

John Vellone
T: 416-367-6730
jvellone@blg.com

Colm Boyle
T: 416-367-7273
cboyle@blg.com

Borden Ladner Gervais LLP
Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto ON M5H 4E3
Canada
T 416-367-6000
F 416-367-6749
blg.com



File No. 065234.000008

April 6, 2022

DELIVERED BY EMAIL
Registrar@oeb.ca

Ms. Nancy Marconi
Ontario Energy Board
P.O. Box 2329, 27 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 (“Application”)
Ontario Energy Board (“OEB”) File No. EB-2022-0006**

We write on behalf of Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc. pursuant to the OEB’s Decision on Relevance and Confidentiality on April 1, 2022 in the above noted matter (“**Decision**”). Enclosed are revised public and confidential versions of the Merger Participation Agreement (“**MPA**”) at Attachment I of the Application.

If you require anything further please contact the undersigned.

Yours truly,

Colm Boyle

JV/CB



ATTACHMENT I

Legal Agreements

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

TABLE OF CONTENTS

	Page
ARTICLE 1 INTERPRETATION.....	3
1.1 Definitions.....	3
1.2 Certain Rules of Interpretation.....	17
1.3 Governing Law	17
1.4 Entire Agreement.....	17
1.5 Schedules	18
ARTICLE 2 AMALGAMATIONS.....	18
2.1 Holdco Amalgamation	18
2.2 LDC Amalgamation.....	19
2.3 Target Closing Amounts	19
2.4 Closing Financial Statements and Contracts Valuation.....	20
2.5 Calculation of Adjustments.....	23
2.6 Implementation of Adjustments.....	28
2.7 Nature and Intent of Adjustments (No Double Counting).....	29
ARTICLE 3 GENERAL REPRESENTATIONS AND WARRANTIES.....	29
3.1 Corporate Existence	29
3.2 Capacity to Enter Agreement.....	29
3.3 Binding Obligation.....	30
3.4 Absence of Conflict	30
ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF KITCHENER AND WILMOT	30
4.1 Residence	30
4.2 Regulatory Approvals	31
4.3 Consents.....	31
4.4 Share Ownership, Etc.....	31
4.5 Corporate Existence of the KPC Group.....	32
4.6 Corporate Articles	32
4.7 Capacity and Powers of the KPC Group.....	32
4.8 Jurisdictions	32
4.9 Options, Etc.....	32
4.10 Corporate Records/Directors	33
4.11 Books and Records	33
4.12 Financial Statements	33
4.13 Tax Matters	33
4.14 Absence of Changes.....	35
4.15 Absence of Undisclosed Liabilities	35
4.16 Absence of Unusual Transactions.....	36

4.17	Title to and Condition of Assets	37
4.18	Real Property	37
4.19	Intellectual Property	39
4.20	Accounts Receivable	39
4.21	Material Contracts	40
4.22	Accounts and Powers of Attorney	40
4.23	Compliance with Laws, Permits	40
4.24	Environmental Conditions	41
4.25	Suppliers and Customers	43
4.26	Privacy and Information Technology	43
4.27	Employees and Employment Contracts	45
4.28	Unions	46
4.29	Employee Benefits Matters	47
4.30	Pension Plans	48
4.31	Insurance Policies	49
4.32	Litigation	49
4.33	Withholding	49
4.34	No Expropriation	49
4.35	Absence of Conflict	50
4.36	Restrictive Covenants	50
4.37	KPC Group Business	50

**ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF WATERLOO,
WOOLWICH AND WELLESLEY.....50**

5.1	Residence	51
5.2	Regulatory Approvals	51
5.3	Consents	51
5.4	Share Ownership, Etc.	51
5.5	Corporate Existence of the Waterloo North Group	52
5.6	Corporate Articles	52
5.7	Capacity and Powers of the Waterloo North Group	52
5.8	Jurisdictions	52
5.9	Options, Etc.	53
5.10	Corporate Records/Directors	53
5.11	Books and Records	53
5.12	Financial Statements	53
5.13	Tax Matters	54
5.14	Absence of Changes	56
5.15	Absence of Undisclosed Liabilities	56
5.16	Absence of Unusual Transactions	56
5.17	Title to and Condition of Assets	57
5.18	Real Property	58
5.19	Intellectual Property	60
5.20	Accounts Receivable	60
5.21	Material Contracts	61
5.22	Accounts and Powers of Attorney	61

5.23	Compliance with Laws, Permits	61
5.24	Environmental Conditions	62
5.25	Suppliers and Customers.....	64
5.26	Privacy and Information Technology	64
5.27	Employees and Employment Contracts	66
5.28	Unions	67
5.29	Employee Benefits Matters.....	68
5.30	Pension Plans	69
5.31	Insurance Policies	70
5.32	Litigation.....	70
5.33	Withholding	71
5.34	No Expropriation	71
5.35	Absence of Conflict	71
5.36	Restrictive Covenants	71
5.37	Waterloo North Group Business.....	72
ARTICLE 6 COVENANTS		72
6.1	Covenants of Kitchener and Wilmot.....	72
6.2	Covenants of Waterloo, Woolwich and Wellesley	74
6.3	Mutual Covenants	77
ARTICLE 7 CLOSING CONDITIONS		79
7.1	Conditions for the Benefit of Waterloo, Woolwich and Wellesley	79
7.2	Waiver or Termination by Waterloo, Woolwich and Wellesley	80
7.3	Conditions for the Benefit of Kitchener and Wilmot.....	80
7.4	Waiver or Termination by Kitchener and Wilmot.....	81
7.5	Condition Precedent.....	82
7.6	Termination.....	82
ARTICLE 8 SURVIVAL AND INDEMNIFICATION.....		83
8.1	Survival of Covenants and Representations and Warranties	83
8.2	Survival Following Termination.....	83
8.3	Mutual Indemnifications for Breaches of Warranty, etc.	84
8.4	Limitation on Mutual Indemnification.....	84
8.5	Additional Indemnities.....	86
8.6	Notice of Claim.....	87
8.7	Time Limits for Notice	87
8.8	Procedure for Direct Claims	88
8.9	Procedure for Third Party Claims	89
8.10	No Delay	91
8.11	Set-off	91
8.12	Exclusive Remedy	91

ARTICLE 9 REGULATORY APPROVAL	91
9.1 OEB Approval and Competition Act Approval.....	91
9.2 Minister of Finance Notice	92
9.3 OEB MAADs Application and Approval	92
ARTICLE 10 CLOSING ARRANGEMENTS	93
10.1 Closing	93
10.2 Closing Procedures	93
ARTICLE 11 GENERAL.....	93
11.1 Submission to Jurisdiction	93
11.2 Tender	93
11.3 Costs and Expenses.....	93
11.4 Time of Essence.....	94
11.5 Notices	94
11.6 Further Assurances.....	96
11.7 No Broker.....	96
11.8 Public Notice.....	96
11.9 Amendment and Waiver	96
11.10 Assignment and Enurement	97
11.11 Severability	97
11.12 Counterparts.....	97
11.13 Electronic Execution.....	97

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.

“Closing Date” means the first Business Day of the second calendar month after the later of the date the OEB issues the OEB Approval and the date the Competition Bureau issues the Competition Act Approval, provided; however, that 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 shall be the first Business Day of the subsequent calendar month and further provided that if the OEB Approval and Competition Act Approval are received after August 31, 2022, the Closing Date shall be January 1, 2023.

“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 in excess of \$250,000 per year, 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 exceeds \$250,000 per year.

“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 officer 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 officer 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 in excess of \$250,000 (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”

“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.

“WNH Short Term Notes” means the short term promissory notes issued by WNHI to Waterloo North Holdings in the principal amount of \$500,000 bearing interest at the Prime Rate minus 0.3%.

“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]
- (xxxii) **“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 in excess of \$250,000 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 necessary 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 WNHFI Financial Statements are attached to the Waterloo North Disclosure Schedule. Such Waterloo North Holdings Financial Statements and WNHFI 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 in excess of \$250,000 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 necessary 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 WNH 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 WNHI 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)

(iii)

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

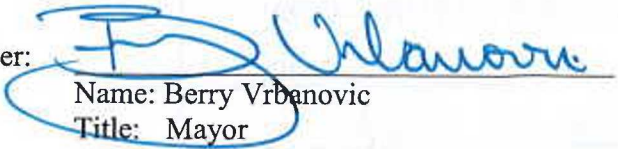
Delivery of this Agreement may be effected by one or more Parties by facsimile, e-mail or other electronic transmission of the execution pages hereof to the other Parties. A Party or Parties so delivering this Agreement will thereafter forthwith deliver to the other Parties original execution pages hereof 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


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

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

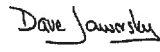
Per: _____
Name: Dianna Saunderson
Title: Deputy Clerk

**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**

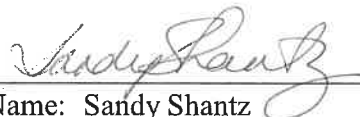
Per:  _____
Name: Dave Jaworsky
Title: Mayor

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'

Per:  _____
Name: Julie Scott
Title: City Clerk

2022.01.12
09:36:50 -05'00'

**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: _____



Name: James C. Phillips

Title: Chair


Per: _____




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

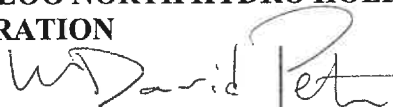
Per: _____
Name: Jerry Van Ooteghem
Title: President and Chief Executive Officer

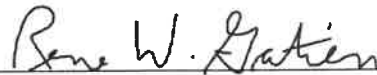
KITCHENER ENERGY SERVICES INC.

Per: _____
Name: James C. Phillips
Title: Chair


Per: _____
Name: Jerry Van Ooteghem
Title: President and Chief Executive Officer


WATERLOO NORTH HYDRO HOLDING CORPORATION

Per:  _____
Name: W. David Petras
Title: Chair

Per:  _____
Name: Rene W. Gatien
Title: President and Chief Executive Officer


WATERLOO NORTH HYDRO INC.

Per: 
Name: Micheal J. Kelly
Title: Chair

Per: 
Name: Rene W. Gaten
Title: President and Chief Executive Officer

ALLIANCE METERING SOLUTIONS INC.

Per: 
Name: Steven McCartney
Title: Chair

Per: 
Name: Rene W. Gaten
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]

[REDACTED]

[REDACTED]

SCHEDULE 2.6(B)
SHARE CAPITAL

A. COMMON SHARES

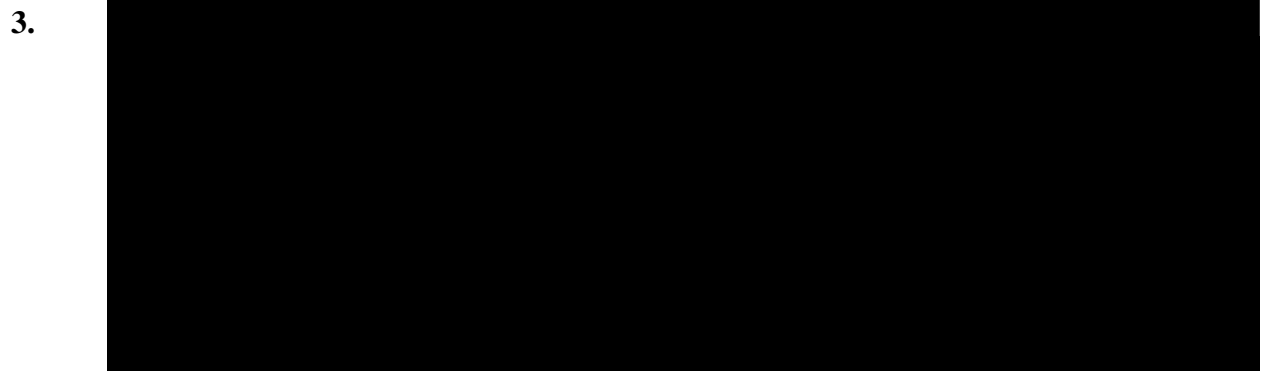
The following are the rights, privileges, restrictions and conditions attaching to the Common Shares:

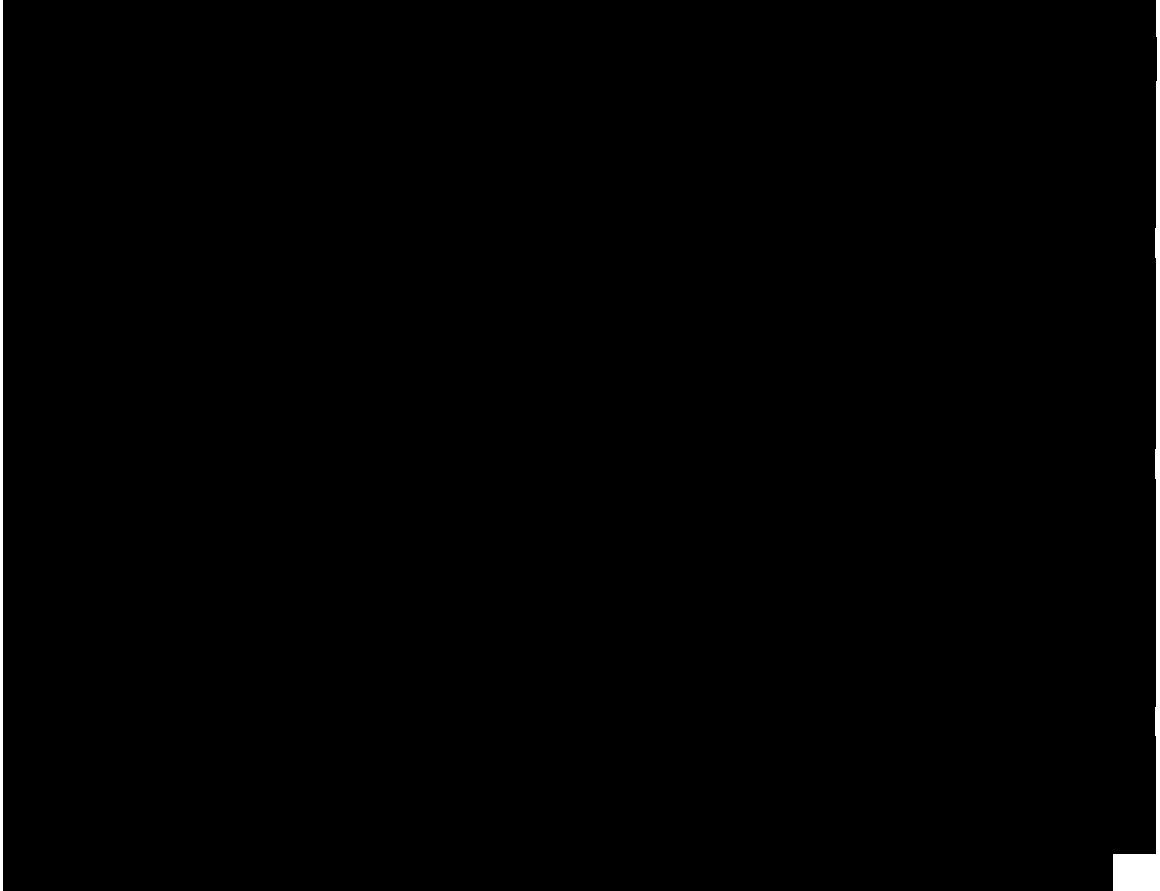
1. **Voting Rights:** The holders of the Common Shares shall be entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Corporation and shall be entitled to one (1) vote per Common Share held, except meetings at which only holders of another class of shares are 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.



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.





“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.

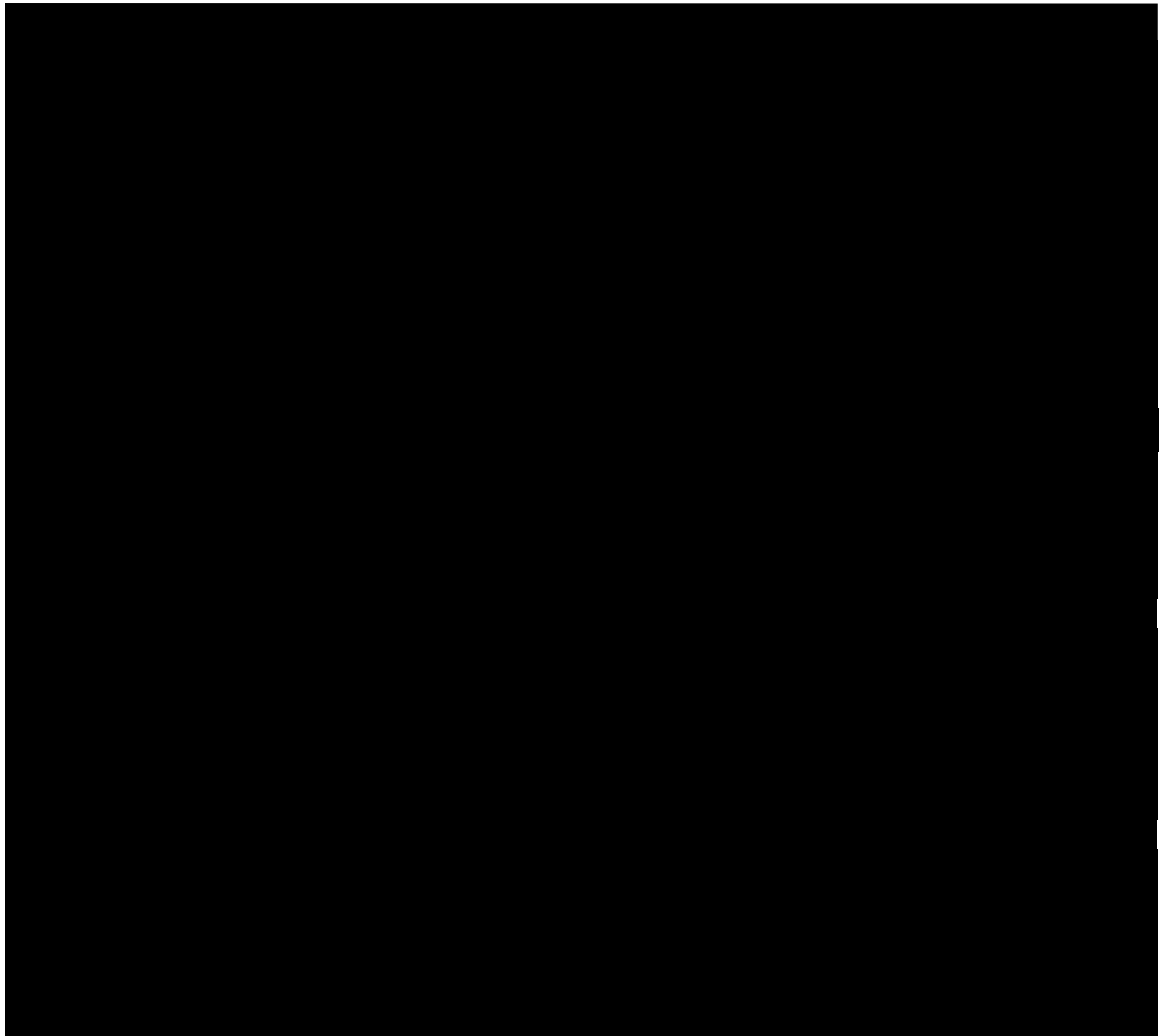
6. **Participation upon Liquidation, Dissolution or Winding-Up:** In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Class A Special Shares 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.



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.





“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

Name of Director	Date of Most Recent Election
James Phillips	June 1, 2021
Berry Vrbanovic	June 1, 2021
Les Armstrong	June 1, 2021
Rosa Lupo	June 1, 2021

Jerry Van Ooteghem	June 1, 2021
--------------------	--------------

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.



Page 3

- 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

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:



Director



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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(Expressed in thousands of dollars)

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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(Expressed in thousands of dollars)

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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(Expressed in thousands of dollars)

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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(Expressed in thousands of dollars)

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

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(Expressed in thousands of dollars)

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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(Expressed in thousands of dollars)

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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(Expressed in thousands of dollars)

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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(Expressed in thousands of dollars)

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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(Expressed in thousands of dollars)

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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(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
	<u>\$ 15,680</u>	<u>\$ 17,477</u>

6. Inventory:

The amount of inventory consumed by the Corporation and recognized as an expense during 2020 was \$279 (2019 - \$363).

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(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

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(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

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(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

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(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)

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(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	
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	
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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(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

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(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)

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(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:			
	<u>Age</u>		
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)

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(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

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(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

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(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
	<u>\$ 22,509</u>	<u>\$ 21,766</u>

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020

(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

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(Expressed in thousands of dollars)

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.

KITCHENER-WILMOT HYDRO INC.

Notes to Financial Statements

Year ended December 31, 2020
(Expressed in thousands of dollars)

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.

124058144:v14

**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.

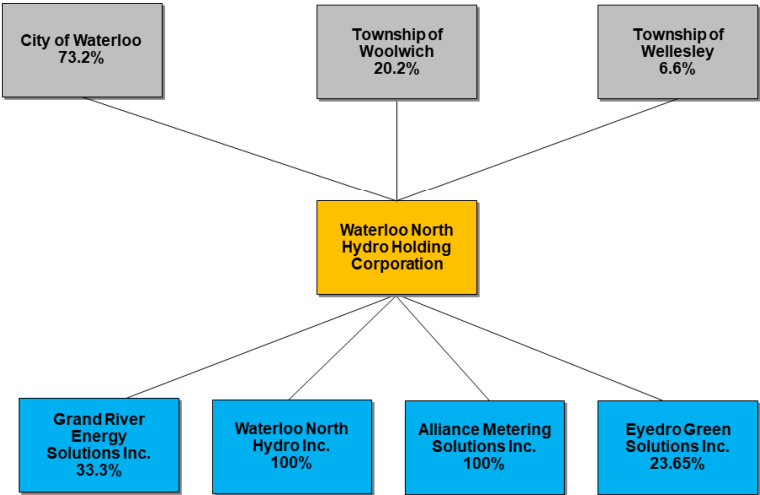
Disclosure of any information in these Schedules that is not strictly required under the Merger Participation Agreement has been made for informational purposes only. Disclosures in these Schedules are deemed to be made for purposes of the section or subsection of the Merger Participation Agreement to 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.

Waterloo North Hydro Holding Corporation – Corporate Structure



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.

Director	Date Elected as Director
Steven McCartney (Chair)	September 21, 2021
Arnold Drung	September 21, 2021
Janet Peddigrew	September 21, 2021

Schedule 5.12 – Financial Statements

[REDACTED]

[REDACTED]

[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

Waterloo North Hydro Inc.

STATEMENT OF FINANCIAL POSITION

As at December 31, 2020, with comparative information for 2019

	<i>Note</i>	December 31 2020 \$	December 31 2019 \$
ASSETS			
Current			
Cash		2,308,798	-
Accounts receivable	<i>4</i>	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	<i>19</i>	500,000	-
Total current assets		42,051,787	35,493,870
Non-current assets			
Property, plant and equipment	<i>5</i>	250,812,258	243,340,517
Intangible assets	<i>6</i>	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	<i>8</i>	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

	<i>Note</i>	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	<i>9</i>	-	396,819
Current portion of long-term debt	<i>9</i>	5,552,334	6,264,000
Current portion of customer deposits	<i>12</i>	3,353,624	2,816,795
Total current liabilities		29,523,184	28,924,468
Long-term			
Long-term debt	<i>9</i>	78,353,774	72,478,147
Note payable to shareholder	<i>10</i>	33,513,211	33,513,211
Derivative liability	<i>9</i>	8,832,392	3,188,963
Customer deposits	<i>12</i>	3,485,605	4,026,940
Deferred revenue		27,612,623	25,862,609
Post employment benefits	<i>11</i>	4,013,408	4,008,911
Deferred tax liability	<i>7</i>	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	<i>13</i>	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	<i>8</i>	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

	<i>Note</i>	2020	2019
		\$	\$
REVENUES			
Sales of electricity		192,999,055	173,746,381
Distribution services revenue		35,959,195	35,895,518
	<i>14</i>	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	<i>14</i>	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	<i>5</i>	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	<i>15</i>	(5,000,291)	(4,920,773)
Unrealized gain (loss) from derivatives	<i>9</i>	(5,643,429)	(1,493,869)
Income from operations before PILs		216,530	4,693,575
PILs expense	<i>7</i>	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	<i>8</i>	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

	<i>Note</i>	Share Capital	Retained Earnings	Total
<hr/>				
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)
<hr/>				
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)
<hr/>				
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

	<i>Note</i>	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

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTSYear ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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%.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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, 2020

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

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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 as 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)

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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	

NOTES TO FINANCIAL STATEMENTS

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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 as 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)

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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
Construction 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

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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).

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2020

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.