Financial Statements of

KINGSTON HYDRO CORPORATION

And Independent Auditors' Report thereon

Year ended December 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Kingston Hydro Corporation

Opinion

We have audited the financial statements of Kingston Hydro Corporation (the Corporation), which comprise:

- the balance sheet as at December 31, 2021
- the statement of comprehensive income for the year then ended
- the statement of changes in shareholder's 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 Corporation as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (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 Corporation 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.

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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation'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 Corporation'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 Corporation'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 Corporation 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

Kingston, Canada

April 14, 2022

KINGSTON HYDRO CORPORATION

Financial Statements

Year ended December 31, 2021

Financial Statements

KINGSTON HYDRO CORPORATION

Balance Sheet

December 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash	$ 32,944	$ 66,184
Due from City of Kingston (note 10(b))	8,776,828	6,628,073
Miscellaneous accounts receivable	2,035,360	4,680,030
Billed revenue receivable	2,373,294	3,521,494
Unbilled revenue	7,620,322	7,060,315
Inventory	1,702,656	1,803,341
Prepaid expenses	196,088	156,282
Payments in lieu of taxes recoverable (note 15)	19,245	103,589
	22,756,737	24,019,308
Non-current assets:		
Property, plant and equipment (note 5)	63,879,515	61,764,835
Total assets	86,636,252	85,784,143
Regulatory debit balances (note 9)	5,758,824	4,952,888
Total assets and regulatory debit balances	$ 92,395,076	$ 90,737,031

	2021	2020

Liabilities and Shareholder's Equity

	2021	2020
Current liabilities:		
Accounts payable and accrued liabilities	$ 8,950,248	$ 8,346,734
Current portion of long-term debt (note 7(a))	3,142,554	4,559,298
Due to retailers	74,385	92,408
Deposits payable	1,327,706	1,263,006
	13,494,893	14,261,446
Non-current liabilities:		
Note payable to City of Kingston (note 6)	10,880,619	10,880,619
Employee future benefit liabilities (note 11(d))	1,222,325	1,446,038
Long-term debt (note 7(a))	23,285,755	21,819,356
Deferred revenue	6,066,854	5,999,198
Deferred tax liability (note 15)	1,837,453	1,308,439
Derivative liability (note 17(b))	42,330	275,545
Total liabilities	43,335,336	55,990,641
Shareholder's equity:		
Share capital (note 12)	12,380,617	12,380,617
Contributed surplus	3,893,103	3,893,103
Accumulated other comprehensive income (loss)	(31,114)	(202,527)
Retained earnings	17,827,893	17,089,279
	34,070,499	33,160,472
Commitments and contingencies (notes 13 and 14)		
Impact of COVID-19 (note 19)		
Total liabilities and shareholder's equity	90,900,728	89,151,113
Regulatory credit balances (note 9)	710,254	948,901
Deferred tax associated with regulatory balances	784,094	637,017
Total equity, liabilities and regulatory credit balances	$ 92,395,076	$ 90,737,031

See accompanying notes to financial statements.

On behalf of the Board:

Bryan Paterson,
Chair

Barbara Hanley,
Chair, Audit and Risk Committee

KINGSTON HYDRO CORPORATION

Statement of Comprehensive Income

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Energy sales	$ 74,848,260	$ 86,251,238
Cost of energy	76,347,988	86,232,285
	(1,499,728)	18,953
Other income	720,485	675,980
IESO Conservation Program revenue	69,243	165,529
Distribution revenue (notes 3(b) and 4)	12,860,572	12,584,492
Net operating revenue	12,150,572	13,444,954
Operating expenses:		
IESO Conservation Program expenses	69,243	165,529
Distribution expenses, operation	1,107,382	1,283,016
Distribution expenses, maintenance	1,704,684	1,675,426
Billing and collecting	939,060	963,086
Community relations	699,205	620,999
General and administrative	2,569,687	2,821,906
Depreciation and amortization	2,545,169	2,357,091
	9,634,430	9,887,053
Earnings before finance costs, taxation and net movement in regulatory account balances	2,516,142	3,557,901
Finance income	58,341	140,982
Finance costs	(1,460,188)	(1,481,916)
Earnings before taxation and movements in regulatory deferral account balances	1,114,295	2,216,967
Current tax expense (note 15)	186,864	207,791
Deferred tax expense (note 15)	467,212	294,935
	654,076	502,726
Net earnings before movements in regulatory deferral account balances	460,219	1,714,241
Movement due to differences between sales and cost	1,499,728	18,953
Tax effect of net movement in regulatory	278,667	164,015
Net movement in regulatory deferral account balances related to profit or loss	1,778,395	182,968
Net earnings and net movements in regulatory deferral account balances	2,238,614	1,897,209
Other comprehensive income (loss):		
Change in fair value of cash flow hedge	171,413	(190,749)
Total comprehensive income	$ 2,410,027	$ 1,706,460

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Changes in Shareholder's Equity

Year ended December 31, 2021, with comparative information for 2020

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance, January 1, 2020	$ 12,380,617	$ 3,893,103	$ (11,778)	$ 15,592,070	$ 31,854,012
Net earnings	–	–	–	1,897,209	1,897,209
Other comprehensive loss	–	–	(190,749)	–	(190,749)
Dividends	–	–	–	(400,000)	(400,000)
Balance, December 31, 2020	12,380,617	3,893,103	(202,527)	17,089,279	33,160,472
Net earnings	–	–	–	2,238,614	2,238,614
Other comprehensive income	–	–	171,413	–	171,413
Dividends	–	–	–	(1,500,000)	(1,500,000)
Balance, December 31, 2021	$ 12,380,617	$ 3,893,103	$ (31,114)	$ 17,827,893	$ 34,070,499

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Cash Flows

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operations:		
Net earnings	$ 2,238,614	$ 1,897,209
Items not involving cash:		
Depreciation and amortization	2,545,169	2,357,089
Tax expenses	654,076	502,726
Tax expenses included in net movement in regulatory deferral account balances	147,077	117,399
Change in employee future benefit liabilities	(223,713)	115,785
Income taxes paid	(102,520)	(218,192)
Change in non-cash operating balances (note 16)	750,595	(2,562,359)
	6,009,298	2,209,657
Financing:		
Increase in deferred revenue	67,656	324,103
Dividends paid	(1,500,000)	(400,000)
Repayment of long-term debt payable	(2,220,905)	(774,468)
Proceeds of long-term debt	2,270,560	2,600,000
	(1,382,689)	1,749,635
Investments:		
Net purchase of property, plant and equipment	(4,659,849)	(4,061,528)
Decrease in cash	(33,240)	(102,236)
Cash, beginning of year	66,184	168,420
Cash, end of year	$ 32,944	$ 66,184

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Table of Contents to Notes to Financial Statements

Year ended December 31, 2021

Notes to Financial Statements

1. Reporting entity:

Kingston Hydro Corporation (the "Corporation") is a rate-regulated, municipally-owned hydro distribution company incorporated under the laws of Ontario Canada. The Corporation is located in Kingston. The address of the Corporation's registered office is 85 Lappans Lane, Kingston, Ontario. The Corporation delivers electricity and related energy services to residential and commercial customers in Kingston. The Corporation is wholly-owned by the Corporation of the City of Kingston.

The financial statements are for the Corporation as at and for the year ended December 31, 2021.

2. Basis of preparation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

The financial statements were approved by the Board of Directors on April 14, 2022.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for the following:

(i) Where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair value; and

(ii) Contributed assets are initially measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(d) Use of estimates and judgments:

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

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

2. Basis of preparation (continued):

(d) Use of estimates and judgments (continued):

Information about critical accounting judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

(i) Note 3(j) - leases: whether an arrangement contains a lease

(ii) Note 3(j) - leases: discount rate, lease term, underlying leased asset value

(iii) Note 5 - Property, plant and equipment;

(iv) Note 11 - Employee future benefits;

(v) Note 14 - Contingent liabilities.

(e) Rate regulation:

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

Rate setting:

Distribution revenue:

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

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

2. Basis of preparation (continued):

(e) Rate regulation (continued):

Rate setting (continued):

Distribution revenue (continued):

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

The Corporation last filed a COS application in 2015 for rates effective January 1, 2016 to December 31, 2020. The GDP IPI-FDD for 2021 is 2.20%, the Corporation's productivity factor is 0.00% and the stretch factor is 0.30%, resulting in a net adjustment of 1.90% 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 significant accounting policies set out below have been applied consistently to all years presented in these financial statements.

(a) Financial instruments:

At initial recognition, the Corporation measures its financial assets at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of the financial asset depends on the classification determined on initial recognition. Financial assets are classified as either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless the Corporation changes its business model for managing financial assets.

Financial liabilities are initially measured at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost using the effective interest rate method; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as an adjustment to interest expense over the period of the borrowings.

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

Hedging items and hedged items are presented in the financial statements in the same manner as other assets and liabilities. For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated other comprehensive income. Any gains or losses that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations.

Cash equivalents include short-term investments with maturities of three months or less when purchased.

(b) Revenue recognition:

Sale and distribution of electricity

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

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

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):

Capital contributions (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 service is rendered.

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

(c) Inventory:

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

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

(d) Property, plant and equipment:

Items of property, plant and equipment (“PP&E”) used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation. Consistent with IFRS 1, the Corporation elected to use the carrying amount as previously determined under Canadian GAAP as the deemed cost at January 1, 2014, the transition date to IFRS.

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

3. Significant accounting policies (continued):

(d) Property, plant and equipment (continued):

Borrowing costs on qualifying assets are 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 property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on the disposal of an item of PP&E are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of PP&E and are recognized net within other income in profit or loss.

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

Depreciation is calculated over the depreciable amount and is recognized in profit or loss on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. The depreciable amount is cost. Land is not depreciated. Construction-in-progress assets are not amortized until the project is complete and in service.

Depreciation is provided on a straight-line basis using the following annual rates:

Asset	Rates
Buildings and fixtures	1.67% to 3.33%
Substation equipment	1.67% to 5.00%
Distribution system	1.67% to 2.86%
Meters	2.50% to 6.67%
Tools and equipment	10.00% to 20.00%
System supervisory equipment	5.00%
Vehicle	8.33% to 12.50%
Application software	20.00%
Miscellaneous intangible plant	2.50%
Leasehold improvements	Over the term of the lease

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

3. Significant accounting policies (continued):

(e) Impairment:

(i) Financial assets:

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

(ii) Non-financial assets:

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

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. For assets other than goodwill, impairment recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(f) Provisions:

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

3. Significant accounting policies (continued):

(g) Regulatory deferral accounts:

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The debit balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

Regulatory deferral account credit balances are recognized if it is probable that future billings in an amount at least equal to the credit balance will be reduced as a result of rate-making activities. The offsetting amount is recognized in profit and loss. The credit balance is reduced by the amounts returned to customers as electricity is delivered to the customer at rates approved by the OEB for the return of the regulatory account credit balance.

The probability of recovery or repayment of the regulatory account balances are assessed annually based upon the likelihood that the OEB will approve the change in rates to recover or repay the balance. Any resulting impairment loss is recognized in profit and loss in the year incurred.

Regulatory deferral accounts attract interest at OEB prescribed rates in 2021, the rates were 0.57% from January 1, 2021 to December 31, 2021 (2.18% - from January 1, 2020 to June 30, 2020, decreasing to 0.57% - from July 1, 2020 to December 31, 2020).

(h) Employee future benefit liabilities:

The Corporation's employee future benefit liabilities represent its accumulated obligation to Utilities Kingston under a service agreement.

The Corporation accrues its obligations to Utilities Kingston for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of salary escalation, retirement ages of Utilities Kingston's employees and expected health care costs.

Utilities Kingston's employees participate in the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer public sector pension fund, as a defined benefit plan.

3. Significant accounting policies (continued):

(i) Deferred revenue and assets transferred from customers:

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as deferred revenue. Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity, and is amortized to income on a straight-line basis over the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

(j) Leased assets:

At inception of a contract, the Corporation assesses whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Corporation with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises 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 right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

The lease liability is initially measured at the present value of lease payments plus the present value of 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 Corporation's incremental borrowing rate.

The lease liability is subsequently 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 Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation 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.

3. Significant accounting policies (continued):

(j) Leased assets (continued):

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

(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 and on regulatory assets.

Finance charges comprise interest expense on borrowings, finance lease obligations, regulatory liabilities and unwinding of the discount on provisions and impairment losses on financial assets. Finance costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

(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 Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

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

3. Significant accounting policies (continued):

(l) Income taxes (continued):

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

4. Electricity industry regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors 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. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from IFRS for enterprises operating in a non-rate regulated environment.

On November 26, 2015, the OEB approved the tariff or rates and charges, effective January 1, 2016, for electricity consumed or estimated to be consumed on or after January 1, 2016. In addition, the OEB ordered the Corporation to establish certain deferral and variance accounts to track revenues and expenses for years 2016 to 2020 that may become subject to disposition in the future.

On December 12, 2019, the OEB approved new distribution rates, effective January 1, 2020.

On December 10, 2020, the OEB approved new distribution rates, effective January 1, 2021.

5. Property, plant and equipment:

(a) Cost or deemed cost:

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
Balance, January 1, 2021	$ 1,520,290	$ 72,778,900	$ 1,364,436	$ 232,273	$ 75,895,899
Additions	155,189	4,365,924	218,101	–	4,739,214
Disposals/retirements	–	(125,096)	–	(79,365)	(204,461)
Balance, December 31, 2021	$ 1,675,479	$ 77,019,728	$ 1,582,537	$ 152,908	$ 80,430,652

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
Balance, January 1, 2020	$ 1,245,314	$ 69,057,777	$ 1,192,984	$ 338,296	$ 71,834,371
Additions	274,976	3,721,123	171,452	–	4,167,551
Disposals/retirements	–	–	–	(106,023)	(106,023)
Balance, December 31, 2020	$ 1,520,290	$ 72,778,900	$ 1,364,436	$ 232,273	$ 75,895,899

(b) Accumulated depreciation:

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
Balance, January 1, 2021	$ 157,035	$ 13,264,749	$ 709,280	$ –	$ 14,131,064
Depreciation charge	38,509	2,274,342	232,318	–	2,545,169
Disposals/retirements	–	(125,096)	–	–	(125,096)
Balance, December 31, 2021	$ 195,544	$ 15,413,995	$ 941,598	$ –	$ 16,551,137

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
Balance, January 1, 2020	$ 124,122	$ 11,134,777	$ 515,076	$ –	$ 11,773,975
Depreciation charge	32,913	2,129,972	194,204	–	2,357,089
Disposals/retirements	–	–	–	–	–
Balance, December 31, 2020	$ 157,035	$ 13,264,749	$ 709,280	$ –	$ 14,131,064

5. Property, plant and equipment (continued):

(c) Carrying amounts:

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
At December 31, 2021	$ 1,479,935	$ 61,605,733	$ 640,939	$ 152,908	$ 63,879,515
At December 31, 2020	1,363,255	59,514,151	655,156	232,273	61,764,835

6. Note payable to City of Kingston:

In consideration for transfer of the City of Kingston's electricity distribution business, the City of Kingston took back a note payable on January 1, 2000, for an amount equivalent to 50% of the value of net assets transferred. The note payable amounts to $10,880,619 (2020 - $10,880,619). As part of the 2011 Kingston Hydro distribution rate rebasing application, the Ontario Energy Board ordered that Kingston Hydro use a deemed debt rate of 5.87% per annum. This rate became effective May 1, 2011. The note payable has no fixed terms of repayment and is unsecured. It is not the intent of the City of Kingston to demand repayment before January 1, 2022. Interest charges on the note payable for the 2021 fiscal year were $638,692 (2020 - $638,692).

7. Bank loans and long-term debt:

(a) Long-term debt:

	2021	2020
Committed reduced term facility (single draw), fixed rate of 2.12%, due December 2030 (facility 3)	$ 1,995,523	$ 2,139,797
Committed reduced term facility (single draw), fixed rate of 2.02%, due December 2027 (facility 3)	2,535,270	2,600,000
Committed reduced term facility (single draw), fixed rate of 3.93%, due February 2026 (facility 6)	1,334,004	1,438,476
Committed reduced term facility (single draw), fixed rate of 3.25%, due January 2022 (facility 5)	2,338,097	2,530,950
Committed reduced term facility (single draw), fixed rate of 3.92%, due December 2042 (Infrastructure Ontario)	2,836,108	2,921,834
Committed reduced term facility (single draw), fixed rate of 3.27%, due December 2029 (facility 3)	2,878,824	2,940,135
Committed reduced term facility (single draw), fixed rate of 3.15%, due, December 2028 (facility 3)	1,927,424	1,979,836
Interest rate swap loan, fixed rate of 3.24%, due December 9, 2021 (facility 3)	–	1,303,999
Interest rate swap loan, fixed rate of 3.01%, due December 4, 2024 (facility 3)	1,946,254	2,000,758
Interest rate swap loan, fixed rate of 2.72%, due December 12, 2023 (facility 3)	3,095,609	3,180,940
Interest rate swap loan, fixed rate of 3.92%, due November 15, 2025 (facility 3)	2,356,740	2,404,980
Capital loan, fixed rate of 3.15%, due December 18, 2024 (facility 3)	914,787	936,949
Interest rate swap loan, fixed rate of 3.21%, due December 8, 2031 (facility 3)	1,000,000	–
Interest rate swap loan, fixed rate of 3.23%, due December 9, 2030 (facility 3)	1,269,669	–
	26,428,309	26,378,654
Less: current portion of long-term debt	3,142,554	4,559,298
	$ 23,285,755	$ 21,819,356

7. Bank loans and long-term debt (continued):

(a) Long-term debt (continued):

Principal payments on long-term debt based on scheduled repayments are as follows:

2022	$ 3,142,776
2023	3,747,439
2024	2,535,334
2025	725,344
2026	748,305
2027 and thereafter	15,529,111
	$ 26,428,309

(b) To comply with requirements of the IESO, as a supplier of energy to the wholesale electricity market, the Corporation is required to post security determined in relation to the Corporation's credit rating. A letter of credit has been provided in the amount of $5,301,839 as at December 31, 2021 (2020 - $5,301,839).

Bank indebtedness is secured by a general security agreement representing a first charge on all the Corporation’s assets.

8. Pension agreements:

On behalf of their employees who provide services to the Corporation, 1425445 Ontario Limited (operating as Utilities Kingston), a related corporation, makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Total contributions by that corporation to OMERS for 2021 were $1,989,153 (2020 - $1,925,706).

The OMERS plan has a deficit of $3.1 billion as at December 31, 2021 (2020 - $3.2 billion). If other entities cease to participate in the plan, the Corporation may have an obligation to fund their share of the shortfall.

9. Regulatory deferral account balance:

The following is a reconciliation of the carrying amount for each class of regulatory deferral account balances:

	2020	Balances arising in the period	Recovery/ reversal	2021	Remaining recovery period (years)
Regulatory deferral account debit balances					
Group 1 deferred accounts	$ 2,258,203	$ 1,177,765	$ (1,106,172)	$ 2,329,796	–
Regulatory asset recovery account	66,832	1,108,818	(934,775)	240,875	–
Other regulatory accounts	226,179	3,217	2,077	231,473	–
Deferred income taxes	2,401,674	555,006	–	2,956,680	–
Total amount related to regulatory deferral account debit balances	$ 4,952,888	$ 2,844,806	$ (2,038,870)	$ 5,758,824	–

	2020	Balances arising in the period	Recovery/ reversal	2021	Remaining recovery period (years)
Regulatory deferral account credit balances					
Group 1 deferred accounts	$ (948,901)	$ 240,043	$ (1,396)	$ (710,254)	–

The regulatory deferral account balances are recovered or settled through rates set by the OEB which are determined using estimates of future consumption of electricity by 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 deferral account balances.

Settlement of the Group 1 deferral and variance accounts is done on an annual basis. Kingston Hydro Corporation's 2020 Custom IR Year Four update rate application (EB-2020-0034) included a request to the OEB for disposition of the Corporation's deferral and variance account Group 1 balances. As part of the decision and rate order issued by the OEB on December 10, 2020, the Corporation received approval from the Ontario Energy Board on an interim basis for the disposition of Group 1 Deferral and Variance accounts in the amount of a net debit to customers in the amount of $1,107,689, which has been reflected in the balances above.

10. Related party transactions:

(a) 1425445 Ontario Limited (operating as Utilities Kingston):

During the year, the Corporation paid $11,749,108 (2020 - $11,591,491) to 1425445 Ontario Limited (operating as Utilities Kingston) ("Utilities Kingston") for support services and capital works. Utilities Kingston is a shared-services business incorporated to provide support services to both the Corporation and to various infrastructure businesses of the City of Kingston. There was no balance owing at December 31, 2021 with respect to these transactions.

(b) City of Kingston:

During the year, the Corporation contracted for certain financial services from the City of Kingston. As at December 31, 2021, the Corporation had an amount due from the City of Kingston representing the cumulative net balance of cash receipts and disbursements processed by the City of Kingston on behalf of the Corporation, in the amount of $8,776,828 (2020 - $6,628,073) The City of Kingston pays the Corporation interest on the balance at a rate of prime minus 1.65%.

11. Employee future benefit liabilities:

(a) Pension plan:

The former Hydro-Electric Commission of the Corporation of the City of Kingston entered into agreements in 1995 with a number of former employees on non-contributory defined benefit pension plans. An actuarial report of the accrued pension liability indicates that the present value of the accrued pension benefits as at December 31, 2021 is $192,792 (2020 - $193,589).

(b) Extended health care, dental and life insurance benefits:

The Corporation has an obligation with respect to post employment extended health care, dental and life insurance benefits that are provided to employees of Utilities Kingston through the service agreement with Utilities Kingston. An independent actuarial study of the post-retirement and post-employment benefits has been undertaken for Utilities Kingston. The most recent actuarial valuation of the future benefit liability for Utilities Kingston was completed as at December 31, 2021. The Corporation is responsible for approximately 25% of the post-employment benefit liability of Utilities Kingston.

11. Employee future benefit liabilities (continued):

(b) Extended health care, dental and life insurance benefits (continued):

These accrued benefit liabilities at December 31 include the following components:

	2021	2020
Accrued benefit liabilities, January 1	$ 997,650	$ 905,157
Service cost	(114,413)	158,121
Payments	(96,966)	(65,628)
Accrued benefit liabilities, December 31	$ 786,271	$ 997,650

These benefits will be paid to Utilities Kingston as future benefit obligations are paid by Utilities Kingston to its employees as part of the support services contract with the Corporation.

(c) Accumulated sick leave:

Utilities Kingston provides accumulated sick leave benefits to all its employees. Under the plan, the sick leave days accumulate from year to year but are non-vested. The Corporation is responsible for approximately 25% of the accrued benefit liability of Utilities Kingston. The amount of the Corporation's accrued benefit liability for accumulated sick leave that does not vest has been actuarially determined as at December 31, 2021 and is $243,262 (2020 - $254,799).

(d) Future benefit liabilities:

	2021	2020
Future benefit liabilities are comprised of:		
Pension plan	$ 192,792	$ 193,589
Health, dental and life insurance	786,271	997,650
Accumulated sick leave	243,262	254,799
	$ 1,222,325	$ 1,446,038

12. Share capital:

	2021	2020
Authorized:		
Unlimited Class A common shares		
Issued and outstanding:		
120 Class A common shares	$ 12,380,617	$ 12,380,617

13. General liability insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (“MEARIE”) which is a pooling of general liability risks. Members of MEARIE would be assessed, on a pro-rata basis, based on the total of their respective deposit premiums should losses be experienced by MEARIE that are in excess of their reserves and supplemental insurance, for the years in which the Corporation, and the former Hydro-Electric Commission, has been a member. The Corporation has not been made aware of any additional assessments.

14. Contingent liabilities:

The nature of the Corporation's activities is such that there may be litigation pending at any time. With respect to claims at December 31, 2021 against the Corporation, management believes there are valid defenses and appropriate insurance coverage in place. In the event any claims specifically are successful, management believes that such claims are not expected to have a material effect on the financial position of the Corporation.

No provision has been made in these financial statements in respect of any of the above contingent liabilities as management has assessed the risk of loss to be remote.

15. Payments in lieu of corporate income taxes:

The provision for amounts in lieu of corporate income taxes (“PILs”) differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

	2021	2020
Federal and Ontario statutory income tax rate	26.5%	26.5%
Earnings before provision for PILs	$ 2,892,690	$ 2,399,931
Provision for PILs at statutory rate	$ 766,563	$ 635,983
Change resulting from:		
Tax effect of regulatory assets and liabilities	(108,101)	(86,289)
Tax effect of other miscellaneous adjustments	(4,386)	(46,968)
Provision for PILs	$ 654,076	$ 502,726
Effective income tax rate	22.6%	20.9%

15. Payments in lieu of corporate income taxes (continued):

Tax effects of temporary difference that give rise to future tax assets are as follows:

	2021	2020
Shortfall of tax values over accounting values of fixed assets	$ (2,172,586)	$ (1,764,658)
Future benefit liabilities	323,915	383,200
Regulatory assets	(784,094)	(637,017)
Derivative asset	11,218	73,019
	$ (2,621,547)	$ (1,945,456)

16. Change in non-cash operating balances:

	2021	2020
Decrease (increase) in due from City of Kingston	$ (2,148,755)	$ 526,554
Decrease in miscellaneous accounts receivable	2,644,670	1,233,227
Decrease in billed revenue receivable	1,148,200	322,127
Decrease (increase) in unbilled revenue	(560,007)	1,089,971
Decrease in inventory	100,685	29,314
Increase in prepaid expenses	(39,806)	(58,616)
Increase (decrease) in accounts payable and accrued liabilities	603,514	(5,990,693)
Decrease in due to retailers	(18,023)	(5,691)
Increase in deposits payable	64,700	514
Change in regulatory deferral account debit balances	(805,936)	878,439
Change in regulatory deferral account credit balances	(238,647)	(587,505)
	$ 750,595	$ (2,562,359)

17. Financial instruments and risk management:

(a) Fair value disclosure:

Cash and cash equivalents are measured at fair value. The carrying values of receivables and accounts payable and accrued charges approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

17. Financial instruments and risk management (continued):

(b) 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.

(i) Credit risks:

Financial instruments carry credit risk that a counterparty will fair to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Kingston.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net earnings. Subsequent recoveries of receivables previously provisioned are credited to net earnings. The balance of the allowance for impairment at December 31, 2021 is $3,873,578 (2020 - $3,782,748).

(ii) Derivative instruments:

At December 31, 2021, the Corporation has a series of interest rate swap contracts totaling $7,379,960 (2020 - $9,016,647) that were used to convert floating rate debt to fixed rate debt. These swaps qualify as cash flow hedges. The Corporation’s cash flow hedge exposure at December 31, 2021 equals about 28% (2020 - 34%) of total long-term debt.

The unrealized gain or loss on these contracts is included as a component of other comprehensive income (loss) for the period. As of December 31, 2021, a liability of $42,330 (2020 - a liability of $275,545) is included on the balance sheet related to these contracts.

18. Capital risk management:

The Corporation’s objectives when managing capital are to safeguard its assets while at the same time maintain investor and creditor confidence, and to sustain future development of the business.

The Corporation includes shareholder’s equity and long-term debt including the note payable to the City of Kingston in the definition of capital. To maintain or adjust the capital structure, the Corporation may issue new shares, issue new debt with different characteristics, acquire or dispose of assets, or adjust the amount of cash and short-term investment balances held.

18. Capital risk management (continued):

There were no changes in the Corporation’s approach to capital management during the period. As part of its lending arrangements, the Corporation is subject to various financial covenants, including debt service coverage ratio and debt to capitalization ratio.

In addition, the note payable to the City of Kingston is subordinated to the Corporation’s bank in favour of the bank loan.

19. Impact of COVID-19

In March 2020, 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.

Management has undertaken certain strategies and actions to respond to the COVID-19 outbreak. The health and safety of all staff has been reinforced as a priority for the Corporation, and management has invoked a work-from-home regime, suspended domestic and international travel, and shifted face-to-face meetings to digital methods.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Corporation’s Financial condition, liquidity, and future results of operations. Management is actively monitoring the situation on its financial condition, liquidity, operations, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the responses to curb its spread, 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 Corporation's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect our business is not known at this time.