Espanola Regional Hydro Distribution Corporation
Financial Statements
For the year ended December 31, 2021

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Contents

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Independent Auditor's Report

To the Shareholder of Espanola Regional Hydro Distribution Corporation

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The financial statements for the year ended December 31, 2020 were audited by another auditor who expressed an unqualified opinion on those financial statements dated March 26, 2021.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

North Bay, Ontario
April 7, 2022

Espanola Regional Hydro Distribution Corporation
Statement of Financial Position
Expressed in Canadian Dollars

As at December 31	2021	2020
Assets		
Current assets		
Cash and cash equivalents (Note 3)	**$ 282,012**	$ 226,305
Accounts receivable (Note 4)	**1,373,949**	1,345,628
Unbilled service revenue	**882,618**	922,905
Inventory	**46,904**	58,247
Prepaid expenses	**161,586**	146,145
Total current assets	**2,747,069**	2,699,230
Non-current assets		
Advances to corporate shareholder	**100**	100
Deferred income taxes (Note 14)	**-**	151,790
Property, plant and equipment (Note 5)	**7,477,768**	5,502,180
Prepaid expenses - long-term	**424,299**	398,041
Goodwill	**3,322,007**	3,322,007
Total non-current assets	**11,224,174**	9,374,118
Total assets	**13,971,243**	12,073,348
Regulatory deferral account debit balances and related deferred tax (Note 6)	**2,201,606**	2,402,613
Total assets and regulatory deferral account balances	**$ 16,172,849**	$ 14,475,961

Espanola Regional Hydro Distribution Corporation
Statement of Financial Position (continued)
Expressed in Canadian Dollars

As at December 31	2021	2020
Liabilities and Shareholder's Equity		
Current liabilities		
Operating loan (Note 3)	**$ 195,000**	$ 105,000
Accounts payable and accrued liabilities	**2,437,885**	2,873,628
Payments in lieu of taxes payable (Note 14)	**18,197**	-
Current portion of long-term debt (Note 8)	**165,663**	108,952
Total current liabilities	**2,816,745**	3,087,580
Non-current liabilities		
Contributions in aid of construction (Note 15)	**368,087**	343,376
Customer deposits	**101,646**	198,754
Long-term debt (Note 8)	**10,625,047**	10,308,742
Financial instrument liability (Note 8)	**229,058**	806,133
Deferred income taxes (Note 14)	**442,840**	-
Advances from related company (Note 11)	**1,384,876**	704,198
Employee future benefits (Note 7)	**94,282**	103,867
Total non-current liabilities	**13,245,836**	12,465,070
Total liabilities	**16,062,581**	15,552,650
Shareholder's equity (deficiency)		
Share capital (Note 9)	**100**	100
Retained earnings (deficit)	**95,084**	(1,499,990)
Accumulated other comprehensive income (loss)	**(1,494)**	(6,060)
Total shareholder's equity (deficiency)	**93,690**	(1,505,950)
Total liabilities and shareholder's equity	**16,156,271**	14,046,700
Regulatory deferral account credit balances and related deferred tax (Note 6)	**16,578**	429,261
Total equity, liabilities and regulatory deferral account credit balances	**$ 16,172,849**	$ 14,475,961

Uncertainty due to Covid-19 (Note 18)

Subsequent Events (Note 19)

Signed on behalf of the Board of Directors by:

Director

Dave Wolfe (Apr 11, 2022 12:58 EDT)

Director

Espanola Regional Hydro Distribution Corporation
Statement of Comprehensive Income
Expressed in Canadian Dollars

For the year ended December 31	2021	2020
Revenue		
Electricity sales	**$ 7,683,252**	$ 10,092,056
Other	**137,151**	111,283
	7,820,403	10,203,339
Expenses		
Cost of power	**5,853,969**	8,627,121
Operating expenses (Note 10)	**1,486,636**	1,495,776
Depreciation and amortization	**194,471**	210,282
	7,535,076	10,333,179
Income (loss) from operating activities	**285,327**	(129,840)
Finance income	**33,561**	33,570
Finance costs	**(361,863)**	(344,879)
Change in interest rate swap (Note 8)	**577,075**	(759,473)
Income (loss) before provision for payment in lieu of taxes	**534,100**	(1,200,622)
Provision for payment in lieu of taxes (Note 14)		
Current	**18,197**	-
Deferred	**594,630**	(319,770)
	612,827	(319,770)
Loss for the year before net movements in regulatory deferral account balances	**(78,727)**	(880,852)
Net movement in regulatory deferral account balances related to profit or loss - regular operating activities (Note 6)	**74,839**	163,452
Net movement in regulatory deferral account balances related to profit or loss - Substation ICM Disposition/LRAMVA (Note 6)	**1,004,332**	-
Net movement in regulatory deferral account balances arising to deferred tax movement	**594,630**	(319,770)
Net income (loss) for the year	**1,595,074**	(1,037,170)
Other comprehensive income (loss)		
Remeasurement of employee future benefits	**4,566**	(6,060)
Total net and comprehensive income (loss) for the year	**$ 1,599,640**	$ (1,043,230)

Espanola Regional Hydro Distribution Corporation
Statement of Changes in Equity
Expressed in Canadian Dollars

For the year ended December 31

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2020	$ 100	$ -	$ (462,820)	$ (462,720)
Net income	-	-	(1,037,170)	(1,037,170)
Other comprehensive income, net of tax	-	(6,060)	-	(6,060)
Balance on December 31, 2020	$ 100	$ (6,060)	$ (1,499,990)	$ (1,505,950)
Net income	-	-	1,595,074	1,595,074
Other comprehensive income, net of tax	-	4,566	-	4,566
Balance on December 31, 2021	**$ 100**	**$ (1,494)**	**$ 95,084**	**$ 93,690**

Espanola Regional Hydro Distribution Corporation
Statement of Cash Flows
Expressed in Canadian Dollars

For the year ended December 31	2021	2020
Cash provided by (used in)		
Operating activities		
Net income for the year	**$ 1,599,640**	$ (1,043,230)
Adjustments to reconcile income to net cash used in operating activities:		
Amortization of property, plant and equipment	**194,471**	210,282
Amortization of contributions in aid of construction	**(11,133)**	(7,711)
Change in interest rate swap	**(577,075)**	759,473
Deferred income taxes	**594,630**	(319,770)
Employee future benefits	**(299)**	10,346
Net movement in regulatory assets/liabilities	**(1,652,921)**	-
	147,313	(390,610)
Net change in non-cash working capital balances (Note 13)	**(533,044)**	(220,819)
Net cash flows from operating activities	**(385,731)**	(611,429)
Investing activities		
Purchase of property, plant and equipment	**(517,138)**	(567,347)
Changes in regulatory deferral account balances	**(211,676)**	156,318
Net cash from/(used in) investing activities	**(728,814)**	(411,029)
Financing activities		
Advance (repayment) of operating loan	**90,000**	(130,000)
Proceeds on contributions received in aid of construction	**35,844**	5,147
Advances of long-term debt	**490,000**	650,000
Repayment of long-term debt	**(116,984)**	(93,447)
Employee future benefits paid	**(9,286)**	(5,022)
Advances from related company	**680,678**	504,198
Net cash from financing activities	**1,170,252**	930,876
Net increase (decrease) in cash and cash equivalents during the year	**55,707**	(91,582)
Cash and cash equivalents, beginning of year	**226,305**	317,887
Cash and cash equivalents, end of year	**$ 282,012**	$ 226,305

December 31, 2021

1. Nature of Business

Espanola Regional Hydro Distribution Corporation (the "company") was created on October 1, 2019 by the amalgamation of North Bay (Espanola) Acquisition Inc., Espanola Regional Hydro Holdings Corporation and Espanola Regional Hydro Distribution Corporation. The corporation is required in accordance with the Electricity Act, 1998, Ontario, is a wholly owned subsidiary of North Bay Hydro Holdings Limited, and was created for the purpose of providing regulated electricity distribution services to customers in the Town of Espanola and the Township of Sables-Spanish Rivers from its head office located at 598 Second Street, Espanola Ontario, Canada. Espanola's corporate head office is located at 74 Commerce Crescent, North Bay, Ontario.

The company is fully embedded with Hydro One Networks and as such purchases their electricity directly through them. Other electricity distributors, including Hydro One, purchase their electricity from the wholesale market administered by the Independent Electricity System Operator (IESO).The company recovers the costs of electricity and certain other costs from customers under the authority of the Ontario Energy Board (OEB) Act, 1998.

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The Ontario Energy Board Act, 1998 sets out the OEB's authority to issue a distribution license which must be obtained by owners or operators of a distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles and the filing process requirements for rate-setting purposes.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity and the responsibility for ensuring that electricity distribution companies fulfil their obligations to connect and service customers.

Regulatory developments in Ontario's electricity industry may affect distribution rates and the permitted recovery or settlement or the timing of recovery or settlement of certain regulatory assets and liabilities.

2. Significant Account Policies

Basis of Preparation

a) Statement of compliance

The financial statements of Espanola Regional Hydro Distribution Corporation have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International accounting Standards Board ("IASB"). The company has adopted the requirements of IFRS 14 - Regulatory Deferral Accounts, which permits the company to account for regulatory deferral account balances.

b) Basis of measurement

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

c) Judgment and estimates

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

- The recognition and measurement of regulatory deferral account balances (Note 6);
- The determination of useful lives of property, plant and equipment (Note 5);
- The calculation of the impairment of accounts receivable (Note 4);
- The determination for the provision for Payment in Lieu of Taxes since there are many transactions and calculations for which the ultimate tax determination is uncertain (Note 14);
- The calculation of the recoverable amount with respect to the impairment test of goodwill
- The calculation of the net future obligation for certain unfunded health and dental benefits for the Company's retired employees (Note 7); and

2. Significant Account Policies (continued)

Basis of Preparation (continued)

- The assessment of the duration and severity of the developments related to the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the pandemic that may have a material adverse effect on the Company's operations, financial results and condition in future periods, made by management in the preparation of the financial statements are also subject to significant uncertainty.

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

Effects of Rate Regulation

The Ontario Energy Board (OEB) is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfil obligations to connect and service customers. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in a non rate regulation corporation. Regulatory assets represent the future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers in future periods through the rate-setting and approval process.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances and investments with maturities of three months or less. Investments are valued at the lower of cost and net realizable value.

Inventory

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

2. Significant Account Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization. Costs may include direct material, labour, contracted services, overhead, engineering costs and interest on funds used during construction, that are considered applicable to construction. The company provides for depreciation using the straight-line method at rates designed to depreciate the cost of the property, plant and equipment over their estimated useful lives. A full year's depreciation is recorded in the year of acquisition. No depreciation is recorded in the year of disposal.

The annual depreciation rates and useful lives are reviewed annually and are as follows:

Buildings	50 years
Transmission and distribution equipment	40 - 60 years
Furniture and fixtures	5 - 10 years
Vehicles	15 years

Upon disposal the cost and accumulated amortization of general assets disposed of are relieved from the respective accounts and any gain or loss is reflected in operations.

Construction in progress includes assets not currently in use and therefore not yet subject to depreciation.

Payment in Lieu of Corporate Income Taxes

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

Under the Electricity Act, 1998, the company is required to make payments in lieu of corporate income taxes each year to Ontario Electricity Financial Corporation ("OEFC"), commencing October 1, 2001. These payments are calculated in accordance with the rules for computing taxable income and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

Payment in Lieu of Deferred Taxes

The company uses the liability method of accounting for taxes, following the recommendations of the CICA and OEB. Under this method, current income taxes are the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between tax and accounting bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. Future income tax assets and liabilities are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

2. Significant Account Policies (continued)

Payment in Lieu of Deferred Taxes (continued)

Payment in lieu of deferred income tax assets or liabilities are recognized for the future tax consequences attributable to temporary difference between the financial statement carrying amount of assets and liabilities and their tax bases. Payment in lieu of deferred taxes are also recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are likely to be realized. These amounts are measured using enacted or substantively enacted tax rates and are re-measured annually for changes in these rates. Any payment in lieu of deferred taxes assets are reassessed each fiscal period to determine if a valuation allowance is required. Any effect of the remeasurement or reassessment is recognized in operations in the period of change.

Customer Deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Customer deposits includes interest credited to customers' deposit accounts, with interest expense recorded to offset this amount. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

Pension Plans

The company accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer, contributory, public sector pension fund, established for employees of municipalities, local boards and school boards in Ontario, as a defined contribution plan. Both participating employers and employees are required to make plan contributions based on participating employees' contributory earnings. OMERS is a defined benefit plan, however it does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the company to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The company recognizes the expense related to this plan as contributions are made.

Post-employment Benefits

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

The company's net obligation in respect of its employee future benefit plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value. Any unrecognized past service costs are deducted. The discount rate is the interest rate at the reporting date on high quality debt instruments with duration similar to the duration of the plan.

2. Significant Account Policies (continued)

Post-employment Benefits (continued)

The cost of post employment benefits is expensed as earned by employees through employment service. The accrued benefit obligation and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management's best estimate of certain underlying assumptions. Re-measurement arising from employee benefit plans are recognized immediately in operations. When the benefits of a plan are improved, these increases are recognized immediately in operations.

Revenue Recognition

Revenue from the sale and distribution of electricity is recognized on an accrual basis. Distribution revenue is comprised of customer billings for distribution service charges. Customer billings for distribution service charges are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the fiscal year. Actual results could differ from estimates made of customer electricity usage.

Other revenues, which include revenues from rental, collection charges, carrying charges on regulatory assets, and other miscellaneous revenues are recognized at the time services are provided or when the revenues have been earned and collection is reasonably assured.

2. **Significant Account Policies** (continued)

Financial Instruments

All of the company's financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs, that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Subsequent to initial recognition these financial assets and financial liabilities are measured at their amortized cost. Amortized cost is the amount at which the financial instrument is measured at initial recognition less principle repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount. Interest rate swaps that are not heeding items are measured at fair value and changes in fair value are recognized in operations in the period they occur.

Impairment of Non-financial Assets

At the end of each reporting period, the company reviews the carrying amount of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

2. Significant Account Policies (continued)

Goodwill

Goodwill represents the difference between the acquisition cost of the company and the fair value of the net assets acquired. Goodwill is not amortized, but is subject to fair value impairment test annually. Goodwill is allocated to reporting units and any potential goodwill impairment is identified by comparing the carrying value of the reporting unit with its fair value. If any potential impairment is identified, then the amount of the impairment is quantified by comparing the carrying value of goodwill to its fair value, based on the fair value of the assets and liabilities of the reporting unit. Any impairment of goodwill is charged to operations in the period in which the impairment is determined.

New Accounting Pronouncements

There are currently no IFRS standards that have been issued, but that are not yet effective, that would have a material affect on the Corporation's financial statements beginning on or after January 1, 2022.

Expressed in Canadian Dollars

3. Credit Facility / Letters of Credit

The company has an authorized line of credit under a credit facility agreement with a Canadian chartered bank. The maximum draw permitted under this agreement is $750,000. The interest rate on this facility is equal to the prime rate as defined by the Bank of Canada and cross referenced against TD bank's rate, currently at 2.45%. At year end the company had drawn $195,000 (2020 - $105,000) under this facility.

The company has provided it's financial institution with a General Security Agreement as security for this obligation representing a first charge on all of the company's present and after acquired property, an inter-creditor agreement with Ontario Infrastructure and Lands Corporation and a guarantee of advances by North Bay Hydro Distribution Limited, a related company.

4. Accounts Receivable, Unbilled Revenue and Customer Deposits

	2021	2020
Electrical energy receivables	$ **795,634**	$ 909,972
Other receivables	**578,315**	435,656
	$ **1,373,949**	$ 1,345,628

	2021	2020
Aging of accounts receivable:		
Less than 30 days past billing date	**1,228,430**	1,212,093
30-60 day past billing date	**27,566**	43,623
61-90 days past billing date	**24,298**	15,625
More than 90 days past billing date	**93,655**	74,287
	$ **1,373,949**	$ 1,345,628

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported separately from the Company's own cash and cash equivalents. Deposits to be refunded to customers within the next fiscal year are classified as a current liability.

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

Due to its short-term nature, the carrying amount of the accounts receivable and unbilled revenue approximates its fair value. Unbilled service revenue reflects the electricity delivered but not yet billed to customers. Customer billings generally occur within 30 days of delivery. The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has 3,700 customers, the majority of which are residential. The Company considers an account receivable to be in default when the customer is unlikely to pay its credit obligations in full, without recourse by the Company, such as realizing security (if any is held). Accounts are past-due (in default) when the customers have failed to make the contractually requirements payments when due, which is generally within 30 days of the billing date.

The Company considers an account receivable to be credit-impaired when the customer has amounts more than 90 days past billing date. In determining the allowance for doubtful accounts, the Company considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances. The Company also considers accounts receivable balances less than 90 days past billing date looking for specific indicators of impairment based all information available.

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

Expressed in Canadian Dollars

5. Property, Plant and Equipment

	Land	Buildings	Transmission & Distribution Equipment	Vehicles	Furniture & Equipment	Construction in Progress	**Total**
							2021
Cost, beginning of year	$ 88,880	$ 219,425	$ 5,828,110	$ 396,620	$ 64,427	$ 90,386	**$ 6,687,848**
Additions	-	3,249	590,784	-	13,491	(90,386)	**517,138**
Disposals	-	-	-	-	-	-	**-**
Transfers (Note 6 iii)	-	-	1,949,234	-	-	-	**1,949,234**
Cost, end of year	88,880	222,674	8,368,128	396,620	77,918	-	**9,154,220**
Accumulated amortization, beginning of year	-	31,862	961,915	160,808	31,083	-	**1,185,668**
Amortization	-	5,316	153,587	27,990	7,578	-	**194,471**
Transfers (Note 6 iii)	-	-	296,313	-	-	-	**296,313**
Accumulated amortization, end of year	-	37,178	1,411,815	188,798	38,661	-	**1,676,452**
Net book value, end of year	$ 88,880	$ 185,496	$ 6,956,313	$ 207,822	$ 39,257	$ -	**$ 7,477,768**

Expressed in Canadian Dollars

5. Property, Plant and Equipment (continued)

2020	Land	Buildings	Transmission & Distribution Equipment	Vehicles	Furniture & Equipment	Construction in Progress	Total
Cost, beginning of year	$ 88,880	$ 183,831	$ 5,354,183	$ 385,981	$ 47,995	$ 59,631	$ 6,120,501
Additions	-	35,594	431,853	10,639	16,432	72,829	567,347
Disposals	-	-	42,074	-	-	(42,074)	-
Cost, end of year	88,880	219,425	5,828,110	396,620	64,427	90,386	6,687,848
Accumulated amortization, beginning of year	-	27,231	787,716	133,468	26,971	-	975,386
Amortization	-	4,631	174,199	27,340	4,112	-	210,282
Accumulated amortization, end of year	-	31,862	961,915	160,808	31,083	-	1,185,668
Net book value, end of year	$ 88,880	$ 187,563	$ 4,866,195	$ 235,812	$ 33,344	$ 90,386	$ 5,502,180

Expressed in Canadian Dollars

6. Regulatory Assets and Liabilities

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

On December 31, 2020, the Company filed a Cost of Service Application with the OEB (EB-2020-0020). Included in this application was the proposed disposition and recovery of regulatory deferral account balances as at December 31, 2019 with carrying charges estimated to April 30, 2021. The proposed disposition includes eligible Group 1 and Group 2 balances, recovery of lost revenues, as well as the residual balances of prior approved disposition and recovery amounts.

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

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

	Remaining recovery period (years)	2021	2020
Regulatory Assets			
Cost of Power (i)	1 - 4	**$ 717,360**	$ 1,179,622
Cost of Power - Global Adjustment (i)	1 - 4	**131,917**	159,913
Disposition/rec - 2021 (ii)	1 - 4	**576,195**	-
Substation ICM (iii)	1 - 4	**-**	1,048,441
LRAMVA (iv)	1 - 4	**316,010**	-
Other (v)	1 - 4	**17,284**	14,637
Payment in lieu of deferred tax regulatory assets (vi)	1 - 4	**442,840**	-
		$ 2,201,606	$ 2,402,613

Expressed in Canadian Dollars

6. Regulatory Assets and Liabilities (continued)

Regulatory Liabilities

	Remaining recovery period (years)	**2021**	2020
Cost of Power - Wholesale Market Service/ Smart Meter Entity Changes (i)	1 - 4	**16,578**	213,960
Other (v)	1 - 4	**-**	63,511
Payment in lieu of deferred tax regulatory liabilities (vi)	1 - 4	**-**	151,790
		16,578	429,261
Net Regulatory Assets		**$ 2,185,028**	$ 1,973,352

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

i. *Settlement variances*

The difference between the amount paid by the Corporation to Hydro One for the purchase of energy and related service costs and the amount billed by the Corporation to its customers as energy sales, based on regulated rates, are recorded on the statement of financial position as settlement variance assets and liabilities until their final disposition is decided by the OEB. The these amounts will be approved by the OEB for future collection from, or refund to, customers the excess (deficiency) of amounts charged by the Corporation to its customers as energy sales Currently, no amount for settlement variances have been approved by the OEB for recovery or refund. Accordingly, the timing of the recovery and refund is unknown.

In the absence of rate regulation, revenue recognized in the statement of comprehensive earnings (loss) would have (decreased) increased by ($292,875) (2020 - $307,141) related to amounts recognized for settlement variances.

6. Regulatory Assets and Liabilities (continued)

ii. *Disposition - 2021*

On December 31, 2020, the Company filed a COS application for 2021 distribution rates (EB-2020-0020) with the OEB which included a request seeking disposition of the balances for regulatory assets and liabilities. On June 10, 2021, the OEB approved the disposition of net regulatory assets of $1,154,068 and net regulatory liabilities of ($244,523) which included Group 1 balances, the pole attachment variance account, PILS variance, and LRAMVA accounts. The amounts consisted of principal balances as of December 31, 2019 with carrying charges projected to April 30, 2021 for a net total of $909,544. Rate riders for Group 1 - Global Adjustment and Group 2 accounts are being refunded to customers over a one year period ($36,222) commencing May 1, 2021 and ending April 30, 2022. Rate riders for all other Group 1 accounts and Lost Revenue Adjustment Mechanism (LRAM), totaling $1,001,512, are being collected from customers over a five year period commencing May 1, 2021 and ending April 30, 2026.

iii. *Substation*

In 2014, the OEB approved an Incremental Capital Module adjustment and the company received approval to recover the revenue requirement associated with the incremental capital costs of constructing a fourth distribution station (MS4). In the 2021 COS application, the company sought approval to end this rate rider and transfer the costs out of the regulatory assts and into the appropriate accounts in Property, Plant, and Equipment, and various revenue and expenses in the Statement of Comprehensive Income. The net result of this disposition was a reduction in regulatory assets of $1,048,441; net book value increases to distribution equipment of $1,652,922 can be found in Note 5 and the impact to Comprehensive Income of $675,062 can be found the Net movement section of the financial statement.

iv. *Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)*

On April 26, 2012 the OEB released the Guidelines for Electricity Distributor Conservation and Demand Management (EB 2012 0003) which included accounting direction on the treatment of lost revenues from forecasted/unforecasted Conservation and Demand Management (CDM) results on distribution revenue due to variances from forecasted throughput used to establish distribution rates.

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

6. Regulatory Assets and Liabilities (continued)

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

As the company had not been before the OEB in a COS application since 2012, the company requested disposition of lost revenue from the historical period of 2011-2020 and persistence to 2021. The OEB approved recovery of $329,270, including carrying charges to April 30, 2021, over a five year period commencing May 1, 2021 and ending April 30, 2026.

v. Other

Included in this category are stranded meter regulatory assets that represent the net residual value of the unrecovered net book value of decommissioned analogue meters. At the direction of the OEB, the net book value of the stranded meters was reclassified to the regulatory asset accounts for recovery in rates to the end of March 2017. The residual value of $15,419 will be disposed at a future period.

vi. Deferred Income Taxes

The recovery from, or refund to, customers of future income taxes through future rates is recognized as a regulatory deferral account balance. The Company has recognized a deferred tax liability (asset) of $442,840 (2020 – ($151,790)) arising from the recognition of regulatory deferral account balances and a corresponding regulatory deferral account debit (credit) balance of $442,840 (2020 - ($151,790)). The deferred tax asset balance is presented within the total regulatory deferral account balances presented in the statement of financial position.

Expressed in Canadian Dollars

7. Employee Future Benefits

Employee future benefits provided by the company include certain post employment health and dental benefits. These benefit plans provide benefits to certain employees when they are no longer providing active service.

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

The calculation is performed by a qualified actuary using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities. The valuation is performed every third year or when there are significant changes to workforce. A full valuation was performed in 2018.

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

Information about the company's defined benefit life insurance and health care plan is as follows:

	2021	2020
Prepaid benefit liability, beginning of year	**$ 103,867**	$ 98,543
Expense for the year	**1,687**	1,405
Benefits paid during the year	**(9,286)**	(5,022)
Actuarial gains/losses recognized	**(4,566)**	6,060
Interest cost recognized in operations	**2,580**	2,881
Prepaid benefit liability, end of year	**$ 94,282**	$ 103,867

The main actuarial assumptions employed for the valuations are based on the full actuarial report performed in 2018. In 2021, the Company hired an outside consulting firm to update the actuarial valuation report. The main assumptions employed for the valuation of the employee future benefit obligation are noted below.

Expressed in Canadian Dollars

7. Employee Future Benefits (continued)

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

	Base	Discount Rate +1%	Discount Rate -1%	Trend +1%	Trend -1%
PV DBO Dec.31/21	**$ 94,300**	**$ 81,500**	**$ 111,100**	**$ 95,800**	**$ 92,800**
% Difference	**-**	**-14%**	**18%**	**2%**	**-2%**
$ difference	-	**$ (12,800)**	**$ 16,800**	**$ 1,500**	**$ (1,500)**

a. Benefit Cost

The health benefit cost is estimated to increase at a rate of 4.4% (2020 - 4.2%) per annum. The dental benefit cost is estimated to increase at a rate of 4.7% (2020 - 4.5%) per annum.

b. Interest (Discount) Rate

The obligation at year end, of the present value of future liabilities and the expense for the year ended, were determined using a discount rate of 2.9% (2020 - 2.6%). The discount rate for 2021 reflects the assumed long term yield on high quality bonds as at December 31, 2021.

c. Salary Levels

Future general salary and wage levels were assumed to increase at 2.5% (2020 - 2.5%)

Expressed in Canadian Dollars

8. Long-term Debt

	2021	2020
Ontario Infrastructure and Land Corporation loan, repayable in blended monthly installments of $10,831 including interest at 3.78% per annum, maturing December 2040 (i)	**$ 1,759,861**	$ 1,822,031
Ontario Infrastructure and Land Corporation loan, repayable in blended monthly installments of $2,860 including interest at 3.78% per annum, maturing December 2025 (i)	**129,891**	160,210
Toronto Dominion Bank committed reducing term facility by way of a floating rate available by way of bankers acceptances, interest only payments for 3 years from funding date, interest at $2.928% per annum, maturing October 2044 (ii)	**7,789,530**	7,789,530
Toronto Dominion Bank committed reducing term facility by way of a fixed rate term loan, repayable in blended monthly payments of $2,351 including interest at 1.84% per annum, maturing September 2030 (ii)	**629,460**	645,923
Toronto Dominion Bank committed reducing term facility by way of a fixed rate term loan, repayable in blended monthly payments of $1,980 including interest at 2.67% per annum, maturing April 2031 (ii)	**481,968**	-
	10,790,710	10,417,694
Less current portion	**165,663**	108,952
	$ 10,625,047	$ 10,308,742

Principal repayments anticipated over the next five years and thereafter are as follows:

2022	$ 165,663
2023	383,878
2024	396,397
2025	408,545
2026	386,260
Thereafter	9,049,967
	$ 10,790,710

Expressed in Canadian Dollars

8. Long-term Debt (continued)

(i) The Ontario Infrastructure and Lands Corporation loans are secured by a general security agreement ranking behind the first ranking general security agreement registered by Toronto Dominion Bank, an inter-creditor agreement between Ontario Infrastructure and Lands Corporation and the The Toronto Dominion Bank and a guarantee provided by North Bay Hydro Distribution Limited. Financial covenants are waived until January 1, 2023.

The Ontario Infrastructure and Lands Corporation loans require the company at all times to meet a debt service coverage ration of a minimum of 1:30 to 1 and a debt to total assets ratio of less than 60% calculated annual at December 31st.

(ii) The company has entered into an interest rate swap derivative agreement with the Toronto Dominion Bank to manage the volatility of the interest rate on the committed reducing term facility. The loan is being repaid over 300 months with interest only repayments of $19,006 for 36 months until October 2022 then principal and interest repayments of $40,057 for 264 months until October 2044, with interest at a fixed rate of 2.928% per annum. The fair value of this loan is $8,018,588 (2020 - $8,595,663 which is estimated by obtaining mark-to-market quotes from the Toronto Dominion Bank resulting in an interest rate swap mark-to-market adjustment of $229,058 (2020 - $806,133). The quoted amount reflects the estimated amount that the company would pay to settle the derivative agreement at the statement of financial position date.

The Company has two additional term loans in the amounts of $650,000 and $490,000. These loans are to be repaid over 120 months. These loans have no interest rate swap derivative agreements attached to them.

The TD loans require the company at all times to meet a debt service coverage ratio of a minimum of 1:20 to and debt to capitalization ratio of less than 60% calculated annually at December 31st beginning with the December 31, 2022 fiscal period.

9. Share Capital

Authorized:

Unlimited Common shares

The issued share capital is as follows:

		2021	2020
100	Common shares	**$ 100**	$ 100

Expressed in Canadian Dollars

10. Operating Expenses By Nature

	2021	2020
Repairs and maintenance	$ 330,873	$ 284,246
Staff costs	463,324	552,856
General administration, overhead and recoveries	655,861	635,175
Bad debts	21,622	14,557
Property taxes	14,956	8,942
	$ 1,486,636	$ 1,495,776

11. Related Party Transactions

The corporation is related to North Bay Hydro Distribution Limited ("NBHDL") by virtue of common controlling shareholders. The corporation is a wholly owned subsidiary of North Bay Hydro Holdings Limited. NBHDL provides administrative services to Espanola Regional Hydro Distribution Corporation.

At the end of the year, advances from related companies are as follows:

	2021	2020
North Bay Hydro Distribution Limited	$ 1,384,876	$ 704,198

Espanola Regional Hydro Distribution Corporation has four inter-company loan arrangements with North Bay Hydro Distribution. The first promisory note was put into place for the original $200,000 deposit that was made in relation to the acquistion of ERHDC. Two loans were provided by North Bay Hydro Distribution of $265,000 and $230,000 to cover interest payments on a loan with TD Bank. There was an additional credit facility provided with a maximum draw amount of $1,100,000 to cover costs associated with the 2021 COS application. This loan carries a value of $653,067 as of December 31, 2021 and there are no further draws to be made on this promissory note. The four arrangements are unsecured, bear interest at the prime rate of interest as defined by the Bank of Canadat. During the year, interest of $38,487 was charged by North Bay Hydro Distribution Limited on these arrangements and this amount is included in finance costs.

Included in accounts payable and accrued liabilities are amounts owing to North Bay Hydro Distribution Limited totaling $421,985 (2020 - $377,703).

Expressed in Canadian Dollars

12. Pension Agreements

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

Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2021. The results of this valuation disclosed total actuarial liabilities of $120,796 million in respect of benefits accrued for service with actuarial assets at that date of $117,665 million indicating an actuarial deficit of $3,131 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the company does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2021 was $40,550 (2020 - $47,703).

13. Net Change in Non-cash Working Capital Balances

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

	2021	2020
Accounts receivable	**$ (28,321)**	$ (119,424)
Unbilled service revenue	**40,287**	25,515
Inventory	**11,343**	(10,198)
Prepaid expenses	**(41,699)**	(425,951)
Accounts payable and accrued liabilities	**(435,743)**	433,819
Payments in lieu of taxes	**18,197**	1,816
Customer deposits	**(97,108)**	(21,597)
Deferred revenue	**-**	(104,799)
	$ (533,044)	$ (220,819)

Expressed in Canadian Dollars

14. Payments in Lieu of Corporate Income Taxes and Deferred Taxes

a. Expense

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

		2021		2020
Income before provision for income taxes and other items	$	**534,100**	$	(1,200,622)
Regulatory assets/liabilities (deducted) added for tax purposes		**382,954**		163,452
Capital cost allowance greater than amortization expense		**(299,184)**		-
Change in interest rate swap		**(577,075)**		759,473
Loss carryforwards (used) incurred		**(24,643)**		277,697
Other		**(16,152)**		-
Statutory Canadian federal and provincial tax rate		**26.50 %**		26.50 %
Provision for PILs		**-**		-
Corporate minimum tax and other		**18,197**		-
Total current tax provision	**$**	**18,197**	$	-

b. Deferred Taxes

As the end of the year, the significant component's of the company's deferred taxes are as follows:

		2021		2020
Deferred Income Tax Asset (Liability)				
Property, plant and equipment	$	**(346,943)**	$	(375,989)
Employee future benefits and financial instruments		**85,685**		241,150
Regulatory assets and liabilities		**(461,680)**		-
Loss carry forward deferred tax asset		**280,098**		286,629
Total deferred income tax assets (liability)	**$**	**(442,840)**	$	151,790

Expressed in Canadian Dollars

15. Contributions in aid of construction

In certain cases, non-refundable contributions are received in aid of construction or acquisition of property, plant and equipment. When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction.

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

	2021	2020
Deferred contributions, beginning of year	**$ 343,376**	$ 345,940
Contributions in aid of construction received	**35,844**	5,147
Contributions in aid of construction recognized as other revenue	**(11,133)**	(7,711)
Deferred contributions, end of year	**$ 368,087**	$ 343,376

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

16. Financial Instruments

a. Fair Values

The company's financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, customer deposits, long-term debt and financial instrument liability.

The Company classified its fair value measurements based on the following hierarchy, as prescribed by the accounting guidance for fair value, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the company has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

16. Financial Instruments (continued)

- Level 2 inputs are those other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest-rate curves and yield curves observable at commonly quoted intervals, volatilies, credit risk and default rates. A Level 2 measurement cannot have more than an insignificant portion of the valuation based on unobservable inputs.

- Level 3 inputs are any fair value measurements that include unobservable inputs for the asset or liability for more than an insignificant portion of the valuation. A Level 3 measurement may be based primarily on Level 2 inputs.

Cash and cash equivalents is reported at fair value on the balance sheet. Accounts receivable, accounts payable and accrued liabilities and customer deposits are reported at amortized cost which approximates fair value due to their short-term nature. All of these financial instruments are classifed as level 2.

The company reports its interest rate swap at fair value. The fair value of the derivative financial instrument is estimated by obtaining mark-to-market quotes from The Toronto Dominion Bank. The quoted amount reflects the estimated amount that the Corporation would pay to settle the derivative agreement at the statement of financial position date. The quote represents a liability position for the company as interest rates at the balance sheet date were higher than the fixed rate specified in the swap. This liability/expense has been reflected in the financial statements. This financial instrument is classified as level 2.

16. Financial Instruments (continued)

b. Risks arising from Financial Instruments

Credit Risk

The company's cash and cash equivalents are all held at a single major financial institution and the company is therefore exposed to credit risk from this concentration of cash and cash equivalents. The company minimizes its risk by ensuring that the financial assets are held with large reputable financial institutions with high credit risk ratings.

The company's accounts receivables are made up of a large number of small balances from residential customers and commercial customers in a number of different industries. The company is exposed to credit risk as a result of its accounts receivable through the possibility of customer default on these accounts. The company monitors its exposure to and attempts to limit this credit risk exposure on a continuous basis.

In accordance with directions provided by the OEB, the company collects deposits from its customers and as at December 31, 2021 held customer deposits in the amount of $101,646 (2020 - $198,754).

The company incurs amounts due from its customers in the regular course of business and has credit risk associated with accounts receivable balances of $2,256,567 (2020 - $2,268,533). The company reduces its exposure to credit risk through management's ongoing monitoring of its accounts receivable and collections. Credit valuations are performed on a regular basis and credit is granted upon a review of the credit history of the applicant. An allowance for bad debt is recorded when applicable.

The company's maximum credit risk exposure is equal to the carrying value of its financial assets.

Liquidity Risk

The company strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due while minimizing interest expense. The company monitors cash balances regularly and has access to short-term borrowings, should they be required, under its credit facility agreement (Note 3).

Accounts payable and accrued liabilities are all due within one year from the balance sheet date.

17. Capital Disclosures

The company considers its capital to comprise its common share capital, accumulated retained earnings advances from related parties and long-term debt. There have been no changes in what the company considers to be capital since the previous year.

In managing its capital, the company's primary objective is to ensure ongoing access to capital at a reasonable cost in order to maintain and improve the electricity distribution system of the company to ensure the continued delivery of safe, reliable electricity services to customers, and to safeguard the company's ability to continue as a going concern and provide a reasonable rate of return to its shareholders. The company also seeks to ensure that access to funding is available in order to maintain and improve the equipment used in operations and maintain financial ratios within the recommended guidelines as prescribed by the OEB. In order to achieve these objectives, the company develops detailed annual operating budgets and seeks to maintain distribution revenue levels and control costs to enable the company to meet its working capital requirements and strategic investment needs. In making decisions to adjust its capital structure to achieve these objectives, the company considers both its short-term position and long-term operational and strategic objectives.

As at December 31, 2021 the company is party to debt agreements that contain various covenants (Notes 3 and 8) and is restricted from offering loans or paying dividends that would cause a violation of those covenants.

18. Uncertainty due to Covid-19

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

18. Uncertainty due to Covid-19 (continued)

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

19. Subsequent Events

Subsequent to year end and prior to release of the financial statements the Ontario Energy Board approved the amalgamation of Espanola Regional Hydro Distribution Corporation and North Bay Hydro Distribution Limited. The exact date of this amalgamation is not known.

Espanola Regional Hydro Distribution Corporation Audit 20211231 - Financial Statements

Final Audit Report 2022-04-11

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