Financial Statements of

ENERSOURCE CORPORATION

And Independent Auditors' Report thereon

Year ended December 31, 2019

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Enersource Corporation

Opinion

We have audited the financial statements of Enersource 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 shareholders' equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

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

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

April 21, 2020

ENERSOURCE CORPORATION

Statement of Financial Position
(In thousands of Canadian dollars)

December 31, 2019, with comparative information for 2018

		2019		2018
Assets				
Current assets:				
Cash	$	6,836	$	4,241
Prepaid expense		131		137
		6,967		4,378
Non-current assets:				
Investment in Alectra Inc. (note 5)		600,243		609,060
Interest rate swaps (note 7)		148		405
		600,391		609,465
Total assets	$	607,358	$	613,843
Liabilities and Shareholders' Equity				
Current liabilities:				
Trade payables	$	30	$	39
Loans and borrowings (note 7)		2,500		2,500
		2,530		2,539
Non-current liabilities:				
Loans and borrowings (note 7)		50,625		53,125
Total liabilities		53,155		55,664
Shareholders' equity:				
Share capital (note 8)		175,691		175,691
Accumulated other comprehensive loss		(6,108)		(1,672)
Retained earnings		384,620		384,160
Total shareholders' equity		554,203		558,179
Total liabilities and shareholders' equity	$	607,358	$	613,843

See accompanying notes to financial statements.

On behalf of the Board:

____________________________ Director

____________________________ Director

ENERSOURCE CORPORATION

Statement of Comprehensive Income
(In thousands of Canadian dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Finance income	$ 187	$ 111
Share of net income from investment in Alectra Inc. (note 5)	18,008	32,917
Dilution gain on Alectra Inc.'s acquisition of Guelph Hydro Electric Systems Inc. (note 5)	1,471	–
	19,666	33,028
Expenses:		
Office supplies	22	21
Professional services fee	58	86
Board management fee (note 10)	82	74
Finance expense	1,387	1,348
Unrealized fair value loss on interest rate swap (note 7)	257	17
	1,806	1,546
Income before income taxes	17,860	31,482
Income tax recovery (note 6)	–	(289)
Net income	17,860	31,771
Other comprehensive income (loss):		
Share of other comprehensive income (loss) from investment in Alectra Inc. (note 5)	(4,436)	1,860
Total comprehensive income	$ 13,424	$ 33,631

See accompanying notes to financial statements.

ENERSOURCE CORPORATION

Statement of Changes in Shareholders' Equity
(In thousands of Canadian dollars)

Year ended December 31, 2019, with comparative information for 2018

2019	Share capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance, beginning of year	$ 175,691	$ (1,672)	$ 384,160	$ 558,179
Net income	–	–	17,860	17,860
Other comprehensive loss	–	(4,436)	–	(4,436)
Dividends paid	–	–	(17,400)	(17,400)
Balance, end of year	$ 175,691	$ (6,108)	$ 384,620	$ 554,203

2018	Share capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance, beginning of year	$ 175,691	$ (3,532)	$ 366,768	$ 538,927
Net income	–	–	31,771	31,771
Other comprehensive income	–	1,860	–	1,860
Dividends paid	–	–	(14,379)	(14,379)
Balance, end of year	$ 175,691	$ (1,672)	$ 384,160	$ 558,179

See accompanying notes to financial statements.

ENERSOURCE CORPORATION

Statement of Cash Flows
(In thousands of Canadian dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash flows provided by (used in):		
Operating activities:		
Comprehensive income	$ 13,424	$ 33,631
Items not involving cash:		
Share of net income from investment in Alectra Inc. (note 5)	(18,008)	(32,917)
Share of other comprehensive loss (income) from investment in Alectra Inc. (note 5)	4,436	(1,860)
Gain recognized on Alectra Inc.'s acquisition of Guelph Hydro Electric Systems Inc. (note 5)	(1,471)	–
Interest rate swap (note 7)	257	17
Income tax recovery	–	(289)
Finance income	(187)	(111)
Finance expense	1,387	1,370
Income tax received	–	292
Change in non-cash operating working capital (note 9)	(3)	(83)
Cash flows from (used in) operating activities	(165)	50
Financing activities:		
Repayment of bank loans	(2,500)	(2,500)
Dividends paid	(17,400)	(14,379)
Interest paid	(1,387)	(1,370)
Cash flows used in financing activities	(21,287)	(18,249)
Investing activities:		
Interest received	187	111
Dividends from Alectra Inc. (note 5)	23,860	18,796
Cash from investing activities	24,047	18,907
Increase in cash	2,595	708
Cash, beginning of year	4,241	3,533
Cash, end of year	$ 6,836	$ 4,241

See accompanying notes to financial statements.

ENERSOURCE CORPORATION

Notes to Financial Statements
(In thousands of Canadian dollars)

Year ended December 31, 2019

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1. General information:

(a) Corporate information:

Enersource Corporation (the "Corporation"), incorporated under the Ontario Business Corporations Act, was formed to conduct electricity distribution and non-regulated utility service ventures. The Corporation is owned 90% by the City of Mississauga (the "City") and 10% by BPC Energy Corporation ("Borealis"), a wholly owned subsidiary of the Ontario Municipal Employees Retirement System ("OMERS").

The Corporation's equity is not traded in a public market. The Corporation's registered office is located at 300 City Centre Drive, Mississauga, Ontario, L5B 3C1.

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

Further, all amounts contained herein are rounded to the nearest thousand, unless otherwise noted.

On January 31, 2017, the Corporation received a 31% ownership interest in Alectra Inc.'s ("Alectra") issued and outstanding common shares as a result of the formation of Alectra through a series of unrelated transactions. Accordingly, the Corporation is considered to have significant influence over Alectra's financial and operating policies and has accounted for its investment in Alectra under the equity method. Refer to note 5 for further details.

On January 1, 2019, Alectra amalgamated with Guelph Hydro Electric Systems Inc. ("GHESI"). Alectra issued 485,000 Class G common Shares to Guelph Municipal Holdings Inc. ("GMHI") in consideration for all the issued and outstanding shares of GHESI. This common share issuance by Alectra represents an effective 4.6% interest in its aggregate issued and outstanding classes of common shares.

The new shareholder ownership structure of Alectra as a result of this merger is as follows: Barrie Hydro Holdings - 8.4%, Enersource Corporation - 29.57%, Hamilton Utilities Corporation - 17.3%, Markham Enterprises Corporation - 15%, St. Catharines Hydro Inc. - 4.6%, Vaughan Holdings Inc. - 20.5% and GMHI - 4.6%.

1. General information (continue):

(b) Nature of operations:

The Corporation acts as a holding company. The Corporation's principal business activity is to hold its equity interest in Alectra. The Corporation also distributes dividends to its shareholders.

2. Basis of preparation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements have been approved by the Corporation's Board of Directors on April 21, 2020.

(b) Basis of measurement:

These financial statements have been prepared on a historical cost basis, with the exception of the unrealized fair value gain on interest rate swap, which is measured at fair value through profit and loss.

3. Key accounting judgments, estimates and assumptions:

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and amounts reported and disclosed in the financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

There were no key sources of estimation uncertainty and judgments at the end of the reporting year that could have a significant impact on the financial statements.

4. Significant accounting policies:

(a) Changes in accounting policies:

Effective January 1, 2019, the Corporation adopted new IFRS standards and applied the following new policies in preparing the financial statements:

(i) Leases:

On January 1, 2019, the Corporation adopted IFRS 16 Leases ("IFRS 16"), which supersedes International Accounting Standard ("IAS") 17, Leases, and International Financial Reporting Interpretations Committee ("IFRIC") 4, Determining Whether an Arrangement Contains a Lease.

As the Corporation does not have any leases, therefore there was no impact on the Corporation on adoption of IFRS 16 as at January 1, 2019.

(ii) Uncertainty over income tax treatments:

In June 2017, the IFRS Interpretations Committee of the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23"). The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is effective for the annual period beginning on January 1, 2019. The adoption of IFRIC 23 did not have an impact on the Corporation's financial statements.

(b) Investment in Alectra:

The Corporation's interest in Alectra is recognized and measured in accordance with IAS 28, Investments in Associates and Joint Ventures.

Associates are those entities over which the Corporation has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Corporation holds between 20% and 50% of the voting power of another entity, but can also arise where the Corporation holds less than 20%, if it has the power to be actively involved and influential in policy decisions affecting the entity.

ENERSOURCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of Canadian dollars)

Year ended December 31, 2019

4. Significant accounting policies (continued):

Investments in associates are accounted for using the equity method. The equity method involves the recording of the initial investment at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the Corporation's share of profit or loss and any other changes in the associates' net assets, such as dividends of equity accounted investees, until the date on which significant influence ceases.

Adjustments are made to align the accounting policies of the associate with those of the Corporation before applying the equity method. When the Corporation's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Corporation has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Corporation resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

(c) Revenue recognition:

The Corporation's source of income is interest and investment income. Interest income is recognized when earned, while investment income from Alectra is recorded as per note 4(b) above.

(d) Income taxes:

The Corporation recognizes deferred tax using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are probable. 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.

ENERSOURCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of Canadian dollars)

Year ended December 31, 2019

4. Significant accounting policies (continued):

A deferred tax asset is recognized 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. Deferred tax liabilities are generally recognized on all taxable temporary differences, except on investments in subsidiaries where it is probable that the reversal of temporary differences associated with investments in subsidiaries will not occur.

Current taxes are based on taxable profit or loss for the year, which differ from profit or loss as reported in the statement of comprehensive income because it excludes items that are taxable or deductible in other years and items that are neither taxable nor deductible. The Corporation's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting year.

Both current and deferred taxes are included as part of income tax expense in the statement of comprehensive income.

In determining the amount of current and deferred tax, the Corporation takes into account the impact of uncertain tax provisions and whether additional taxes and interest may be due. The Corporation believes that its accruals for tax liabilities are adequate for all tax years subject to audit based on its assessment of many factors, including interpretations of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Corporation to change its judgment regarding its income taxes.

(e) Provisions and contingencies:

The Corporation recognizes provisions if, as a result of a past event, there is a present legal or constructive obligation that can be measured 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, where appropriate, the risks specific to the liability.

The evaluation of the likelihood of the contingent events requires judgment by management as to the probability of exposure to potential gain or loss. Actual results could differ from these estimates.

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Notes to Financial Statements (continued)
(In thousands of Canadian dollars)

Year ended December 31, 2019

4. Significant accounting policies (continued):

A contingent asset is not recognized in the financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

5. Investment in Alectra:

	2019	2018
Investment in Alectra	$ 600,243	$ 609,060

Movement in equity-accounted investee:

	2019	2018
Balance, beginning of year	$ 609,060	$ 593,079
Share of net income from investment in Alectra	18,008	32,917
Share of other comprehensive income (loss)	(4,436)	1,860
Gain recognized on acquisition of GHESI	1,471	–
Dividends received from Alectra	(23,860)	(18,796)
Balance, end of year	$ 600,243	$ 609,060

Certain former shareholders of predecessor companies which amalgamated to form Alectra and own Class S shares of Alectra relating to Ring Fenced Solar Portfolio, a division of Alectra. In accordance with the Solar Services and Indemnity Agreement between the former shareholders and Alectra, the solar division within Alectra is beneficially owned indirectly by the former shareholders and as such, allocates the risks and rewards of Ring Fenced Solar Portfolio's operations to the former shareholders through Alectra's Class S shares. As such, the Corporation does not hold Class S shares of Alectra.

On January 1, 2019, Alectra amalgamated with GHESI. Alectra issued 485,000 Class G common Shares to GMHI in consideration for all the issued and outstanding shares of GHESI. The dilution in ownership from 31% to 29.57% resulted in a gain of $1,471 recorded in the statement of comprehensive income.

ENERSOURCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of Canadian dollars)

Year ended December 31, 2019

5. Investment in Alectra (continued):

The following table 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
Ownership interest	29.57	31.00%
Current assets	$ 625,000	$ 663,000
Non-current assets	4,431,000	3,992,000
Current liabilities	(750,000)	(788,000)
Non-current liabilities	(2,559,000)	(2,178,000)
Net assets (100%)	1,747,000	1,689,000
Ring Fenced Solar Portfolio net assets	(13,212)	(20,209)
Fair value adjustments from purchase price	296,145	296,145
	$ 2,029,933	$ 1,964,936
Carrying value of investment in Alectra (29.57%; 2018 - 31.00%)	$ 600,243	$ 609,060
Revenue	$ 3,779,000	$ 3,452,000
Depreciation and amortization	(158,000)	(140,000)
Other expenses	(3,463,000)	(3,101,000)
Finance expenses	(74,000)	(64,000)
Income tax expense	(20,000)	(39,000)
Net income	64,000	109,000
Other comprehensive income (loss)	(15,000)	6,000
Total comprehensive income	49,000	115,000
Ring Fenced Solar Portfolio net gain (loss)	3,102	2,816
Share of income (29.57%; 2018 - 31.00%)	$ 18,008	$ 32,917
Share of other comprehensive income (loss) (29.57%; 2018 - 31.00%)	(4,436)	1,860

ENERSOURCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of Canadian dollars)

Year ended December 31, 2019

6. Income taxes:

The components of income tax recover) for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Current income tax recovery:		
Recovery for the year	$ –	$ (289)
Total income tax recovery	$ –	$ (289)

The provision for income taxes differs from the amount that would have been recorded using the combined federal and Ontario statutory income tax rate. Reconciliation between the statutory and effective tax rates is provided as follows:

	2019	2018
Income before income taxes	$ 17,860	$ 31,482
Federal and Ontario statutory income tax rate	26.50%	26.50%
Provision for income taxes at statutory rate	$ 3,557	$ 8,912
Increase (decrease) resulting from:		
Recovery of prior year's tax expense due to loss carryback	–	(289)
Differences between accounting and tax treatment of investments in subsidiaries	(3,557)	(8,912)
Provision for income taxes	$ –	$ (289)
Effective income tax rate	0.00%	0.86%

ENERSOURCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of Canadian dollars)

Year ended December 31, 2019

7. Loans and borrowings:

	2019	2018
Bank loan:		
Current	$ 2,500	$ 2,500
Non-current	50,625	53,125
	$ 53,125	$ 55,625

Outstanding debt is comprised of two bank loans, Credit Facility A and Credit Facility B which were entered into on January 27, 2017 and an interest rate swap, held with Canadian Imperial Bank of Commerce ("CIBC"). The interest rate on Credit Facility A and B bank loans is determined through a combination of the 3-month CDOR rate, reset 4 times each year: February 1st, May 1st, August 1st and November 1st plus a stamping fee of 0.60%. Credit Facility A has a 10 year term to maturity with a balance of $35,000 and will be carried for the duration of the Facility. Credit Facility A has a floating interest rate with the last interest rate being reset at 2.57% on November 1, 2019 and is carried with quarterly interest payments. Credit Facility B has a 10 year term to maturity and an outstanding balance of $20,625. Credit Facility B is being paid down with quarterly principal and interest payments at a rate of $625 per quarter and has an accompanying amortizing interest rate swap associated with it, to create an effective fixed interest rate of 2.414%.

The credit facilities contain a covenant stating that the Corporation cannot incur any additional debt without CIBC's consent. In addition, the Corporation must advise CIBC if dividends are not received from Alectra in any quarter if the dividend amount is not sufficient to make the required monthly or quarterly payments of principal and interest. These covenants have not been breached in 2019 or 2018. The secured bank loans are guaranteed by the City of Mississauga in the amount of $70,000.

The Corporation included $257 of unrealized loss (2018 - $17 loss) in its financial statements related to the interest rate swap. $148 (2018 - $405) is the fair value of the interest rate swap, which represents the amount that the Corporation would have paid to unwind its position as at December 31, 2019. The notional value on the interest rate swap is equal to the outstanding value of Credit Facility B, or $20,625.

ENERSOURCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of Canadian dollars)

Year ended December 31, 2019

7. Loans and borrowings (continued):

Reconciliation of debt arising from financing activities:

	2019	2018
Balance, beginning of year	$ 55,625	$ 58,125
Principal repayment	(2,500)	(2,500)
Balance, end of year	$ 53,125	$ 55,625

The Corporation made interest payments of $1,387 (2018 - $1,370).

8. Share capital:

	2019	2018
Authorized:		
Unlimited Class A shares, voting		
1,000 Class B shares, non-voting		
100 Class C shares, voting		
Issued:		
180,555,562 Class A shares	$ 155,628	$ 155,628
1,000 Class B shares	1	1
100 Class C shares	20,062	20,062
	$ 175,691	$ 175,691

The holders of Class A shares and Class C shares are entitled to receive notice of, to attend, and to vote at all general and special meetings of the Corporation's shareholders. The holders of Class B shares are not entitled to vote at any meeting of the Corporation's shareholders (except as required by law) and are only entitled to receive notice of special meetings called to consider certain fundamental changes.

Holders of Class A shares are entitled to one vote per share. Holders of Class C shares are entitled to such number of votes in respect of each Class C share as will entitle the holders of the Class C shares, as a class, to the proportion of the total number of votes of all shareholders entitled to vote at any such meeting that the Class C total base equity is of the aggregate regulated rate base equity of the Corporation's and its subsidiaries.

ENERSOURCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of Canadian dollars)

Year ended December 31, 2019

8. Share capital (continued):

The holders of the Class A shares and holders of the Class C shares, in priority to the holders of the Class B shares, are entitled to receive, if, as and when declared by the Corporation's Board of Directors, concurrent preferential dividends at a rate per annum equal to the regulated rate of return on the rate base equity represented by each such class of shares. The cumulative portion of such preferential dividend is the amount by which the preferential dividend for each class of shares exceeds the amount of regulated capital expenditures represented by each class of shares. The remaining portion is non-cumulative. As at December 31, 2019, there were no cumulative preferential dividends outstanding (2018 – $Nil). Once these preferential dividend entitlements have been satisfied, holders of each class of shares are entitled to receive, on a concurrent basis with each other class of shares, additional dividends if, as and when declared by the Corporation's Board of Directors and in such amounts and payable in such manner as may be determined from time to time by the Corporation's Board of Directors. Holders of the Class A shares and the Class C shares are together entitled to 60% of any such additional dividends, which are to be allocated between the holders of each such class of shares in proportion to the rate base equity represented by each such class. Holders of the Class B shares are entitled to 40% of any such additional dividends. Class A, B and C shares have no par value.

Dividends may be declared by the Board of Directors through a resolution. In 2019, dividends of $17,400 (2018 - $14,379) were declared and paid to the shareholders of the Corporation.

9. Change in non-cash operating working capital:

	2019	2018
Prepaid expense	$ 6	$ (39)
Trade payables	(9)	(44)
	$ (3)	$ (83)

(In thousands of Canadian dollars)

10. Related party transactions and balances:

For 2019, a dividend of $15,660 was declared and paid to the City of Mississauga (2018 - $12,941), and a dividend of $1,740 was declared and paid to Borealis (2018 - $1,438). No Director had, during or at the end of the period, any material interest in any contract of significance in relation to the Corporation's business.

The following compensation has been provided to the key management personnel of the Corporation and members of the Board of Directors ("Directors Honorarium"), who have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

	2019	2018
Directors Honorarium and per diems	$ 82	$ 74

11. Contingencies, provisions, commitments and guarantees:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange may be defined as a group of persons formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to its members. Insurance premiums charged to each member consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each member's claims experience. Current liability coverage is provided to a level of $30,000 per occurrence.

As at December 31, 2019 and December 31, 2018, there are no legal actions where the Corporation is a defendant.

ENERSOURCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of Canadian dollars)

Year ended December 31, 2019

12. Financial instruments and risk management:

Financial instruments which are disclosed at fair value are to be classified using a three-level hierarchy. Each level reflects the inputs used to measure the fair values disclosed of the financial liabilities, and are as follows:

- Level 1 - inputs are unadjusted quoted prices for identical instruments in active markets;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the instrument, either directly or indirectly; and
- Level 3 - inputs that are not based on observable market data. There were no financial instruments carried at fair value categorized in Level 3 as at December 31, 2019 and 2018.

There were no transfers between levels during the year.

The fair values of cash and trade payables approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

The Corporation entered into an amortizing Interest Rate Swap ("IRS") with CIBC on January 31 2017. The IRS is amortizing (being paid down) at the same rate as Credit Facility B. Both Credit Facility B and the IRS will be retired effective February 1, 2027. The IRS is an interest rate hedging instrument against CIBC Credit Facility B (identified in note 7) and has the effect of locking in the interest rate associated with Credit Facility B at 2.414%. As a stand-alone financial instrument, CIBC provides a month-end "fair market value (FMV)" associated with the IRS. The fair market value for the IRS is $148 (2018 - $405). The interest rate swap is classified as a Level 2 in the hierarchy.

ENERSOURCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of Canadian dollars)

Year ended December 31, 2019

12. Financial instruments and risk management (continued):

The Corporation considers its capital to be its shareholders' equity. The Corporation manages its capital exposure to risk as described below. Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Corporation's business.

(a) Market risk:

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates.

The Corporation does not have a commodity risk or foreign exchange risk at December 31, 2019 and 2018.

The Corporation is exposed to short-term interest rate risk on its loans and borrowings and its net cash balances. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

(b) Credit risk:

The Corporation is not exposed to significant credit risk given then nature of its operations.

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. Short-term liquidity is provided through cash and funds from operations. Short-term liquidity is expected to be sufficient to fund normal operating requirements.

The Corporation has contractual obligations in the normal course of business; future minimum undiscounted contractual maturities are as follows:

Financial liabilities	Due within 1 year	Due between 1 and 5 years	Due past 5 years
Trade payables	$ 30	$ –	$ –
Bank loan (interest and principal)	3,893	14,978	42,738
	$ 3,923	$ 14,978	$ 42,738

ENERSOURCE CORPORATION

Notes to Financial Statements (continued)
(In thousands of Canadian dollars)

Year ended December 31, 2019

13. Subsequent events:

(a) Dividend:

On March 20, 2020, the Corporation received a dividend of $12,787 from Alectra.

(b) COVID-19:

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 U.S., 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, in the U.S. 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 situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation is not known at this time.