Westario Power Inc.

Proud to be Community Owned

2019 Community Report

"Together We Soar"

"The great thing in the world is not so much where we stand, as in what direction we are moving."

Oliver W. Holmes

MISSION STATEMENT

Westario Power is committed to powering our communities safely, reliably and efficiently while engaging our customers and respecting the environment with continuous accountability.

VISION STATEMENT

A community owned electric utility delivering exceptional value, customer service and reliability to our local communities through the strength of our employees.

CORE VALUES

- Safety
- Integrity
- Accountability
- Continuous Improvement
- Customer Focus
- Positive Communication

TABLE OF CONTENTS

A very special thank you to Paul McGinn for his photographic artistry.

George Bridge
Board Chair

CHAIR'S MESSAGE

On behalf of the Board of Directors of Westario Power Inc. we share that our 19th year of operation is completed. We are pleased to report that our financial performance remains solid. As a direct result dividends were paid out to the company's Shareholders once again.

The Board of Directors of Westario Power approved continued investment in the distribution system in 2019 to accomplish new additions and upgrades to the distribution system.

The Board provides leadership for the company within a framework of effective controls that enables risks to be assessed and managed, and is responsible for the oversight and governance of the business.

The effective oversight of the Corporation rests with nine (9) Board of Directors, which represent each Shareholder.

As you are aware this industry is one that remains transitional, and ever evolving as new and changing regulations demand a quick response.

The Board encourages Westario Power to look to the future for innovative opportunities and collaborative partnerships.

The Board well realizes that achieving and maintaining high standards takes the efforts of many people. It is done, seamlessly and invisibly for our customers by a dedicated and professional management and staff. The Executive team continues to deliver with excellence and embodies the Core Values of the organization.

Safety is at the forefront of our corporate culture; we place a very high value on the safety and wellbeing of one of our most important assets – our staff. Westario Power is committed to continuously maintaining a superior level of health and safety for our staff and the public at large.

The Board of Directors continues to remain enthusiastic and optimistic that 2020 will provide value to our Shareholders and service excellence to our customers.

2019 BOARD OF DIRECTORS

All the Board policies in the world cannot replace an open, respectful and trusting relationship between a Board and Management. Governance professionals exercising best practices build and sustain Shareholder value. Westario is well positioned through solid representation to model the practice of good governance in the industry. We are committed to the highest standards of corporate governance and believe that this is essential for continued success and enduring trust of our Stakeholders.

George Bridge
Board Chair
Town of Minto

Mitch Twolan
Vice-Chair
Township of Huron Kinloss

Tim Lavoie
Audit Chair
FortisOntario

The Board provides leadership for the company within a framework of effective controls that enables risks to be assessed and managed.

Bart Cameron
Director
Township of North Huron

David Smith
Director
Town of Saugeen Shores

Sue Paterson
Director
Town of Hanover

Accountability for the effective oversight of the Corporation and its subsidiaries rests with the Board of Directors, which provides direction to the Corporation on behalf of the shareholder.

Bill Goetz
Director
Municipality of South Bruce

Randy Hughes
Director
Municipality of Kincardine

Chris Peabody
Director
Municipality of Brockton

CORPORATE REPORT

Westario Power Inc. is a regulated Local Distribution Company (LDC) that owns and operates electricity infrastructure. Westario buys, transforms and distributes electricity. The company's service territory is an amalgamation of fifteen communities dispersed over four counties servicing over twenty four thousand customers. Westario has twenty seven municipal substations within its service territory and approximately seven hundred and forty six kilometres of distribution lines.

Westario Power's historical, current and future success is the result of the organizations collective commitment to its core values. These values include safety, integrity, accountability, continuous improvement, customer focus and positive communication. We are committed, as an organization, to the highest ethical standards and regulatory compliance. Our industry is constantly changing and evolving and as a result Westario Power continues to look for innovative solutions for our staff, efficiencies in our operations, and excellence in our customer experience.

Our reputation for conducting honest and reliable business practices is reflected in every transaction we complete. Our customers have rated Westario at the highest level of service satisfaction in many years, and Westario will continue to acknowledge that relationship positively. All members of the Westario team are committed to the spirit of our vision and the additional responsibility of nurturing a culture that is rooted in respect and unwavering in authenticity.

To support the achievement on the journey to excellence effective leaders understand their responsibility is to bring out the best in others. At Westario, staff collaborate daily for the greater good and success of the organization. The Leadership team accepts the responsibility of inspiring positive engagement.

"At the end of the game, the king and the pawn go in the same box".

The continuous support, governance and leadership provided by the nine Board of Directors of Westario Power enables its employees to deliver and be accountable for the operating and strategic mandates they are responsible for. The personal qualities of board members are critical to any board's successful operation. Integrity, competence, insight, dedication and effectiveness are vital. Key qualities of a good board member can be summarized as: Passion – a deep interest in the vision and mission of your organization. Westario Power remains thankful to our passionate Board of Directors.

Westario Power is very proud of its ability to demonstrate sound fiscal management. Shareholder dividends continue to be paid and at the same time Shareholder Equity increases. Westario will continue to evaluate opportunities in order to maximize shareholder value.

Westario utilizes a number of key performance drivers to track the progress of our business. The performance measures used concentrate on customer satisfaction, financial performance, service quality standards, innovation and execution of major projects. The company's measure for targeting and monitoring financial performance are net income and planned capital expenditures completed on budget and on time. The customer service metrics are established by the OEB as part of its service quality indicators.

Westario Power continues to manage a very aggressive Operation and Maintenance program to ensure the optimal and reliable operation of the distribution network. Our engineering and operations team works in collaboration to complete our yearly capital program. Ongoing Capital investments support the long-term reliability of the distribution system infrastructure. Some of our larger projects include the yearly decrepit pole replacement program, the replacement of #6 restricted copper conductor, subdivision developments and station upgrades. Westario works with third party contractors to economically undertake vegetation management and substation maintenance.

For several years Westario Power has partnered with Compliance Science as one pillar in our safety platform. Westario Power has built strong partnerships with best-of-breed Health and Safety Management system software and service providers, through collaboration, dedication, and commitment to our mission of 'powering our communities safely'. Through automation Westario employees are able to access all elements of the program at anytime using the Compliance Science web portal and mobile applications. Corporate policies are reviewed annually by Management and legal consultation is garnered where appropriate. All staff members undertake health and safety training that is a requirement and condition of employment; easy access to materials, policies and procedures is the foundation of the Compliance Science software. The ongoing development of a Health and Safety Management System is a primary focus as we move forward into 2020/2021. Westario is dedicated to the Health and Safety of all employees and will continue to deliver knowledge, training, tools, and resources in support of all of our core values.

Westario's focus on positive and value added corporate messaging reflects its purpose and commitment to the market it serves. Brand messaging focuses on how and what to communicate. At Westario Power we continue to advance our website and provide a positive customer interactive experience. Westario monitors usage and works with our web developer to enhance relevant links based on traffic to our site. We ensure that Westario Facebook and Twitter feeds remain current and showcase our "what's happening" as well as follow related industry leaders and partners. Westario makes every effort to ensure planned outages are communicated on all social media sites with regular updates as they become available; links to conservation offers and customer alerts are also made available on the website. Significant additional software improvements are expected to be incorporated in the coming year.

Westario Power continues to provide conservation to our customers as this effort has a direct effect on our customer service ranking. Our low income customers are assisted with their Home Assistance Program applications. Westario runs the Affordability Fund for our non-low income customers and are now after a successful IESO RFP bid providing our industrial, institutional and commercial customers the Retrofit suite of programs.

Westario Power's Affordability Fund Program 2020 Budget of $2.2 million was approved and the program will continue to run through March 2021. By the end of April we had provided incentive amounts equal to all of 2019, a great success story for our customers with the addition of heat pumps to our list of available incented measures.

Westario and its staff is pleased to give back to the communities it serves through sponsorships, donations, and foundations.

The success of Westario Power cannot be accomplished without the dedication and contribution of its staff. Westario employees are all residents of our communities. Staff are authentic and genuine in their day to day commitment to the organization. Throughout the year Westario honors its staff with BBQ events, Christmas celebrations and the occasional summer ice cream sundae bar. Westario continues to empower our staff through continuous learning opportunities and ongoing training efforts.

The path to excellence is accomplished in partnership with our exceptional team.

LEADERSHIP TEAM

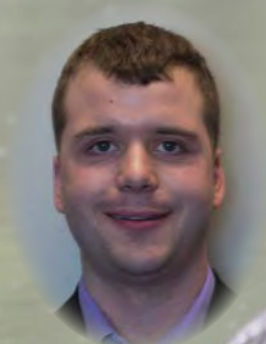
A LEADER IS SOMEONE WHO DEMONSTRATES WHAT IS POSSIBLE

Malcolm McCallum
CFO

Tracey Vanness
Manager, Human Resource,
Board Secretary

Bill Lorentz
Manager, Customer Service

Paul McGinn
Manager, Key Accounts



Ethan Kittel
Manager, Accounting

Sheraz Mustafa
Manager, Engineering

Chris Haslam
Line Supervisor

Carrie Schwippl
Financial Analyst

GREAT LEADERS MAKE THE ORDINARY EXTRAORDINARY

PARTNERSHIPS IN 2019

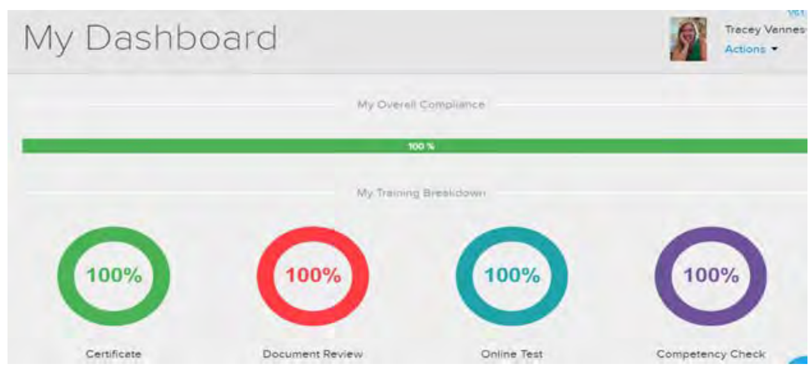
DRIVE WISE – ADVANCED DRIVER EDUCATION

This course demonstrates to participants the correlation between their driving behaviours and safe driving. There is an emphasis throughout the course on being cooperative with other road users and proactive in keeping everyone safe no matter what the situation or circumstance.

The course reviews advanced safe driving techniques geared towards attitude, avoiding preventable collisions, speed management, safe backing, close quarter maneuvers, space management and cooperative driving.

WORKPLACE MEDICAL CORP
– Canada's Leading in Hearing Conservation Programs

The World Health Organization says that noise induced hearing loss (or "NIHL") is the most common – but preventable – permanent on the job injury in the world. The good news? With Workplace Medical, you can prevent and even eliminate NIHL. We're Canada's oldest and largest hearing conservation specialists – working with thousands of companies and government organizations from coast to coast. We bring the hearing testing to you with our state-of-the-art mobile hearing testing units. At your location, our mobile units can test as many as 250 employees per day. WMC specializes in comprehensive programs that include program development, noise surveys, custom-fitted hearing protection, earplug fit testing, and professional program assessment and recommendations.



Compliance Science is a cloud based, software-as-a-service, Health & Safety Management Solution. Our framework allows your organization to quickly on-board employees through easy access to training materials, policies, procedures, competency tests, etc. With a full suite of web and mobile applications to support your HSE program, including Employee Training, License Tracking, Inspections, Evaluations, Incident Reporting, Safety Meetings, Document Control, Task / Action Management. Measure your leading and lagging indicators through robust scorecard reporting and KPI dashboards.

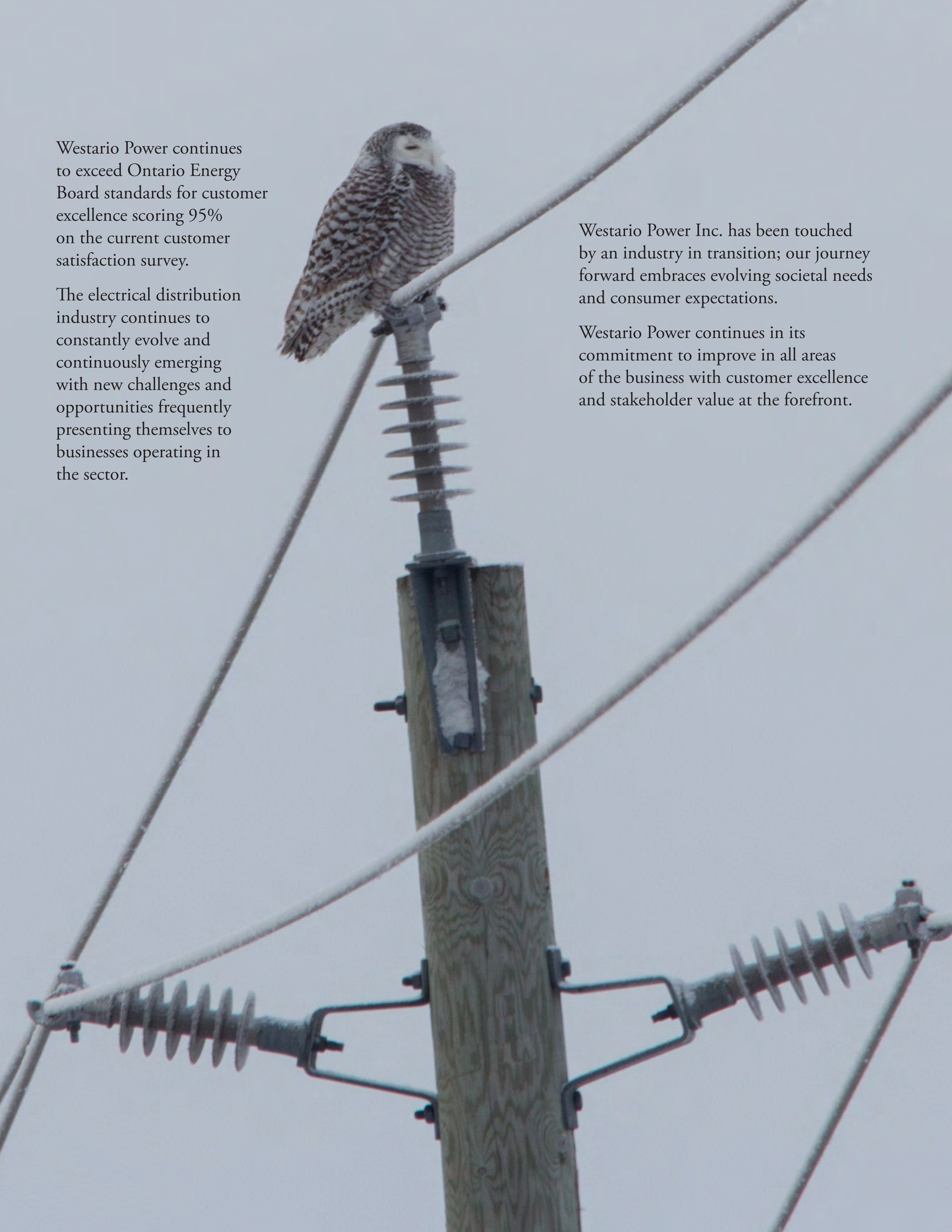
The ART OF LEADERSHIP FOR WOMEN responds to the fundamental changes in today's evolving business landscape. From practical tips, to innovative strategies, The Art of Leadership for Women is designed to teach new ways of thinking and will provide essential connections and knowledge that will help WOMEN advance and flourish in their career; equipped with directly related, easily applied, and relevant tools and techniques that can be implemented within any corporate culture.

YOUR WESTARIO

Westario Power Inc. is an electricity distribution company regulated and licensed by the Ontario Energy Board (OEB) to serve fifteen (15) communities in Bruce, Grey and Wellington counties: Clifford, Elmwood, Hanover, Harriston, Kincardine, Lucknow, Mildmay, Neustadt, Palmerston, Port Elgin, Ripley, Southampton, Teeswater, Walkerton and Wingham. The total population of these communities served is approximately 45,000.

While providing oversight and governance, Westario Power Inc. has nine (9) Directors who serve on the Board of Directors, each Director represents one Shareholder of the Corporation. FortisOntario owns a ten percent strategic interest in Westario Power Inc.

The core business is to deliver electricity from Hydro One Sub-transmission network and distribute it to approximately 23,500 customers within a geographic territory of over 746 kilometres of distribution lines.



Westario Power continues to exceed Ontario Energy Board standards for customer excellence scoring 95% on the current customer satisfaction survey.

The electrical distribution industry continues to constantly evolve and continuously emerging with new challenges and opportunities frequently presenting themselves to businesses operating in the sector.

Westario Power Inc. has been touched by an industry in transition; our journey forward embraces evolving societal needs and consumer expectations.

Westario Power continues in its commitment to improve in all areas of the business with customer excellence and stakeholder value at the forefront.

Tracey Vanness
Manager, *Human Resource*

HUMAN RESOURCES

At Westario Power, the Human Resource department believes that when people go to work they shouldn't leave their hearts at home. Employees who are passionate about what they are contributing to are happier and more invested.

It is our belief that our Human Resource department models not only our core values but also that of trust, honesty, diversity, inclusivity and integrity. Working in Human Resources means being a leader by way of cultivating leadership in the workplace. It's a big responsibility and one that is constantly evolving; therefore, it's important to feel motivated and inspired. The dedication and contribution of our staff provide just that motivation and inspiration.

The current environment at Westario Power Inc. encourages creativity, innovation and collaboration. Employees are engaged in a respectful relationship with their peers and management at all times. Every member of our team is provided respect, compassion and the same level of concern that they are expected to share externally with every customer and community partner.

Human Resources leaders must be strategic to support the business and solve real problems. They need to know how to maximize ROI, mitigate risk, and attract and maintain top talent while understanding the business model and metrics.

As a daily measure we are dedicated in our commitment to meet our legal and ethic responsibilities as well as remaining good faith partners in our Collective Agreement. Ensuring fair, equitable and consistent positive conditions for all members of our team is just part of being responsive to our mission statement.

We will work collaboratively with all partners by promoting dialogue and demonstrating professionalism in our words and actions.

HIRE CHARACTER, TRAIN SKILLS

JOINT HEALTH & SAFETY

SAFETY really is BLACK AND WHITE

Westario Power is proud of the engagement to the Safety environment from the Joint Health and Safety Committee.

There is no grey area in safety, it really is Black and White; every employee has equal opportunity to be a safety conscious success story.

The Joint Health and Safety Committee is a forum for bringing the internal responsibility system into practice. The Committee consists of union and management representatives who meet on a monthly basis for the purposes of identifying hazards and make recommendations to the employer to control or eliminate hazards. The JHSC is an integral part of the company's safety program.

For companies in Ontario with more than 20 workers, having a JHSC is a legal requirement under the Occupational Health and Safety Act. Not only must organizations need to have a Committee, but the committee needs at least two members who have completed JHSC certification, Part 1 and Part 2. This training gives employees and managers the opportunity to learn about key health and safety principles so they are equipped with the knowledge required to contribute to a safe working environment.

Westario is pleased to share that every representative of the JHSC is a certified member.

Chris Haslam
Management Representative

Tracey Vanness
Management Representative

Andy Tackaberry
Worker Representative

Steve Fischuk
Worker Representative

TRAINING

WPI provides its employees with extensive training. Our comprehensive training matrix includes:

- Worker / Supervisor Health and Safety Awareness in 5 Steps
- Working at Heights
- Occupational Health and Safety Act Review
- Electrical Utility Safety Rules Review
- Utility Work Protection Code (UWPC)
- UWPC Re-Certification
- Work Area Traffic Protection (Book 7)
- First Aid, CPR, AED
- Defensive Driving
- Winter Driving
- Pole Top Rescue Review
- Bucket Rescue Review
- Bucket Transfer Review
- Basic Certification
- Sector Specific Training
- Project Management
- Trenching Safety
- Forklift Training
- Transportation of Dangerous Goods
- Chain Saw
- Safe Handling of Propane
- Basic Rigging
- Powerline Technician Apprenticeship Levels 1, 2, 3, 4
- Powerline Technician Proficiency
- Tension Stringing of Overhead Conductors
- Ergonomics
- Electrical Safety Awareness

INNOVATION & TECHNOLOGY ENHANCEMENT

Sheraz Mustafa
Manager, Engineering

In 2019, Westario Power continued to maintain Supervisory Control and Data Acquisition (SCADA) with Survalent. Westario continues to implement smart devices in its station rebuilt process to communicate back to the SCADA system, which allows the operations team to access real-time data for planning and system operation efficiency.

Westario Power continues to optimize the Esri ArcGIS system to provide a more reliable database for our asset management and data update processing mechanism.

The GIS and SmartMap integration with Utilismart operates in real-time, measuring the voltages and meter loads data at our meter points through a GIS model and a connectivity model. It provides a realistic and reliable simulation of the distribution network from transmission to substation and then to individual meters. It converts vast amounts of complex data into actionable information. The improvement of the integration GIS with SmartMap allow Westario's engineering staff to leverage from the ongoing enhancement of the SmartMap. The ongoing system optimization will benefit the operation department in the future providing the ability for engineering analysis of the distribution system, as we prepare for an outage management system in the future.

2019 was another innovative accomplishment as the engineering team was able to create a Mobile App from its ArcGIS system which enabled the operations line crew to perform an efficient and less time-consuming distribution system inspection model. The application enabled line staff to access real time GIS data from the field; which supported field crew optimization of system inspections.

These technological advancements are completely aligned with Westario's long-term innovation strategy.

Bill Lorentz
Manager, Customer Service

CUSTOMER SERVICE

Westario Power believes in delivering service excellence to the electricity consumers and communities it serves. By focusing on the positive attributes that stem from a strong corporate culture, Westario Power has positioned itself as an industry leader in meeting and exceeding expectations from its consumers, while establishing trust and confidence in its services.

Building upon the success experienced in 2018, Westario Power continued its practice of exceeding provincial standards in consumer communication throughout 2019. Call Centre staff strive for call quality in their approach to challenging conversations, utilizing personal and corporately trained skills to ensure inquiries are resolved at first contact. Westario Power received approximately 19,000 calls to our Call Centre and accomplished an 88.1% service level against the Ontario Energy Board's (OEB) benchmark of >65% and accomplished a call abandoned rate of 1.75% versus the OEB mark of <10%. By staying focused on ensuring value at every touchpoint, Westario Power is positioned to maintain this standard when it comes to our consumer's primary choice of contact.

Westario Power is a proud community partner and we look forward to serving our communities with a safe and reliable distribution system but it does not stop there. We continue to collaborate with our communities to provide educational platforms promoting our *Safety First* culture as well as delivering engagement opportunities to discover the voice of our consumers. In 2019, Westario Power conducted a Customer Engagement survey, by an independent third party, to quantify key metrics relating to customer care, corporate image and operational management. Staff remain our greatest asset and their value prominently displayed throughout the survey results with an "*Overall Customer Satisfaction" score of 95%*; ranked as one of the highest scores within the province.

This measure does not stand alone in the positive results from the survey:

- 'Socially responsible company' = 89%; versus Ontario average of 82%
- 'Easy to do business with' = 89%; Ontario 83%
- Operates a cost-effective electrical system = 80%; Ontario 72%

The encouraging results from the Customer Engagement survey denote the hard work, dedication and pursuit of excellence demonstrated by all members of the Westario Power Team.

We continue to grow our social media platforms, Twitter and Facebook, in an effort to engage consumers, educate on powerline safety and inform all Stakeholders of industry developments. In 2019, Westario Power observed a growth of more than 37% in Twitter followers and a 42% increase in Facebook followers.

Our website remains a significant source of information used to promote, educate, and inform customers on various topics such as pricing, safety, planned and unplanned outages, and trends shaping our industry. It also provides electronic application submissions for an array of services, including moving, program registrations and service requests.

In recent years, the Westario Power Billing Department has seen regulatory changes occur at an increased pace. The Team at Westario Power work meticulously to ensure they meet the expectations from consumers to have bills that are both accurate and on time. Billing adjustments may take the shape of price changes reflecting our Cost of Service application, which occur in January, or Regulated Price Plan (time-of-use and tiered price) changes, occurring May and November. Other regulatory changes, such as rate relief, can take place throughout the course of the year. With each change to pricing and/or consumption levels, Billing Clerks complete a series of stringent tests to ensure each rate category reflects the corresponding adjustments. Such testing periods must occur between billing periods to ensure continuity within the billing system. Completing the billing process in a timely fashion is an objective Westario Power makes every effort to ensure.

The majority of Westario Power customers, Residential and General Service <50 kW, are billed on calendar billing. With calendar billing, the customer's bill will include their consumption from the first day of the month to the last day of the month; the following schedule provides the template, which Westario Power strives to achieve on a monthly basis:

- GS < 50 kW, Kincardine, Lucknow and Ripley invoiced on the 6th business day,
- Port Elgin and Southampton on the 7th business day,
- Teeswater and Wingham on the 8th business day,
- Mildmay and Walkerton on the 9th business day,
- Neustadt, Hanover and Elmwood on the 10th business day,
- Clifford, Harriston and Palmerston on the 11th business day.

Invoicing of interval metered accounts as well as streetlight accounts are around the 15th day of each month, when pricing becomes available for those rates. Flat rate and sentinel light customers who are non-Smart metered and remain on the Regulated Price Plan (RPP) will have their invoices issued the 1st or 2nd business day of each month.

Westario Power understands each consumer contact presents the power to affect perception; decisive moments where a customer truly believes we care about them. Customer satisfaction is not a program; it is an outcome stemming from the right balance of remaining efficient and effective, ultimately building loyalty and strengthening our position as an industry leader in customer service excellence.

Customer expectations of their electricity provider have evolved past providing electricity reliably, safely, and billed accurately with fair pricing. Consumers expect their LDC to be ethical, forward thinking, competent, and trustworthy. The necessity for confidence in their LDC is of utmost importance to today's consumer and Westario Power remains steadfast in their commitment to meeting the challenges of today, and tomorrow.

COMMUNITY ENGAGEMENT

Westario Power is a proud community partner and we make every effort to continuously collaborate with our communities to provide educational platforms to promote our "Safety First" culture.

In 2019 Westario Power participated in several Touch-A-Truck events, Christmas parades and sponsored public skating and swimming events.

Recognizing we can have an impact on daily life in our communities means we must work to constantly reinforce key drivers of influence; trust, credibility, professionalism, corporate stewardship and integrity.

Westario promotes fostering the education of our consumers of today and tomorrow. It is our commitment to energize our communities and elevate the customer experience.

Children's Safety Program

Touch-A-Truck, Walkerton

In the pursuit to promote physical fitness and family together time, local Parks and Recreation departments provided Westario Power with opportunities to sponsor free public skate/swim in our local communities. Westario Power is proud to have served each of our communities that requested support.

Touch-A-Truck, Harriston

Children's Safety Village

Sights & Sounds 2019

Good morning

I'm just writing this email to say thank you. This morning my parents' neighbour went in to cardiac arrest outside and your workers stopped and used the AED you proved and trained with, your workers started CPR and did a fantastic job and provided my parents' neighbour with the best chance of survival. I know one of them was Chas Thomas, not sure of the other guys name, but think they deserve some recognition for being great citizens.

Also would like to thank you for providing AED and CPR training to your employees!

Lots of people would have just passed by and not do anything!

Sara Pickard,
Paramedic in Grey County

Paul McGinn
Manager,
Key Accounts

CONSERVATION & DEMAND

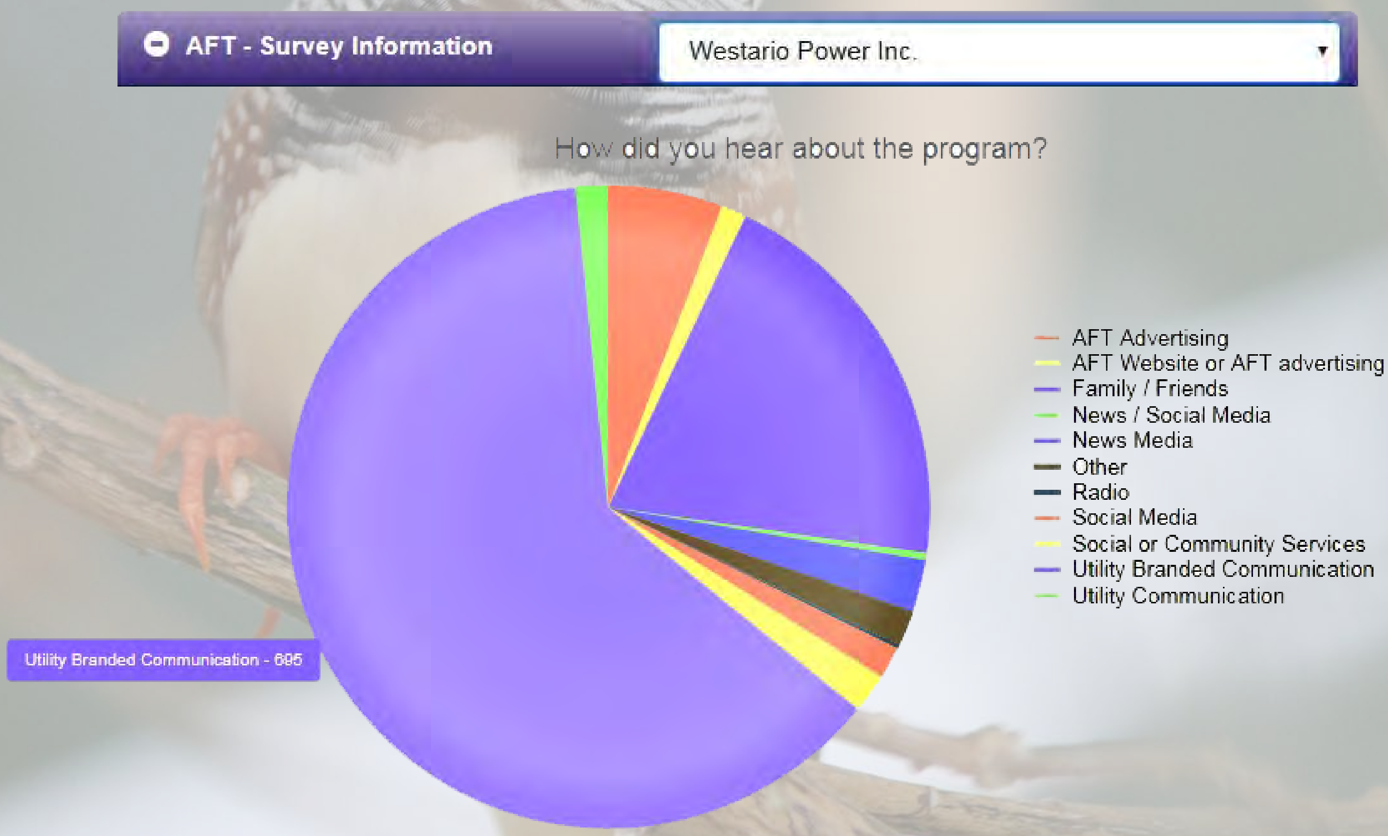
In 2019 Westario Power's Conservation Programs were canceled by the IESO, we continued to process the applications that were submitted and approved prior to the March 24th announcement. This continuing of application is called the wind down and all application projects must be completed with post submission by December 31st 2020 to be eligible to receive their incentives.

In 2019 the IESO released an RFP to review applications, Westario Power joined a group of LDCs in south western Ontario under the company name Aladaco and bid for and won as service provider for the IESO to run the new framework running from June 1st 2019 to December 31st 2020.

Knowledge is the power to control how much electricity you use and when you use it.

<u>Knowledge is the power to control how much electricity you use and when you use it</u>.

Westario Power made available to our customers at no charge 3 highly interactive tools to help take control of their power bill. These include My Hydro Eye, the Aztech whole home energy monitoring system and the individual appliance monitor that was given to our libraries to loan out to customers like you would a book.



AFFORDABILITY FUND TRUST

Part of the province's Fair Hydro Plan, in 2018 a $100 million fund supported the free installation of energy-saving LED light bulbs, power bars, improved insulation and energy-efficient air conditioners and refrigerators. The program is designed to help people who do not qualify for low-income conservation programs and who are unable to undertake energy efficiency improvements without financial support. At the end of 2019- 1,020 Westario customers had participated.

In 2019 Westario Power successfully lobbied the AFT Program to include heat pumps in our offerings, in 2019 25 of our customers received heat pumps at no cost under the AFT program.

"Hello
We recently had a heat pump installed in our home thanks to your affordability fund. We wanted to say a big thank you to Westario Power for running this program. We appreciate what you have done for us.
Thank you"

Dean and Ivon
Dean Shewfelt
Property Supervisor
Human Services
Corporation of the County of Bruce
519-396-3450
www.brucecounty.on.ca

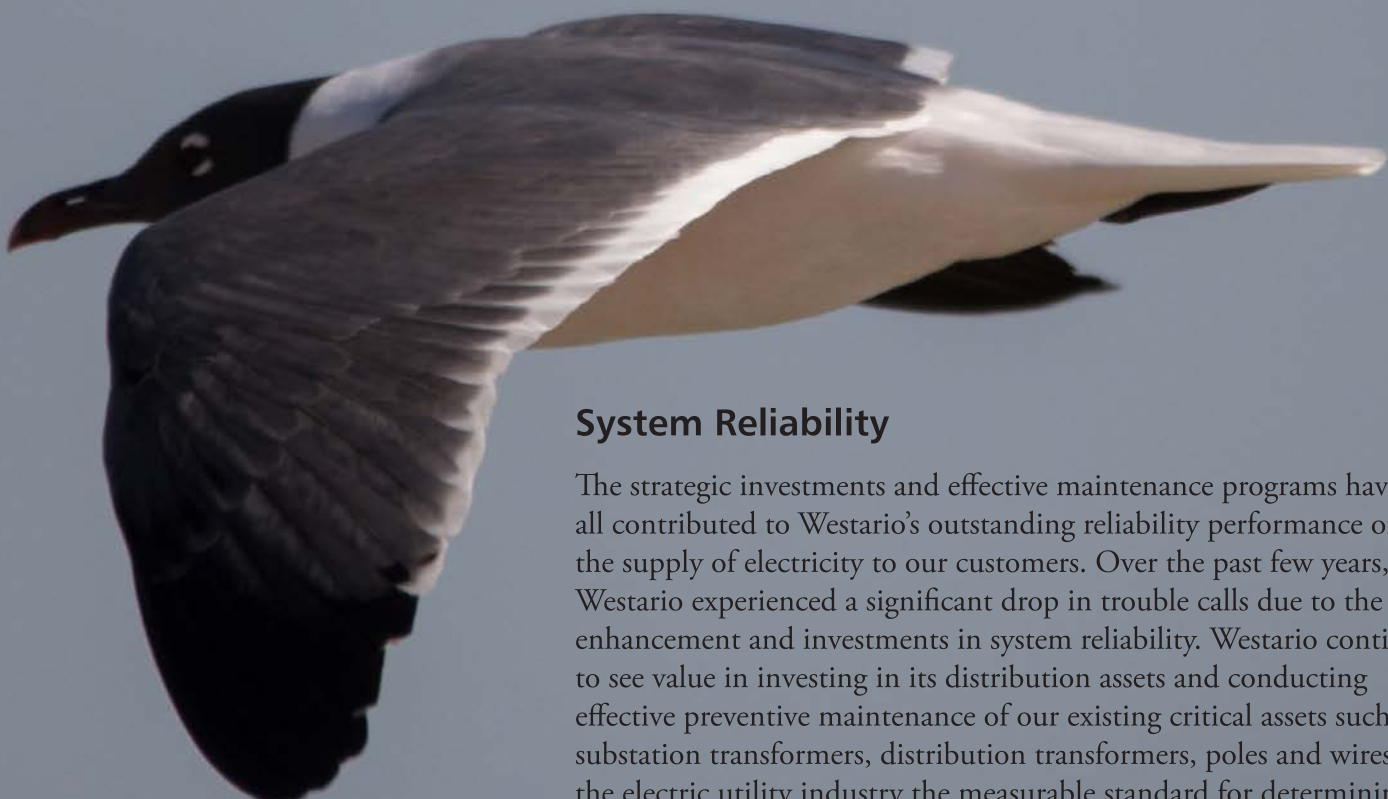
45.0°N 81.3°W
BRUCE
county

Operations & Maintenance

In past few years, Westario has implemented a very vigorous Operation and Maintenance (O&M) program to enhance a reliable distribution network in all our serviced areas. 2019 was a successful year, as we continued our routine and preventative maintenance strategy for the most critical assets. Westario's customers continue to enjoy a safe and reliable supply of electricity, which they have communicated to us as being an important aspect to their overall customer satisfaction.

The effective vegetation management program is set on a three year cycle in our service areas which is also a factor to decrease in unplanned outages. Our municipal stations are inspected and maintained yearly to identify deficiencies that may result in large scale outages. Municipal stations are the central point of supply in our distribution network and are the most costly asset to replace in the event of an imminent failure. Other critical assets such as meter maintenance and resealing, distribution transformers, lines and poles are inspected yearly for defects and anomalies which may cause unwanted outages and impact reliability performance targets. The total O&M budget in 2019 was $2.2M, which was primarily comprised of labour, materials and equipment for repairs and maintenance of the distribution plant.

2019 was another successful year for our Electrical Safety Authority (ESA) audit. Westario obtained a full compliance score for our system maintenance and capital replacement programs, which solidifies our vigorous Operation and Maintenance program.



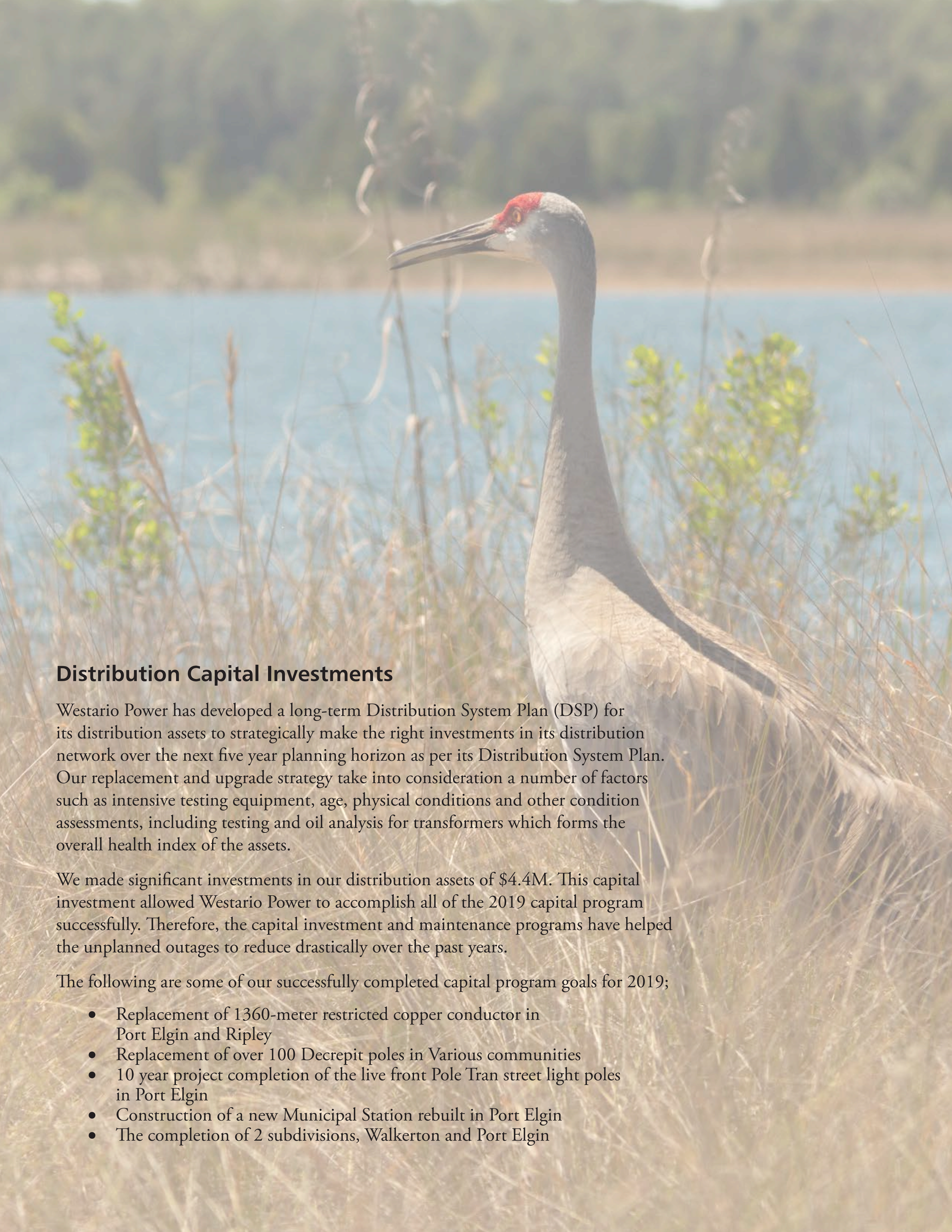
System Reliability

The strategic investments and effective maintenance programs have all contributed to Westario's outstanding reliability performance of the supply of electricity to our customers. Over the past few years, Westario experienced a significant drop in trouble calls due to the enhancement and investments in system reliability. Westario continues to see value in investing in its distribution assets and conducting effective preventive maintenance of our existing critical assets such as substation transformers, distribution transformers, poles and wires. In the electric utility industry the measurable standard for determining reliability are:

(1) System Average Interruption Duration Index (SAIDI), and

(2) System Average Interruption Frequency Index (SAIFI).

Westario Power's reliability performances in 2019 were better than the Canadian industry average for system reliability standards. Westario Power achieved SAIDI and SAIFI result of 1.2 and 0.4 respectively.



Distribution Capital Investments

Westario Power has developed a long-term Distribution System Plan (DSP) for its distribution assets to strategically make the right investments in its distribution network over the next five year planning horizon as per its Distribution System Plan. Our replacement and upgrade strategy take into consideration a number of factors such as intensive testing equipment, age, physical conditions and other condition assessments, including testing and oil analysis for transformers which forms the overall health index of the assets.

We made significant investments in our distribution assets of $4.4M. This capital investment allowed Westario Power to accomplish all of the 2019 capital program successfully. Therefore, the capital investment and maintenance programs have helped the unplanned outages to reduce drastically over the past years.

The following are some of our successfully completed capital program goals for 2019;

- Replacement of 1360-meter restricted copper conductor in Port Elgin and Ripley
- Replacement of over 100 Decrepit poles in Various communities
- 10 year project completion of the live front Pole Tran street light poles in Port Elgin
- Construction of a new Municipal Station rebuilt in Port Elgin
- The completion of 2 subdivisions, Walkerton and Port Elgin

Malcolm McCallum
CFO

RESULTS OF OPERATIONS

For the year ended December 31, 2019 compared to years ended December 31, 2018

Westario uses International Financial Reporting Standards (IFRS) for external reporting purposes. However, for internal purposes, Westario uses MIFRS, which is consistent with IFRS accounting policies but includes rate regulated accounting. MIFRS is also used to report to the OEB

The following are the results of the operations business under MIFRS:

	2019	2018
Distribution Revenue	$10.83 M	$10.78 M

There was an absolute increase in distribution revenues of $440K from 2018 to 2019 that was largely attributable to the change in rates as a result of the approved Cost of Service effective June 2018 and the IRM effective January 1, 2019. There was a $300K anomaly that increased distribution revenue in 2018 i.e recognition of LRAM in year as prescribed by the OEB and Cost of Service. As well 2019 distribution revenue was negatively impacted by a regulatory adjustment of $189K per the OEB requirement to set up a regulatory account for accelerated CCA introduced by the government at the end of 2018. (2018: $63K, 2019: $126K) This is offset by reduced PILS (Income Tax).

	2019	2018
Income Before Tax and before gain/loss on interest rate swap in	$2.727 M	$2.862 M
Net Income	$2.522 M	$2.352 M

The change to net income in 2019 can be attributed to the increase Operation, Maintenance and Administration (OM&A) expenses. Operations and Maintenance and Administration expenses were in line with those proposed in the Cost of Service but were higher than 2018 expenses by $479K.

There was a decrease, in 2019 when compared to 2018, in amortization due to a one time adjustment. Interest on long term debt expenses increased in 2019 due to the significant incremental debt acquired in 2018 to support the focus on upgrades and improvements capital expenditures required to support the existing and growth of the distribution system infrastructure.

Liquidity and Financing

Liquidity

Westario's primary source of liquidity and capital resources is from cash provided by operating activities and bank financing,

Westario's year-end net cash equivalent position decreased from a surplus of $4.1M to a surplus of $3.4M. The net cash position decreased due to the investment in property, plant and equipment and financing activities such as re-payment of long term debt. No incremental debt was acquired to support the 2019 capital expenditures. 2018 capital expenditures were financed with long term debt of $4.0M in December 2018. Management's current processes of monitoring and managing both operating and capital expenditures and the positive results from operating activities precluded the need for additional long-term debt in 2019.

Cash provided by operating activities was $6.2M, a slight decrease from the 2018 amount of $6.7M. The decrease in cash provided by operating activities was primarily due to reduction in accounts receivable that was partially offset by income tax cash outflows related to 2018 and 2019 installments.

Financing

Westario has a $4.5M revolving line of credit with a Canadian chartered bank.

Capital Expenditures

Major capital expenditures for the rate regulated business in 2019 included:

- System Renewal: $3.1M related planned replacement programs such as substation upgrade, pole, cable and switchgear replacement programs;
- System Access: $0.9M related to new subdivision and growth driven lines projects;
- General Plant/Other: $0.2 M primarily included spending on a new tools and equipment;
- System Service: $0.2M related to projects that include resealing Primary Metering Equipment

	2019	2018	2017	2016
Capital Expenditures	$4.7M	$6.0M	$4.7M	$5.4M

The net decrease for the rate regulated capital projects from 2018 to 2019 can be attributed largely to a reduction spending on System Access which is a reflection of the current fluctuations in new developments seen across the distribution service area.

Carrie Schwippl
Financial Analyst

REGULATORY ENVIRONMENT

Westario Power Inc. is required to charge its customers for the following amounts, all of which, other than the distribution rate, represent a pass through of amounts payable to third parties:

i) Electricity Price and Related Rebates: The electricity price and related rebates represent a pass through of the commodity cost of electricity

ii) Distribution Rate: The distribution rate is designed to primarily recover the costs incurred by Westario in delivering electricity to customers. Distribution charges are regulated by the OEB and typically consist of a fixed charge and a usage-based (consumption) charge. The OEB has regulated a move to fixed charges and this is essentially in place in 2019 for residential customers.

The volume of electricity consumed by Westario's customers during any period is governed by events largely outside Westario's control, principally sustained periods of hot or cold weather that increase the consumption of electricity, and sustained periods of moderate weather that decrease the consumption of electricity

iii) Retail Transmission Rate: The retail transmission rate represents a pass through of costs charged to Westario for the transmission of electricity from generating stations to Westario's service area Retail transmission rates are regulated by the OEB

iv) Wholesale Market Service Charge: The wholesale market service charge represents a pass through of various wholesale market support costs charged by IESO

Rate Applications and Distribution Rate Adjustments

Westario operates within the framework of the Electricity Act, 1998 and the OEB Act, 1998. As a result, the regulatory environment is an important aspect of Westario's business.

The OEB approves and sets the electricity distribution rates as described above for Westario's customers based on an approved revenue requirement that provides for cost recovery and includes an approved rate of return.

In November 2017, Westario submitted a Cost of Service (CoS) application, an extensive review of Westario's costs of providing service to its customers performed once every five years, for rates effective January 1, 2018.

In May 2018, the OEB approved Westario's (CoS) application for new rates effective with adjustments for the implementation date and new rates effective as of June 1, 2018.

The 2019 Interim Rate Mechanism, filed in Aug 2018, was approved as filed with new rates effective January 1, 2019. The residential distribution rates have transitioned to a fully fixed structure with this approval.

The 2020 Interim Rate Mechanism, filed in Aug 2019, was approved as filed with new distribution rates effective January 1, 2020.

NOTES

Financial Statements

Westario Power Inc.

For the year ended December 31, 2019

KPMG LLP
140 Fullarton Street Suite 1400
London ON N6A 5P2
Canada
Tel 519 672-4800
Fax 519 672-5684

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Westario Power Inc.

Opinion

We have audited the financial statements of Westario Power Inc. (the Entity), which comprise:

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

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

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

Basis for Opinion

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

April 9, 2020

WESTARIO POWER INC.

Statement of Financial Position
December 31, 2019 with comparative information for December 31, 2018

	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents		$ 3,439,017	$ 4,133,389
Accounts receivable	5	3,395,230	5,081,765
Due from shareholders	20	325,290	282,171
Unbilled revenue		5,433,022	5,676,138
Income taxes receivable		118,739	-
Materials and supplies	6	15,997	80,118
Prepaid expenses		432,035	371,061
Investment in equities		39,671	30,344
Total current assets		13,199,001	15,654,986
Non-current assets			
Property, plant and equipment	7	54,757,886	51,680,614
Intangible assets	8	2,329,944	2,436,873
Long-term assets		183,818	356,562
Total non-current assets		57,271,648	54,474,049
Total assets		**70,470,649**	**70,129,035**
Regulatory balances	10	5,366,903	6,141,627
Total assets and regulatory balances		**$ 75,837,552**	**$ 76,270,662**

See accompanying notes to the financial statements.

WESTARIO POWER INC.

Statement of Financial Position
December 31, 2019 with comparative information for December 31, 2018

	Note	2019	2018
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	7,802,039	8,374,398
Due to shareholders	20	74,423	58,876
Current portion of long-term debt	12	1,978,723	1,910,589
Income taxes payable		-	435,576
Customer deposits		1,503,983	1,469,570
Total current liabilities		11,359,168	12,249,009
Non-current liabilities			
Long-term debt	12	20,334,521	22,307,733
Long-term lease obligation		10,931	35,718
Post-employment benefits	13	382,565	362,000
Deferred revenue		3,375,664	3,040,807
Deferred tax liabilities	9	3,035,000	2,474,000
Unrealized loss on interest rate swap	12	938,899	837,779
Total non-current liabilities		28,077,580	29,058,037
Total liabilities		**39,436,748**	**41,307,046**
Equity			
Share capital	14	18,269,168	18,269,168
Retained earnings		17,685,577	15,937,017
Accumulated other comprehensive loss		(61,757)	(35,123)
Total equity		**35,892,988**	**34,171,062**
Total liabilities and equity		**75,329,736**	**75,478,108**
Regulatory balances	10	507,816	792,554
Total liabilities, equity and regulatory balances		**$ 75,837,552**	**$ 76,270,662**

Commitments and contingencies (note 7, 19 and 21(c))

Subsequent event (note 22)

See accompanying notes to the financial statements.

On behalf of the Board:

_______________ Director _______________ Director

WESTARIO POWER INC.

Statement of Comprehensive Income
Year ended December 31, 2019, with comparative information for 2018

	Note	2019	2018
Revenue			
Sale of energy		$ 53,773,329	$ 51,668,705
Distribution revenue		10,776,137	10,827,675
Other	15	671,062	397,684
		65,220,528	62,894,064
Operating expenses			
Cost of power purchased		52,750,608	49,694,103
Employee salaries and benefits	16	3,157,469	2,801,099
Operating expenses	17	2,825,095	2,686,509
Depreciation and amortization		1,685,681	1,926,937
		60,418,853	57,108,648
Income from operating activities		**4,801,675**	**5,785,416**
Finance income	18	130,753	87,154
Finance costs	18	(1,105,762)	(1,035,464)
Unrealized (loss) on interest rate swap		(101,120)	(101,504)
Income before income taxes		**3,725,546**	**4,735,602**
Income tax expense	9	694,000	736,000
Net income for the year		**3,031,546**	**3,999,602**
Net movement in regulatory balances, net of tax			
Net movement in regulatory balances	10	(1,099,986)	(1,974,601)
Income tax recovery	9	617,000	320,000
Net income for the year and net movement in regulatory balances		**2,548,560**	**2,345,000**
Other comprehensive income			
Items that will be reclassified to profit or loss:			
Change in fair value of investment in equities		9,327	(4,415)
Items that will not be reclassified to profit or loss:			
Re-measurements of post-employment benefits	13	(35,961)	11,116
Tax on re-measurements	9	7,000	(2,000)
Net movement in regulatory balances	10	(7,000)	2,000
Other comprehensive income (loss) for the year		(26,634)	6,701
Total comprehensive income for the year		**$ 2,521,926**	**$ 2,351,701**

See accompanying notes to the financial statements.

WESTARIO POWER INC.

Statement of Changes in Equity
Year ended December 31, 2019, with comparative information for 2018

	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2018	**$ 18,269,168**	**$ 14,042,017**	**$ (41,824)**	**$ 32,269,361**
Net income and net movement in regulatory balances	-	2,345,000	-	2,345,000
Other comprehensive income	-	-	6,701	6,701
Dividends	-	(450,000)	-	(450,000)
Balance at December 31, 2018	**$ 18,269,168**	**$ 15,937,017**	**$ (35,123)**	**$ 34,171,062**
Balance at January 1, 2019	**$ 18,269,168**	**$ 15,937,017**	**$ (35,123)**	**$ 34,171,062**
Net income and net movement in regulatory balances	-	2,548,560	-	2,548,560
Other comprehensive loss	-	-	(26,634)	(26,634)
Dividends	-	(800,000)	-	(800,000)
Balance at December 31, 2019	**$ 18,269,168**	**$ 17,685,577**	**$ (61,757)**	**$ 35,892,988**

See accompanying notes to the financial statements.

WESTARIO POWER INC.

Statement of Cash Flows
Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Operating activities		
Net income and net movement in regulatory balances	$ 2,548,560	$ 2,345,000
Adjustments for:		
Depreciation and amortization	1,673,932	1,925,063
Amortization of deferred revenue	(57,087)	(48,554)
Post-employment benefits	(28,950)	(30,414)
Loss on disposal of property, plant and equipment	67,601	201,218
Unrealized loss on interest rate swap	101,120	101,504
Impairment losses on financial assets	(43,329)	(83,425)
Net finance costs	975,009	948,310
Apprentice tax credit	(6,000)	-
Income tax expense	694,000	736,000
	5,924,856	6,094,702
Change in non-cash operating working capital:		
Accounts receivable	1,686,535	(798,921)
Due to/from related parties	(27,572)	72,388
Unbilled revenue	243,116	98,201
Materials and supplies	64,121	(3,944)
Prepaid expenses	(60,974)	(265,176)
Accounts payable and accrued liabilities	(572,359)	527,562
Long term lease obligation	(24,787)	35,718
Customer deposits	34,413	47,963
	1,342,493	(286,209)
Regulatory balances	482,986	1,654,601
Income tax paid	(773,212)	-
Income tax received	98,895	134,857
Interest expensed	(1,048,879)	(939,239)
Interest received	130,753	87,154
Net cash from operating activities	**6,157,892**	**6,745,866**
Investing activities		
Purchase of property, plant and equipment	(4,735,248)	(6,047,292)
Proceeds on disposal of property, plant, and equipment	23,374	62,085
Purchase of intangible assets	-	(79,438)
Long-term assets	172,744	(70,773)
Net cash used by investing activities	**(4,539,130)**	**(6,135,418)**
Financing activities		
Dividends paid	(800,000)	(450,000)
Contributions received from customers	391,944	314,648
Advances (repayments) on line of credit	-	(2,811,956)
Proceeds from issuance of long-term debt	-	8,000,000
Repayment of long-term debt	(1,905,078)	(1,529,751)
Net cash from (used by) financing activities	**(2,313,134)**	**3,522,941**
Increase (decrease) in cash	(694,372)	4,133,389
Cash, beginning of year	4,133,389	-
Cash, end of year	**$ 3,439,017**	**$ 4,133,389**

See accompanying notes to the financial statements.

1. Reporting entity

Westario Power Inc. (the "Corporation") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the Town of Walkerton of the Municipality of Brockton. The address of the Corporation's registered office is 24 Eastridge Road, Walkerton, Ontario.

The Corporation delivers electricity and related energy services to residential and commercial customers in the following communities, specifically:

- The Township of Huron-Kinloss (Villages of Ripley and Lucknow)
- The Municipality of Kincardine (Kincardine Ward 1)
- The Municipality of South Bruce (Villages of Mildmay and Teeswater)
- The Town of Saugeen Shores (Towns of Port Elgin and Southampton)
- The Township of North Huron (Town of Wingham)
- The Municipality of Brockton (Town of Walkerton and Village of Elmwood)
- The Town of Hanover (Town of Hanover)
- The Town of Minto (Towns of Harriston and Palmerston, Village of Clifford)
- The Municipality of West Grey (Village of Neustadt)

The Corporation is owned generally by the communities they serve, specifically:

- The Township of Huron-Kinloss
- The Municipality of Kincardine
- The Municipality of South Bruce
- The Town of Saugeen Shores
- The Township of North Huron
- The Municipality of Brockton
- The Town of Hanover
- The Town of Minto
- FortisOntario Inc.

The financial statements are for the Corporation as at and for the year ended December 31, 2019.

2. Basis of presentation

(a) Statement of compliance

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on April 9, 2020

(b) Basis of measurement

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

2. Basis of presentation (continued)

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest dollar.

(d) Use of estimates

Assumptions and estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

(i) Note 3(b) – measurement of unbilled revenue
(ii) Note 3(b) – Determination of the performance obligations for contributions from customers and the related amortization period
(iii) Notes 3(d), 3(e), 7, 8 – estimation of useful lives of its property, plant and equipment and intangible assets
(iv) Note 7 – Leases; whether an agreement contains a lease
(v) Note 10 – recognition and measurement of regulatory balances
(vi) Note 13 – measurement of defined benefit obligations: key actuarial assumptions
(vii) Note 19 – recognition and measurement of provisions and contingencies
(viii) Note 21 – Estimation for impairment of doubtful accounts, based on the lifetime expected credit losses

(e) Rate regulation

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

2. Basis of presentation (continued)

(e) Rate regulation (continued)

Rate setting

Distribution revenue

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

In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

As a licenced distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

The Corporation last filed a Cost of Service application on November 22, 2018, for rates effective June 1, 2018 to December 31, 2018, with annual IRM filed August 13, 2018, for rates effective January 1, 2019 to December 31, 2019, and August 12, 2019 for rates effective January 1, 2020 to December 31, 2020. The GDP IPI-FDD for 2018 is 2.0%, the Corporation's productivity factor is nil and the stretch factor is 0.3%, resulting in a net adjustment of 1.7% to the previous year's rates. The GDP IPI-FDD for 2019 is 2.0%, the Corporation's productivity factor is nil and the stretch factor is 0.3%, resulting in a net adjustment of 1.7% to the previous year's rates.

Electricity rates

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

3. Significant accounting policies

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

(a) Financial instruments

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities except for investment in equities which is classified as available for sale. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(f).

Available for sale financial assets are subsequently measured at fair value, within the changes therein recognized in OCI until the assets are sold.

The Corporation holds derivative financial instruments to manage its interest rate risk exposures. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and change therein are recognized in the statement of operations.

Hedge accounting has not been used in the preparation of these financial statements.

(b) Revenue recognition

Sale and distribution of electricity

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Corporation has the right to bill. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

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

Customer billings for debt retirement charges were recorded on a net basis as the Corporation is acting as an agent for this billing stream.

Capital contributions

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

3. Significant accounting policies (continued)

(b) Revenue recognition (continued)

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

Other revenue

Revenue earned from the provision of services is recognized as the performance obligations are met. Amounts received in advance of these milestones are presented as deferred revenue.

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(c) Materials and supplies

Materials and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on an weighted average cost basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

(d) Property, plant and equipment

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

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

Borrowing costs on qualifying assets may be capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Corporation's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct.

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

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

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

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

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Corporation has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

The estimated useful lives are as follows:

	Years
Buildings	50
Distribution stations	45
Distribution lines, overhead	65
Distribution lines, underground	60
Distribution equipment	45 – 60
Distribution transformers	40
Meters	15 – 35
Communications equipment	10
Computer equipment	5
Office furniture	10
Tools and garage equipment	10
Trucks	10 - 15

(e) Intangible assets

Intangible assets used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost, less accumulated amortization. All other intangible assets are measured at cost.

3. Significant accounting policies (continued)

(e) Intangible assets (continued)

Computer software that is acquired or developed by the Corporation after January 1, 2014, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate. The estimated useful lives are:

	Years
Computer software	5

(f) Impairment

(i) Financial assets measured at amortized cost

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

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than materials and supplies and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or “CGU”). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Significant accounting policies (continued)

(f) Impairment (continued)

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a prorate basis, if applicable.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Customer deposits

Customer deposits represent cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills. Interest is paid on customer deposits.

Deposits are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

(h) Provisions

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

(i) Regulatory balances

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

3. Significant accounting policies (continued)

(i) Regulatory balances (continued)

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB. Any resulting impairment loss is recognized in profit or loss in the year incurred.

When the Corporation is required to refund amounts to ratepayers in the future, the Corporation recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

(j) Post-employment benefits

(i) Pension plan

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

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The Corporation is not responsible for any other contractual obligations other than the contributions. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due.

(ii) Post-employment benefits, other than pension

The Corporation provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Re-measurements of the net defined benefit obligations, including actuarial gains and losses and the return on plan assets (excluding interest), are recognized immediately in other comprehensive income. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss as part of operating expenses.

3. Significant accounting policies (continued)

(k) Finance income and finance costs

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

Finance costs comprise interest expense on borrowings, finance lease obligations and unwinding of the discount on provisions, net interest expense on post-employment benefits and impairment losses on financial assets. Finance costs are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

(l) Income taxes

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

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

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.

(m) Leases

Effective January 1, 2018, the Company early adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. The Company's accounting policy under IFRS 16 is as follows:

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

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

3. Significant accounting policies (continued)

(m) Leases (continued)

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 3 to 4 years for vehicles. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

4. Change in Accounting Policy

a) Annual Improvements to IFRS (2015-2017) cycle

On December 12, 2017 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process.

The amendments are effective on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements.

Amendments were made to the following standards:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12 Income Taxes – to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI, or equity; and
- IAS 23 Borrowing Costs – to clarify that specific borrowings – i.e. funds borrowed specifically to finance the construction of a qualifying – should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed. They also clarify that a company includes funds borrowed specifically to obtain an asset other than a qualifying asset as part of general borrowings.

The Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

5. Accounts receivable

	2019	2018
Trade receivables	$ 3,003,904	$ 3,711,982
Other receivables	381,853	1,363,520
Billable work	9,473	6,263
	$ 3,395,230	$ 5,081,765

6. Materials and supplies

The amount of materials and supplies written down due to obsolescence in 2019 was $52,193 (2018 - $54,891).

7. Property, plant and equipment

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in-progress	Total
Cost or deemed cost					
Balance at January 1, 2019	$ 2,583,787	$53,816,434	$3,281,094	$ 187,203	$59,868,518
Additions	17,320	4,297,993	201,202	218,733	4,735,248
Transfers	-	168,638	-	(168,638)	-
Disposals/retirements	-	(177,711)	(41,621)	-	(219,332)
Balance at December 31, 2019	$ 2,601,107	$58,105,354	$3,440,675	$ 237,298	$64,384,434
Balance at January 1, 2018	$ 2,526,105	$48,855,635	$2,587,929	$ 308,940	$54,278,609
Additions	57,682	5,265,400	845,947	-	6,169,029
Transfers	-	-	-	(121,737)	(121,737)
Disposals/retirements	-	(304,601)	(152,782)	-	(457,383)
Balance at December 31, 2018	$ 2,583,787	$53,816,434	$3,281,094	$ 187,203	$59,868,518
Accumulated depreciation					
Balance at January 1, 2019	$ 269,525	$ 6,684,920	$1,233,459	$ -	$8,187,904
Depreciation	47,014	1,239,782	280,207	-	1,567,003
Disposals/retirements		(86,689)	(41,670)	-	(128,359)
Balance at December 31, 2019	$ 316,539	$ 7,838,013	$ 1,471,996	$ -	$9,626,548
Balance at January 1, 2018	$ 214,680	$ 5,333,827	$1,064,030	$ -	$6,612,537
Depreciation	54,845	1,425,757	288,850	-	1,769,452
Disposals/retirements	-	(74,664)	(119,421)	-	(194,085)
Balance at December 31, 2018	$ 269,525	$ 6,684,920	$ 1,233,459	$ -	$8,187,904
Carrying amounts					
At December 31, 2019	$ 2,284,568	$ 50,267,341	$1,968,679	$ 237,298	$54,757,886
At December 31, 2018	2,314,262	47,131,514	2,047,635	187,203	51,680,614

At December 31, 2019 land and buildings with a carrying amount of $2,284,568 (2018 - $2,314,262) are subject to a general security agreement.

During the year, borrowing costs of nil (2018 - nil) were capitalized as part of the cost of property, plant and equipment. A capitalization rate of nil (2018 - nil) was used to determine the amount of borrowing costs to be capitalized.

Property, plant & equipment purchase commitments outstanding as at December 31, 2019 are $1,375,109 (2018 - $78,104).

8. Intangible assets

	Goodwill	Computer software	Total
Cost or deemed cost			
Balance at January 1, 2019	$ 2,214,322	$ 773,016	$ 2,987,338
Additions	-	-	-
Disposals/retirements	-	-	-
Balance at December 31, 2019	$ 2,214,322	$ 773,016	$ 2,987,338
Balance at January 1, 2018	$ 2,214,322	$ 693,578	$ 2,907,900
Additions	-	79,438	79,438
Disposals/retirements	-	-	-
Balance at December 31, 2018	$ 2,214,322	$ 773,016	$ 2,987,338
Accumulated amortization			
Balance at January 1, 2019	$ -	$ 550,465	$ 550,465
Amortization	-	106,929	106,929
Disposals/retirements	-	-	-
Balance at December 31, 2019	$ -	$ 657,394	$ 657,394
Balance at January 1, 2018	$ -	$ 394,852	$ 394,852
Amortization	-	155,613	155,613
Disposals/retirements	-	-	-
Balance at December 31, 2018	$ -	$ 550,465	$ 550,465
Carrying amounts			
At December 31, 2019	$ 2,214,322	$ 115,622	$ 2,329,944
At December 31, 2018	2,214,322	222,551	2,436,873

9. Income tax expense

Income tax expense is comprised of:

	2019	2018
Current tax expense	$ 126,000	$ 437,000
Deferred tax expense:		
Change in recognized deductible temporary differences		
Property, plant, equipment and intangible assets	$ 628,000	$ 303,000
Post-retirement benefits	4,000	5,000
Unrealized interest	(27,000)	(27,000)
Other	(37,000)	18,000
	$ 568,000	$ 299,000
Income tax expense	$ 694,000	$ 736,000
Other comprehensive income		
Post-retirement benefits	(9,000)	3,000
Other	2,000	(1,000)
Net movement in regulatory balances	(610,000)	(322,000)
Income tax expense recognized in Statement of Comprehensive Income	$ 77,000	$ 416,000

Reconciliation of effective tax rate:

	2019	2018
Income before taxes	$2,598,926	$2,767,701
Canada and Ontario statutory Income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	689,000	733,000
Increase (decrease) in income taxes resulting from:		
Permanent differences	2,000	1,000
Recognized deductible temporary differences due to/from customers	(610,000)	(322,000)
Other	(4,000)	4,000
Income tax expense	$ 77,000	$ 416,000

Significant components of the Corporation's deferred tax balances:

	2019	2018
Deferred tax assets (liabilities):		
Property, plant, equipment and intangible assets	$(3,253,000)	$ (2,625,000)
Post-employment benefits	101,000	96,000
Unrealized interest	249,000	222,000
Other	(132,000)	(167,000)
	$(3,035,000)	$ (2,474,000)

10. Regulatory balances

Reconciliation of the carrying amount for each class of regulatory balances:

Regulatory deferral account debit balances		January 1, 2019		Activity		Recovery/ reversal		December 31, 2019	Remaining recovery/ reversal years
Group 1 deferred accounts	$	2,680,526	$	275,029	$	(1,003,577)	$	1,951,978	1
Regulatory settlement account		789,458		(1,138,746)		521,415		172,127	1
Other regulatory accounts		53,643		(38,845)		-		14,798	3
Income tax		2,618,000		610,000		-		3,228,000	
	$	6,141,627	$	(292,562)	$	(482,162)	$	5,366,903	

Regulatory deferral account debit balances		January 1, 2018		Activity		Recovery/ reversal		December 31, 2018	Remaining years
Group 1 deferred accounts	$	5,755,543	$	(1,087,606)	$	(1,987,411)	$	2,680,526	1
Regulatory settlement account		395,708		(269,768)		663,518		789,458	1
Other regulatory accounts		173,050		5,145		(124,552)		53,643	3
Income tax		2,296,000		322,000		-		2,618,000	
	$	8,620,301	$	(1,030,229)	$	(1,448,445)	$	6,141,627	

Regulatory deferral account credit balances		January 1, 2019		Activity		Recovery/ reversal		December 31, 2019	Remaining years
Group 1 deferred accounts	$	(728,243)	$	43,466	$	477,240	$	(207,537)	1
Regulatory settlement account		(33,863)		33,863		-		-	1
Other regulatory accounts		(30,448)		(274,754)		4,923		(300,279)	3
	$	(792,554)	$	(197,425)	$	482,163	$	(507,816)	

Regulatory deferral account credit balances		January 1, 2018		Activity		Recovery/ reversal		December 31, 2018	Remaining years
Group 1 deferred accounts	$	(1,309,938)	$	(234,189)	$	815,884	$	(728,243)	1
Regulatory settlement account		(218,517)		184,654		-		(33,863)	1
Other regulatory accounts		(90,172)		(11,095)		70,819		(30,448)	3
	$	(1,618,627)	$	(60,630)	$	886,703	$	(792,554)	

IFRS 14 Regulatory Deferral Accounts, paragraph 36 stipulates that "when an entity concludes that a regulatory deferral account balance is no longer fully recoverable or reversible, it shall disclose that fact, the reason why it is not recoverable or reversible and the amount by which the regulatory deferral account balance has been reduced." The Corporation continues to reasonably expect full recovery of regulatory balances.

The regulatory balances are recovered or settled through rates approved by the OEB which are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Corporation has received approval from the OEB to establish its regulatory balances.

10. Regulatory balances (continued)

Settlement of the Group 1 deferral accounts is done on an annual basis through application to the OEB. An application was made August 12, 2019 to the OEB to recover $376,614 of the Group 1 deferral accounts. Approval was received December 12, 2019. The balance is to be recovered over a period of 12 months, commencing January 1, 2020.

The OEB requires the Corporation to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates. Settlement of the regulatory transition to IFRS account has been approved by the OEB with recovery from the customers over a period of up to 4 years, completed December 31, 2016.

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In 2019 the annual rate was 2.45% for the period from January to March and 2.18% for the period from April to December, 2019.

11. Accounts payable and accrued liabilities

	2019	2018
Accounts payable – energy purchases	$ 6,185,343	$ 6,030,432
Payroll	219,947	178,982
Interest	54,423	56,326
Trade and other	1,342,326	2,108,658
	$ 7,802,039	$ 8,374,398

12. Long-term debt

	2019	2018
Non-revolving term installment loan #1 bearing interest at the Banker's Acceptance rate of 3.205% plus a stamping fee of 0.80%, payable in monthly installments of principal plus interest due March 1, 2022	$ 1,227,659	$ 1,721,366
Non-revolving term installment loan #2 bearing interest at the Banker's Acceptance rate of 3.205% plus a stamping fee of 1.65%, payable in monthly installments of principal plus interest due January 2, 2025	1,317,512	1,449,680
Non-revolving term installment loan #3 bearing interest at the Banker's Acceptance rate of 3.205% plus a stamping fee of 0.80%, payable in monthly installments of principal plus interest due July 2, 2027	1,499,443	1,751,991
Non-revolving term installment loan #4 bearing interest at the Banker's Acceptance rate of 3.205% plus a stamping fee of 1.00%, payable in monthly installments of principal plus interest due September 1, 2028	1,980,685	2,162,875
Non-revolving term installment loan #5 bearing interest at the Banker's Acceptance rate of 3.205% plus a stamping fee of 1.00%, payable in monthly installments of principal plus interest due July 3, 2029	2,116,373	2,294,171
Non-revolving term installment loan #6 bearing interest at the Banker's Acceptance rate of 3.205% plus a stamping fee of 1.00%, payable in monthly installments of principal plus interest due June 1, 2027	1,666,667	1,800,000
Non-revolving term installment loan #7 bearing interest at the Banker's Acceptance rate of 3.205% plus a stamping fee of 1.00%, payable in monthly installments of principal plus interest due February 1, 2033	3,511,111	3,777,778
Non-revolving term installment loan #8 bearing interest at the Banker's Acceptance rate of 3.205% plus a stamping fee of 1.00%, payable in monthly installments of principal plus interest due December 1, 2033	3,733,333	4,000,000
Shareholder loan Municipality of South Bruce, 4.12% payable quarterly, interest only	292,498	292,498
Shareholder loan Town of Hanover, 4.12% payable quarterly, interest only	1,135,083	1,135,083
Shareholder loan Town of Saugeen Shores, 4.12% payable quarterly, interest only	3,062,913	3,062,913
Shareholder loan Township of Huron Kinloss, 4.12% payable quarterly, interest only	370,285	370,285
Shareholder loan Township of North Huron, 4.12% payable quarterly, interest only	399,682	399,682
	22,313,244	24,218,322
Current portion of term loans:	(1,978,723)	(1,910,589)
	$20,334,521	$22,307,733

CIBC Term secured bank loans are secured by a general security agreement conveying a security interest in the personal property of the Corporation, a first priority present and future fixed charge securing not more than $2,500,000 over the real property at 24 Eastridge Road, and acknowledgement of fire insurance, with first loss payable to CIBC.

12. Long-term debt (continued)

On December 3, 2018, the Corporation entered into an interest rate swap agreement on a notional principal of $18,957,861 maturing on December 1, 2033. At the same time, the Corporation terminated all of the previously held swap arrangements on CIBC term instalment loans (#1-7), without penalty. The new swap agreement on CIBC term instalment loans (#1-8) is structured such that only one fixed rate payment and a weighted average interest rate remains. The amortization period of each individual loan remains materially unchanged. The swap is a receive variable, pay fixed swap with CIBC World Markets and effectively converted variable interest rates on the unsecured Banker's Acceptances to an effective fixed interest rate of 3.205% plus stamping fee. Prior to this transaction, the previously held swap arrangements on term instalment loans #1-7 had an effective interest rate of 3.249% plus stamping fee.

The swap entered into by the Corporation does not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contract is marked to market at each year end with the gain or loss recorded in the statement of operations. The (loss) gain on the swap recorded in 2019 was $(101,120) (2018 - $(101,504)).

The shareholders' notes are only due on demand to the extent the shareholder can request payment ninety days prior to year end. In the event a request is made, the Corporation is obligated to repay the shareholder during the following fiscal year. No repayments are required without a written request. No amounts were requested by shareholders of the Corporation on or before September 30, 2019. Shareholder loans bear interest at 4.12% payable quarterly.

The Corporation's term instalment loans, with a carrying amount of $17,052,784 as at December 31, 2019, are repayable monthly in accordance with the amortization schedule associated with each individual loan. However, the loan agreements contain a covenant stating that at the end of each quarter, the Corporations' current ratio must not be less than 1.1 to 1.0, otherwise the loans will be repayable on demand. This current ratio was met as at December 31, 2019. Accordingly, the loan was not payable on demand at December 31, 2019 and as such only the scheduled repayments have been recorded as a current liability.

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

	Bank indebtedness	Current and long-term debt	Retained earnings	Total (financing cash flows)
Balance at January 1, 2019	$ -	$ 24,218,322	$ 15,937,017	
Dividends paid	-	-	(800,000)	$ (800,000)
Repayment of line of credit	-	-	-	-
Proceeds from issuance of long-term debt (term loan #7 & 8)	-	-	-	-
Repayments of long-term debt	-	(1,905,078)	-	(1,905,078)
Total changes from financing cash flows	**$ -**	**$ (1,905,078)**	**$ (800,000)**	**$ (2,705,078)**
Total equity-related other changes	-	-	2,548,560	
Balance at December 31, 2019	$ -	$ 22,313,244	$ 17,685,577	

13. Post-employment benefits

(a) OMERS pension plan

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2019, the Corporation made employer contributions of $341,377 to OMERS (2018 - $300,167), of which approximately $130,410 (2018 - $103,421) has been capitalized as part of PP&E and the remaining amount of $210,967 (2018 - $196,746) has been recognized in profit or loss. The Corporation estimates that a contribution of approximately $350,000 to OMERS will be made during the next fiscal year.

As at December 31, 2019, OMERS had approximately 500,000 members, of whom 36 are employees of the Corporation. The most recently available OMERS annual report is for the year ended December 31, 2019, which reported that the plan was 97% funded, with an unfunded liability of $3.4 billion. This unfunded liability is likely to result in future payments by participating employers and members.

(b) Post-employment benefits other than pension

The Corporation pays certain life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-employment benefits in the year in which employees' services were rendered. The Corporation is recovering its post-employment benefits in rates based on the expense and re-measurements recognized for post-employment benefit plans.

Reconciliation of the obligation	2019	2018
Defined benefit obligation, beginning of year	$ 362,000	$ 390,730
Included in profit or loss		
Interest cost	13,554	12,800
Included in OCI		
Actuarial (gains) losses arising from:		
Changes in actual and expected plan experience	35,961	(11,116)
Benefits paid	(28,950)	(30,414)
Defined benefit obligation, end of year	$ 382,565	$ 362,000

Actuarial assumptions	2019	2018
Discount rate	3.10%	3.90%
Salary levels	actuals	actuals

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $44,100. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by $54,100.

14. Share capital

	2019	2018
Authorized:		
Unlimited number of common shares		
Issued:		
10,000 common shares	$ 18,269,168	$ 18,269,168

Dividends

The Corporation has established a dividend policy with consideration given to the cash position, the working capital requirements, the net capital expenditures requirements and other considerations from time to time.

The Corporation paid aggregate dividends in the year on common shares of $80.00 per share (2018 - $45), which amount to total dividends paid in the year of $800,000 (2018 - $450,000).

15. Other revenue

	2019	2018
Rendering of services	$ 424,890	$ 349,131
Amortization of contributions received from customers	57,087	48,553
Performance incentive payments under CDM programs	189,085	-
	$ 671,062	$ 397,684

16. Employee salaries and benefits

	2019	2018
Salaries, wages and benefits	$ 2,632,824	$ 2,337,323
CPP and EI remittances	154,318	133,195
Contributions to OMERS	341,377	300,167
Post-employment benefit plans	28,950	30,414
	$ 3,157,469	$ 2,801,099

17. Operating expenses

	2019	2018
Contract/consulting	$ 1,341,213	$ 1,161,155
Materials and supplies	52,798	34,125
Vehicles	123,168	106,649
Write down of material and supplies	37,792	54,861
Losses on disposal of property, plant and equipment	67,601	201,218
Other	1,202,523	1,128,501
	$ 2,825,095	$ 2,686,509

18. Finance income and costs

		2019		2018
Finance income				
Interest income on bank deposits	$	130,753	$	87,154
Finance costs				
Interest expense on long-term debt	$	984,446	$	864,919
Interest expense on customer deposits		21,460		6,392
Net interest expense on post-employment benefits		13,554		12,800
Expected credit losses on accounts receivable		43,329		83,425
Other		42,973		67,928
		1,105,762		1,035,464
Net finance costs recognized in profit or loss	$	975,009	$	948,310

19. Commitments and contingencies

Contractual Obligations

In the normal course of operations, the Corporation executes agreements that can provide for the indemnification to third parties in transactions such as service agreements and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement.

General

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

General Liability Insurance

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

20. Related party transactions

Transactions with Shareholders

In the ordinary course of business, the Corporation delivers electricity to the following Shareholders that are billed at prices and under terms approved by the OEB.

- The Township of Huron-Kinloss
- The Municipality of Kincardine
- The Municipality of South Bruce
- The Town of Saugeen Shores
- The Township of North Huron
- The Municipality of Brockton
- The Town of Hanover
- The Town of Minto

In the ordinary course of business, the Corporation receives and pays for services under contract for information technology from Canadian Niagara Power Inc. a subsidiary of FortisOntario Inc.

Outstanding balances due from/(due to) related parties and shareholders are:

		2019		2018
Due from:				
The Township of Huron-Kinloss	$	7,273	$	4,146
The Municipality of Kincardine		59,597		47,856
The Municipality of South Bruce		21,147		22,706
The Town of Saugeen Shores		59,497		44,689
The Township of North Huron		32,749		26,506
The Municipality of Brockton		22,658		18,413
The Town of Hanover		70,176		72,237
The Town of Minto		52,193		45,618
	$	325,290	$	282,171
Due to:				
Canadian Niagara Power Inc.		(20,991)		(20,894)
Township of Huron Kinloss		(2,550)		(2,550)
Municipality of South Bruce		(2,014)		(2,122)
Town of Saugeen Shores		(21,351)		(22,315)
Township of North Huron		(2,752)		(2,752)
Municipality of Brockton		(16,950)		(427)
Town of Hanover		(7,815)		(7,816)
	$	(74,423)	$	(58,876)
	$	250,867	$	223,295

21. Financial instruments and risk management

Fair value disclosure

The carrying values of cash and cash equivalents, accounts receivable, unbilled revenue, due from/to shareholders and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

The fair value of the long-term debt at December 31, 2019 is $22,313,244 (2018 - $24,218,322). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date from a third party banking institution.

The Corporation holds shares in Sunlife that are traded on the TSX under symbol SLF. The closing price on the last trading day of the year is used to calculate the fair value of these shares.

The swap agreement is measured at fair value, which are provided by a third party banking institution and is based on market rates at the date of the valuation.

Financial risks

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

(a) Credit risk

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the Communities served as outlined in note 1. No single customer accounts for a balance in excess of 11% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment, which management estimates based on lifetime expected credit losses, and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2019 is $145,000 (2018 - $165,000). An impairment loss of $43,329 (2018 - $83,425) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2019, approximately $245,788 (2018 - $453,514) is considered 60 days past due. The Corporation has over 23,000 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2019, the Corporation holds security deposits in the amount of $704,132 (2018 - $554,450).

21. Financial instruments and risk management (continued)

(b) Market risk

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

Fluctuations in interest rates as at December 31, 2019 would have no effect on the Corporation as long-term debt is not subject to variable interest rates.

(c) Liquidity risk

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

The Corporation has access to a $3.5 million credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they become due. The line of credit bears interest at the bank's prime rate. The credit facility is secured by a general security agreement conveying a security interest in the personal property of the Corporation. As at December 31, 2019, $Nil has been drawn under the Corporation's $3.5 million credit facility.

The Corporation as part of its credit facility also has a bilateral facility for $1,897,399 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $1,897,399 has been drawn and posted with the IESO (2018 - $1,897,399).

The Corporation as part of its credit facility also has a standby letter of credit for $100,000 (the "LC" facility) for the purpose of issuing letters of credit to the Ministry of Environment with regards to compliance under the terms of the Provisional Certificate of Approval for Waste Management System. Currently $100,000 has been drawn and posted with the Ministry of Environment (2018 - $100,000).

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

(d) Capital disclosures

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

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2019, shareholder's equity amounts to $35,892,988 (2018 - $34,171,062) and long-term debt amounts to $20,334,521 (2018 - $22,307,733).

22. Subsequent event

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Ontario resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time.

CONTACT US

Head Office	24 Eastridge Road, R.R. #2 Walkerton ON N0G 2V0	Tel. 519-507-6937 Toll Free: 866-978-2746 Fax 519-507-6887 Toll Free Fax: 855-507-6887 www.westario.com
Email	Customer Service Department	customer.service@westario.com
	Engineering Department	engineering@westario.com
	Finance Department	finance@westario.com
	Human Resources	hr@westario.com
	Operations Department	operations@westario.com
Business Hours	Customer Service Department	8:30 am – 4:30 pm EST, Monday to Friday
	Operations & Engineering Dept	8:30 am – 4:00 pm EST, Monday to Friday

Westario Power Inc.
24 Eastridge Road, R.R. #2
Walkerton, Ontario N0G 2V0
Tel. 519-507-6937
Toll Free 1-866-978-2746
Fax 519-507-6887
www.westario.com

"Soaring into the Future"