forecasts of costs, revenues and project financing indicating the underlying assumptions on which the forecasts are based.

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

Please see MAADs Application for details of the Applicant's proposed business plan.

d) indication of the Applicant's plans to seek Ontario Energy Board approval for electricity distribution rates.

In the MAADs application, the Applicants have indicated that they will be deferring rebasing for a period of 10 years from the completion of the consolidation. During the rebasing deferral period, LDC MergeCo will be applying for approval of rates in a manner applicable to each of the predecessor distributors. More particularly:

- Kitchener-Wilmot Hydro Inc. service areas will be the subject of Price Cap Incentive Rate-Setting rate applications through the rebasing deferral period.
- Waterloo North Hydro Inc. service areas will be the subject of Price Cap Incentive Rate-Setting rate applications through the rebasing deferral period.

19. Proposed Business Transactions

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

a) Facilitate competition and enhance access to transmission/distribution services:

The proposed transaction related to this Application is the consolidation of two existing licensed electricity distributors. The proposed transaction will have no adverse impact on competition, nor will it have an adverse impact on access to distribution services.

b) Improve reliability and quality of supply:

The proposed transaction will have no adverse impact on reliability and quality of supply. Moreover, the consolidation proposed in the MAADs application will create opportunities for the improvement of existing reliability and quality of supply.

c) Promote economic and energy efficiency:

The consolidation of the two existing distributors will create opportunities for improved economic and energy efficiency in the distribution of electricity in the predecessor distributors' service areas.

20. Electricity Sector Activities

Please indicate whether the Applicant intends to be involved with electricity sector activities in the Ontario market other than distribution and provision of Standard Supply Service?

	Yes	No
Buy or Sell (Wholesale) electricity	☐	☐
Transmit electricity	☐	☐
Retail electricity	☑	☐
Generate electricity	☐	☐

If yes to any of the above: Unit-Submetering - ES-2020-0298

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

b) Has the Applicant or an affiliate applied for Ontario Energy Board Licences? If no, when planned? ____ ________	Yes ☐ No ☐

D. Notice and Consent for Ontario Board to Collect Additional Information

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 distribution 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
Jerry Van Ooteghem, President & CEO Kitchener-Wilmot Hydro Inc. Rene Gatien, President & CEO Waterloo North Hydro Inc.		

E. Acknowledgement of Market Rules, Codes and Conditions

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 distributor, I will be required, unless otherwise exempted:

- To provide non-discriminatory access to all persons wishing to connect to the distribution system.
- To comply with all licence conditions including the provisions of:
  - Affiliate Relationships Code for Electricity Distributors and Transmitters
  - Distribution System Code
  - Retail Settlement Code
  - Standard Supply Service Code
  - Retail Metering Code
  - Market Rules made under section 32 of the *Electricity Act, 1998.*

Print Name and Title	Signature of Applicant(s)	Date Signed
Jerry Van Ooteghem, President & CEO Kitchener-Wilmot Hydro Inc. Rene Gatien, President & CEO Waterloo North Hydro Inc.		

CHECKLIST

Have You:

1.	Properly and fully completed this form? (Illegible, incomplete or improperly completed forms do not qualify for registration and will be delayed or returned.)	☐
2.	Enclosed a cheque or money order payable to the **ONTARIO ENERGY BOARD** in the amount prescribed?	☐
3.	Attached Section D, the signed "Notice and Consent" form, as specified?	☐
4.	Attached Section E, the "Acknowledgement" form, as specified?	☐
5.	Submitted two copies of the application?	☐

Please send the completed form and all attachments to:

Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319 , 26th Floor
Toronto, ON M4P 1E4

NOTE: You are not required to return the cover page or this checklist to the Ontario Energy Board.

SECTION 4 ATTACHMENT

Primary Contacts for this Application:

Margaret Nanninga, MBA, CPA, CGA
VP of Finance & CFO
Kitchener-Wilmot Hydro Inc.
301 Victoria St. S.
Kitchener, ON, N2G 4L2
Ph: 519-729-6177
Email: mnanninga@kwhydro.ca

Albert Singh, MBA, CPA, CGA
VP of Finance & CFO
Waterloo North Hydro Inc.
526 Country Squire Rd.
Waterloo, ON, N2J 4G8
Ph: 519-888-5542
Email: asingh@wnhydro.com

SECTION 5 ATTACHMENT

Please indicate the location (name of municipality or unorganized territory) of the Applicant's distribution facilities and provide a description of the extent (size, length, coverage) of the distribution facilities involved in this Application.

1. The City of Kitchener and the Township of Wilmot as of January 1, 1991.

2. The customers in the Township of Blandford-Blenheim located at:

    - 965880, 966070, 966104, 966178, 966182, 966248, 966426, 966484, 966558, 966568, 966584, 966608, 966616, 966654, 966750, 966780, 966800, 966858, 966956, 966980 (three customers), 967022, 967092, 967192, 967244, 967268, 967324, 967372, 967376 (two customers), 967418, 967470, 967520, 967530, 967590, 967610, 967638 (two customers), 967672, and 967720 Oxford-Waterloo Road
    - 3033 and 3063 Trussler Road
    - 776928 and 776949 Blandford Road
    - 816911 Oxford Road 22
    - 856910 River Road
    - 896941 Washington Road

3. The customers in the Township of North Easthope located at:

    - 1466 and 1478 (two customers) Line 34
    - 4104, 4184 (two customers) and 4426 Wilmot-Easthope Road
    - 4010, 4086, 4526 (two customers), 4576, 4582, 4596 Perth Road 99
    - 4264 Perth Road 101
    - 4714 (two customers), 4888, 4906, 4920, 4930, 4994, 5076 (two customers) Perth Road 103
    - 1481 Perth Line 43

4. The customers in the Township of South Easthope located at:

    - 1481, 1483 and 1559 Line 34
    - 3976 Perth Road 100
    - 3880 and 3976 Perth Road 101
    - 3940 Perth Road

5. The customers in the Township of Zorra East located at:

    - 756795, 756819, 756871, 756907, 756893, 756995, 757119, 757161 and 757165 (two customers) Oxford Road 5

6. The City of Waterloo, the Township of Wellesley and the Township of Woolwich as of January 1, 1991.

7. The customers in the Township of Guelph located at:

- 5283, 5285, 5291, 5395, 5419, 5423, 5427, 5427A, 5431, 5443, 5469 and 5485 Guelph Woolwich Townline
- 7015, 7015A and 7017 Pine Creek Rd
- 6870 Speedvale Ave W
- 5651 Township Rd 3

8. The customers in the Township of Peel located at:

- 7165, 7167, 7171, 7173, 7175, 7177, 7179, 7185, 7185A, 7203, 7226, 7226A, 7236, 7252 and 7253 Blind Line
- 7018, 7022 and 7032 Floradale Rd
- 7119, 7121, 7123, 7123A, 7125, 7155, 7201, 7213A, 7213B, 7213C, 7215, 7217, 7219, 7221, 7223, 7225, 7231, 7243, 7245, 7247, 7249, 7251, 7263, 7269, 7271, 7273, 7275, 7277, 7293, 7595, 7603, 7605, 7607, 7609, 7613, 7621 and 7621A Regional Rd 86
- 6508 Reid Woods Rd
- 6672 Ruggle's Rd
- 6362, 6363, 6364, 6365, 6366, 6367, 6368, 6369, 6370, 6464 and 6970 Yatton Sideroad

9. The customers in the Township of Perth East located at:

- 6154, 6194, 6292, 6334, 6476, 6574, 6878, 7688, 7766, 7766A and 7796 116th Rd

10. The customers in the Township of Pilkington East located at:

- 7092, 7100 and 7104 Crowsfoot Rd
- 5778 Elm Pathway Pvt
- 7098, 7098A, 7106, 7110, 7119 and 7120 Sideroad 18
- 5879, 5883, and 5887 Splint Rd
- 6023, 6033, 6053, 6097, 6287, 6307 and 6367 Weisenberg Rd

11. The customers in the Township of Pilkington West located at:

- 7111, 7111A, 7112 and 7112A Noah Rd
- 6929, 6953, 6961, 6979, 6983 and 6985 Wellington Rd 17
- 7093 Wellington Rd 18
- 7106 Wellington Rd 21

SECTION 13 – ATTACHMENT

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:** *The Applicant represents the consolidation of Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc. Those consolidating entities and their affiliates are identified below.*	**Yes**
Full Legal Name of Company: *Kitchener-Wilmot Hydro Inc.*	**Licence/Registration Number:** *ED-2002-0573*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Distribution*
Full Legal Name of Company: *Kitchener Energy Solutions Inc.*	**Licence/Registration Number:** *Not applicable*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Energy Services*
Full Legal Name of Company: *Waterloo North Hydro Inc.*	**Licence/Registration Number:** *ED-2002-0575*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Distribution*
Full Legal Name of Company:	**Licence/Registration Number:**

Alliance Metering Solutions	*ES-2020-0298*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Unit Sub-metering*
Full Legal Name of Company: *Grand River Energy Solutions Corporation*	**Licence/Registration Number:** *Not applicable*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Energy Services*
Full Legal Name of Company: *Eyedro Green Solutions Inc.*	**Licence/Registration Number:** *Not applicable*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Energy Management Products*

SECTION 16 - ATTACHMENT

Key Individuals	a) Proprietor, partner, officer or director of business that was granted a licence under Part IV or V of the Ontario Energy Board Act, 1998	b) Proprietor, partner, officer or director of a business that was registered or licenced under this or any other acts of legislation	c) Proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled
Mr. Jerry Van Ooteghem President & CEO Kitchener-Wilmot Hydro Inc. Professional Engineer Years of Service in Energy Sector: 40 Jerry Van Ooteghem is the President and CEO since April 2007. A Professional Engineer, Mr. Van Ooteghem was previously the Vice-President of Operations and Chief Engineer for the Corporation. He has over 40 years of experience in the electrical industry.	*Current Officer, Kitchener-Wilmot Hydro Inc.*	*Current Officer, Kitchener Power Corporation*	*No*
Ms. Margaret Nanninga VP Finance & CFO Kitchener-Wilmot Hydro Inc. CPA Years of Service in Energy Sector: 25 Margaret Nanninga is the Vice-President, Finance and Chief Financial Officer. Ms. Nanninga holds a MBA degree from Laurentian University, a BaccS from the University of Calgary and is a	*Current Officer, Kitchener-Wilmot Hydro Inc.*	*Current Officer, Kitchener Power Corporation*	*No*

Chartered Professional Accountant. Margaret has worked in the LDC industry for 25 years, having joined the utility in May 1996.			
Mr. Rene Gatien President & CEO Waterloo North Hydro Inc. Professional Engineer Years of Service in Energy Sector: 35 Rene Gatien is the President and CEO since July 2002. Mr. Gatien was previously the Vice-President of Operations for Guelph Hydro for eleven years. Mr. Gatien holds a B.A.Sc in Electrical Engineering and is registered as a Professional Engineer As well he holds an MBA from the Richard Ivey School of Business and an ICD.D from the Institute of Corporate Directors.	*Current Officer, Waterloo North Hydro Inc. Past Officer, Guelph Hydro*	*Current Officer, Waterloo North Hydro Holding Corporation Current Officer, Alliance Metering Solutions*	*No*
Mr. Albert Singh VP Finance & CFO Waterloo North Hydro Inc. CPA Years of Service in Energy Sector: 30 Albert Singh is the Vice-President, Finance and Chief Financial Officer. Mr. Singh holds an MBA degree and is a Chartered Professional Accountant. He joined the utility in January of 2003 and was previously the Director of Finance for Hydro Vaughan Distribution Inc. for six years. Mr. Singh has over 30 years of experience in the electrical industry.	*Current Officer, Waterloo North Hydro Inc. Past Officer, Hydro Vaughan Distribution Inc.*	*Current Officer, Waterloo North Hydro Holding Corporation Current Officer, Alliance Metering Solutions*	*No*

ATTACHMENT Q

2022 Rate Riders – KWHI and WNHI

Kitchener-Wilmot Hydro Inc.
Attachment Q
Listing of Existing Rate Riders - January 1, 2022

Customer Class	Item Description	Unit	Rate $
Residential			
	Rate Rider for Disposition of Global Adjustment Account (2022) - effective until December 31, 2022. Applicable only for Non-RPP Customers.	$/kWh	0.0010
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kWh	0.0029
General Service Less than 50 kW			
	Rate Rider for Disposition of Global Adjustment Account (2022) - effective until December 31, 2022. Applicable only for Non-RPP Customers.	$/kWh	0.0010
	Rate Rider for Disposition of Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) (2022) - effective until December 31, 2022.	$/kWh	0.0007
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kWh	0.0029
General Service 50 kW to 4,999 kW			
	Rate Rider for Disposition of Global Adjustment Account (2022) - effective until December 31, 2022. Applicable only for Non-RPP Customers.	$/kWh	0.0010
	Rate Rider for Disposition of Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) (2022) - effective until December 31, 2022.	$/kW	0.2927
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022. Applicable only for Non-Wholesale Market Participants.	$/kW	(0.2869)
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kW	1.3713
Large Use Service			
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kW	1.3611
Unmetered Scattered Load			
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kWh	0.0029
Street Lighting			
	Rate Rider for Disposition of Global Adjustment Account (2022) - effective until December 31, 2022. Applicable only for Non-RPP Customers.	$/kWh	0.0010
	Rate Rider for Disposition of Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) (2022) - effective until December 31, 2022.	$/kW	5.6257
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kW	1.0292
Embedded Distributor			
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kW	1.5652

Waterloo North Hydro Inc.
Attachment Q
Listing of Existing Rate Riders - January 1, 2022

Customer Class	Item Description	Unit	Rate $
Residential			
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kWh	(0.0005)
General Service Less than 50 kW			
	Rate Rider for Disposition of Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) (2022) - effective until December 31, 2022.	$/kWh	0.0004
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kWh	(0.0005)
General Service 50 kW to 4,999 kW			
	Rate Rider for Disposition of Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) (2022) - effective until December 31, 2022.	$/kW	0.3945
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022. Applicable only for Non-Wholesale Market Participants.	$/kW	(0.2235)
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kW	0.0313
Large Use Service			
	Rate Rider for Disposition of Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) (2022) - effective until December 31, 2022.	$/kW	(0.1362)
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kW	(0.2906)
Unmetered Scattered Load			
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kWh	(0.0005)
Street Lighting			
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kW	(0.1764)
Embedded Distributor			
	Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022.	$/kW	(0.2127)

ATTACHMENT R

Customer Engagement

Connecting Local Power

Consulting the Community on the Proposed Merger of Kitchener-Wilmot Hydro and Waterloo North Hydro

Public Engagement Report

Prepared for : Kitchener-Wilmot Hydro and Waterloo North Hydro

Prepared by : NATIONAL Public Relations

November 2021

Table of Contents

Connecting Local Power – Consulting the Community on the Proposed Merger of Kitchener-Wilmot Hydro and Waterloo North Hydro

Public Engagement Report
November 2021

Executive Summary

On October 1, 2021, Kitchener Power Corporation and Waterloo North Hydro Holding Corporation made a public announcement about the proposed merger of Kitchener-Wilmot Hydro and Waterloo North Hydro. The announcement launched the public engagement phase of this proposed merger.

The objectives of the communications strategy and public engagement plan were:

1. Inform and engage customers, residents, and employees.
2. Raise awareness and understanding of the rationale, details, and benefits of the merger.

Key messages and various communications products, such as a news releases and FAQs were developed to support the announcement. A microsite – www.connectinglocalpower.ca – was launched to be the public hub for all communications and engagement with the public. The announcement was made in a virtual news conference where media reporters were invited to participate, and a subsequent public information session was held to inform residents, ensure a high level of transparency, and answer any questions residents had about the proposed merger.

Conclusion

All communications and public engagement activities have been met with relatively positive community feedback, as well as fair and factual media coverage. Based on interactions and questions received during the four-week public engagement effort, we conclude that there are no major community concerns related to this proposed merger.

Background

Like several other local power utilities in communities across Ontario, Kitchener-Wilmot Hydro and Waterloo North Hydro decided to take the next step in their ongoing collaboration efforts by combining operations to create a larger, local, and publicly owned power utility.

In October 2021, a public announcement was made about the proposed merger between Kitchener-Wilmot Hydro and Waterloo North Hydro. All five municipalities that would be impacted by the merger approved the commencement of the merger process during their respective municipal council meetings on October 4 or 5.

A communications campaign – Connecting Local Power – was launched, including the website, with the primary objective being to keep residents and key stakeholders informed while seeking public input.

Communications

Before the public announcement on October 1, presentations were delivered to each of the five municipal shareholder councils to outline the communications approach and public engagement phase.

On October 1 and in the subsequent days and weeks, internal and external communications materials were prepared and/or distributed including:

- Key messages.
- Communications package for municipal Councillors.
- FAQs.
- Media release.
- Social media posts.
- Ads in local newspapers including the Waterloo Region Rural Post, Waterloo Chronicle, Woolwich Observer and New Hamburg Independent.

See Appendix 1 for a copy of select public communications.

In addition, the Connecting Local Power website was launched with graphics, external resources, and other informative content. Two versions of the site were developed, one with preliminary information for the October 1 announcement, and then the full website, which was launched following the October 4 and 5 municipal Council approvals of the merger, including a call to action for residents to submit questions and provide feedback on the proposed merger

News Conference

A virtual news conference was held on October 1 through Zoom to announce the proposed merger and featured prepared remarks from:

- David Petras, Board Chair, Waterloo North Hydro Holding Corporation
- Jim Phillips, Board Chair, Kitchener Power Corporation

The following officials were available for media Q&A session following the remarks:

- Les Armstrong, Mayor of Township of Wilmot
- Rene Gatien, Chief Executive Officer of Waterloo North Hydro
- Dave Jaworsky, Mayor of Waterloo
- Joe Nowak, Mayor of Township of Wellesley
- Sandy Shantz, Mayor of Township of Woolwich
- Jerry Van Ooteghem, Chief Executive Officer of Kitchener-Wilmot Hydro
- Berry Vrbanovic, Mayor of Kitchener

Five local journalists attended the conference. Following the announcement, coverage was picked up by CBC, CTV Kitchener, The Record, and more. See Appendix 3 for media coverage.

Website

A website, www.connectinglocalpower.ca, was developed ahead of the official announcement and launched on October 1. Users could visit the site to find key stats, the official news release sharing details about the proposed merger, external resources, and were presented with an option to submit inquiries. The website also hosted the public information session registration and related information.

Following the municipal council approvals of the Memorandum of Understanding on October 4 and 5, an updated version of the website was made available with additional information and resources, as well as a timeline to help residents understand what the next steps would entail. The update also included the call to action for public input.

As of November 23, the website has received a total of 16 inquiries from residents with comments and questions. See Appendix 2 for a list of responses for each resident inquiry received.

Within the first month of the website launch (October 1- November 11) there were a total of 3,806 visitors to the connectinglocalpower.ca website. The highest number of users were from the following five municipalities: Kitchener, Toronto, (City of) Waterloo, Cambridge, and Brampton. The single largest number of website visitors came from Kitchener, at 407. About 173 users downloaded files, which were available as resources on the site.

See Appendix 4 for a full website analytics report, including a breakdown of website visitors by region.

Social Media

Content and graphics were created for social media posts related to the proposed merger and the public information sessions. These posts were shared with all five municipalities, as well as Kitchener-Wilmot Hydro and Waterloo North Hydro, who then shared these posts on their Twitter and Facebook pages. The social media posts were also included in a communications package that was shared with municipal Councillors.

See Appendix 5 for a thorough overview of engagement across Twitter and Facebook for the period of October 1-19.

Earned Media

Earned media is any placement or publicity that is gained without paid advertising.

From October 1 to shortly after the public information session on October 19, various outlets covered the proposed merger. The estimated total media reach is approximately 5,462,600 unique visitors for all online, print and broadcast media hits. A full list of media coverage since October 1 can be found in the Appendix.

Paid Advertising

Ads were placed in local newspapers that promoted the announcement of a proposed merger and encouraged readers to visit connectinglocalpower.ca to learn more. The local newspapers were the Waterloo Region Rural Post, Waterloo Chronicle, Woolwich Observer and New Hamburg Independent. The average reach of these ads was approximately 83,499 people.

Engagement

A virtual public information session was held on October 19 at 7:00 PM. Residents could register through www.connectinglocalpower.ca, by email info@connectinglocalpower.ca or a designated phone line.

The session was held on Zoom. Residents who attended received an overview of the proposed merger and had their questions answered by the following panelists:

- Jim Phillips, Board Chair, Kitchener Power Corporation
- Rene Gatien, Chief Executive Officer of Waterloo North Hydro
- Jerry Van Ooteghem, Chief Executive Officer of Kitchener-Wilmot Hydro

There were 25 residents who RSVP'd to the information session.

There were 23 people in attendance, 17 of whom were residents, and six who were speakers, tech support, a note-taker, and the moderator. Of the 17 residents in attendance, nine were from Kitchener, three were from Waterloo, two were from Woolwich, and two were from Toronto. One identified their municipality as 'Other'.

The session consisted of a steady flow of questions, with three attendees submitting theirs in advance.

Following the launch of the website, there have been a total of 16 inquiries submitted via the 'Have Your Say' section. Of these inquiries, seven residents were located in Waterloo, five in Kitchener, two in Wilmot and two in Woolwich.

Questions have been received consistently and the majority are focused on rates increasing following the merger. Other inquiries include:

- Electric vehicle rebates
- Service impacts
- Investments in innovation and climate change

Key Themes and Community Feedback

While community engagement with residents is ongoing, the proposed merger has received relatively positive feedback and limited opposition from community members.

Residents of all five municipalities raised several key concerns in their inquiries through the website form and questions posed at the information session. Sixteen inquiries were received via info@connectinglocalpower.ca and responses were emailed directly to the residents. The questions and feedback from residents and full answers provided are in Appendix 2. Key themes from the information session and the website are summarized below.

Rates

Hydro distribution rates are by far the largest concern of community members. Concerns that the merger would increase rates and how the harmonization between Kitchener-Wilmot Hydro and Waterloo North Hydro's would affect certain customers' rates were frequent questions.

Solar Panels

Some customers of both utility companies were concerned that their existing contracts related to solar panels would expire under a new entity.

Impact on Service

Customers posed questions about how the merger will impact their quality-of-service.

Other Mergers

Residents of the five municipalities are aware of other hydro mergers happening across Ontario including in nearby Brantford and Cambridge. There were several questions related to this theme.

Innovation and Climate Change

While not being directly mentioned, innovation and climate change were themes of many inquiries, including ones related to solar panels and electric vehicles.

Jobs

A question related to jobs and staffing challenges was posed at the information session.

Electric Vehicles

A resident inquired about how this merger will affect any factors as they consider purchasing an electric vehicle.

Timeline

At the information session, a few residents inquired about next steps and the proposed name for the new entity.

Next Steps

Over the next few weeks, each of the five municipalities will have to make a final decision on the status of the proposed merger.

If approved by all municipalities, in January of 2022, the utility companies must submit an application for approval to the Ontario Energy Board (OEB). Following approval, it is anticipated that operations will commence in the summer of 2022.

There will be continued monitoring of traditional and social media to assess public perception of the process. As well, replies will be issued consistently for all resident inquiries that come in through the website and designated email.

<u>Connecting Local Power – Consulting the Community on the Proposed Merger of Kitchener-Wilmot Hydro and Waterloo North Hydro</u>

Public Communications – Appendix 1
November 2021

<u>1) Media Releases</u>

(I) October 1 Release – Proposed Merger Official Announcement

Kitchener Power Corporation and Waterloo North Hydro Holding Corporation Announce Proposed Merger
October 1, 2021

Combined local and publicly-owned utility to benefit customers through innovation, enhanced service and operational efficiencies

After thorough discussions and in-depth analysis, Kitchener Power Corporation and Waterloo North Hydro Holding Corporation today announced a proposed merger of their local power utilities, Kitchener-Wilmot Hydro and Waterloo North Hydro. The municipalities of Kitchener, Waterloo, Wellesley, Wilmot and Woolwich are the shareholders of the two holding corporations.

Like several other local power utilities in communities across Ontario, Kitchener-Wilmot Hydro and Waterloo North Hydro are considering taking the next step in their ongoing collaboration efforts by combining operations to create a larger, local and publicly-owned power utility that will provide reliable service, invest in new technologies, generate cost savings through operational efficiencies and keep local jobs in our communities.

If approved by the five municipal councils and the Ontario Energy Board, combining the two utilities would create the seventh largest utility in Ontario by number of customers. A larger customer base will allow the combined utility to focus on efficiency and innovation to better provide for the needs of our growing communities.

With a proposed contiguous service territory serving the municipalities of Kitchener, Waterloo, Wellesley, Wilmot and Woolwich, customers will benefit from having a larger, local and publicly-owned utility that can maintain the highest quality of service for customers while having the capacity to modernize and adapt to significant changes in Ontario's electricity sector. The combined utility will have more resources to invest in new technologies that benefit customers, such as managing smart home and energy data, automated restoration of power outages, microgrids and local renewable generation.

"By combining with Kitchener-Wilmot Hydro, our board believes this is a good deal for Waterloo North Hydro customers and our shareholders in Waterloo, Woolwich, and Wellesley. Ontario's electricity sector is changing quickly and this proposed merger is a local solution that will help our communities adapt to these changes and thrive in the years ahead. This larger, locally-owned utility will have more resources to invest in technologies that benefit customers while helping our communities' transition to a lower carbon economy."

- *David Petras, Chair, Waterloo North Hydro Holding Corporation*

The size and stability of the combined utility will help ensure distribution rates remain competitive and stable for customers. Distribution rates for all customers are projected to increase at less than the rate of inflation over the 10 years following the merger, leaving more money in customers' pockets. Thereafter, the combined utility will harmonize distribution rates over time between Kitchener-Wilmot Hydro and Waterloo North Hydro customers.

Residents stand to benefit from the larger, local and publicly-owned utility as municipalities are projected to receive an increase in incremental dividends and interest on their investment over the 10-year period following the merger. Municipalities can re-invest these dividends into local services that residents rely on.

Residents, through the five municipal stakeholders involved in the merger, will continue to have oversight of their local power utility. Each municipality will receive proportional ownership in the combined utility and representation on the new Board of Directors.

This announcement is accompanied by the launch of a community website, connectinglocalpower.ca, where residents of all five municipalities can visit to learn more.

"Waterloo North Hydro is a natural merger partner for Kitchener-Wilmot Hydro given the utilities' shared values, strong record of dedicated service to customers and vision to build a stronger utility that can invest in our future. This is a win-win-win scenario for customers, municipal shareholders and employees. When it comes to service, customers will benefit from having the same reliable service – and more – as the combined utility will have greater resources to invest in new technologies. From a financial standpoint, this merger is a win for customers and municipal shareholders as the combined utility will keep rates competitive while reducing costs through operational efficiencies. And when it comes to employees, this local merger will keep jobs here in our community."

- *Jim Phillips, Chair, Kitchener-Power Corp*

Layoffs are not expected at either utility company because of the merger. There are vacancies that have not been filled and some pending retirements. The head office will be the current Kitchener-Wilmot Hydro office in the City of Kitchener, with a second work location at the current Waterloo North Hydro office, at which activities will include leading innovation and new technology development.

A Memorandum of Understanding (MOU) for the proposed merger will be presented to all five participating municipal councils for approval on Monday, October 4 and Tuesday, October 5.

Kitchener-Wilmot Hydro and Waterloo North Hydro are committed to engaging customers and employees through timely, respectful, transparent, and reliable communication throughout this entire merger process. Community engagement is expected to begin the first week of October 2021, subject to municipal council approvals of the MOU. The planned community engagement will include public information sessions and information available on a new community website: connectinglocalpower.ca.

Following the community information and engagement initiative, the five municipal councils are expected to make a final decision on the proposed merger in December 2021. If approved by the municipal councils, the merger application will be submitted thereafter to the Ontario Energy Board for regulatory approval, which is expected in the third quarter of 2022. The new company is expected to begin operations soon after regulatory approval.

(II) October 6 Release – Municipal Councils approve MOU for proposed merger

Municipal councils approve Memorandum of Understanding for proposed Kitchener-Wilmot Hydro and Waterloo North Hydro merger
October 6, 2021

Public information session on October 19

The municipal councils of Kitchener, Waterloo, Wellesley, Wilmot and Woolwich have approved a Memorandum of Understanding (MOU) as a first step in the proposed merger of Kitchener-Wilmot Hydro and Waterloo North Hydro. The approvals, which came on October 4 and 5, follow the October 1 announcement that Kitchener Power Corporation and Waterloo North Hydro Holding Corporation are moving forward on a proposed merger of the utilities.

Now that all five participating municipal councils have passed the MOU, community engagement on the proposed merger begins. Customers and residents of the municipalities of Kitchener, Waterloo, Wellesley, Wilmot and Woolwich are encouraged to visit www.connectinglocalpower.ca to learn more about the proposed merger and provide feedback.

"Our board welcomes the news that Waterloo North Hydro's municipal shareholders, the councils of Waterloo, Woolwich, and Wellesley, have passed the Memorandum of Understanding supporting this proposed merger. We believe this a good deal for the three municipalities and Waterloo North Hydro's customers. This larger, locally-owned utility will have more resources to invest in technologies that benefit customers while helping our communities' transition to a lower carbon economy. We look forward to hearing from customers and community members in the coming weeks."

David Petras, Chair, Waterloo North Hydro Holding Corporation

Kitchener-Wilmot Hydro and Waterloo North Hydro will host joint public information session on Tuesday, October 19 at 7 p.m. Due to the COVID-19 pandemic, the public information session will be held online along with access by telephone.

Customers and residents can register for the virtual public information session at www.connectinglocalpower.ca or by email at info@connectinglocalpower.ca or by telephone at 519-747-6334 ext. 78334.

"Kitchener-Wilmot Hydro welcomes the approval of a Memorandum of Understanding by the municipal councils of Kitchener and Wilmot. Waterloo North Hydro is a natural merger partner for Kitchener-Wilmot Hydro given the utilities' shared values, strong record of dedicated service to customers and vision to build a stronger utility that can invest in our future. This is a win-win-win scenario for customers, municipal shareholders and employees. We're excited to start our public engagement and receive feedback from community members of all five municipalities."

Jim Phillips, Chair, Kitchener-Power Corp

Following the public information session and community engagement initiative, the five municipal councils are expected to make a final decision on the proposed merger in December 2021. If approved by the five municipal councils, the merger application will be submitted thereafter to the Ontario Energy

Board for regulatory approval, which is expected by the third quarter of 2022. The new company is expected to begin operations soon after regulatory approval.

Like several other local power utilities in communities across Ontario, Kitchener-Wilmot Hydro and Waterloo North Hydro are planning to take the next step in their ongoing collaboration efforts by combining operations to create a larger, local and publicly-owned power utility that will provide reliable service, invest in new technologies, generate savings through operational efficiencies and keep local jobs in our communities.

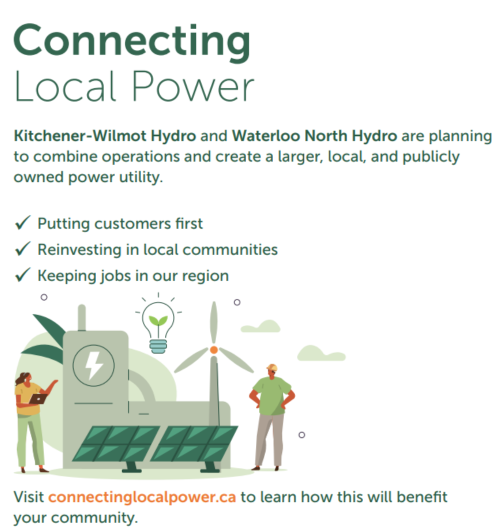
2) Links to virtual news conference and public information session recordings

Latest News – Connecting Local Power (Virtual News Conference – October 1, 2021)

Public Information Sessions – Connecting Local Power (Virtual Public Information Session – October 19, 2021)

3) Ads in local newspapers

Ad placed in the Woolwich Observer and The New Hamburg Independent.



Ads placed in the Waterloo Chronicle and the Waterloo Region Rural Post.

4) Website FAQs

Question	Answer
Why merge now?	Ontario's electricity sector is changing quickly, and this proposed merger is a local solution that will help our communities adapt to these changes and thrive in the years ahead. This larger, local, publicly owned utility will have more resources to invest in technologies that benefit customers while helping our communities' transition to a lower carbon economy.
Of all electric utilities in the province, why is a merger between Kitchener-Wilmot Hydro and Waterloo North Hydro the best solution?	This proposed merger is about Kitchener-Wilmot Hydro and Waterloo North Hydro taking the next step in their ongoing collaboration efforts by combining operations to create a larger, local and publicly-owned power utility that will provide reliable service, invest in new technologies, generate cost savings through operational efficiencies and keep local jobs in our communities. Kitchener-Wilmot Hydro and Waterloo North Hydro are natural merger partners given the utilities' contiguous service areas, shared values, strong record of dedicated service to customers and vision to build a stronger utility that can invest in our future.
What's going to happen with our hydro rates? Are they eventually going to go up?	The size and stability of the combined utility will help ensure distribution rates remain competitive and stable for customers. Distribution rates for all customers are projected to increase at less than the rate of inflation over the 10 years following the merger, leaving more money in customers' pockets. Thereafter, the combined utility will harmonize distribution rates over time, between Kitchener-Wilmot Hydro and Waterloo North Hydro customers.

How does this merger align with climate change action?	Having a larger customer base will boost our capacity for collective climate action. The larger, combined utility will allow for greater investments in new technologies and services that will benefit customers and help reduce emissions, such as managing smart home and energy data, automated restoration of power outages, renewable microgrids and supporting local renewable generation.
What's going to happen to my billing cycle? Will there be any service changes?	Initially, your billing cycle will not be affected by the merger. The municipalities of Kitchener, Waterloo, Wellesley, Wilmot, and Woolwich are committed to ensuring the smoothest transition possible through the merger process. We will ensure that there are no impacts on service reliability to customers because of the merger. Our commitment to affordable, reliable power is why we're always looking at new and innovative solutions, including this merger and streamlining of operations, to improve our service to the communities we serve.
How many jobs will be lost because of this merger? Which utility company is expected to lose the most jobs?	Layoffs are not expected at either utility company because of the merger. There are vacancies that have not been filled and some pending retirements. There may be adjustments made to work locations and day-to-day duties as we combine the assets and services of Kitchener-Wilmot Hydro and Waterloo North Hydro. The head office will be the current Kitchener-Wilmot Hydro office in the City of Kitchener, with a second work location at the current Waterloo North Hydro office, at which activities will include leading innovation and new technology development.

How will this affect collective bargaining agreements at both utility companies?	Kitchener-Wilmot Hydro and Waterloo North Hydro will work with IBEW Local 636 and PWU Local 1000 to ensure a smooth transition to the new utility company. Both companies will support all unionized and non-unionized employees throughout this process and will be open and transparent with employees along the way.
Where will the head office be?	The head office will be the current Kitchener-Wilmot Hydro office in the City of Kitchener, with a second work location at the current Waterloo North Hydro office, at which activities will include leading innovation and new technology development.
What's your brand? What will this new company be called?	What we're focused on right now is engaging with the community, and if approved, seeing this merger through to a successful completion. Once approved, the new utility will unveil a new company name and brand.
What's next in the process?	Community engagement will begin the first week of October 2021. Following the community information and engagement initiative, the five municipal councils are expected to make a final decision on the proposed merger in December 2021. If approved by the municipal councils, the merger application will be submitted thereafter to the Ontario Energy Board for regulatory approval, which is expected in the third quarter of 2022. The new company is expected to begin operations soon after regulatory approval.

Connecting Local Power – Consulting the Community on the Proposed Merger of Kitchener-Wilmot Hydro and Waterloo North Hydro

Resident Inquiry Responses – Appendix 2
November 2021

Resident Inquiry	Response
Waterloo Resident: I think that the merger makes a lot of sense. Go for it.	Thank you for sharing your feedback, it has been noted. If you have any additional comments or questions, please feel free to submit them again through this website.
Kitchener Resident: I am very much in favour of the merger – have been for many years.	Thank you for sharing your feedback, it has been noted. If you have any additional comments or questions, please feel free to submit them again through this website.
Waterloo Resident: This appears to be a reasonable initiative, but I have a couple of points I wish to make. Given the increasing number of those working from home due to the pandemic (a situation I do not think will change in the foreseeable future), I believe adjustment to the billing structure needs to be made. I suspect, but have no data to check this, that due to increased day-time demand, the electrical companies have done rather well during the pandemic. Under the circumstances, I believe charges should be reduced. I personally have changed from TOU to constant billing because I believed it would offer a small saving. That seems to be the case, but I will not be able to confirm until we are into the winter season. This raises a further issue. I think that seniors (i.e., retired folks) should have a lower rate than others. This should be easy to put in place and would be much fairer. Finally, I would like to know that incentives will be made available to those who opt for either fully electric or hybrid electric vehicles. My next vehicle will be one of those and I am	Thank you for sharing your feedback on the proposed merger between Kitchener-Wilmot Hydro and Waterloo North Hydro. Rate structures are determined and set by the Ontario Energy Board. For residential customers, the distribution charge on the bill, from your local utility, is a fixed charge per month and is not impacted by the amount of electricity used. Your point is noted, however, that residents who work from home, likely have higher bills due to higher consumption, as well as seniors who are not working. Your point is noted regarding the expense of installing electric vehicle chargers and the need for incentives especially considering our climate change goals, which electrical vehicles help us achieve. If you have any additional comments or questions, please feel free to submit them again through this website.

concerned about both the cost of installing an adequate supply line as well as increased use of electricity. Thank you.	
Waterloo Resident: I am concerned about prices increasing even more.	Thank you for sharing your feedback, it has been noted. The size and stability of the combined utility will help ensure distribution rates remain competitive and stable. Distribution rates for all customers are projected to increase at less than the rate of inflation over the next 10 years, leaving more money in your pocket. If you have any additional comments or questions, please feel free to submit them again through this website.
Kitchener Resident: With Kitchener Wilmot having the lowest rates, and Waterloo North having the highest, how will merger this be a saving to the residents of Kitchener and Wilmot? Has there been any other offers to buy Kitchener Wilmot?	Thank you for your inquiry and feedback, which has been noted. The size and stability of the combined utility combined with operational savings will help ensure distribution rates remain competitive and stable for customers. Distribution rates for all customers are projected to increase at less than the rate of inflation over the 10 years following the merger, leaving more money in customers' pockets. Kitchener Wilmot Hydro and Waterloo North Hydro are constantly having conversations with other utilities to see how we can provide more value to our customers and municipal shareholders. Over the years, we have been approached by other utilities, however the municipalities of Kitchener, Waterloo, Wellesley, Wilmot, and Woolwich decided on a local solution through this merger process and are committed to ensuring the smoothest transition possible. If you have any additional comments or questions, please feel free to submit them again through this website.
Kitchener Resident: I currently have solar panels on my roof and a contract with Kitchener Wilmot Hydro as per the MicroFIT program. Will this impact that contract or will it be terminated?	Thank you for your inquiry. Your contract with Kitchener Wilmot Hydro will not be impacted at this time. This proposed merger strives to provide the same, if not better quality of service. For specific information related to your contract, it is recommended you contact the hydro company directly. If you have any additional comments or questions, please feel free to submit them again through this website.
Waterloo Resident: I am in full support of this proposed merger.	Thank you for sharing your feedback, it has been noted. If you have any additional comments or questions, please feel free to submit them again through this website.

Wilmot Resident: As a former customer of Waterloo North Hydro and now a customer of Kitchener Wilmot my query surrounds the assumption of debt. Waterloo North built a new facility costing millions and was it seemed always in debt. Is this paid for and if not how will this be allocated?	Thank you for your feedback and inquiry. It has been noted, The facility was built in 2011 and was a necessary move for the continued growth and expansion of Waterloo North Hydro. The existing debt (including any outstanding amount for the new facility) and promissory notes with each of the municipalities, will be assumed by the new corporation and is reflected in the ownership shares for each municipality. Through streamlining and efficiencies, an additional $15 million in incremental dividends over the first 20 years, is projected to be available for municipalities in proportion to their ownership shares, which can be re-invested into local services that residents rely on. If you have any additional comments or questions, please feel free to submit them again through this website.
Waterloo Resident: Kitchener Utilities is responsible for electricity, water, and natural gas services. Will customers in Waterloo see any changes to their water (City of Waterloo) or natural gas (Enbridge) service providers?	Thank you for sending in an inquiry. Kitchener Utilities is responsible for water and natural gas services while Kitchener Wilmot Hydro is responsible for electricity distribution services. The proposed merger of Kitchener-Wilmot Hydro and Waterloo North Hydro will not result in any changes to your current water or natural gas service providers. If you have any additional comments or questions, please feel free to submit them again through this website.
Waterloo Resident: While I will support the merger, it is based on the assumption that the rate payers will benefit from these efficiencies. The savings should be used to offset the need for rate increases. Broadly, I feel the costs of municipal services (property tax, water, etc.) have routinely increased at a rate in excess of inflation, and some benefit to the rate payer would be a nice benefit and is being stated here. The commitment should be met and kept.	Thank you for sharing your feedback. Kitchener-Wilmot Hydro and Waterloo North Hydro are working to ensure that distribution rates remain competitive and stable for customers. Savings from efficiencies will offset rate increases so that rates in the merged entity will be lower than what they would be on a stand-alone basis. Distribution rates for all customers are projected to increase at less than the rate of inflation over the next 10 years. Thereafter, the combined utility will harmonize distribution rates over time, between Kitchener-Wilmot Hydro and Waterloo North Hydro customers. The utility portion represents about 25% of the typical total bill for a residential customer, with the remainder being the energy consumed by a customer. If you have any additional comments or questions, please feel free to submit them again through this website.
Kitchener Resident: As a business owner, what will this merger mean for my hydro rates? A lot of my business/services are done during peak rate times and that is not something I can change. Kitchener Wilmot's lower hydro rates are important to me and my business, I don't want to see that jeopardized.	Thank you for your inquiry. Kitchener-Wilmot Hydro and Waterloo North Hydro are working to ensure that distribution rates remain competitive and stable for customers. Distribution rates for all customers are projected to increase at less than the rate of inflation over the next 10 years. Thereafter, the combined utility will harmonize distribution rates over time, between Kitchener-Wilmot Hydro and Waterloo North Hydro customers. The utility portion represents about 25% of the typical total bill for a residential customer and less than that for a business customer, with the remainder being the energy consumed by a customer. Advisors at KWH

	and at the new utility would be pleased to discuss energy efficiency initiatives that may help our customers to reduce their energy consumption and their total bill. If you have any additional comments or questions, please feel free to submit them again through this website.
Kitchener Resident: What are the projected hydro rates for Kitchener Wilmot customers after the proposed merger? My concern is my rates increasing after the merger, this would not be acceptable.	Thank you for your inquiry. The size and stability of the combined utility will help ensure distribution rates remain competitive and stable for customers. Distribution rates for all customers are projected to increase at less than the rate of inflation over the 10 years following the merger, leaving more money in customers' pockets. Thereafter, the combined utility will harmonize distribution rates over time, between Kitchener-Wilmot Hydro and Waterloo North Hydro customers. The utility portion represents about 25% of the typical total bill for a residential customer, with the remainder being the energy consumed by a customer. If you have any additional comments or questions, please feel free to submit them again through this website.
Woolwich Resident: If this action is going to make my hydro more reliable and doesn't increase the price . I support this merger.	Thank you for sharing your feedback. Having a larger, local and publicly-owned utility will help deliver reliable and affordable service. If you have any additional comments or questions, please feel free to submit them again through this website.
Woolwich Resident: The proposed merger should only be done to benefit those that pay the fees. In one section above it states "to ensure distribution rates remain stable and competitive......while returning higher dividends to municipalities." If this merger is returning higher dividends then that means rates or monthly connection charges can be lowered. The electrical service was never designed to be a revenue source for the municipalities, but a service provider. Stop using rate payers as a cash cow to support unnecessary projects for cities. Any benefit of this should be for the rate payers benefit. Being in Woolwich, we will get the short end of the profits while Waterloo, Kitchener and Cambridge will benefit the most.	Thank you for your feedback. This proposed merger will help to ensure distribution rates remain competitive and stable for customers. Distribution rates for all customers are expected to increase at less than the rate of inflation over the next 10 years, leaving more money in your pocket. We project the combined utility could save as much as $2.9 million/year through streamlining and efficiencies. As you stated, this will result in additional dividends that can be reinvested into every municipality that will be impacted by this proposed merger. The five municipalities in aggregate are projected to receive a return of approximately $15 million in incremental dividends and interest over the 20-year period following the merger. Each municipality will receive its share based on their ownership in new company. Municipalities can re-invest these dividends into local services that residents and rate payers, such as yourself, can rely on. If you have any additional comments or questions, please feel free to submit them again through this website.
Wilmot Resident: Hello, I am hoping that this proposed merger will lead to a greater capacity for innovation in terms of greening our power supply, specifically an investment in more solar panels and batteries at the home or microgrid level. Green Mountain Power (in	Thank you for your feedback. The larger, combined utility will allow for greater investments in new technologies and services that will boost capacity for collective climate action and help to reduce emissions. It will help municipalities achieve their climate change goals by having a larger customer base that will allow the combined utility to focus on efficiency and innovation.

Vermont) is doing very innovative things with virtual battery-based microgrids using batteries and solar panels in residences. I would love to see that level of innovation here.	Investments in new technologies and services that will benefit customers and help reduce emissions include the management of smart home and energy data, the automated restoration of power outages, renewable microgrids and local renewable generation such as solar panels and battery storage as you suggested. If you have any additional comments or questions, please feel free to submit them again through this website.
Waterloo Resident: This sounds like a great plan. I suggest that the money saved be reinvested in improvements to the electricity transmission grid, including energy storage that complements renewable energy projects. Such investments would support the emissions-reduction efforts that have been undertaken by the region's eight municipalities, specifically TransformWR and 50by30. These plans call for fuel switching for heating of buildings, replacing natural gas with electrically-powered heat pumps. This will require careful attention and coordination to ensure the electricity supply and transmission can power the heating of buildings. It would make sense to use the savings of this merger to invest in the necessary upgrades.	Thank you for sharing your feedback. We appreciate your thoughtful consideration on reinvestments within our local community. We have received similar inquiries/suggestions before. This merger is good news for local climate action. The larger, combined utility will allow for greater investments in new technologies and services that will boost capacity for collective climate action and help to reduce emissions. It will help municipalities achieve their climate change goals by having a larger customer base that will allow the combined utility to focus on efficiency and innovation such as energy storage and renewable generation. Both utilities have and will continue to invest in the necessary distribution system upgrades to enable new technologies as we move towards a low carbon future. If you have any additional comments or questions, please feel free to submit them again through this website.

Other feedback and inquiries that were raised during the public info session and News Conference include:

- Can you speak to what the projected impacts are if the two companies do not merge?
- Will this merger slow down your efforts to provide solar customers with a feature that allows them to use mid-peak or peak rates?
- As a solar owner, Waterloo North Hydro allows the solar credit to be applied to the administrative and distribution fees. Will this continue for solar customers such as myself that have taken advantage of this program?
- Would the new entity consider merging with the new entity that will be formed by Energy+ and Brantford Hydro?
- Why are Kitchener-Wilmot Hydro and Waterloo North Hydro pursuing a merger together and not with other utilities nearby? I know London Hydro expressed an interest publicly a few years ago about acquiring local distribution companies. What happened to those discussions?
- Why is now a good time for this merger?
- Are you experiencing staffing challenges across your organizations or within specific areas such as unionized field staff, engineering, administration, etc.?
- Are there any proposed names for the new entity or timelines?

Connecting Local Power – Consulting the Community on the Proposed Merger of Kitchener-Wilmot Hydro and Waterloo North Hydro

Media Coverage - Appendix 3
November 2021

The numbers in bold brackets provide an average circulation number for each publication.

Online/Print

1. October 1 - Waterloo Region hydro companies announce plan to merge **(800,000)**

2. October 1- Kitchener and Waterloo power utilities announce merger **(175,000)**

3. October 1- Proposed merger between Kitchener-Wilmot Hydro and Waterloo North Hydro **(320,000)**

4. October 1 - Kitchener-Wilmot Hydro, Waterloo North Hydro eyeing potential merger **(64,000)**

5. October 1 - Merger proposed for Kitchener-Wilmot Hydro and Waterloo North Hydro **(75,000)**

6. October 1- Waterloo Region hydro companies announce plan to merge **(1,550,000)**

7. October 4 - Kitchener Power Corporation and Waterloo North Hydro Holding Corporation Announce Proposed Merger
(150,000)

8. October 6 - Area councils approve MOU for proposed hydro merger **(64,000)**

9. October 7 - Local power utilities to move ahead with formal merger **(5,000)**

10. October 20 - Waterloo Region power plants say no job cuts in planned merger | CTV News **(74,000)**

11. October 2021 - Kitchener and Waterloo power utilities plan to merge **(8,500)**

Broadcast

October 1:

1. 570 News, 1:00 pm **(5,000)**
2. 570 News, 12:30 pm **(5,000)**
3. CBC Kitchener-Waterloo, 12:30 pm **(6,000)**
4. CTV News Kitchener, 12:20 pm **(320,000)**
5. 570 News, 12:00 pm **(5,000)**
6. 570 News, 11:30 pm **(5,000)**
7. CBC Kitchener-Waterloo, 11:30 pm **(20,000)**
8. 570 News, 6:40 pm **(6,500)**

9. 570 News, 6:25 pm (6,500)
10. 570 News, 6:05 pm (6,500)
11. 570 News, 5:35 pm (6,500)
12. 570 News, 5:06 pm (6,500)
13. 570 News, 4:50 pm (3,700)
14. 570 News, 4:38 pm (3,700)
15. 570 News, 4:05 pm (3,700)
16. CHYM FM, 4:00 pm (16,000)
17. 570 News, 3:44 pm (3,700)
18. 570 News, 3:39 pm (3,700)
19. 570 News, 3:24 pm (3,700)
20. 570 News, 3:05 pm (3,700)
21. CBC Radio One, 2:30 pm (6,000)
22. 570 News, 2:30 pm (3,700)
23. CBC Radio One, 1:30 pm (6,000)
24. CTV News Kitchener, 6:38 pm (295,000)
25. CTV News Kitchener, 5:45 pm (295,000)

October 2:

26. CTV News Kitchener 6:15 am (250,000)
27. 1460 CJOY 6:00 am (1,800)

October 4:

28. CTV News Kitchener, 6:57 pm (295,000)

October 6:

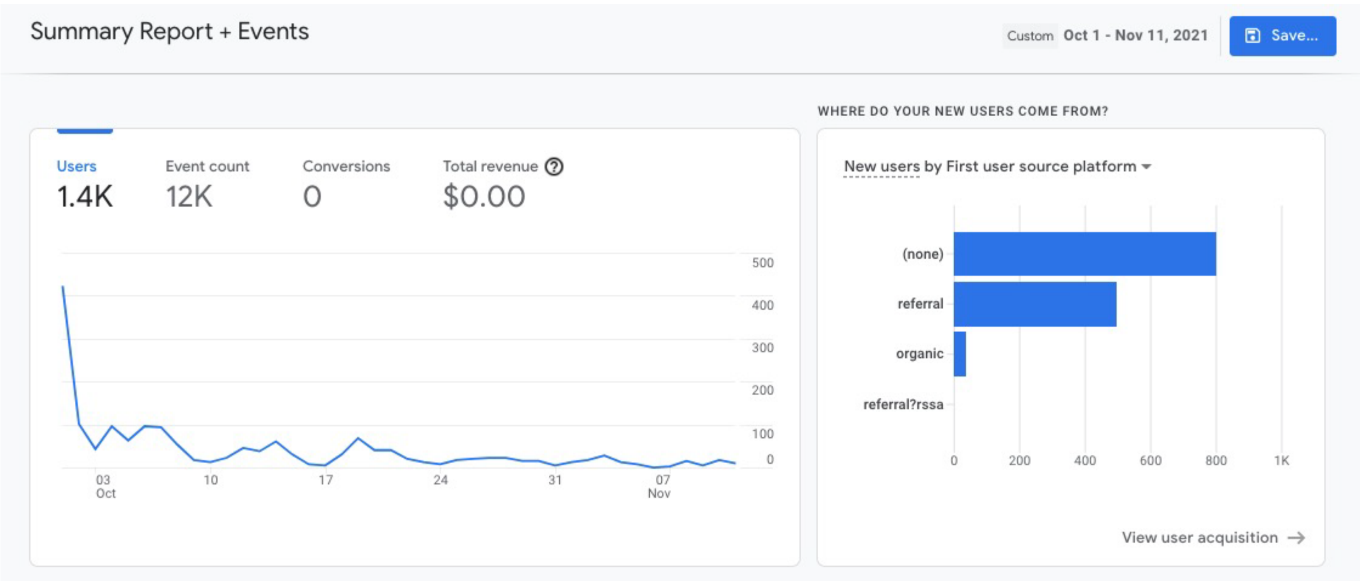
29. 570 News, 4:37 pm (3,700)
30. 570 News, 5:10 pm (6,500)
31. 570 News, 6:09 pm (6,500)
32. 570 News 6:42 pm (6,500)

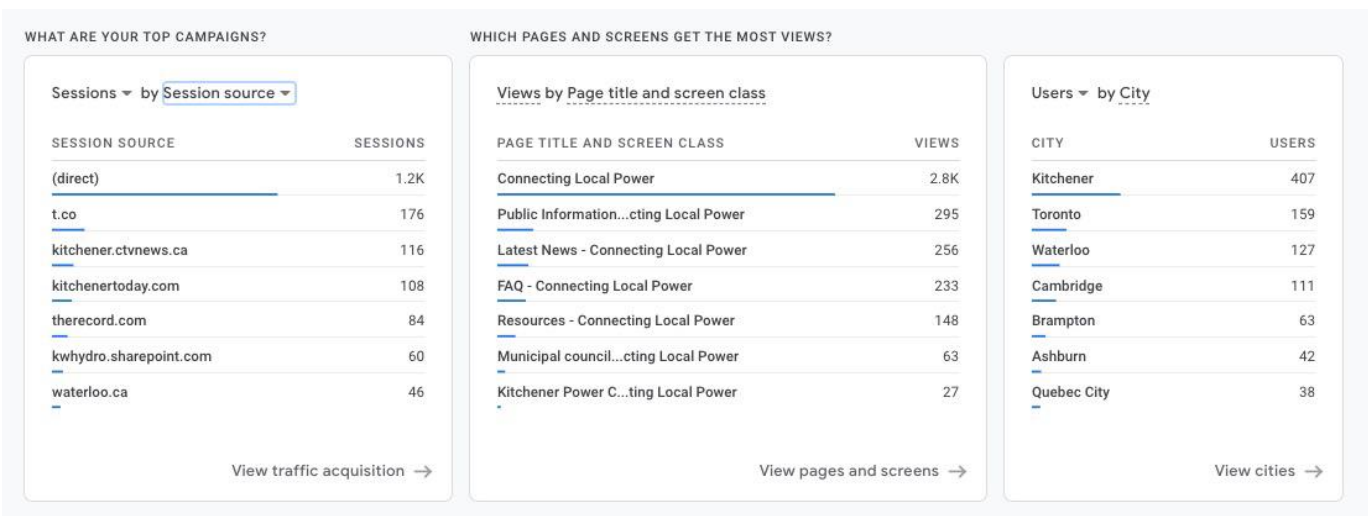
October 7:

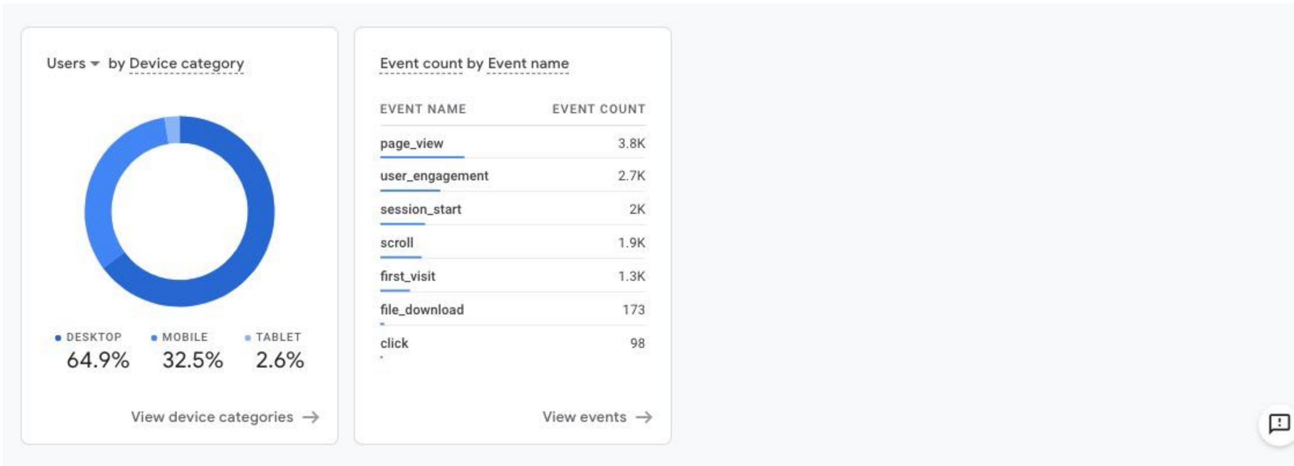
33. FM 98.5 CKWR, 6:00 am (4,000)
34. FM 98.5 CKWR, 7:00 am (1,000)
35. FM 98.5 CKWR, 7:52 am (1,000)
37. CTV News Kitchener, 7:49 am (250,000)

<u>Connecting Local Power – Consulting the Community on a Proposed Hydro Merger</u>

Website Metrics - Appendix 4
November 2021






Users by Device category
DESKTOP
64.9%
MOBILE
32.5%
TABLET
2.6%
View device categories
Event count by Event name
EVENT NAME
EVENT COUNT
page_view 3.8K
user_engagement 2.7K
session_start 2K
scroll 1.9K
first_visit 1.3K
file_download 173
click 98
View events

Website User Breakdown – Regional (Canadian Cities)

The following website user visit tracking is based on IP addresses that Google can detect.

Municipality	**Number of Visitors**
Kitchener	407
Toronto	159
Waterloo	127
Cambridge	111
Brampton	63
Ashburn	42
Quebec City	38
Unknown Region	35
Hamilton	33
London	20
Baden	18
Guelph	17
Mississauga	13
New Hamburg	13
Montreal	11
Halifax	10
Windsor	9
Elmira	8
Ottawa	8
Markham	7
Burlington	6
Halifax	6
Kawartha	6
Oakville	6
Whitby	6
Barrie	5
Milverton	4
Newmarket	4
Ajax	3
Brantford	3
Chatham - Kent	3
Erin	3
Kingston	3
Oshawa	3
Stratford	3
Calgary	2
Dartmouth	2
Fergus	2
Georgina	2
Greater Sudbury	2

Grimsby	2
Kincardine	2
Lakefield	2
Lambton	2
Langley	2
Listowel	2
Milton	2
Orangeville	2
Peterborough	2
Pickering	2
Port Elgin	2
Quinte West	2
Richmond	2
Saugeen Shores	2
Sault Ste. Marie	2
Vancouver	2
Vaughan	2
Woodstock	2
Aurora	1
Bradford	1
Brant	1
Brighton	1
Caledon	1
Collingwood	1
Courtice	1
Dublin	1
Elora	1
Enfield	1
Fort Erie	1
Goderich	1
Halton Hills	1
Hanover	1
Hawkesbury	1
Lakeshore	1
Leamington	1
Lincoln	1
Longueuil	1
Niagara Falls	1
Parksville	1
Pelham	1
Penetanguishene	1
Regina	1
Richmond	1
Sainte-Adele	1
Sarnia	1
Simcoe	1

Smithville	1
South Bruce Peninsula	1
St-Bruno-de-Montarville	1
Strathroy	1
Surrey	1
Thunder Bay	1
Utica	1
Victoria	1
Welland	1

Connecting Local Power – Consulting the Community on the Proposed Merger of Kitchener-Wilmot Hydro and Waterloo North Hydro

Social Media Insights - Appendix 5
November 2021

OBJECTIVE & METHODOLOGY

OBJECTIVE

The objective of this report is to provide a summary of top social media conversations around the proposed merger between Kitchener -Wilmot Hydro and Waterloo North Hydro, with coverage focusing on:

- Posts published by The City of Waterloo, Waterloo North Hydro, City of Kitchener, Kitchener -Wilmot Hydro, and Wilmot Township
- Breakdown of coverage engagement, as well as key metrics
- Posts with the largest engagement and reach (likes, shares, comments)

METHODOLOGY

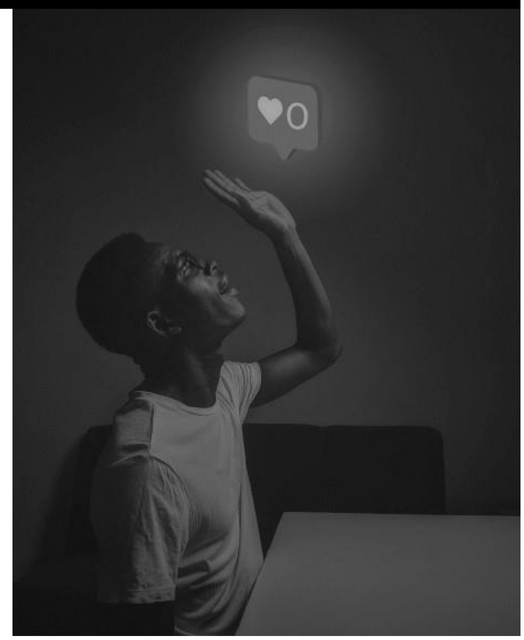
Timeframe: October 1 – 19, 2021

Location: Canada

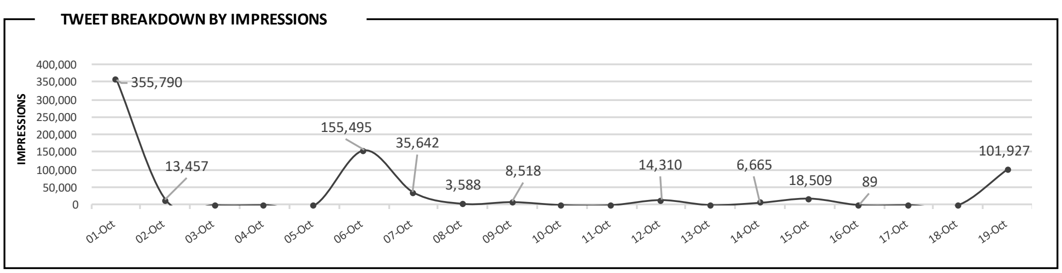
Language: English

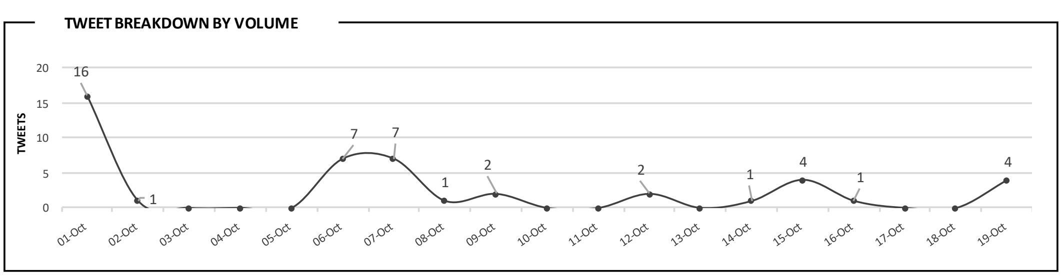
Social Media [1]: Twitter, Facebook, LinkedIn

1 Twitter posts were captured using Meltwater, while all other social posts required the use of manual research. There is an especially limited line of sight on LinkedIn and Facebook content, as majority of it is private media which means it is not available for public viewing.



TWITTER – OVERVIEW





TWITTER – OVERVIEW

KEY METRICS

46 Total Tweets ***(25 Original Tweets)***
30 Users
714K Impressions
472K Reach

TOP TWITTER AUTHORS

	Author	Tweets	Followers
1	@570news	3	104k
2	@citykitchener	2	84k
3	@citywaterloo	1	58k
4	@berryonline	1	21k
5	@915thebeat	1	15k
6	@cfifekw	1	13k
7	@kwhydro	4	8k
8	@wnhydro	4	7k
9	@1075daverocks	1	7k
10	@michaelharrispc	1	6k

HIGHEST ENGAGEMENT (DIRECT)

HIGHEST ENGAGEMENT (INDIRECT)

TOP KEYWORDS

TWITTER – CITY OF KITCHENER

SUMMARY

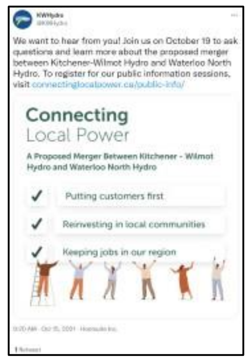
- The City of Kitchener published a total of two posts, which were engaged with 4 times (2 likes, 2 retweets)
- The reach of the @CityKitchener Twitter platform is 83.8K

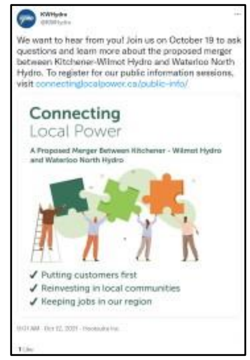
** Hover over images for direct link to posts*

TWITTER – KITCHENER-WILMOT HYDRO

SUMMARY

- KWHydro published a total of four posts, with a combined engagement of 8 (5 likes, 3 retweets)
- The reach of the @KWHydro Twitter platform is 7.6K



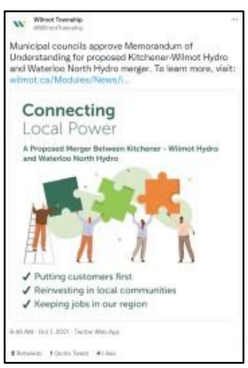


** Hover over images for direct link to posts*

TWITTER – WILMOT TOWNSHIP

SUMMARY

- Wilmot Township published a total of one post, which was engaged 11 times (4 likes, 6 retweets, 1 quote tweet)
- The reach of the @WilmotTownship Twitter platform is 3.6K



** Hover over images for direct link to posts*

TWITTER – CITY OF WATERLOO

** Hover over images for direct link to posts*

SUMMARY

- The City of Waterloo published a total of one post, which received 15 pieces of engagement (5 retweets, 10 likes)
- The reach of the @CityWaterloo Twitter platform is 58.5K

TWITTER – WATERLOO NORTH HYDRO

SUMMARY

- WN Hydro published a total of four posts, with a combined engagement of 17 (11 likes, 6 retweets)
- The reach of the @KWHydro Twitter platform is 6.6K

** Hover over images for direct link to posts*

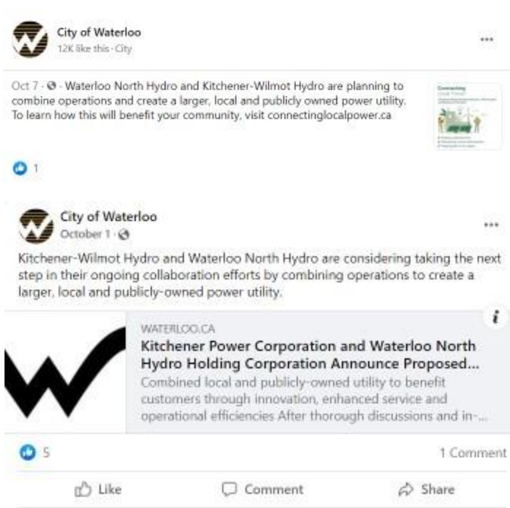
FACEBOOK – CITY OF KITCHENER

** Hover over images for direct link to posts*

SUMMARY

- The City of Kitchener Facebook posts were engaged with 34 times (5 comments, 22 reactions, and 9 shares)
- Of the 5 comments, two were not relevant to the announcement and one was deleted/is no longer visible to the public
- The City of Kitchener Facebook group has a reach of 35K

FACEBOOK – CITY OF WATERLOO



SUMMARY

- The City of Waterloo's three Facebook posts about the proposed merger were engaged with 10 times (1 comment and 9 reactions)

TWITTER – OTHER COVERAGE

TWITTER – OTHER COVERAGE