Hamilton Utilities Corporation®

Hamilton Utilities Corporation

Auditors' Report to the Shareholder

and Financial Statements

Year Ended December 31, 2019

Hamilton Utilities Corporation®

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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hamilton Utilities Corporation

Opinion

We have audited the accompanying financial statements of Hamilton Utilities Corporation (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 are 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 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 have 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.

KPMG

- 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

Hamilton, Canada

April 28, 2020

Statement of Financial Position

As at December 31, 2019, with comparative information for 2018
(stated in thousands of Canadian dollars)

	2019	2018
Assets		
Current assets		
Cash and cash equivalents *[note 5]*	$ 42	$ 326
Temporary investments	-	1,000
Accounts receivable	22	8
Other current assets	-	56
Current portion of long-term receivables *[note 7]*	324	324
	388	1,714
Non-current assets		
Investments in Alectra Inc. *[note 6]*	351,550	356,595
Long-term receivables *[note 7]*	6,156	6,480
Due from related parties *[note 12]*	2,130	-
Notes receivable from corporations under common control *[notes 4, 12]*	51,772	51,772
Deferred payments in lieu of income taxes *[note 8]*	461	98
	412,069	414,945
Total assets	$ 412,457	$ 416,659
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ -	$ 1,530
Payments in lieu of income taxes payable	-	56
Current portion of long-term borrowings *[note 7]*	324	324
	324	1,910
Non-current liabilities		
Long-term borrowings *[note 7]*	6,156	6,480
Due to related parties *[note 12]*	2,920	-
Employee future benefits	-	91
Deferred payments in lieu of income taxes *[note 8]*	65,024	66,503
	74,100	73,074
Total liabilities	74,424	74,984
Shareholder's equity		
Share capital *[note 9]*	129,897	129,897
Accumulated other comprehensive loss	(4,200)	(1,628)
Retained earnings	212,336	213,406
Total shareholder’s equity	338,033	341,675
Subsequent event *[note 16]*		
Total liabilities and shareholder’s equity	$ 412,457	$ 416,659

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

O*n behalf of the Board:*

Director

Director

Statement of Comprehensive Income

For the year ended December 31, 2019, with comparative information for 2018
(stated in thousands of Canadian dollars)

	2019	2018
Management fee income	$ 353	$ 386
Total revenue	353	386
Expenses:		
Operating expenses	816	3,150
	816	3,150
Loss from operating activities	(463)	(2,764)
Finance income *[note 10]*	248	442
Finance charges *[note 10]*	(248)	(282)
Gain on dilution of investment in Alectra Holdings Inc. *[note 6]*	979	-
Equity income in Alectra Holdings Inc. *[note 6]*	10,541	19,272
Income before payments in lieu of income taxes	11,057	16,668
Payments in lieu of income taxes (recovery) *[note 8]*	(1,842)	(8,849)
Net income	12,899	25,517
Other comprehensive income (loss)		
Items that may be reclassified to income – loss on bond forward:		
Share of Alectra Holdings Inc.'s reclassification to net income	173	363
Dilution of investment in Alectra Holdings Inc. reclassification to net income	24	-
Tax impact on Alectra Holdings Inc.'s other comprehensive income	-	(91)
	197	272
Items that will not be subsequently reclassified to income:		
Remeasurement of defined benefit obligation	(3,636)	726
Tax impact on remeasurement of defined benefit obligation	867	(182)
Total other comprehensive (loss) income	(2,572)	816
Total comprehensive income	$ 10,327	$ 26,333

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

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Statement of Changes in Equity

For the year ended December 31, 2019, with comparative information for 2018
(stated in thousands of Canadian dollars)

	Share capital	Retained earnings	Accumulated other comprehensive loss	2019 Total	2018 Total
Balance at January 1	$ 129,897	$ 213,406	$ (1,628)	$ 341,675	$ 367,209
Net income	-	12,899	-	12,899	25,517
Refundable tax	-	-	-	-	(40,506)
Other comprehensive loss	-	-	(2,572)	(2,572)	816
Dividends	-	(13,969)	-	(13,969)	(11,361)
Balance at December 31	$ 129,897	$ 212,336	$ (4,200)	$ 338,033	$ 341,675

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

Statement of Cash Flows

For the year ended December 31, 2019, with comparative information for 2018
(stated in thousands of Canadian dollars)

	2019	2018
OPERATING ACTIVITIES		
Net income	$ 12,899	$ 25,517
Adjustments for:		
Equity income in Alectra Holdings Inc.	(10,541)	(19,272)
Gain on dilution of investment in Alectra Holdings Inc.	(979)	-
Reclassification of OCI on dilution of Alectra Holdings Inc.	24	-
Management fee retained on dividends	(353)	-
Deferred payments in lieu of income taxes (recovery) *[note 8]*	(1,842)	(8,988)
Payments in lieu of income taxes expense *[note 8]*	-	139
Finance income	(248)	(442)
Finance charges	248	282
Finance charges paid	-	(282)
Finance income received	-	442
Payments in lieu of income taxes paid	(56)	-
Payments in lieu of income taxes received	-	240
Change employee future benefits	(91)	(11)
Change in other assets and liabilities *[note 11]*	(698)	(1,473)
Net cash from operating activities	(1,637)	(3,848)
INVESTING ACTIVITIES		
Repayment of long term receivables	324	324
Note receivable from corporation under common control	-	(6,588)
Decrease in temporary investments	1,000	-
Dividends received	13,969	11,004
Net cash from in investing activities	15,293	4,740
FINANCING ACTIVITIES		
Dividends paid in the year	(13,616)	(11,361)
Repayment of long-term borrowings	(324)	(324)
Net cash used in financing activities	(13,940)	(11,685)
Decrease in cash and cash equivalents	(284)	(10,793)
Cash and cash equivalents, beginning of year	326	11,119
Cash and cash equivalents, end of year	$ 42	$ 326

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

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

1. REPORTING ENTITY

On June 1, 2000, Hamilton Utilities Corporation (the "Corporation") was incorporated under the Business Corporations Act (Ontario). The Corporation is an investment holding company with investments as follows:

Investments where the Corporation exercises significant influence:

Alectra Holdings Inc. ("Alectra") – 17.31%

Alectra Inc.

Alectra Energy Solutions Inc.

Solar Sunbelt General Partnership

Horizon Solar Corporation

Alectra is an investment holding company that has wholly-owned investment interests in a regulated electricity distribution company, Alectra Inc., a non-regulated energy services company, Alectra Energy Solutions Inc., and a solar generation business, Solar Sunbelt General Partnership and Horizon Solar Corporation.

During 2018, the Corporation underwent a corporate restructuring whereby it transferred its subsidiaries controlled by it to other entities in the corporate group. The investments transferred were HCE Energy Inc., HCE Telecom, Net6 Communications, Hamover Power General Partnership and Hamover Power Limited Partnership and 2291506 Ontario Inc. See notes 3 (g) and 4 for details.

The address of the Corporation's registered office is 79 Bay Street North, Hamilton, Ontario, Canada.

Notes to Financial Statements

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The Corporation owns a 17.31% (2018 - 18.15%) interest in Alectra Inc., a local distribution company which distributes electricity to residents and businesses to customers in the Province of Ontario under a license issued by the Ontario Energy Board ("OEB"). The Corporation's investment in Alectra Inc. is accounted for using the equity method.

(b) Approval of the financial statements

The financial statements were approved by the Board of Directors on April 28, 2020.

(c) Basis of measurement

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

(d) Functional and presentation currency

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

2. BASIS OF PREPARATION (CONTINUED):

(e) Use of estimates and judgements

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

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

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes:

(i) Notes 3(i), 14 – recognition and measurement of provisions and contingencies

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Financial instruments

All financial assets and all financial liabilities 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(c).

The Corporation does not enter into derivative instruments. Hedge accounting has not been used in the preparation of these financial statements.

(b) Investment in Alectra Inc.

The Corporation has significant influence, but not control over the financial and operating policies of Alectra. Accordingly, the Corporation's investment in Alectra is accounted for using the equity method and is initially recognized at cost. The financial statements include the Corporation's share of the income and expenses and equity movements of Alectra after adjustments to align the accounting policies with those of the Corporation from the date that significant influence commences until the date that significant influence ceases.

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Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Impairment

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 that asset.

(d) Finance income and finance charges

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

Finance charges are calculated using the effective interest rate method and are recognized as an expense. Finance charges comprises interest expense on borrowings and interest and penalties on income tax payments and foreign exchange losses.

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Payments in lieu of income taxes

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) (“ITA”) and the Ontario Corporations Tax Act (“OCTA”) (collectively the “Tax Acts”). Pursuant to the *Electricity Act, 1998 (Ontario)* (“EA”), and as a consequence of its exemption from income taxes under the Tax Acts, the Corporation is required to make payments in lieu of corporate income taxes (“PILs”) to the Ontario Electricity Financial Corporation (“OEFC”). These payments are calculated in accordance with the Tax Acts.

PILs comprises current and deferred tax. Payments in lieu of income taxes is recognized in net income except to the extent that it relates to items recognized either in comprehensive income or directly in equity, in which case, it is recognized in comprehensive income or equity.

Current PILs is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred PILS comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective 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. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Revenue recognition

Other revenue

The performance obligations for the provision of services is recognized over time using an input method based on labour hours and resources consumed to measure the satisfaction of the performance obligation. The value of services transferred to the customer is determined based on the agree-upon price with the customer and represents the amount that the customer has the right to bill for services completed to date.

(g) Business reorganizations between entities under common control

Business reorganizations between entities under common control are accounted for at book value on a retrospective basis with comparative information restated to present financial information as if the restructuring had occurred prior to January 1, 2017.

(h) Set-off and reporting on a net basis

Assets and liabilities and income and expenses are not offset and reported on a net basis unless required or permitted by IFRS. Offsetting is permitted for financial assets and financial liabilities when, and only when, the Corporation has a legally enforceable right to set-off and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(i) 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.

4. BUSINESS REORGANIZATIONS WITH CORPORATIONS UNDER COMMON CONTROL

On December 31, 2018, the Corporation underwent a corporate restructuring whereby it transferred its investment in subsidiaries and partnership to newly formed entities owned by the Corporation's parent. The transfer was made in return for notes receivable which were valued at the fair value of the underlying shares and units of the companies and partnerships transferred. As a result, the Corporation recognized notes receivable having a value of $20,775. The difference between the book value of the investments and the value of the notes receivable was recognized directly in equity. Other intercompany balances held by the Corporation have been transferred at book value to the new entities. The comparative information has been restated to reflect the restructuring as of January 1, 2017.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of overnight deposits in Canadian chartered banks.

6. INVESTMENTS IN ALECTRA INC.

On January 31, 2017, the Corporation disposed of its wholly-owned subsidiary, Horizon Holdings Inc. ("Horizon"). Horizon amalgamated with PowerStream Holdings Inc. ("PowerStream") and Enersource Holdings Inc. ("Enersource") to form Alectra Inc. ("Alectra"). Alectra's primary business is to distribute electricity to customers in municipalities in the greater golden horseshoe area as well as provide non-regulated energy services. In consideration for its disposition of Horizon, the Corporation received a 18.15% ownership interest in Alectra's issued and outstanding common shares. The Corporation has determined it has significant influence over Alectra's financial reporting and operating polices and has accounted for its investment in Alectra under the equity method.

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

6. INVESTMENTS IN ALECTRA INC. (CONTINUED)

Alectra has also issued Class S Shares to the former PowerStream shareholders relating to Ring Fenced Solar Portfolio, a division of Alectra. In accordance with the Solar Services and Indemnity Agreement between the former PowerStream shareholders and Alectra, the solar division within Alectra is beneficially owned indirectly by the former PowerStream shareholders through Alectra's Class S shares. As such, the Corporation does not hold Class S shares of Alectra.

On January 1, 2019, Alectra Inc. amalgamated with Guelph Hydro Electric Systems Inc. ("GHESI"). Alectra Inc. issued 485,000 Class G Common Shares to Guelph Municipal Holdings Inc. ("GMHI") in consideration for all the issued and outstanding shares of GHESI. The common shares issuance by Alectra Inc. represents an effective 4.6% interest in its aggregate issued and outstanding classes of common shares. The new shareholder ownership structure has resulted in a decrease to the Corporation's investment from 18.15% to 17.31%, effective January 1, 2019.

The following tables summarizes the financial information of Alectra as included in its own financial statements, adjusted for fair value adjustments at acquisition as well as the removal of Ring Fenced Solar Portfolio's net assets and operating results. The table also reconciles the summarized financial information to the carrying amount of the Corporation's interest in Alectra:

	2019	2018
Current assets	$ 625,000	$ 663,000
Non-current assets	4,431,000	3,992,000
Current liabilities	(750,000)	(779,000)
Non-current liabilities	(2,559,000)	(2,187,000)
Net assets (100%)	1,747,000	1,689,000
Ring Fenced Solar Portfolio Net Assets	(13,212)	(20,209)
Fair value bump	296,145	296,145
	2,029,933	1,964,936
Carrying value of investment in Alectra at 17.31% (2018 at 18.15%)	$ 351,550	$ 356,595

Investment in Alectra Inc.	2019	2018
Opening investment as at January 1	$ 356,595	$ 347,238
Share of income	10,541	19,272
Share of OCI	(2,596)	1,089
Dividends received	(13,969)	(11,004)
Gain on dilution	979	-
Ending investment as at December 31	$ 351,550	$ 356,595

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

6. INVESTMENTS IN ALECTRA INC. (CONTINUED)

The following provides condensed supplementary financial information for the operations of Alectra Inc. for the year ended December 31, 2019.

	2019	2018
Revenue	$ 3,779,000	$ 3,446,000
Depreciation and amortization	(158,000)	(140,000)
Other expenses	(3,463,000)	(3,095,000)
Finance income	1,000	1,000
Finance expense	(75,000)	(64,000)
Income tax expense	(20,000)	(39,000)
Net income	64,000	109,000
Ring Fenced Solar Portfolio net income	3,102	2,816
Net income attributable to common shareholders	60,898	106,184
Share of income at 17.31% (2018 at 18.15%)	$ 10,541	$ 19,272
Other comprehensive income attributable to common shareholders	(15,000)	6,000
Share of other comprehensive (loss) income 17.31% (2018 at 18.15%)	$ (2,596)	$ 1,089

7. LONG-TERM RECEIVABLES AND BORROWINGS

Long-term receivables relate to a loan between the Corporation and HCE Energy ("HCE"), a corporation under common control relating to HCE's acquisition of the City of Hamilton's Central Utilities Plant (CUP).

The long-term borrowings are a loan between the City of Hamilton (the "City") and the Corporation relating to HCE's acquisition of the City's Central Utilities Plant (CUP).

The receivable and borrowings bear interest at 4.06% per annum and are repayable $324 annually principal plus interest and are due January 1, 2019 with four 5 year renewal terms. At December 31, 2019, the Corporation has not received any notice that the City will elect not to renew the loan agreement and as such, the loan remains in long-term borrowings. The borrowings are secured by way of a cross-company guarantee for the assets of the CUP held by HCE with a net book value of $9,778 (2018 - $10,154).

Interest expense for the long-term borrowings was $248 (2018 - $268). Interest revenue recognized was $248 (2018 - $268).

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

7. LONG-TERM RECEIVABLES AND BORROWINGS (CONTINUED)

Principal payments on the long-term borrowings and receivables are due as follows:

	Receivables	Borrowings
2020	$ 324	$ 324
2021	324	324
2022	324	324
2023	324	324
2024	324	324
Thereafter	4,860	4,860
	$ 6,480	6,480

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

8. PAYMENTS IN LIEU OF INCOME TAXES

Deferred and current payments in lieu of income taxes

	2019	2018
Current payments in lieu of income taxes:		
Current year	$ -	$ 139
Deferred payments in lieu of income taxes:		
Origination and reversal of temporary differences	(1,842)	(8,988)
Payments in lieu of income taxes	$ (1,842)	$ (8,849)

Reconciliation of effective tax rate

	2019	2018
Income before taxes	$ 11,057	$ 16,668
Canada and Ontario statutory Income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	2,930	4,417
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	(3,865)	(2,913)
Remeasurement of DBO, Alectra Inc.	(917)	-
Non-taxable portion of equity income	-	(1,080)
Alectra Inc. true-up	-	(8,957)
Adjustment for prior years	(75)	72
Changes in tax rates	85	(388)
Income tax recovery	$ (1,842)	$ (8,849)

Deferred tax balances

Significant components of the Corporation's deferred tax balances are as follows:

	2019	2018
Deferred payments in lieu of income taxes:		
Capital assets	$ -	$ 74
Other	157	-
Non-capital losses	280	-
Employee future benefits	24	24
Investment in Alectra Inc.	(65,024)	(66,503)
Deferred payments in lieu of income taxes	$ (64,563)	$ (66,405)

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

9. SHARE CAPITAL

	2019	2019
Unlimited number of common shares (1,000 issued and outstanding)	$ 129,897	$ 129,897

Any invitation to the public to subscribe for shares of the Corporation is prohibited.

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time.

The Corporation paid a dividend of $13.969 per share (2018 - 11.361) on the common shares during the year, amounting to a total dividend of $13,969 (2018 - $11,361).

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

10. FINANCE INCOME AND CHARGES

		2019		2018
Interest income on bank deposits	$	-	$	115
Interest income – Intercompany		248		327
Finance income		248		442
Interest expense – Intercompany		(248)		(268)
Loss on foreign currency exchange		-		(14)
Finance charges		(248)		(282)
Net finance income recognized in income	$	-	$	160

11. CASH FLOW INFORMATION

Net change in other assets and liabilities:

		2019		2018
Accounts receivable	$	(14)	$	726
Other current assets		56		(7)
Due from related parties		(2,130)		-
Due to related parties		2,920		-
Accounts payable and accrued liabilities		(1,530)		(2,192)
	$	(698)	$	(1,473)

12. RELATED PARTY TRANSACTIONS

(a) Parent and ultimate controlling party

The parent company and ultimate controlling party is the City of Hamilton. The City of Hamilton produces financial statements that are available for public use.

The Corporation earns its revenue primarily from its investment in Alectra.

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

12. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with ultimate parent (the City)

The Corporation entered into a borrowing agreement with its ultimate parent, a government entity as described in note 7.

(c) Transactions with corporations under common control

Outstanding balances with related parties are as follows:

	2019	2018
Hamilton Enterprises Holding Corporation	$ 3,524	$ 13,512
Hamilton Infrastructure Projects Corporation	11,817	-
Hamilton Ventures Corporation	17,211	17,484
HCE Energy Inc.	188	-
HCE Telecom	387	-
New Energy Co. HCE Energy – 2017		-
HCE Energy Inc.	(1,750)	-
HCE Telecom	(56)	-
Hamilton Enterprises Holding Corporation	(1,114)	-
Notes receivable in exchange for shares (note 4)		
Hamilton Enterprises Holding Corporation	19,987	19,987
New Energy Co. HCE Energy - 2017	788	788
	$ 50,982	$ 51,771

The Corporation has entered into a loan agreement with a subsidiary as described in note 7. The Corporation paid management and administrative and billing fees to a corporation under common control in the amount of $353 (2018 - $71).

Amounts owing to and from corporations under common control are non-interest bearing with no fixed terms of repayment.

(d) Key management personnel

The key management personnel of the Corporation has been defined as members of its board of directors and executive management team members. Total key management compensation for the Corporation in 2019 consisted of salaries and other short-term benefits as well as bonuses and amounted to $nil (2018 - $1,186).

Notes to Financial Statements

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value disclosure

The carrying values of cash and cash equivalents, temporary investments, accounts receivable and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

The fair value of the long-term borrowings and long-term receivables is $6,742.

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. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

(i) 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 and notes receivable, expose it to credit risk. The majority of accounts receivable was collected subsequent to year end. The notes receivable are receivable from corporations under common control.

The carrying amount of accounts receivable is reduced through an allowance for estimated 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 $nil (2018 - $nil).

(ii) 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, foreign exchange or interest rate risk.

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(iii) 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 minimal working capital requirements and does not believe there is significant exposure with respect to liquidity risk. The Corporation monitors liquidity risk through reviewing and determining dividends received and paid.

(iv) Capital disclosures

The main objectives of the Corporation, when managing capital, are to ensure on-going access to dividends from its investment in Alectra to deliver appropriate financial returns. The Corporation's definition of capital includes shareholder's equity and long-term borrowings. As at December 31, 2019, shareholder's equity amounts to $338,033 (2018 - $341,675) and long-term borrowings amounts to $6,480 (2018 - $6,804).

14. CONTINGENCIES

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.

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

15. ADOPTION OF NEW ACCOUNTING STANDARDS

The Corporation has applied IFRS 16 Leases with a date of initial application of January 1, 2019. The Corporation applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. The details of the changes in accounting policies are disclosed below.

Previously, the Corporation determined, at contract inception, whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Corporation assesses whether a contract is or contains a lease based on the definition of a lease. On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which contracts are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether they contained a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee, the Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet. The Corporation has decided to apply recognition exemptions to short-term leases and leases for which the value of the underlying asset is of low value.

Impacts on financial statements

There are no transitional impacts to report as all of the Corporation's leases are short-term leases or leases for assets which have low value and the Corporation has applied the recognition exemption for these leases.

Notes to Financial Statements

For the year ended December 31, 2019
(stated in thousands of Canadian dollars)

16. 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 have an impact on Alectra Inc. and lead to reduced cash flows in the form of lower dividends from Alectra Inc. If this occurs and continues for an extensive period of time, it 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 our business are not known at this time.

17. COMPARATIVE INFORMATION

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