Financial statements of
Algoma Power Inc.

December 31, 2022

Deloitte.

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Independent Auditor's Report

To the Shareholder of
Algoma Power Inc.

Opinion

We have audited the financial statements of Algoma Power Inc. (the "Company"), which comprise the balance sheet as at December 31, 2022, and the statements of earnings and retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises ("ASPE").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other 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 ASPE, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 27, 2023

Algoma Power Inc.

Balance sheet

As at December 31, 2022

(In thousands of dollars, unless otherwise stated)

	Notes	2022 $	2021 $
Assets			
Current assets			
Cash		**1,894**	2,792
Restricted cash	11	**100**	100
Accounts receivable	12	**6,039**	6,633
Income taxes receivable		**97**	—
Materials and supplies		**175**	53
Regulatory assets	14	**978**	865
Prepaid expenses		**200**	230
		9,483	10,673
Utility capital assets, net	2	**128,546**	123,947
Intangible assets, net	3	**14,170**	14,661
Accrued pension benefit asset	4	**9**	7,564
Regulatory assets	14	**27,281**	10,386
Other assets		**65**	—
		179,554	167,231
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	**6,668**	6,931
Customer deposits	12	**263**	227
Income taxes payable		**—**	110
Loan payable	7, 12 and 13	**20,000**	7,000
Due to related parties	6	**5,350**	8,756
		32,281	23,024
Long-term customer deposits	12	**667**	588
Promissory note due to parent company	6, 12 and 13	**12,750**	12,750
Long-term debt	8, 12 and 13	**51,683**	51,667
Future tax liabilities	5	**9,025**	7,624
Accrued other retirement benefit liability	4	**5,963**	6,588
Regulatory liabilities	14	**1,618**	7,483
Contributions in aid of construction		**6,633**	3,307
		120,620	113,031
Shareholder's equity			
Capital stock	9	**44,008**	44,008
Retained earnings		**14,926**	10,192
		58,934	54,200
		179,554	167,231

The accompanying notes are an integral part of the financial statements.

Approved by the Board

______________________, Director

______________________, Director

Algoma Power Inc.
Statement of earnings and retained earnings
Year ended December 31, 2022
(In thousands of dollars, unless otherwise stated)

	Notes	2022 $	2021 $
Revenue			
Sale of energy		**29,361**	26,959
Distribution		**26,500**	25,642
Other		**793**	706
		56,654	53,307
Expenses			
Cost of power purchased		**29,361**	26,959
Operating		**14,053**	13,748
Amortization	10	**4,188**	4,049
		47,602	44,756
Operating earnings before the following		**9,052**	8,551
Other regulatory adjustments	14	**(124)**	(124)
Interest expense	6, 7, 8 and 12	**(3,935)**	(3,252)
Earnings before income taxes		**4,993**	5,175
Provision for income taxes	5	**259**	734
Net earnings for the year		**4,734**	4,441
Retained earnings, beginning of year		**10,192**	5,751
Retained earnings, end of year		**14,926**	10,192

The accompanying notes are an integral part of the financial statements.

Algoma Power Inc.
Statement of cash flows
Year ended December 31, 2022
(In thousands of dollars, unless otherwise stated)

	Notes	2022 $	2021 $
Operating activities			
Net earnings for the year		**4,734**	4,441
Add (deduct) items not involving cash			
Amortization of utility capital assets	10	**3,991**	3,783
Amortization of intangible assets	10	**687**	763
Amortization of contributions in aid of construction	10	**(37)**	(25)
Amortization of debt issuance costs		**16**	16
Loss (gain) on disposal of utility capital assets		**28**	(52)
Future income taxes		**1,402**	955
Accrued pension benefit asset		**7,557**	(359)
Accrued other retirement benefit liability		**(2,369)**	314
Long-term customer deposits		**79**	5
Long-term regulatory assets and liabilities		**(14,399)**	(147)
Other assets		**(65)**	—
		1,624	9,694
Net change in non-cash working capital balances related to operations	11	**(3,451)**	4,280
		(1,827)	13,974
Investing activities			
Proceeds on sale of utility capital assets		**63**	363
Additions to utility capital assets		**(15,301)**	(22,003)
Additions to intangible assets		**(196)**	(205)
		(15,434)	(21,845)
Financing activities			
Increase in contributions in aid of construction		**3,363**	1,952
Increase in loan payable	7	**13,000**	7,000
		16,363	8,952
Net (decrease) increase in cash during the year		**(898)**	1,081
Cash, beginning of year		**2,792**	1,711
Cash, end of year		**1,894**	2,792

The accompanying notes are an integral part of the financial statements.

1. Basis of accounting and summary of significant accounting policies

Algoma Power Inc. ("API" or the "Company") is engaged in the distribution of electricity to the area adjacent to Sault Ste. Marie, Ontario and is subject to the regulations of the Ontario Energy Board ("OEB").

API operated as a division of Great Lakes Power Limited ("GLPL") from January 1, 2009 to June 30, 2009. In order to comply with Section 71 of OEB regulatory requirements, GLPL split out its distribution division by creating a separate legal entity called Great Lakes Power Distribution Inc. ("GLPDI"). This entity began operating as a separate legal entity effective July 1, 2009. On October 8, 2009, there was a change of control as FortisOntario Inc. (the "Parent") acquired 100% of the shares of GLPDI and changed the name to Algoma Power Inc.

(a) Basis of accounting

These financial statements have been prepared in accordance with the accounting standards for private enterprises ("ASPE"), as per Part II of the CPA Handbook - Accounting, which constitutes generally accepted accounting principles for non-publicly accountable enterprises in Canada.

(b) Changes in accounting policies

Effective January 1, 2022, the Company adopted the amendments to Handbook Section 3400, Revenue ("Section 3400"), which provided additional guidance related to multiple element arrangements and units of account in a revenue arrangement, the percentage of completion method, reporting revenue gross or net, bill and hold arrangements and up-front non-refundable fees or payments. There is no impact of adoption of the amendments.

In the current year, the Company has applied the amendments to Handbook Section 3462, Employee Future Benefits, which changed the measurement of the pension obligation related to certain defined benefit pension plans (see Note 4). For defined benefit plans with no legislative, regulatory or contractual requirement to prepare a funding valuation, the amendments remove the accommodation to allow for the use of the funding valuation for accounting purposes. The adoption of these amendments had no impact on retained earnings but did impact certain amounts recorded on the balance sheet, as described in Note 4.

(c) Significant accounting policies

Regulation

The distribution rates of API are based upon cost-of-service ("CoS") rate regulation by the OEB. Earnings are regulated on the basis of a rate of return on rate base plus a recovery of all allowable distribution costs.

API is subject to Ontario Regulation 335/07, which is the Rural and Remote Rate Protection subsidy program ("RRRP"). The RRRP is calculated as the deficiency between the approved revenue requirement from the OEB and current customer distribution rates adjusted for the average rate increase across the Province of Ontario. API qualifies for this subsidy because it has less than seven customers per kilometer and a service area that extends beyond 10,000 kilometers. All general service and large customer classes have been reclassified as residential class under Ontario Regulation 445/07.

Beginning with electricity distribution rates effective in 2016, decoupling of electricity distribution rates for the Residential customer class was being introduced; complete decoupling will be achieved for rates effective January 1, 2023 for residential customers and is projected to be achieved for seasonal customers for rates effective in 2027.

(In thousands of dollars, unless otherwise stated)

1. Basis of accounting and summary of significant accounting policies (continued)

(c) Significant accounting policies (continued)

Regulation (continued)

On August 12, 2020, API filed an application with the OEB seeking approval to change electricity distribution rates, effective January 1, 2021, based on 4GIRM. A Decision and Order was issued December 10, 2020 that approved the net price cap index adjustment for API of 1.60% (Inflation factor net of a productivity and stretch factor 2.20% – (0% + 0.60%)). The 1.60% adjustment was applied to distribution rates for the Seasonal and Street Lighting customer classes. A Rural and RRRP adjustment factor of 0.80% was applied to the distribution rates for the Residential R-1 and Residential R-2 classes.

On August 18, 2021, API filed an application with the OEB seeking approval to change electricity distribution rates, effective January 1, 2022, based on 4GIRM. A Decision and Order was issued December 9, 2021 that approved the net price cap index adjustment for API of 2.70% (Inflation factor net of a productivity and stretch factor 3.30% – (0% + 0.60%)). The 2.70% adjustment was applied to distribution rates for the Seasonal and Street Lighting customer classes. A Rural and RRRP adjustment factor of 3.28% was applied to the distribution rates for the Residential R-1 and Residential R-2 classes.

On August 3, 2022, API filed an application with the OEB seeking approval to change electricity distribution rates, effective January 1, 2023, based on 4GIRM. A Decision and Order was issued December 8, 2022 that approved the net price cap index adjustment for API of 3.10% (Inflation factor net of a productivity and stretch factor 3.70% – (0% + 0.60%)). The 3.10% adjustment was applied to distribution rates for the Seasonal and Street Lighting customer classes. A Rural and RRRP adjustment factor of 3.11% was applied to the distribution rates for the Residential R-1 and Residential R-2 classes. The Decision and Order also approved API requests to recover $33 in 2018-2022 lost revenue from energy conservation programs (LRAMVA).

Materials and supplies

Materials and supplies are recorded at average cost. Materials and supplies expensed to operating expense in 2022 were $92 ($37 in 2021).

Utility capital assets and capitalization policy

Distribution assets are those used to distribute electricity at lower voltages (generally below 50 kilovolts). These assets include poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

The service life range and average remaining service life of the utility capital assets are as follows:

	Service life range (years)	Average remaining service life (years)
Distribution	10 to 50	35.5
Other	5 to 20	4.7

Utility capital assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the utility capital assets using the straight-line method at a composite rate 2.2% (1.9% in 2021).

Contributions in aid of construction represent funding of utility capital assets contributed by customers. These accounts are being reduced annually by an amount equal to the charge for amortization provided on the contributed portion of the assets involved.

(In thousands of dollars, unless otherwise stated)

1. Basis of accounting and summary of significant accounting policies (continued)

(c) Significant accounting policies (continued)

Utility capital assets and capitalization policy (continued)

Capitalization policy

The Company's capitalization policy is in accordance with the OEB's requirements to use a "modified IFRS" accounting basis.

Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the intangible assets using the straight-line method.

The service life range and average remaining service life of the intangible assets are as follows:

	Service life range (years)	Average remaining service life (years)
Software costs	5 to 10	2.5
Land rights	40 to 45	25.2

Revenue recognition

Revenue from the distribution of electricity is recognized on the accrual basis. Electricity is metered upon delivery to customers and is recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of the year, a certain amount of consumed electricity will not have been billed. Electricity that is consumed but not yet billed to the customers is estimated and accrued as revenue in the current year. Other revenue is recognized when services are provided and the customer takes ownership and assumes risk of loss in accordance with customer contracts, collection of the related receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Amounts received for future services are deferred until the service is provided.

Unbilled revenue included in accounts receivable as at December 31, 2022 is $3,473 ($3,234 in 2021).

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the balance sheet date. Gains and losses on translation are included in the statement of earnings. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the transaction date.

1. Basis of accounting and summary of significant accounting policies (continued)

(c) Significant accounting policies (continued)

Employee benefit plans

The cost of the Company's defined benefit pension plans is determined periodically by independent actuaries. The Company has chosen an accounting policy to measure its defined benefit plan obligations using the funding valuation approach. This approach uses the most recent completed actuarial valuations prepared for funding purposes as the basis of measuring defined benefit plan obligations. As well, the Company is using a roll-forward technique in the years between valuations to estimate the defined benefit plan obligations. Pension plan assets are valued at fair value as at the balance sheet date.

In 2013, the Company made an application to the OEB to allow recognition of regulatory assets related to unamortized amounts, and restatement of prior years' pension and other retirement benefit expenses, that would otherwise be collected from customers through rates in subsequent years. In December 2013, the OEB issued a Decision and Order approving the establishment of specific deferral accounts to recognize these amounts as long-term regulatory assets, which will be disposed of in future CoS proceedings, subject to the OEB's prudence review at that time. As well, the Company reversed previously recognized future income tax liabilities related to the changes in the pension and other retirement benefit liabilities as of January 1, 2014. The Corporation recognized offsetting regulatory liabilities related to the future income taxes expected to be recovered from customers in future electricity rates as of January 1, 2014.

The Company made an application to the OEB to continue to account for pension and other retirement benefits under the former Section 3461.

In December 2013, the OEB issued a Decision and Order approving the establishment of specific variance accounts as of January 1, 2013, to recognize the difference in expense between Sections 3461 and 3462 as long-term regulatory assets or liabilities for 2013 and future years, which will be disposed of in future CoS proceedings, subject to the OEB's prudence review at that time.

Income taxes

The Company follows the future income taxes method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities. Future tax assets and liabilities are measured using the enacted and the substantively enacted tax rates expected to apply to taxable income in the period in which temporary differences are expected to be recovered or settled. The Company recognizes regulatory assets and liabilities related to future income tax liabilities and assets for the amount of future income taxes expected to be recovered from customers in future electricity rates.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Company becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost.

(In thousands of dollars, unless otherwise stated)

1. Basis of accounting and summary of significant accounting policies (continued)

(c) Significant accounting policies (continued)

Financial instruments (continued)

Transaction costs related to financial instruments measured subsequent to initial recognition at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the effective interest method and recognized in net earnings as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Company recognizes an impairment loss, if any, in net earnings when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to net earnings in the period the reversal occurs.

Use of estimates

The preparation of financial statements in conformity with ASPE requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

2. Utility capital assets

Utility capital assets consist of the following:

	Cost $	Accumulated amortization $	2022 Net book value $
Distribution	**193,793**	**67,142**	**126,651**
Other	**9,012**	**7,117**	**1,895**
	202,805	**74,259**	**128,546**

	Cost $	Accumulated amortization $	2021 Net book value $
Distribution	179,204	65,008	114,196
Other	17,014	7,263	9,751
	196,218	72,271	123,947

The amounts above include assets under construction, which are not subject to amortization, of $17,990 ($19,354 in 2021).

(In thousands of dollars, unless otherwise stated)

3. Intangible assets

Intangible assets consist of the following:

	Cost $	Accumulated amortization $	2022 Net book value $
Land rights and right of ways	**21,664**	**7,841**	**13,823**
Software costs	**3,062**	**2,715**	**347**
	24,726	**10,556**	**14,170**

	Cost $	Accumulated amortization $	2021 Net book value $
Land rights and right of ways	21,483	7,292	14,191
Software costs	3,150	2,680	470
	24,633	9,972	14,661

4. Employee future benefits

The Company maintains a defined benefit pension plan and a defined contribution pension plan providing pension benefits, and defined benefit plans providing other retirement benefits.

Information about API's benefit plans is as follows:

	Pension benefit plans		Other retirement plans	
	2022 **$**	2021 $	**2022** **$**	2021 $
Accrued benefit obligation				
Balance, beginning of year	**29,052**	28,356	**6,588**	6,274
Current service costs	**559**	484	**339**	224
Finance costs	**1,407**	1,375	**275**	304
Employee contributions	**246**	261	**—**	—
Benefits paid	**(1,242)**	(1,350)	**(140)**	(165)
Actuarial gains	**(102)**	(74)	**(1,099)**	(49)
Balance, end of year	**29,920**	29,052	**5,963**	6,588
Plan assets				
Fair value, beginning of year	**36,616**	35,561	**—**	—
Interest income	**1,776**	1,721	**—**	—
Return on plan assets	**(7,993)**	(137)	**—**	—
Contributions	**772**	821	**140**	165
Benefits paid	**(1,242)**	(1,350)	**(140)**	(165)
Fair value, end of year	**29,929**	36,616	**—**	—
Funded status – plan surplus (deficit)	**9**	7,564	**(5,963)**	(6,588)

(In thousands of dollars, unless otherwise stated)

4. Employee future benefits (continued)

The measurement date for the plan assets and the accrued benefit obligation was as at December 31, 2022. The effective date of the most recent actuarial valuation was as at December 31, 2019 and the date of the next required valuation for funding purposes is as at December 31, 2022, and will be completed by September 2023. The measurement date for other retirement plans was as at December 31, 2022. The effective date of the most recent actuarial valuation was as at December 31, 2021.

The plan assets held at the measurement date are represented by the following categories:

	%
Canadian equity funds	**15**
Foreign equity funds	**33**
Canadian fixed income funds	**51**
Cash and short trem investments	**1**

As at December 31, 2022, one of the defined benefit pension plans had a net accrued benefit liability of $88 ($123 in 2021). This plan had no plan assets in 2022 or 2021.

	Pension benefit plans		Other retirement plans	
	2022	2021	**2022**	2021
	$	$	**$**	$
Significant assumptions used				
Discount rate, beginning of year	**4.85%**	4.85%	**4.85%**	4.85%
Discount rate, end of year	**4.85%**	4.85%	**3.30%**	4.85%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Initial health care trend rate	**—**	—	**4.98%**	5.05%
Average remaining service of active employees (years)	**19**	19	**18**	18
Net benefit expense for the year				
Current service costs	**559**	484	**339**	224
Finance costs	**(369)**	(346)	**275**	304
Remeasurement costs	**7,891**	64	**(2,844)**	(49)
Regulatory adjustments	**(7,681)**	423	**2,849**	185
Net benefit expense	**400**	625	**619**	664

The total expense for the Company's defined contribution pension plan for the year amounted to $139 ($140 in 2021).

A summary of the impact of the amendments to Handbook Section 3462, Employee Future Benefits, effective January 1, 2022, as described in Note 1, is outlined in the following table:

			January 1, 2022
	Benefit plan	**Other retirement plans**	**Total**
	$	**$**	**$**
Long-term regulatory assets	**(3)**	**1,744**	**1,741**
Future tax liabilities	**1**	**—**	**1**
Accrued other retirement benefits	**—**	**(1,744)**	**(1,744)**
Accrued pension benefits	**2**	**—**	**2**
	—	**—**	**—**

(In thousands of dollars, unless otherwise stated)

5. Income taxes

The following is a reconciliation of the combined statutory income tax rate to the effective income tax rate:

	2022 %	2021 %
Statutory income tax rate	**26.50**	26.50
Future income taxes transferred to regulatory assets	**(27.56)**	(17.18)
Tax adjustments from prior years	**(0.34)**	0.36
Other	**6.59**	4.50
Effective income tax rate	**5.19**	14.18

The provision for income taxes consists of the following:

	2022 $	2021 $
Current income taxes	**234**	668
Future income taxes	**1,401**	955
Future income taxes transferred to regulatory assets	**(1,376)**	(889)
	259	734

During the year, the Company recorded $1,376 ($889 in 2021) in regulatory assets and a corresponding decrease to future income tax expense, for the amount of future income taxes expected to be collected from customers in future electricity rates.

Future tax assets (liabilities) are comprised of the following:

	2022 $	2021 $
Future tax assets (liabilities)		
Utility capital assets	**(9,096)**	(7,934)
Employee future benefits	**1,668**	1,571
Rate mitigation accrual	**1,110**	1,221
Regulatory assets	**(2,693)**	(2,333)
Other assets	**(14)**	(149)
Net future tax liabilities	**(9,025)**	(7,624)

(In thousands of dollars, unless otherwise stated)

6. Related party transactions

During the year, the Company entered into transactions with related parties summarized as follows:

	2022	2021
	$	$
Advances of funds to (from)		
FortisOntario Inc.	**1,226**	(2,774)
Canadian Niagara Power Inc.	**(640)**	(1,000)
Cornwall Street Railway, Light and Power Company Limited	**7,300**	4,500
Interest paid to FortisOntario Inc.	**441**	446
Management fees paid to FortisOntario Inc.	**561**	565
Rebate program funding processed through Canadian Niagara Power Inc.	**—**	337
Administrative service fees from Canadian Niagara Power Inc.	**2,312**	2,474
Reimbursement for expenses paid on behalf of and services provided by Canadian Niagara Power Inc.	**306**	1,247
Reimbursement for expenses paid on behalf of and services provided by FortisOntario Inc.	**345**	451
Reimbursement for expenses paid on behalf of and services provided by Cornwall Street Railway, Light and Power Company Limited.	**320**	351

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

As at December 31, the amounts due to related parties are summarized as follows:

	2022	2021
	$	$
FortisOntario Inc.	**5,350**	8,756
Promissory note due to parent company	**12,750**	12,750
	18,100	21,506

A promissory note of $12,750 due to the Parent company bears interest at 4.13% and is payable on demand. There are no specific terms of repayment for this note.

Details of relationships with related parties are as follows:

- The Company is owned 100% by FortisOntario Inc., which itself is a wholly owned subsidiary of Fortis Inc.
- Cornwall Street Railway, Light and Power Company Limited is a wholly owned subsidiary of FortisOntario Inc.
- Canadian Niagara Power Inc. is a wholly owned subsidiary of FortisOntario Inc.

(In thousands of dollars, unless otherwise stated)

7. Loans payable

Loans payable consists of the following:

	2022	2021
	$	$
Bankers' Acceptance, bearing interest at 4.468% plus stamping fee of 1.25% and matures January 6, 2023	**20,000**	—
Bankers' acceptance, bearing interest at 0.445% plus stamping fee of 1.25% and matures January 19, 2022	—	3,000
Bankers' acceptance, bearing interest at 0.440% plus stamping fee of 1.25% and matures January 19, 2022	—	4,000
	20,000	7,000

Interest expense on loan payable for the year was $440 ($7 in 2021). Loans payable authorized under the Company's credit facility agreements, which is shared among the subsidaries of FortisOntario Inc., have covenants that restrict the issuance of additional debt such that subsidiary debt cannot exceed 75% of their respective capital structures as defined in the agreements. As at December 31, 2022, the Company was in compliance with their debt covenants.

8. Long-term debt

Long-term debt consists of the following:

	2022	2021
	$	$
5.118% senior unsecured notes due on December 16, 2041	**52,000**	52,000
Unamortized debt issue costs	**(317)**	(333)
	51,683	51,667

The senior unsecured notes bear interest at 5.118% and are repayable at maturity on December 16, 2041. The senior unsecured notes were issued on December 16, 2011 and interest is payable semi-annually. Interest expense for the year amounted to $2,661 ($2,661 in 2021). The Company incurred debt issue costs in 2011 of $499 that are being amortized over the term of the loan. As at December 31, 2022, the accumulated amortization amounted to $182 ($166 in 2021).

The Company's long-term debt obligations and credit facility agreements have covenants that restrict the issuance of additional debt such that debt cannot exceed 75% of their capital structures as defined in the agreements. As at December 31, 2022, the Company was in compliance with its debt covenants (in compliance in 2021).

9. Capital stock

The authorized and issued shares consist of 90,831,810 common shares without par value.

(In thousands of dollars, unless otherwise stated)

10. Amortization

Amortization consists of the following:

	2022 $	2021 $
Amortization of utility capital assets	**3,991**	3,783
Amortization of intangible assets	**687**	763
Amortization of contributions in aid of construction	**(37)**	(25)
	4,641	4,521
Vehicle amortization allocated	**(453)**	(472)
	4,188	4,049

Vehicle amortization is allocated to utility capital assets and operating expenses on a labour distribution basis.

11. Statement of cash flows

The net change in non-cash working capital balances related to operations consists of the following:

	2022 $	2021 $
Accounts receivable	**594**	8
Income taxes receivable/payable	**(207)**	(168)
Materials and supplies	**(122)**	(1)
Regulatory assets/liabilities	**(113)**	(666)
Prepaid expenses	**30**	13
Due to/from related parties	**(3,406)**	4,471
Customer deposits	**36**	26
Accounts payable and accrued liabilities	**(263)**	597
	(3,451)	4,280

Supplemental cash flow information:

	2022 $	2021 $
Interest paid	**3,494**	3,235
Income taxes paid	**348**	540
	3,842	3,775

The restricted cash is a deposit held by the Ministry of Environment for a Certificate of Approval.

(In thousands of dollars, unless otherwise stated)

12. Financial risk management

The Company is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments in the normal course of business.

Credit risk – Risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument.

Liquidity risk – Risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Market risk – Risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices.

Credit risk

For cash and accounts receivable due from customers, API's credit risk is limited to the carrying value on the balance sheet.

API is exposed to credit risk from its distribution customers but has various policies to minimize this risk. These policies include requiring customer deposits, performing disconnections and using third-party collection agencies for overdue accounts. API has a large and diversified distribution customer base which minimizes the concentration of credit risk.

The aging of the Company's trade and other receivables due from customers is as follows:

	2022	2021
	$	$
Not past due	**5,620**	6,023
Past due 0–30 days	**128**	219
Past due 31–60 days	**56**	59
Past due 61 days and over	**293**	428
	6,097	6,729
Less allowance for doubtful accounts	**58**	96
	6,039	6,633

Liquidity risk

Liquidity risk to API is minimized since the financing of regulated capital and other expenditures is done through internally generated funds. These funds are a result of allowable rate regulated returns and recoveries under the OEB rate regulations mechanism.

API is a subsidiary of the Parent, which is a wholly owned by Fortis Inc., a large investor owned utility, which has had the ability to raise sufficient and cost-effective financing. However, the ability to arrange financing on a go-forward basis is subject to numerous factors, including the results of operations and financial position of Fortis Inc. and its subsidiaries, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

To mitigate any liquidity risk, the Company is a party to a committed revolving credit facility and letters of credit facilities totaling $65,000, of which $17,700 ($35,700 in 2021) was unused. The revolving credit facilities and letters of credit facilities are renewed on an annual basis. Loans payable (see Note 7) are renewed on a rolling 30-day period from time to time as needed by the Company. This credit agreement is shared among the subsidiaries of the Parent and is renewed on an annual basis.

(In thousands of dollars, unless otherwise stated)

12. Financial risk management (continued)

Liquidity risk (continued)

The following summary outlines the credit facilities among the subsidiaries of FortisOntario Inc:

	2022	2021
	$	$
Total credit facilities	**65,000**	65,000
Loans payable outstanding	**(33,000)**	(15,000)
Letters of credit outstanding	**(14,300)**	(14,300)
Credit facilities available	**17,700**	35,700

The facility is guaranteed by the Parent company and bear interest at the bankers' acceptance rate plus 1.20% in the case of bankers' acceptances and at the bank's prime lending rate plus 0.20% in the case of bank loans.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at December 31:

	< 1 year	**1-3 years**	**4-5 years**	**> 5 years**	**2022 Total**
	$	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilites	**6,668**	**—**	**—**	**—**	**6,668**
Customer deposits	**263**	**328**	**281**	**58**	**930**
Loan payable	**20,000**	**—**	**—**	**—**	**20,000**
Due to related parties	**5,350**	**—**	**—**	**—**	**5,350**
Promissory note due to parent company	**—**	**—**	**—**	**12,750**	**12,750**
Long-term debt	**—**	**—**	**—**	**52,000**	**52,000**
	32,281	**328**	**281**	**64,808**	**97,698**

	< 1 year	1-3 years	4-5 years	> 5 years	2021 Total
	$	$	$	$	$
Accounts payable and accrued liabilites	6,931	—	—	—	6,931
Customer deposits	227	372	216	—	815
Due to related parties	8,756	—	—	—	8,756
Loan payable	7,000	—	—	—	7,000
Promissory note due to parent company	—	—	—	12,750	12,750
Long-term debt	—	—	—	52,000	52,000
	22,914	372	216	64,750	88,252

Market risk

Interest rate risk

Long-term debt is at fixed interest rates thereby minimizing cash flow and interest rate fluctuation exposure. The Company is primarily subject to risks associated with fluctuating interest rates on its short-term borrowings. Short-term borrowings for 2022 is $20,000 ($7,000 in 2021).

(In thousands of dollars, unless otherwise stated)

13. Capital management

API manages its capital to approximate the deemed capital structure reflected in the utility's customer rates or anticipated future rates. API's distribution rates effective on January 1, 2020 are based on a deemed capital structure of 60% debt and 40% equity. API's capital structure consists of third-party debt, affiliate debt and common equity, but excludes unamortized debt issue costs.

The managed capital is as follows:

	2022 actual		2021 actual	
	$	**%**	$	%
Debt	**84,750**	**59**	71,750	57
Equity	**58,934**	**41**	54,200	43
	143,684	**100**	125,950	100

14. Regulatory assets and liabilities

Regulatory liabilities net of regulatory assets arise as a result of regulatory requirements.

The Company pays the cost of power on behalf of its customers and recovers these costs through retail billings to its customers. The cost of power includes charges for transmission, wholesale market operations and the power itself from Ontario's Independent Electricity System Operator. The balance of the retail settlement variance account represents the costs that have not been recovered from, or settled through, customers as of the balance sheet date. The OEB's Distribution Rate Handbook and Accounting Procedures Handbook allow these costs to be deferred and recovered through future rate adjustments as discussed in Note 1. In the absence of rate regulation, these costs would be expensed in the period they are incurred.

The OEB has the general power to include or exclude costs, revenues, gains or losses in the rates of a specific period, resulting in the timing of revenue and expense recognition that may differ in the Company's regulated operations from those otherwise expected in non-regulated businesses. This change in timing gives rise to the recognition of regulatory assets and liabilities. The Company continually assesses the likelihood of recovery of its regulatory assets and believes that its regulatory assets and liabilities will be factored into the setting of future rates as discussed in Note 1. If future recovery through rates is no longer considered probable, the appropriate carrying amount will be written off in the period that the assessment is made.

In 2019, the OEB directed all regulated utilities to recognize a regulatory liability for any cash tax savings related to the new accelerated capital cost allowance rules enacted by the federal government in late 2018. As at December 31, 2020, the Company is no longer required to track variances related to accelerated capital cost allowance as approved in the Decision and Order issued for the Company's 2020 CoS.

In the Decision and Order for API's 2020 CoS, the OEB approved the recovery over five years of certain costs associated with the interim operation of DLI's distribution system along with transaction costs totaling $618. API's revenue requirement was increased by $124 and entries are being recorded to "Other regulatory adjustments" for the amortization of the approved DLI costs.

(In thousands of dollars, unless otherwise stated)

14. Regulatory assets and liabilities (continued)

The "Other regulatory adjustments" on the statement of earnings and retained earnings are summarized as follows:

	2022	2021
	$	$
Amortization of approved DLI costs	**124**	124

In API's 2020 CoS, 2 capital projects were identified that meet the criteria as being eligible for Advanced Capital Module ("ACM") treatment. In 2022, API completed construction on the first project, the new office building in Sault Ste Marie. The capital costs amounted to $15,814 with amortization of $28, while $1,082 was collected through a combination of RRRP funding and rate riders. In accordance with OEB accounting guidance, both the capitalized cost and accumulated amortization and amortization expense along with amounts collected to date have been recorded in long-term regulatory assets and will remain recorded there until the next CoS rebase in 2025 where final approval will be requested.

API recorded the following regulatory assets and liabilities as at December 31:

	Remaining rebate period	**2022**	2021
		$	$
Current regulatory assets			
Amounts approved	1 year	**978**	861
Other	1 year	**—**	4
		978	865
Long-term regulatory assets			
Amounts approved	up to 2 years	**261**	429
Retail settlement and other variance accounts	2 plus years	**2,039**	1,070
Future income taxes to be recovered from customers	Life of assets	**10,178**	8,802
API ACM eligible projects	3 plus yrs	**14,718**	—
Transitional accounting change adjustments	2 plus years	**85**	85
		27,281	10,386
Long-term regulatory liabilities			
Retail settlement and other variance accounts	2 plus years	**994**	315
Pension and other retirement benefits	EARSL	**342**	6,892
Tax expense variances related to accelerated capital cost allowance	2 plus years	**282**	276
		1,618	7,483

15. Corresponding information

Certain corresponding information has been reclassified to conform to the presentation adopted in the current year. There is no impact on net earnings or retained earnings as a result of the reclassification.