

Consolidated Financial Statements

Thunder Bay Hydro Corporation

December 31, 2022

Thunder Bay Hydro Corporation

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Independent Auditor's Report

To the Shareholder of Thunder Bay Hydro Corporation

Opinion

We have audited the accompanying consolidated financial statements of Thunder Bay Hydro Corporation (the Company), which are comprised of the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Independent Auditor's Report

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

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

Chartered Professional Accountants, Licensed Public Accountants

Thunder Bay, Ontario
April 26, 2022

Thunder Bay Hydro Corporation
Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)

As at	Notes	December 31, 2022	December 31, 2021
		\$	\$
			<i>[Restated - Note 25]</i>
ASSETS			
Current			
Cash and cash equivalents	20	17,308,614	15,672,535
Trade and other receivables	6	14,035,389	14,298,454
Unbilled revenue	6	13,719,778	12,384,851
Payments in lieu of corporate income taxes receivable	8	329,375	160,465
Stores inventory	18	5,439,528	3,504,213
Prepaid expenses		928,061	826,462
Total current assets		51,760,745	46,846,980
Non-current assets			
Cash - restricted	21	500,000	500,000
Property, plant and equipment	4	166,804,059	156,773,007
Intangible assets	16	626,367	677,260
Deferred taxes	8	6,735,744	5,941,713
Right-of-use assets	5	13,671	340,652
Goodwill	16	4,648,887	4,648,887
Total non-current assets		179,328,728	168,881,519
Regulatory deferral account debit balances and related deferred tax	3	4,991,476	2,161,390
Total assets and regulatory deferral account balances		236,080,949	217,889,889

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

On behalf of the Board:

Director

Director

Thunder Bay Hydro Corporation
Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)

As at	Notes	December 31, 2022	December 31, 2021
		\$	\$
			<i>[Restated - Note 25]</i>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current			
Accounts payable and accrued liabilities		23,292,665	18,087,364
Customer deposits and deferred contributions	10	1,887,389	1,948,238
Deferred revenue		606,804	543,921
Current portion of long-term debt	13	3,718,481	5,579,061
Current portion of lease liability	5	1,911	357,031
Total current liabilities		29,507,250	26,515,615
Non-current liabilities			
Contributions in aid of construction	11	19,305,014	16,179,582
Note payable to the Corporation of the City of Thunder Bay	12	26,490,500	26,490,500
Employee future benefits	9	2,173,372	2,729,072
Asset retirement obligation	14	297,340	305,366
Due to majority shareholder		954,495	891,833
Long-term debt	13	46,398,946	37,694,296
Deferred taxes	8	10,708,220	8,798,697
Lease liability	5	17,864	15,764
Total non-current liabilities		106,345,751	93,105,110
Shareholder's equity			
Share capital	19	41,931,625	41,931,625
Accumulated other comprehensive income		804,824	379,643
Retained earnings		41,405,646	40,471,021
Non-controlling interest	24	12,560,914	12,469,468
Total shareholder's equity		96,703,009	95,251,757
Total liabilities and shareholder's equity		232,556,010	214,872,482
Regulatory deferral account credit balances and related deferred tax	3	3,524,939	3,017,407
Total equity, liabilities and regulatory deferral account credit balances		236,080,949	217,889,889

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

Thunder Bay Hydro Corporation

Consolidated Statement of Comprehensive Income

(Expressed in Canadian Dollars)

Year ended December 31		2022	2021
	Notes	\$	\$
			<i>[Restated - Note 25]</i>
REVENUE			
Electricity sales	7	143,511,329	142,158,394
Purchased power		(118,621,276)	(115,822,803)
		24,890,053	26,335,591
Other revenue	7	5,812,743	7,113,255
		30,702,796	33,448,846
EXPENSES			
Administration <i>[schedule]</i>		9,401,043	9,245,858
Operations and maintenance <i>[schedule]</i>		12,502,701	9,254,957
Depreciation	15	5,431,659	5,037,617
Plant operations		769,627	781,304
Recoverable expenses		67,166	63,722
Utility services <i>[schedule]</i>		328,876	210,160
Amortization land lease		1,953	1,610
Conservation and related programs		26,593	552,797
Loss on disposal of property, plant and equipment		293,389	169,060
		28,823,007	25,317,085
Income from operating activities		1,879,789	8,131,761
Finance income	20	460,135	135,703
Finance cost	20	(1,617,857)	(1,515,015)
Income before provision for payment in lieu of taxes		722,067	6,752,449
Provision (recovery) for payment in lieu of taxes			
Current	8	(3,493)	587,700
Deferred	8	956,885	923,475
		953,392	1,511,175
Profit (loss) for the year before net movements in regulatory deferral account balances		(231,325)	5,241,274
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement		1,930,861	(1,092,933)
Profit for year and net movements in regulatory deferral account balances		1,699,536	4,148,341
Other comprehensive income (loss): Items that will not be reclassified to profit or loss, net of income tax			
Remeasurements of future employee benefits		439,910	288,452
Remeasurement of investments		23,806	30,970
Total comprehensive income for the year		2,163,252	4,467,763

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

Thunder Bay Hydro Corporation

Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars)

Year ended December 31, 2022

	Share Capital \$	Accumulated other comprehensive income \$	Retained earnings \$	Non- controlling interest \$	Total \$
Balance at January 1, 2021	41,931,625	86,765	37,785,359	12,183,245	91,986,994
Profit for the year and net movements in regulatory deferral account balances	-	-	3,846,862	301,479	4,148,341
Other comprehensive loss, net of tax	-	292,878	-	26,544	319,422
Dividends paid	-	-	(1,161,200)	(41,800)	(1,203,000)
December 31, 2021	41,931,625	379,643	40,471,021	12,469,468	95,251,757
Profit for the year and net movements in regulatory deferral account balances	-	-	1,593,690	105,846	1,699,536
Other comprehensive income, net of tax	-	425,181	-	38,535	463,716
Dividends paid	-	-	(659,065)	(52,935)	(712,000)
December 31, 2022	41,931,625	804,824	41,405,646	12,560,914	96,703,009

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

Thunder Bay Hydro Corporation

Consolidated Statement of Cash Flows

(Expressed in Canadian Dollars)

Year ended December 31	2022	2021
	\$	\$ [Restated - Note 25]
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year and net movements in regulatory deferral account balance	1,699,536	4,148,341
Adjustments to reconcile income to cash flow from operating activities:		
Depreciation [note 15]	6,540,329	6,105,133
Royalties	42,976	57,053
Loss on disposal of property, plant and equipment	293,389	169,060
Amortization of contributions in aid of construction [note 11]	(290,049)	(271,612)
Modification of lease liability	2,741	4,355
Deferred taxes	1,115,492	923,475
(Decrease) increase in future employee benefits	(91,984)	80,442
Accretion expense related to asset retirement obligation [note 14]	-	4,659
Accretion expense on royalties	21,180	11,588
Amortization of right-of-use asset [note 5]	329,722	326,872
Increase in right-of-use asset [note 5]	(2,741)	(4,214)
	9,660,591	11,555,152
Changes in non-cash working capital balances related to operations:		
Trade and other receivables	263,065	1,150,233
Unbilled revenue	(1,334,927)	(1,603,524)
Payments in lieu of taxes	(168,910)	(322,823)
Stores inventory	(1,935,315)	(427,298)
Prepaid expenses	(101,599)	(204,602)
Accounts payable and accrued liabilities	5,205,301	7,152,447
Customer deposits and deferred contributions	(60,849)	40,034
Deferred revenue	62,883	(375,015)
Due to majority shareholder	(1,494)	(605)
Net cash flows from operating activities	11,588,746	16,963,999
CASH FLOWS USED IN INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	137,157	281,223
Purchase of property, plant and equipment [note 22]	(13,543,579)	(12,220,722)
Changes in regulatory deferral account balances	(2,322,554)	552,431
Net cash used in investing activities	(15,728,976)	(11,387,068)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	9,900,000	-
Repayments of long-term debt	(3,055,930)	(2,409,571)
Net payments on lease liability	(355,761)	(341,338)
Asset retirement obligation [note 14]	-	(18,649)
Payment of dividends	(712,000)	(1,203,000)
Net cash provided by (used in) financing activities	5,776,309	(3,972,558)
Increase in cash during year	1,636,079	1,604,373
Cash and cash equivalents, beginning of year	15,672,535	14,068,162
Cash and cash equivalents, end of year	17,308,614	15,672,535

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

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

December 31, 2022

1. CORPORATE INFORMATION

Thunder Bay Hydro Corporation's ("the Company") main business is the distribution of electricity in two rate zones. The Company owns and operates an electricity distribution system, which delivers electricity to approximately 51,400 customers located in Thunder Bay, Ontario and Fort William First Nation and 5,600 customers located in Kenora, Ontario. It provides meter services to various corporations in Northwestern Ontario as well as locate, administrative and billing services for other utilities in Northwestern Ontario. The Company also operates a landfill gas generation plant under a 20-year contract with the Independent Electricity System Operator ("IESO") formerly the Ontario Power Authority ("OPA") effective August 2010. The address of the Company's corporate office and principal place of business is 34 Cumberland Street North, Thunder Bay, Ontario, Canada. The sole shareholder of the Company is The Corporation of the City of Thunder Bay.

The Company was incorporated under the Business Corporations Act on October 26, 2000 and has continued as a Corporation under the Business Corporations Act of Ontario. The Company distributes electricity to residents and businesses in Thunder Bay and Kenora under a license issued by the Ontario Energy Board ("OEB"). The Company is regulated by the OEB and adjustments in the Company's distribution revenue require OEB approval.

The Consolidated statements include the accounts of the Company and its subsidiaries as follows:

	Proportion of Interest		Non-controlling ownership/voting	
	2022	2021	2022	2021
SYNERGY NORTH Corporation ("SN")	91.69%	91.69%	8.31%	8.31%
Thunder Bay Hydro Utilities Services Inc. ("TBHUSI")	100%	100%	-	-
Thunder Bay Hydro Renewable Power Incorporated ("TBHRPI")	100%	100%	-	-

All intercompany balances and transactions have been eliminated.

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

December 31, 2022

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of Thunder Bay Hydro Corporation have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorized for issue by the Board of Directors on April 25, 2023.

b) Basis of measurement

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

c) Explanation of Activities subject to Rate Regulation

SN, as an electricity distributor, is both licensed and regulated by the OEB which has a legislative mandate to oversee various aspects of the electricity industry. The OEB exercises statutory authority through setting or approving all rates charged by the Company and establishing standards of service for the Company's customers.

The OEB has broad powers related to licensing, standards of conduct and service and the regulation of rates charged by the Company and other electricity distributors in Ontario. The Ontario government enacted the Energy Competition Act, 1998, to introduce competition to the Ontario energy market. Rates are set by the OEB on an annual basis for May 1 to April 30 for both the Thunder Bay and Kenora rate zones.

Regulatory risk

Regulatory risk is the risk that the Province and its regulator, the OEB, could establish a regulatory regime that imposes conditions that restrict the electricity distribution business from achieving an acceptable rate of return that permits financial sustainability of its operations including the recovery of expenses incurred for the benefit of other market participants in the electricity industry such as transition costs and other regulatory assets. All requests for changes in electricity distribution charges require the approval of the OEB.

Recovery risk

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect distribution rates and other permitted recoveries in the future. SN is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required (i) to recover the forecasted operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

December 31, 2022

Demand risk

The volume of electricity consumed by customers during any period is largely influenced by events outside of the Company's control (e.g. sustained periods of hot or cold weather could increase the consumption of electricity, sustained periods of mild weather could decrease the consumption of electricity and general economic conditions could affect overall electricity consumption). Additionally, consumption may be decreased in the future due to the impact of Conservation and Demand Management ("CDM") programs, distributed generation, renewable energy, and advances in technology. Accordingly there can be no assurance that the Company will earn the revenue requirement approved by the OEB.

d) Judgment and Estimates

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

- The calculation of impairment of accounts receivables and unbilled service revenue; and the incorporation of forward looking information into the measurement of the expected credit loss (ECL) [note 6];
- The determination for the provision of Payment in Lieu of Taxes since there are many transactions and calculations for which the ultimate tax determination is uncertain [note 8];
- The determination of whether an arrangement contains a lease and the determination of the incremental borrowing rate used to measure lease liabilities [note 5];
- The calculation of unbilled revenue [note 6];
- The determination of useful lives of property, plant and equipment [note 4];
- The calculation of the net future obligation for certain unfunded health, dental and life insurance benefits for the Company's retired employees, and calculation of unvested sick leave benefits for employees [note 9];
- The calculation of regulatory deferral account balances [note 3]; and
- The determination of an impairment test of non-financial assets needs to be performed; and the expected future cash flows and various risk components which comprise the discount rate.

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

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

December 31, 2022

3. REGULATORY DEFERRAL ACCOUNT BALANCES

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

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

Regulatory deferral account debit balances represent future revenues associated with certain costs incurred in the current period or in prior period(s), that are expected to be recovered from consumers in future periods through the rate-setting process. Management continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

The balances and movements in the regulatory deferral account balances shown below are presented net of related deferred taxes. These deferred taxes are not presented within the total deferred tax asset balances [note 8].

All amounts deferred as regulatory deferral account debit balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered by customers (returned to customers) in future periods and as such regulatory deferral account balances are comprised of:

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Notes to the Consolidated Financial Statements

December 31, 2022

	January 1, 2022	Balances arising in the period	Recovery /reversal	December 31, 2022
	\$	\$	\$	\$
Regulatory Deferral Account Debit				
Retailer Services	232,497	3,890	-	236,387
OEB Cost Assessment	160,381	1,702	-	162,083
Lost Revenue Adjustment Mechanism	203,715	377,373	-	581,088
Other Deferral Accounts	110,266	(90,646)	-	19,620
Retail Settlement Variances	1,264,079	2,452,777	160,935	3,877,791
Post Merger Policy Changes	190,452	(75,945)	-	114,507
	2,161,390	2,669,151	160,935	4,991,476
Regulatory Deferral Account Credit				
Wireline Pole Attachment Deferral	(2,211,428)	(417,361)	-	(2,628,789)
Accounting Changes	(9,764)	-	-	(9,764)
Deferred Taxes	(235,200)	(57,339)	-	(292,539)
Carrying Charges	(561,015)	(58,484)	25,652	(593,847)
	(3,017,407)	(533,184)	25,652	(3,524,939)
Net regulatory assets(liabilities)	(856,017)	2,135,967	186,587	1,466,537

Recovery/Reversal column represents OEB amounts approved for disposition.

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Notes to the Consolidated Financial Statements

December 31, 2022

	January 1, 2021 \$	Balances arising in the period \$	Recovery /reversal \$	December 31, 2021 \$
	<i>[Restated - Note 25]</i>	<i>[Restated - Note 25]</i>		<i>[Restated Note 25]</i>
Regulatory Deferral Account Debit				
Retailer Services	204,018	28,479	-	232,497
Lost Revenue Adjustment				
Mechanism	203,715	-	-	203,715
Other Deferral Accounts	110,266	-	-	110,266
OEB Cost Assessment	151,868	8,513	-	160,381
Retail Settlement Variances	1,990,073	(491,025)	(234,969)	1,264,079
Post Merger Policy Changes	44,353	146,099	-	190,452
	2,704,293	(307,934)	(234,969)	2,161,390
Regulatory Deferral Account Credit				
Accounting Changes	(9,764)	-	-	(9,764)
Wireline Pole Attachment				
Deferral	(1,432,168)	(779,260)	-	(2,211,428)
Carrying Charges	(539,416)	(18,302)	(3,297)	(561,015)
Deferred Taxes	(186,681)	(48,519)	-	(235,200)
	(2,168,029)	(846,081)	(3,297)	(3,017,407)
Net regulatory assets(liabilities)	536,264	(1,154,015)	(238,266)	(856,017)

Recovery/Reversal column represents OEB amounts approved for disposition.

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Notes to the Consolidated Financial Statements

December 31, 2022

a) Retailer Services

This regulatory balance relates to the net of revenues and costs of services pertaining to the supply of competitive electricity to retailer customers. This balance will be brought forward for recovery in future distribution rates.

b) OEB Cost Assessment

The OEB issued guidance in 2016 permitting the Company to record any material differences between OEB cost assessments currently collected in rates, and the application of the OEB's new Cost Assessment Model. This balance will be brought forward for recovery in future distribution rates.

c) Lost Revenue Adjustment Mechanism

The Lost Revenue Adjustment Mechanism account tracks lost electricity distribution revenue as a result of reduced electricity consumption when customers participated in Conservation and Demand Management programs. This balance will be brought forward for recovery in future distribution rates.

d) Other Deferral Accounts

This balance is comprised of the following accounts; Smart Meter Deferral, Renewable Generation Deferral, Smart Grid Deferral, Gain on Sale of Non-Depreciable Property, Green Button, Customer Choice and Deferred IFRS transition costs. These balances will be brought forward for recovery in future distribution rates.

e) Retail Settlement Variance Accounts

This account is comprised of the variances between amounts charged by the company to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by the company. The settlement variances relate primarily to commodity charges, non-competitive electricity charges, and the global adjustment.

The company has recognized a settlement variance asset which will be brought forward for recovery in future distribution rates.

f) Post Merger Accounting Policy Changes

On direction from the OEB in their decision on the Merger, Amalgamation, Acquisition and Divestiture application, the Company has calculated the impact on the pre-merger revenue requirement for Kenora Hydro created by the adoption of Thunder Bay Hydro's accounting policies. This Deferral account will be brought forward to be disposed of in future distribution rates, at which time it is expected that the accumulated balance will be collected from the Kenora rate zone customers.

g) Wireline Pole Attachment Deferral

The OEB issued guidance in 2018 permitting distributors to increase rates charged to telecommunication companies for wireline pole attachments. The OEB also directed distributors to record any excess revenue between its OEB rate approved revenue and

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

December 31, 2022

the incremental revenue collected in a new variance account related to pole attachment charges. The balance will be brought forward for disposal in future distribution rates.

h) Accounting Changes Under Canadian Generally Accepted Accounting Policies (CGAAP)

This regulatory balance relates to the calculation of the annual impact on revenue arising from Kenora Hydro's capital accounting policies under CGAAP versus those under IFRS. The Company will carry this balance, which is expected to be returned to the Kenora rate zone customers, in future distribution rates.

i) Deferred Taxes

The recovery from, or refund to, customers of future income taxes through future rates is recognized as a regulatory deferral account balance. The Company has recognized a net deferred tax liability, which will be brought forward for disposition in future distribution rates.

j) Carrying Charges

Carrying charges are calculated monthly on the opening balance of the applicable variance account using a specified interest rate as outlined by the OEB. The Company intends to dispose of carrying charges in future distribution rates.

Future regulatory accounting treatment as prescribed by the OEB, as well as government policy changes, may impact the electricity distribution rates charged, and may alter the recoverable costs permitted by the OEB. There is a risk that the timing and amount of recovery or disposal of amounts included in the regulatory deferral account balances could be significantly different than the amounts that are eventually recovered or disposed through distribution rates.

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

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4. PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Property, plant and equipment (PP&E) are recognized at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including eligible borrowing costs.

Depreciation of PP&E is recorded in the consolidated Statement of Comprehensive Income on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful lives are as follows:

Buildings	2%
Distribution and transformation equipment	1% to 6%
Other assets	3.3% to 5%
Rolling stock	5% to 8%
Generation assets	15 to 20 years

Land is not depreciated.

Major spare parts

Major spares such as spare transformers and meters kept as standby/back up equipment are accounted for as PP&E since they support the Company's distribution system reliability, but are not depreciable until installed.

Contributions in aid of construction

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction.

Gains and losses on disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are included in the consolidated Statement of Comprehensive Income when the asset is disposed of.

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Impairment of non-financial assets

Other non-financial assets including property, plant and equipment are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (CGU), which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment losses for CGUs is charged pro rata to non financial assets in the CGUs. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the CGU's recoverable amount exceeds its carrying amount.

Impairment charges, if any, are included in the Statement of Comprehensive Income.

In a prior year, it was determined that the property, plant and equipment of TBHRPI was impaired. Decreasing cash flow experienced and projected, coupled with uncertainty regarding the IESO contract renewal, in management's judgement is indicative of an impairment of the property plant and equipment. Renewable Energy Projects require government revenue contracts to be viable.

In 2022, TBHRPI's impairment analysis involved the use of a fair value approach that relied on estimating future cash flows and applying the appropriate discount rate for those future cash flows.

TBHRPI has projected that revenue will increase in 2023 by 17%, 0.6% in 2024 and 0.4% annually thereafter. Operating expenses, excluding interest on long term debt and amortization will increase by 4% in 2023 and 2.25% thereafter. The fair value calculation discount rate used was 7.5%.

TBHRPI does not estimate further impairment or recovery to its property, plant and equipment.

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	Land and Buildings	Distribution equipment	Transformation equipment	Renewable Solar	Other Fixed Assets	Construction- in-progress	Total
Cost							
Balance as of January 1, 2021	\$10,051,405	\$216,522,959	\$12,581,246	\$3,831,054	\$27,944,203	\$5,366,790	\$276,297,657
Additions	44,365	14,944,408	5,055	-	1,228,945	(1,011,139)	15,211,634
Disposals	(1,441)	(1,975,141)	-	-	-	-	(1,976,582)
Balance as of December 31, 2021	10,094,329	229,492,226	12,586,301	3,831,054	29,173,148	4,355,651	289,532,709
Additions	55,400	14,509,591	-	-	1,473,769	1,157,235	17,195,995
Disposals	-	(1,520,978)	-	-	(113,487)	-	(1,634,465)
Balance as of December 31, 2022	10,149,729	242,480,839	12,586,301	3,831,054	30,533,430	5,512,886	305,094,239
Accumulated depreciation							
Balance as of January 1, 2021	\$4,683,203	\$92,911,954	\$8,659,621	\$1,417,567	\$20,325,998	\$-	\$127,998,343
Depreciation for the year	295,596	4,319,549	333,078	191,608	1,147,826	-	6,287,657
Disposals	-	(1,526,298)	-	-	-	-	(1,526,298)
Balance as of December 31, 2021	4,978,799	95,705,205	8,992,699	1,609,175	21,473,824	-	132,759,702
Depreciation for the year	297,865	4,636,257	327,446	191,608	1,281,221	-	6,734,397
Disposals	-	(1,095,848)	-	-	(108,071)	-	(1,203,919)
Balance as of December 31, 2022	5,276,664	99,245,614	9,320,145	1,800,783	22,646,974	-	138,290,180
Net Book Value							
At December 31, 2021	5,115,530	133,787,021	3,593,602	2,221,879	7,699,324	4,355,651	156,773,007
At December 31, 2022	4,873,065	143,235,225	3,266,156	2,030,271	7,886,456	5,512,886	166,804,059

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5. RIGHT-OF-USE ASSET AND LEASE LIABILITY

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019. All leases are accounted for by recognizing a right-to-use asset and a lease liability except for:

- Leases of low value assets (based on the value of the underlying asset when new); and
- Short-term leases with a lease term of twelve months or less.

a) Nature of leasing activities (in the capacity as lessee)

In 2012 SN signed a lease for office space. This lease is for a period of 5 years plus the option to renew for an additional 5 years. The lease payments comprise fixed payments over the lease term and additional rent payments that are based on changes in market rates. The lease and its option to renew expired in 2022, since which time the Company has been renting on a month-by-month basis.

TBHRPI leases land at its renewable generation site. This lease is for a fixed period of 20 years and expires September 2030.

b) Recognition and initial measurement

The Company recognizes right-of-use assets and lease liabilities at the lease commencement date.

The right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease or initial direct costs incurred.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate (e.g. CPI or inflation). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

c) Subsequent measurement

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. Right-of-use assets are amortized on a straight line basis over the remaining term of the lease.

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Lease liabilities are subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement. Lease liabilities are also remeasured when there is a change in the assessment of the term of any lease (for example, a change in the Company's assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised). The future lease payments over the revised term are discounted at the revised discount rate at the date of reassessment. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset.

Right-of-use assets consist of the following:

	Properties
	\$
Cost	
Balance at December 31, 2021	1,671,504
Modifications to lease terms	2,741
Disposal	(1,640,210)
Balance at December 31, 2022	34,035
Accumulated Depreciation	
Balance at December 31, 2021	1,330,852
Depreciation for the year	329,722
Disposal	(1,640,210)
Balance at December 31, 2022	20,364
Net Book Value	
Carrying amounts at December 31, 2021	340,652
Carrying amounts at December 31, 2022	13,671

Lease liabilities consist of the following:

	Properties
	\$
Balance at December 31, 2021	372,795
Interest expense	7,280
Lease payments	(363,041)
Modification to lease terms	2,741
Balance at December 31, 2022	19,775
Less current portion	(1,911)
Long term portion	17,864

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Amounts recognized in the statement of cash flows:

	2022	2021
	\$	\$
Total cash outflow for leases	363,401	357,615

Amounts recognized in profit or loss:

	2022	2021
	\$	\$
Expenses relating to short-term leases (included in operating expenses)	39,600	68,611

d) Liquidity risk

The Company does not face a significant liquidity risk regarding its lease liabilities. Lease liabilities are monitored within the Company's finance function.

The following table sets out the contractual maturities, representing undiscounted contractual cash-flows, of lease liabilities:

	2022
	\$
No later than 1 year	2,538
Later than 1 year and not later than 5 years	12,320
Later than 5 years	7,716
	22,574

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6. ACCOUNTS RECEIVABLE AND UNBILLED SERVICE REVENUE

Trade and other receivables

	2022 \$	2021 \$
Trade receivables	12,932,964	12,649,516
Less: provision for impairment of trade receivables	(446,405)	(380,005)
Trade receivables - net	12,486,559	12,269,511
Other receivables	1,548,830	2,028,943
Total trade and other receivables	14,035,389	14,298,454

Unbilled service revenue

Unbilled service revenue reflects the customer billing for distribution charges and the electricity delivered but not yet billed to customers. Customer billings generally occurs within 30 days of delivery.

Due from customers	13,744,778	12,404,951
Less: provision for impairment of unbilled revenue	(25,000)	(20,100)
Current portion	13,719,778	12,384,851

The carrying value of trade and other receivables and unbilled service revenue is classified and measured at amortized cost and approximate their fair value due to their short maturity. Accounts are past-due (in default) when the customers have failed to make the contractually required payments when due, which is generally within 19 days of the billing date.

The Company develops loss rates based on historical default and loss experiences for its customers, adjusted for current economic conditions and forecasts of future economic conditions including local unemployment rates, local economic outlook, credit customers. The same factors are considered when determining whether to write off accounts receivable and unbilled service revenue amounts. This generally occurs when there is no realistic prospect of recovery. However accounts written off could still be subject to enforcement activities. No accounts are written off directly to the provision for credit losses.

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7. REVENUE

Major components of revenues consist of the following:

	2022	2021
	\$	\$
<i>Electricity sales and distribution</i>		
Electricity sales	116,133,621	116,246,332
Distribution revenue	27,377,708	25,912,062
	143,511,329	142,158,394
<i>Other revenue</i>		
<i>Revenue from contracts with customers</i>		
Wireline pole attachment revenue	1,169,014	1,463,071
Reconnection and change of occupancy charges	199,875	192,990
Late payment charges	325,609	326,650
Utility services	1,058,128	991,130
FIT Revenue	1,615,488	1,928,630
<i>Revenue from other sources</i>		
Recoverable	748,115	1,014,561
Conservation and related programs	26,593	552,797
Competitive market revenues	200,294	197,779
Sundry	179,579	174,035
Amortization of contributions in aid of construction [note 11]	290,048	271,612
	5,812,743	7,113,255
Total revenue		
Revenue from contracts	147,879,443	147,060,865
Revenue from other sources	1,444,629	2,210,784
	149,324,072	149,271,649

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and that the revenue can be reliably measured.

As a licensed distributor, the Company 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 Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company has determined that they are acting as a principal for the electricity distribution and, therefore, have presented the electricity revenues on a gross basis.

Revenues from the sale and distribution of electricity are recognized over time on an accrual basis upon delivery of the electricity, including unbilled revenues accrued in respect of distribution charges and electricity delivered but not yet billed. Sale and distribution of electricity revenue is comprised of customer billings. Customer billings for sale and distribution of electricity are recorded based on meter readings, and are generally due within 19 days of the billing date.

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Other revenues, which include revenues from wireline pole attachment revenue collection charges and other miscellaneous revenues are recognized at the time services are provided. Where the Company has an ongoing obligation to provide services, revenues are recognized as the service is performed and amounts billed in advance are recognized as deferred revenue.

Microfit ("FIT") contract revenue is recognized based on the hourly generation for the month.

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as contributions in aid of construction and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction [note 11].

8. PAYMENTS IN LIEU OF TAXES PAYABLE

The Company is municipally owned as a licensed distribution utility for purposes of the payments in lieu of taxes ("PILs") regime contained in the Electricity Act, 1998. As a result, the Company is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Under the Electricity Act, 1998, the Company is required to make, for each taxation year, PILs to Ontario Electricity Financial Corporation ("OEFC"), commencing October 1, 2001. 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 Corporation Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

PILs expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that it relates to items recognized directly in equity or regulatory deferral account balances [note 3].

Significant judgment is required in determining the provision for PILs. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provision in the period in which such determination is made.

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The income tax expense varies from amounts which would be computed by applying the Company's combined statutory income tax rate as follows:

	2022	2021
	\$	\$
Earnings before provision for taxes	2,652,928	5,659,516
Statutory Canadian federal and provincial income tax rate (%)	26.50	26.50
Expected provision	703,026	1,499,772
Increase (decrease) in income tax resulting from:		
Permanent differences	24,799	2,025
Other	141,771	110,817
Corporate minimum tax	83,796	(101,439)
Tax provision	953,392	1,511,175
Effective tax rate (%)	35.94%	26.70%

The significant components of the tax effect of the amount recognized in other comprehensive income are composed of:

	2022	2021
	\$	\$
Deferred tax		
Remeasurements of future employee benefits	158,607	104,000

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	Opening balance January 1, 2022 \$	Recognize in net income \$	Recognize in OCI \$	Closing balance at December 31, 2022 \$
2022				
Deferred tax asset				
Accrued royalty	236,980	17,002	-	253,982
Right-of-use asset and lease liability	8,068	(6,451)	-	1,617
Employee future benefits	723,204	11,347	(158,607)	575,944
Contributions in aid of construction	4,287,589	828,239	-	5,115,828
Asset retirement obligation	80,922	(2,127)	-	78,795
Cumulative eligible capital	152,141	(7,762)	-	144,379
Loss carry forwards	452,809	112,390	-	565,199
	5,941,713	952,638	(158,607)	6,735,744
Deferred tax liability				
Intangible asset	(28,753)	10,116	-	(18,637)
Property, plant and equipment	(8,769,944)	(1,919,639)	-	(10,689,583)
	(8,798,697)	(1,909,523)	-	(10,708,220)
Net deferred tax	(2,856,984)	(956,885)	(158,607)	(3,972,476)
	Opening balance January 1, 2021 \$	Recognize in net income \$	Recognize in OCI \$	Closing balance at December 31, 2021 \$
2021				
Deferred tax asset				
Accrued royalty	218,815	18,165	-	236,980
Right-of-use asset and lease liability	12,320	(4,252)	-	8,068
Employee future benefits	814,094	13,110	(104,000)	723,204
Contributions in aid of construction	3,633,044	654,545	-	4,287,589
Asset retirement obligation	80,416	506	-	80,922
Cumulative eligible capital	160,325	(8,184)	-	152,141
Loss carry forwards	533,825	(81,016)	-	452,809
	5,452,839	592,874	(104,000)	5,941,713
Deferred tax liability				
Intangible asset	(30,901)	2,148	-	(28,753)
Property, plant and equipment	(7,251,447)	(1,518,497)	-	(8,769,944)
	(7,282,348)	(1,516,349)	-	(8,798,697)
Net deferred tax	(1,829,509)	(923,475)	(104,000)	(2,856,984)

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At December 31, 2022, a deferred tax asset of \$6,735,744 [2021 - \$5,941,713] has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Company believes that this asset should be recognized as it will be recovered through future income. There are non-capital losses of \$604,391 that expire in 2031, \$604,239 that expire in 2032, \$89,437 that expire in 2033 and \$603,271 that expire in 2034.

9. EMPLOYEE FUTURE BENEFITS

Defined contribution plan

The employees of the Company participate in the Ontario Municipal Employees Retirement System ("OMERS"). The Company also makes contributions to the OMERS plan on behalf of its employees. The plan has a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. However, the plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is only one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreement, is usually insufficient to reliably measure the Company's proportional share in the plan assets and liabilities.

The contribution payable in exchange for services rendered during a period is recognized as an expense during that period. The employer portion of amounts paid to OMERS during the year was \$1,199,725 [2021 - \$1,184,298]. The contributions were made for current service and these have been recognized in net income.

Expected contributions to the plan for the next annual reporting period amount to \$1,309,255, which is based on payments made to the multi-employer plan during the current fiscal year.

As at December 31, 2022, the OMERS plan was 95% funded [2021 - 97%]. OMERS has a strategy to return the plan to a fully funded position. The Company is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions.

Defined benefit plans

The Company provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a group defined benefit plan. The Company's net obligation for these benefits is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. Any unrecognized past service costs are deducted. The Company has also provided for a provision for non-vested sick leave benefits to current employees.

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

The calculation is performed by a qualified actuary using the projected unit credit method

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discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities. The valuation is performed every third year or when there are significant changes to workforce.

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

Service costs include current and past service costs as well as gains and losses on curtailments.

Net interest expense is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the balance of the net defined benefit obligation, considering the effects of benefit payments during the period. Gains or losses arising from changes to defined benefits or plan curtailment are recognized immediately in the consolidated Statement of Comprehensive Income. Settlements of defined benefit plans are recognized in the period in which the settlement occurs.

Other long-term service benefits

Other employee benefits that are expected to be settled wholly within 12 months after the end of the reporting period are presented as current liabilities. Other employee benefits that are not expected to be settled wholly within 12 months after the end of the reporting period are presented as non-current liabilities and calculated using the projected unit credit method and then discounted using yields available on high quality corporate bonds that have maturity dates approximating to the expected remaining period to settlement.

The plan is exposed to a number of risks, including:

Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation.

Longevity risk: changes in the estimation of mortality rates of current and former employees.

Health care cost risk: increases in cost of providing health, dental and life insurance benefits.

Information about the group unfunded defined benefit plan as a whole and changes in the present value of the unfunded defined benefit obligation and the accrued benefit liability are as follows:

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Defined benefit liability	2022 \$	2021 \$
Accrued benefit obligation at January 1	2,729,072	3,072,052
Benefits paid in the year or moved to current liability	(121,982)	(114,221)
Current service costs	116,067	102,189
Interest cost [note 20]	48,732	61,504
	2,771,889	3,121,524
Remeasurement (gain)/loss:		
Changes in financial assumptions	(589,057)	121,533
Changes in demographic assumptions	-	(19,079)
Changes in experience and methodology assumptions	(9,460)	(494,906)
	2,173,372	2,729,072

The main actuarial assumptions underlying the valuations are as follows:

a) General inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% [2021 - 2.0%].

b) Interest (Discount) Rate

The obligation at year end, of the present value of future liabilities and the expense for the year ended, were determined using a discount rate of 5.05% [2021 - 2.9%]. The discount rate for 2022 reflects the assumed long term yield on high quality bonds.

c) Salary levels

Future general salary and wage levels were assumed to increase at 3.0% per annum [2021- 3.0%].

d) Medical costs

Medical costs were assumed to increase at a rate of 4.7% in 2022, increasing annually to 5.3% in 2025 and then gradually falling before leveling off at 4% by 2040 and thereafter [2021 - 4.7%].

The Company's sick accrual is included above in the amount of \$794,100 [2021 - \$985,000] and is the accumulation of non-vested sick leave benefits under IAS 19 standards for financial reporting purposes. The company hired an outside consulting firm to assess the future payments to be made as a result of the company's employees' sick leave bank hours. The discount rate used was 5.05% per annum at December 31, 2022 and 2.9% per annum at December 31, 2021. The future general salary and wage levels were assumed to increase at 3.0% per annum.

If the discount rate increased to 6.05% the accrued benefit obligation would decrease to approximately \$1,976,700. If the discount rate decreased to 4.05% the accrued benefit obligation would increase to approximately \$2,408,200.

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10. CUSTOMER DEPOSITS AND DEFERRED CONTRIBUTIONS

Customer deposits represents cash deposits from electricity distribution customers and retailers, as well as construction deposits.

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

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, these deposits are transferred to contributions in aid of construction. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

	2022	2021
	\$	\$
Customer deposits	1,495,016	1,489,470
Construction deposits	392,373	458,768
Total customer deposits	1,887,389	1,948,238

11. CONTRIBUTIONS IN AID OF CONSTRUCTION

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

	2022	2021
	\$	\$
Contributions, net, beginning of year	16,179,582	13,709,599
Contributions in aid of construction received	3,415,481	2,741,595
Amortization of contributions in aid of construction	(290,049)	(271,612)
Contribution, net, end of year	19,305,014	16,179,582

12. NOTE PAYABLE (TO THE CORPORATION OF THE CITY OF THUNDER BAY)

The note is a non-interest bearing, unsecured note payable to The Corporation of the City of Thunder Bay (sole shareholder of Thunder Bay Hydro Corporation) and is due on demand. The loan is subordinated by other debt [note 21]. The fair value of this amount is approximately \$6,642,000 [2021 - \$10,758,000].

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13. LONG-TERM DEBT

Long-term debt consists of the following:

	2022	2021
	\$	\$
Toronto Dominion		
Bank term loan payable in monthly instalments of \$64,400 including interest at 5.27%, maturing July, 2024.	1,171,460	1,862,614
Infrastructure Ontario		
Debenture loan in semi annual instalments of \$429,068 including interest at 4.52%, maturing December, 2025.	2,382,449	3,108,205
Promissory note in monthly instalments of \$19,017 including interest at 3.13%, maturing February, 2027.	1,816,490	1,984,969
Promissory note in monthly instalments of \$8,333 plus interest at 2.87%, maturing May, 2030.	741,667	841,667
Promissory note payable to Infrastructure Ontario (IO), in semi annual instalments of \$167,663 including interest at 4.04%, maturing June, 2043.	4,644,308	4,787,646
Promissory note in semi annual instalments of \$176,067 including interest at 3.96%, maturing October, 2044.	5,139,507	5,283,817
Promissory note in semi annual instalments of \$111,616 including interest at 3.75%, maturing March, 2046.	3,466,584	3,557,261
Promissory note in monthly instalments of \$32,320 including interest at 3.38%, maturing July, 2047.	6,469,781	6,635,883
Promissory note in monthly instalments of \$25,654 including interest at 3.11%, maturing December, 2049.	5,619,279	5,750,148
Promissory note in monthly instalments of \$26,390 including interest at 2.65%, maturing November, 2050.	6,242,769	6,391,868

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

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Promissory note payable in monthly instalments of \$25,081 including interest at 4.5%, maturing May, 2052.	4,903,854	-
Promissory note payable in monthly instalments of \$25,253 including interest at 4.56%, maturing December, 2052.	4,950,000	-

The Corporation of the City of Kenora

Promissory demand note in monthly instalments of interest only at the TD Canada Trust prime rate and annual instalments of \$500,000, maturing in 2027.	2,569,279	3,069,279
	50,117,427	43,273,357
Less amounts included in current liabilities	3,718,481	5,579,061
Long-term portion	46,398,946	37,694,296

Expected principal repayments required over the next five years and thereafter assuming refinancing on maturity are as follows:

	\$
2023	3,718,481
2024	2,620,825
2025	2,701,400
2026	1,919,680
2027	2,038,674
Thereafter	37,118,367
	50,117,427

As collateral for the above loans, the Company has provided:

The bank term loan and the promissory notes payable are secured by a general security agreement representing a first charge on all SN assets and undertaking, excluding renewable solar assets.

The debenture is secured by a general security agreement representing a first charge on all TBHRPI assets and undertaking, including without limitation, equipment specific to the Project. As well, a second ranking security interest in any subsequent assets acquired.

Assignment of Renewable Energy Standard Offer Program ("RESOP") contract.

The Company is subject to specific covenants under its borrowing arrangements as stipulated in the facility agreement [note 21]. At December 31, 2022 the Company was in compliance with all debt covenants except for one for the Toronto Dominion debt. As a result it has been reclassified as current

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

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14. ASSET RETIREMENT OBLIGATION

A reconciliation between the opening and closing asset retirement obligation (ARO) liability balances is as follows:

	2022	2021
	\$	\$
Balance, beginning of year	305,366	303,457
Adjustment for change in estimates	(8,026)	15,899
ARO liabilities settled in the year	-	(18,649)
Accretion expense	-	4,659
	297,340	305,366

At December 31, 2022, the Corporation estimates the undiscounted amount of cash flows required over the five years [2021 - six years] to settle the ARO is \$345,500 [2021 - \$345,500]. A discount rate of 5.05% [2021 - 2.9%] was used to calculate the carrying value of the ARO liabilities. No assets have been restricted for settlement of the liability.

15. DEPRECIATION

	2022	2021
	\$	\$
Depreciation of general plant	5,121,735	4,800,851
Depreciation of asset retirement obligation	25,646	24,059
Depreciation of wholesale meters	50,893	50,893
Depreciation of unallocated office and data processing equipment	233,385	161,814
	5,431,659	5,037,617
Depreciation of other property, plant and equipment included in relevant expense categories in the Statement of Comprehensive Income	1,353,631	1,300,933
	6,785,290	6,338,550
Depreciation included in capitalized expenditures	244,961	233,417
Depreciation of property, plant and equipment	6,489,436	6,054,240
Depreciation of intangible assets	50,893	50,893
	6,785,290	6,338,550

Thunder Bay Hydro Corporation

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16. INTANGIBLE ASSETS

Goodwill

Goodwill with a carrying amount of \$4,648,887 [2021 - \$4,648,887] was realized upon amalgamation and the Corporation tested goodwill for impairment as at December 31, 2022.

Impairment testing of goodwill

Goodwill and intangible assets with indefinite lives are tested for impairment annually and when circumstances indicate that the recoverable amount of an asset may be below their carrying value. Property, plant, and equipment and intangible assets with finite lives are tested for impairment when management determines indicators of impairment exist. Significant judgment is applied in determining the non-financial assets recoverable amount and assessing whether certain indicators constitute objective evidence of impairment.

Fair values less costs of disposal were determined using a multiple of regulated rate base approach for the rate regulated assets.

Key assumptions underlying these valuations are as follows:

- The multiple of rate base approach is a valuation technique used in the industry for purchase and sale transactions involving rate-regulated local distribution companies. A multiple is applied to the value of regulated assets to determine the value of the utility;
- The multiple of rate base is a key assumption in the determination of fair value less costs of disposal for the rate-regulated assets. Management utilized a range of multiples in the analysis to determine the recoverable amount of goodwill for the rate-regulated assets;
- The multiple of rate base used with respect to the rate-regulated assets ranged from 1.4 to 1.6; and
- Management obtained information regarding multiples used for recent purchase and sale transactions within the industry.

The recoverable amount of goodwill determined in the analysis was greater than the carrying value and no impairment was recorded.

Capital contributions

The Company makes payments to Hydro One for required upgrades on their metering equipment and are classified as intangible assets. In turn the Company obtains the right to use certain assets that belong to Hydro One. Capital contributions are measured at cost less accumulated depreciation.

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

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Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it was available for use. The depreciation method and useful life of the intangible asset is reviewed at each reporting date. Capital contributions are amortized at a rate of 4%.

	Capital contributions to Hydro One for wholesale meters
Cost	
Balance as of January 1, 2021	\$1,272,321
Additions	-
Disposals	-
Balance as of December 31, 2021	1,272,321
Additions	-
Disposals	-
Balance as of December 31, 2022	1,272,321
Accumulated depreciation	
Balance as of January 1, 2021	\$544,168
Depreciation for the year	50,893
Disposals	-
Balance as of December 31, 2021	595,061
Depreciation for the year	50,893
Disposals	-
Balance as of December 31, 2022	645,954
Carrying amounts	
At December 31, 2021	677,260
At December 31, 2022	626,367

See *Note 15* for details of depreciation for the year.

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

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17. RELATED PARTY TRANSACTIONS

Transactions with related parties

The Company provides and purchases certain services from The Corporation of the City of Thunder Bay in the normal course of business at commercial rates. Significant transactions are noted below.

	2022	2021
	\$	\$
Wireline pole attachment revenue	661,083	889,088
Contributed capital on construction	1,711,207	744,948
Electricity revenues	6,945,909	6,886,716
Recoverable	274,333	590,960
Revenues	9,592,532	9,111,712
Rent	360,737	355,435
Telecommunication	259,077	205,919
Property taxes	175,310	174,672
Fuel	279,688	256,980
Expenses	1,074,812	993,006
Accounts receivable	1,788,984	1,481,110

Key management personnel compensation comprised:

The key management personnel of the Company has been defined as members of its board of directors and executive management team members.

	2022	2021
	\$	\$
Compensation	1,228,042	1,111,851
Short-term employee benefits and director fees	67,892	64,579
Post-employment benefits	215,564	209,020
Total	1,511,498	1,385,450

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

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18. INVENTORY

Cost of inventory is comprised of direct materials, which typically consists of distribution assets not deemed as major spares, unless purchased for specific capital projects in process or as spare units. Costs, after deducting rebates and discounts, are assigned to individual items of inventory on the basis of weighted average cost. Decommissioned assets that are transferred to inventory are tested for impairment once they are removed from service and placed in inventory. Inventory is recognized at the lower of cost and net realizable value.

The amount of inventories consumed by the Company and recognized as an expense during 2022 was \$374,229 [2021 - \$452,503].

19. SHARE CAPITAL

Ordinary shares

An unlimited number of common shares are authorized for issue and unlimited non-voting Class A Common shares. There are no Preference shares.

As of December 31, 2022, the Company has issued and fully paid 1,061 Common shares.

All shares are ranked equally with regards to the Company's residual assets.

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

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20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at all financial institutions, with maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

Financial assets

Financial assets are comprised of cash and cash equivalents, cash-restricted, investments, trade and other accounts receivable ("accounts receivable") and unbilled service revenue. Cash is classified and measured at fair value. Accounts receivable and unbilled service revenue are initially recognized and measured at fair value on the date on which they originated. Accounts receivable and unbilled revenue subsequently classified and measured at amortized cost because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The carrying amount is reduced through the use of a loss allowance and the amount of the related loss allowance is recognized in profit or loss. Due to the short term nature, the carrying amounts of accounts receivable and unbilled service revenue approximates their fair value.

Collectability of accounts receivable and unbilled service revenue is reviewed on an ongoing basis. The Company measures the loss allowance at an amount that approximates the lifetime expected credit loss (ECL) for accounts receivables and unbilled service revenue. The lifetime ECL is estimated based on the expected losses over the expected life of the accounts receivable arising from possible default events occurring in the lifetime of the instrument. The Company develops loss rates based on historical default and loss experiences for customer groups, adjusted for current economic conditions. This basis is used as the Company's customers have remained relatively consistent year over year.

The Company assumes that credit risk on a financial asset has increased if it is more than 30 days past due date.

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company, such as realising security (if any is held).

If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

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Notes to the Consolidated Financial Statements

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Financial liabilities

Accounts payable and accrued liabilities, note payable to the City of Thunder Bay, customer deposits and deferred contributions, long-term debt and other payables are initially recognized and measured at fair value on the date which they originated. Subsequently they are classified and measured at amortized cost.

Customers may be required to post security to obtain electricity or other services, which are refundable. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2%.

Finance income comprises of interest income on funds invested such as cash and short-term investments. Interest income is recognized as it accrues in the consolidated Statement of Comprehensive Income, using the effective interest method.

Finance cost comprises of interest payable on debt recognized on financial assets and net interest on employee future benefits.

	2022	2021
	\$	\$
<hr/>		
Finance Income:		
Interest income on bank deposits	460,135	135,703
<hr/>		
Finance Cost:		
Interest on debt	1,617,857	1,515,015
Net interest on employee future benefits [note 9]	48,732	61,504
	1,666,589	1,576,519
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Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

December 31, 2022

The Corporation's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

a) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in each City. No single customer accounts for revenue in excess of 10% of total revenue.

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 the consolidated Statement of Comprehensive Income. Subsequent recoveries of receivables previously provisioned are credited to the consolidated Statement of Comprehensive Income. The balance of the allowance for impairment at December 31, 2022 is \$446,405 [2021 - \$400,105]. An impairment loss of \$306,353 [2021 - \$128,974] was recognized during the year. The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2022 approximately \$1,192,043 [2021 - \$1,251,577] is considered 60 days past due. The Company has approximately 57,000 customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2022, the Company holds security deposits in the amount of \$1,495,016 [2021 - \$1,489,470].

b) Market risk

The Company is not exposed to significant market risk given they do not have investments in foreign currency, and have minimal investment in interest bearing instruments.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a \$12,400,000 line of credit [2021 - \$12,400,000] and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The Company has access to a non-revolving credit facility with IO for \$16,000,000 [2021- \$Nil] to finance the Company's capital infrastructure and equipment purchases maturing December 2023. As at December 31, 2022, \$9,900,000 [2021 - \$Nil] was withdrawn on this credit facility.

The Company has a letter of credit available in the amount of \$10,350,000 [2021 - \$10,350,000] to support the Company's prudential requirements with the IESO.

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

December 31, 2022

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	Up to 12 months \$	Between 1-5 years \$	Over 5 years \$
At December 31, 2022			
Accounts payable and accrued liabilities	23,292,665	-	-
Customer deposits and deferred contributions	1,887,389	-	-
Lease liability	2,538	12,320	7,716
Due to majority shareholder	-	-	954,495
Note payable to The Corporation of the City of Thunder Bay	-	-	26,490,500
Long-term debt	3,718,481	9,280,579	37,118,367
	28,901,073	9,292,899	64,571,078
At December 31, 2021			
Accounts payable and accrued liabilities	18,087,364	-	-
Customer deposits and deferred contributions	1,948,238	-	-
Lease liability	357,584	9,741	8,155
Due to majority shareholder	-	-	1,108,984
Note payable to The Corporation of the City of Thunder Bay	-	-	26,490,500
Long-term debt	2,509,782	8,282,208	32,481,367
	22,902,968	8,291,949	60,089,006

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21. CAPITAL MANAGEMENT

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

The Company's definition of capital is shareholder's equity, note payable to The Corporation of the City of Thunder Bay and long-term debt. As at December 31, 2022, shareholder's equity amounts to \$96,703,009 [2021 - \$95,251,757], note payable to The Corporation of the City of Thunder Bay amounts to \$26,490,500 [2020 - \$26,490,500] and long-term debt amounts to \$50,117,427 [2021 - \$43,273,357].

As at December 31, 2022, SN is subject to debt agreements that contain various covenants. SN is governed by the Shareholder Declaration which limits future borrowings, liens and provisions of security without prior written consent. The Company is also subject to a Subordination Agreement with respect to the \$26,490,500 promissory note given to the City of Thunder Bay, with said Subordination Agreement providing for no acceleration rights, as approved by the lender's legal department.

SN's credit agreements with Infrastructure Ontario contain financial covenants that required a Debt Service Coverage Ratio of 1.30X and a Debt to Total Asset ratio of 60% or lower. SN's credit agreement with TD Bank contains financial covenants that require a third party debt to capitalization ratio of .6:1 and a debt service coverage ratio of not less than 1.2:1. SN's long-term debt agreements also include positive and negative covenants such as limitations on funded indebtedness, capital expenditures restrictions on mergers, amalgamations or consolidations, and limitations on providing security or guarantees to any third party. As at December 31, 2022, SN was in compliance with the financial covenants included in its long-term debt agreements, City Note and short-term revolving credit facility except for one. The Company was offside on its TD Bank Debt Service Covenant, which removes 40% of the capital asset additions from the EBITDA. The bank has provided a waiver for the breach subsequent to year end. As a result the debt outstanding with the Toronto Dominion bank has been recorded as current.

As at December 31, 2022, TBHRPI is subject to a debt agreement that requires a debt service reserve restricted cash account in the amount of \$500,000. The agreement also includes positive and negative covenants such as limitations on disbursements to the City of Thunder Bay and restrictions on changes to the current ownership structure. As at December 31, 2022, TBHRPI was in compliance with the financial covenants [note 13].

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

December 31, 2022

22. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

During the year, property, plant and equipment were acquired as follows:

	2022	2021
	\$	\$
Aggregate	17,195,995	15,211,633
Funded by cash contributions <i>[note 11]</i>	(3,162,102)	(2,618,436)
Funded by contributions in-kind <i>[note 11]</i>	(253,379)	(123,159)
Funded by capitalized depreciation <i>[note 15]</i>	(244,961)	(233,417)
Funded by non-cash increase to retirement obligation <i>[note 14]</i>	8,026	(15,899)
	13,543,579	12,220,722

23. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

There are no other standards, interpretations or amendments issued, but not yet effective that the Company anticipates may have a material effect on the consolidated financial statements once adopted.

Thunder Bay Hydro Corporation

Notes to the Consolidated Financial Statements

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24. NON-CONTROLLING INTERESTS

SN, a 91.69% owned subsidiary of the Company, has material non-controlling interests ("NCI") of 8.31%, owned by the Corporation of the City of Kenora. All other subsidiaries are 100% owned. The NCI does not participate in the value of Solar Assets.

Summarized financial information in relation to SN is presented below together with amounts attributable to NCI:

For the period ended December 31	2022	2021 <i>[Restated - Note 25]</i>
REVENUE		
Electricity sales	143,511,329	142,158,394
Purchased power	(118,621,276)	(115,822,803)
	24,890,053	26,335,591
Other revenue	3,379,179	4,560,102
	28,269,232	30,700,805
EXPENSES		
Administrative	9,187,770	9,103,401
Operations and maintenance	12,502,701	9,254,957
Other expenses	5,303,702	5,314,363
	26,994,173	23,713,778
Finance expenses	1,095,753	1,184,224
Income before the provision for payment in lieu of taxes	179,306	6,038,748
Provision for payment in lieu of taxes	836,445	1,317,906
Profit (loss) for the year before net movements in regulatory deferral account balances	(657,139)	4,720,843
Net movement in regulatory deferral account balances related to profit or loss and the related deferral tax movement	1,930,861	(1,092,933)
Other comprehensive income	463,716	319,422
Total comprehensive income	1,737,438	3,947,332
Net earnings allocated to NCI	144,381	328,023
Cash flows from operating activities	10,577,585	15,862,361
Cash flows from investing activities	(15,653,976)	(11,387,068)
Cash flows from financing activities	6,675,622	(2,610,131)
Net cash inflow	1,599,231	1,865,162

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As at December 31	2022	2021
ASSETS		
Current assets	45,848,976	40,734,466
Property, plant and equipment	162,986,270	152,507,280
Other non-current assets	9,957,978	9,698,794
	218,793,224	202,940,540
LIABILITIES		
Current liabilities	28,446,112	25,531,887
Non-current liabilities	101,988,252	87,827,687
	130,434,364	113,359,564
Net regulatory deferral account balances	1,466,537	(856,017)
Share capital	53,571,625	53,571,625
Retained earnings	36,253,772	35,153,334
	89,825,397	88,724,959
Accumulated non-controlling interest	12,560,914	12,469,468

25. COMPARATIVE FIGURES

In 2022 an error was discovered that was causing certain amounts to be recorded as Regulatory Deferral amounts and to Net Movement in Regulatory Deferral accounts balances instead of being reported as Accounts Payable and Purchase Power expense.

The error required a prior period presentation reclassification to 2021 opening and closing figures. The reclassification are as follows:

	Previously Reported \$	Restated \$
2021 opening balances as reported in Note 3		
Retail Settlement Variances	1,150,223	1,990,073
2021 year-end balance were reclassified as follows		
Regulatory deferral account debit balances and related deferred tax	897,311	2,161,390
Regulatory deferral account credit balances and related deferred tax	(3,594,200)	(3,017,407)
Accounts payable and accrued liabilities	(16,246,492)	(18,087,364)
Purchased power	114,821,779	115,822,803
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement	2,093,957	1,092,933
	97,972,355	97,972,355

Thunder Bay Hydro Corporation

CONSOLIDATED Schedule - Expenses

Year ended December 31	2022	2021
	\$	\$
OPERATIONS AND MAINTENANCE		
Customer premises/meters and devices	361,735	301,524
Distribution	9,192,396	6,177,226
Safety and training	583,142	505,558
System control/station maintenance	1,962,219	1,945,798
Transformer	403,209	324,851
Total operations and maintenance expenses	12,502,701	9,254,957
UTILITY SERVICES		
Meter service provider	68,843	31,526
Utility management services	60,733	55,898
Other utility services	199,300	122,736
	328,876	210,160
ADMINISTRATION		
Bad debts	306,353	128,974
Billing and collecting	1,181,806	1,172,544
Customer information service	1,006,769	1,007,189
Information services	1,459,245	1,317,745
Meter reading	246,504	256,828
Recoverable	731,017	1,004,586
Total customer - related administration expenses	4,931,694	4,887,866
General		
Corporate	930,772	724,874
Directors' expenses	214,981	133,145
Finance	1,345,044	1,496,766
Human resources	370,796	391,969
President's office	556,946	643,127
Power systems administration	389,002	311,133
Renewable generation administration	78,176	57,409
Solar pv generation direct costs	324,782	312,709
Purchasing	249,583	263,694
Disruptive technology	9,267	23,166
Total general administration expenses	4,469,349	4,357,992
Total administration expenses	9,401,043	9,245,858