Consolidated IFRS Financial Statements

Lakeland Holding Ltd.

December 31, 2018

Contents

Independent auditor's report

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To the Directors of Lakeland Holding Ltd.,

Opinion

We have audited the consolidated financial statements of Lakeland Holding Ltd. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of 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 consolidated financial position of Lakeland Holding Ltd. as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), 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.

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.

Grant Thornton LLP

Barrie, Canada
April 26, 2019

Chartered Professional Accountants
Licensed Public Accountants

Lakeland Holding Ltd.
Consolidated Statements of Comprehensive Income

(Expressed in Canadian Dollars)

Year Ended December 31	2018	2017
Revenue		
Electricity revenue	$ 34,129,330	$ 35,611,447
Distribution revenue	8,536,399	8,194,172
Generation revenue	10,091,796	9,336,213
Energy revenue	4,149,874	3,294,276
Other revenue	858,399	691,074
Gain (loss) on disposal of property, plant and equipment	11,330	(14,986)
Total Revenue	57,777,128	57,112,196
Expenses		
Purchased power	34,354,941	35,405,579
Operating expenses (Note 24)	10,474,052	9,120,274
Depreciation and amortization (Note 14)	3,603,628	3,092,904
Taxes other than payments in lieu of taxes	200,446	221,228
Total Expenses	48,633,067	47,839,985
Income from operating activities	9,144,061	9,272,211
Other Income		
Finance income	209,835	93,032
Finance costs	(1,468,148)	(989,818)
Change in fair value of interest rate swap (Note 21)	9,228	419,974
Income before provision for payments in lieu of taxes	7,894,976	8,795,399
Provision for payments in lieu of taxes		
Current (Note 11)	764,268	837,881
Deferred (Note 11)	1,241,967	1,279,576
Total provision for payments in lieu of taxes	2,006,235	2,117,457
Profit for the year before net movements in regulatory deferral account balances	5,888,741	6,677,942
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement (Note 11 & 13)	164,169	(152,658)
Profit for the year and net movements in regulatory deferral account balances	6,052,910	6,525,284
Other comprehensive income (OCI): items that will not be reclassified to profit or loss, net of income tax		
Amortization of change in fair value of interest rate swap, net of tax of $Nil (2017 - $Nil) (Note 21)	33,257	33,257
Other comprehensive income for the year, net of tax	33,257	33,257
Total comprehensive income for the year	$ 6,086,167	$ 6,558,541

See accompanying notes to the consolidated financial statements

Lakeland Holding Ltd.
Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at December 31	**2018**	2017
Assets		
Current Assets		
Cash and cash equivalents	**$ 11,743,058**	$ 10,164,734
Receivables (Note 6)	**6,109,618**	5,753,319
Unbilled revenue	**3,908,152**	3,966,937
Inventory (Note 7)	**367,782**	455,171
Prepaid expenses	**625,647**	513,382
Payment in lieu of taxes receivable	**95,833**	-
Total Current Assets	**22,850,090**	20,853,543
Non-Current Assets		
Property, plant and equipment (Note 8)	**95,674,641**	90,104,481
Intangible assets (Note 9)	**4,999,575**	5,054,678
Goodwill (Note 10)	**1,150,014**	1,150,014
Total Non-Current Assets	**101,824,230**	96,309,173
Total Assets	**124,674,320**	117,162,716
Regulatory Deferral Account Debit Balances and Related Deferred Taxes (Note 11 & 13)	**806,197**	867,316
Total Assets and Regulatory Deferral Account Balances	**$ 125,480,517**	$ 118,030,032

See accompanying notes to the consolidated financial statements

Lakeland Holding Ltd.
Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at December 31	2018	2017
Liabilities		
Current Liabilities		
Construction loan (Note 19)	$ -	$ 11,085,422
Accounts payable and accrued liabilities (Note 12)	**7,158,154**	8,338,603
Deferred revenue (Note 15)	**794,420**	573,291
Contributions in aid of construction (Note 16)	**197,539**	191,220
Payment in lieu of taxes payable	**-**	241,394
Current portion of long-term debt (Note 20)	**1,931,424**	2,414,492
Total Current Liabilities	**10,081,537**	22,844,422
Non-Current Liabilities		
Deferred revenue (Note 15)	**5,537,977**	3,519,391
Contributions in aid of construction (Note 16)	**6,346,180**	6,198,129
Customer deposits (Note 17)	**232,205**	210,876
Deferred payments in lieu of taxes (Note 11)	**5,821,446**	4,520,289
Employee future benefits (Note 18)	**327,108**	327,359
Interest rate swap (Note 21)	**116,101**	158,586
Long term debt (Note 20)	**43,017,319**	30,440,470
Total Non-Current Liabilities	**61,398,336**	45,375,100
Total Liabilities	**71,479,873**	68,219,522
Shareholders' Equity		
Share capital (Note 22)	**12,609,650**	12,609,650
Retained earnings	**35,545,892**	31,389,015
Contributed surplus	**5,855,109**	5,855,109
Accumulated other comprehensive loss	**(10,007)**	(43,264)
Total Shareholders' Equity	**54,000,644**	49,810,510
Total Liabilities and Shareholders' Equity	**125,480,517**	118,030,032
Regulatory Deferral Account Credit Balances and Related Deferred Tax (Notes 11 & 13)	**-**	-
Total Liabilities, Shareholders' Equity and Regulatory Deferral Account Credit Balances	**$ 125,480,517**	$ 118,030,032

Contingency (Note 27)

On Behalf of the Board

_______________ Director _______________ Director

See accompanying notes to the consolidated financial statements

Lakeland Holding Ltd.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)
Year Ended December 31, 2018

	Share capital	Accumulated other comprehensive loss	Retained earnings	Contributed surplus	**Total**
January 1, 2017	$ 12,609,650	$ (76,521)	$ 26,613,731	$ 5,855,109	**$ 45,001,969**
Profit for the year and net movements in regulatory deferral account balances	-	-	6,525,284	-	**6,525,284**
Other comprehensive income, net of tax:					
Amortization of change in fair value of interest rate swap (Note 21)	-	33,257	-	-	**33,257**
Dividends	-	-	(1,750,000)	-	**(1,750,000)**
December 31, 2017	**$ 12,609,650**	**$ (43,264)**	**$ 31,389,015**	**$ 5,855,109**	**$ 49,810,510**
Profit for the year and net movements in regulatory deferral account balances	-	-	6,052,910	-	**6,052,910**
Other comprehensive income, net of tax:					
Amortization of change in fair value of interest rate swap (Note 21)	-	33,257	-	-	**33,257**
Dividends	-	-	(1,896,033)	-	**(1,896,033)**
December 31, 2018	**$ 12,609,650**	**$ (10,007)**	**$ 35,545,892**	**$ 5,855,109**	**$ 54,000,644**

See accompanying notes to the consolidated financial statements

Lakeland Holding Ltd.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Year Ended December 31	**2018**	2017
Cash flows from operating activities		
Comprehensive income for the year	**$ 6,086,167**	$ 6,558,541
Adjustments		
Depreciation and amortization of property, plant and equipment and intangible assets (Note 14)	**3,837,148**	3,353,967
(Gain) loss on disposal of property, plant and equipment	**(11,330)**	14,986
Employee future benefits	**(251)**	2,613
Provision for payments in lieu of taxes	**2,065,425**	2,062,417
Finance income	**(209,835)**	(93,032)
Finance costs	**1,468,148**	989,818
Change in fair value of interest rate swap	**(9,228)**	(419,974)
Amortization of change in fair value of interest rate swap	**(33,257)**	(33,257)
Amortization of Small Communities Funding grants earned	**(224,920)**	(161,844)
Change in non-cash operating working capital		
Receivables	**(356,299)**	1,424,577
Unbilled service revenue	**58,785**	659,199
Inventory	**87,389**	(60,206)
Prepaid expenses	**(112,265)**	(76,352)
Accounts payables and accrued liabilities	**(1,180,449)**	(591,581)
Customer deposits	**21,329**	(19,234)
Deferred revenue	**1,128,299**	(520,978)
Contributions in aid of construction	**154,370**	180,646
Regulatory deferral account balances	**61,119**	626,700
	12,830,345	13,897,006
Payments in lieu of taxes paid	**(1,101,495)**	(619,361)
Net cash flows from operating activities	**11,728,850**	13,277,645
Cash flows from investing activities		
Finance income received	**209,835**	93,032
Proceeds on disposal of property, plant and equipment	**115,292**	181,987
Purchase of property, plant and equipment	**(9,421,453)**	(15,114,127)
Purchase of intangible assets	**(34,714)**	(151,212)
Net cash used in investing activities	**(9,131,040)**	(14,990,320)
Cash flows from financing activities		
Repayment of long term debt	**(1,713,025)**	(1,247,039)
Long term debt proceeds	**13,806,806**	-
Construction loan (repayment) proceeds	**(11,085,422)**	6,677,877
Dividends paid	**(1,896,033)**	(1,750,000)
Finance costs paid	**(1,468,148)**	(989,818)
Small Communities Funding grants received	**1,336,336**	1,747,932
Net cash provided from financing activities	**(1,019,486)**	4,438,952
Net increase in cash and cash equivalents during the year	**1,578,324**	2,726,277
Cash and cash equivalents, beginning of year	**10,164,734**	7,438,457
Cash and cash equivalents, end of year	**$ 11,743,058**	$ 10,164,734

See accompanying notes to the consolidated financial statements

1. Corporate information

The Company is incorporated under the laws of Ontario. Two of the subsidiaries are also incorporated under the laws of Ontario and operate as local utility companies producing and distributing electricity to users in Bracebridge, Huntsville, Sundridge, Burk’s Falls and Magnetawan, Ontario and after July 1, 2014, Parry Sound. These businesses are granted license to operate and are regulated by the Ontario Energy Board (OEB). A third subsidiary is incorporated under the laws of Ontario and sells utility related products and services. The address of the Company's corporate office and principal place of business is 200-395 Centre St N, Huntsville, Ontario, Canada, P1H 2M2.

The Company has 6 municipal shareholders, Town of Bracebridge, Town of Huntsville, Town of Parry Sound, Village of Burk’s Falls, Village of Sundridge and Municipality of Magnetawan.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations as issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB.

The consolidated financial statements were authorized for issue by the Board of Directors on April 26, 2019.

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis and include the accounts of the Company and its wholly owned subsidiaries: Lakeland Power Distribution Ltd., Bracebridge Generation Ltd. and Lakeland Energy Ltd. The consolidated financial statements are presented in Canadian dollars (CDN$), which is also the Company’s functional currency.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It is also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment, complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

2. Basis of preparation (continued)

c) Explanation of Activities subject to Rate Regulation

The Company, as an electricity distributor, is both licensed and regulated by the Ontario Energy Board "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 relating 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.

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. The Company is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required (i) to recover the forecast 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.

3. Summary of significant accounting policies

a) Regulatory Deferral Accounts

Regulatory deferral account debit balances represent 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. 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 balances can arise from differences in amounts collected from customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by the Company in the wholesale market administered by the Independent Electricity System Operator (the "IESO") after May 1, 2002. These amounts have been accumulated pursuant to regulation underlying the Electricity Act (the "EA") and deferred in anticipation of their future recovery or expense in electricity distribution service charges.

Explanation of recognized amounts

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 as described below.

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.

b) Revenue

Revenue is recognized to the extent that it is probable those economic benefits will flow to the Company and that the revenue can be reliably measured. Revenue comprises of sales and distribution of energy, internet service, streetlight maintenance, water tank rentals, pole use rental, collection charges, investment income and other miscellaneous revenues.

Sale and distribution of energy

The Company is licensed by the OEB to distribute electricity. 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 upon delivery and provision of services over the period in which the delivery and service is performed and collectability is reasonably assured and includes unbilled revenues accrued in respect of electricity delivered but not yet billed in the reporting period. Sale and distribution of energy revenue is comprised of customer billings for distribution service charges. Customer billings for distribution service charges are recorded based on meter readings.

3. Summary of significant accounting policies (continued)

Sale and generation of energy

The Company is licensed by the OEB to generate electricity. The Company has a contract with the IESO for a pricing rate for each generating plant.

Revenues from the sale and generation of electricity are recognized upon delivery and provision of services over the period in which the delivery and service is performed and collectability is reasonably assured. Generation revenue is determined using meter readings and the contracted price.

Internet Service Provider

The Company provides internet service to customers over a fibre optic network. Customers are billed based on their respective contract conditions.

Revenues from the contracts are recognized upon provision of services over the period in which the service is performed and collectability is reasonably assured. Communication revenue is determined using the contracted price.

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.

Streetlight Maintenance

Streetlight maintenance revenue is recognized at the time services are provided. The Company provides maintenance services for a number of municipalities on a request basis.

Water Heater and Sentinel Light Rentals

Water heater and sentinel light rental revenue is recognized in the period that services are provided. The Company provides rental units for residential and commercial use and determines revenue using a contracted price.

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.

Other

Other revenues, which include operational and consulting assistance for other generators, collection charges and other miscellaneous services are recognized at the time services are provided.

Operating lease rental revenue from pole use is recognized on a monthly basis at current rates charged during the life of the respective leases.

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.

3. Summary of significant accounting policies (continued)

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 recorded as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

Certain assets have been constructed with financial assistance in the form of government funding. The funding is classified as deferred revenue and is recorded as revenue on a straight-line basis over the useful life of the constructed asset.

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original 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.

d) Financial instruments

Financial instruments are comprised of cash and cash equivalents, accounts receivable, unbilled revenues, accounts payable, customer deposits, term loans, and derivative financial liabilities.

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Financial assets are initially measured at fair value adjusted for transaction costs where applicable.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss ("FVTPL")
- fair value through other comprehensive income ("FVOCI")

The classification is determined by both:

- the Company's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

3. Summary of significant accounting policies (continued)

In the periods presented, the Company does not have any financial assets measured at FVOCI.

Subsequent measurement of financial assets

Financial assets at amortized cost
Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, accounts receivable, and unbilled revenues fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at fair value through profit and loss. Further, irrespective of the business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

In the periods presented, the Company does not have any financial assets measured at FVTPL.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the "expected credit loss (ECL) model." This replaces IAS 39's "incurred loss model." Instruments within the scope of the new requirements included accounts receivable and due from related parties.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

3. Summary of significant accounting policies (continued)

“Stage 3” would cover financial assets that have objective evidence of impairment at the reporting date.

“12-month expected credit losses” are recognized for the first category while “lifetime expected credit losses” are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Previous financial asset impairment under IAS 39

In the prior year, the impairment of receivables was based on the incurred loss model. Receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. There were no impairments reported in the prior year.

Accounts receivable

The Company makes use of a simplified approach in accounting for accounts receivable and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating the expected credit losses, the Company uses its historical experience and adjusts historical rates to reflect current and forward looking macroeconomic factors affecting the client’s ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of macroeconomic factors has not been considered significant within the reporting period.

The Company assesses impairment of accounts receivable on a collective basis as they possess shared credit risk characteristics.

Classification and measurement of financial liabilities

The Company’s financial liabilities include accounts payable and accrued liabilities, customer deposits, term loans, and derivative financial liabilities.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss.

IFRS 9 also includes a new hedge accounting standard; however, the Company has not designated the derivative financial liability as a hedging instrument. Therefore, the derivative financial liability continues to be accounted for at fair value through profit and loss.

All interest-related charges and, if applicable, changes in an instrument’s fair value that are reported in profit or loss are included within finance costs or finance income.

(Expressed in Canadian Dollars)

3. Summary of significant accounting policies (continued)

e) Fair value measurements

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement.

Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

The fair value hierarchy has the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

f) Property, plant and equipment

Recognition and measurement

Property, plant and equipment (PP&E) are recognized at cost or deemed 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 Statements 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:

Distribution plant	
Buildings and fixtures	50 years
Conductors and devices	60 years
Distribution station equipment	40 years
Line transformers	40 years
Meters	15 years
New services distribution	45 years
Poles, towers and fixtures	45 years
Underground conduits	40 to 45 years
Generation plant	
Dams and waterways	45 years
Turbines and generators	45 years
Accessory electrical equipment	25 years

3. Summary of significant accounting policies (continued)

General plant

Building and fixtures	50 years
Communication equipment	5 to 20 years
Computer hardware	5 years
Office furniture and equipment	10 years
Stores equipment	10 years
Tools and garage equipment	10 years
Transportation equipment	5 & 8 years

Major spare parts

Major spares such as spare transformers and other items kept as standby/back up equipment are accounted for as PP&E since they support the Company's distribution system reliability.

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 Statements of Comprehensive Income when the asset is disposed of. When an item of property, plant and equipment with related contributions in aid of construction is disposed, the remaining amount is recognized in full in the Statement of Comprehensive Income.

g) Borrowing costs

The Company capitalizes interest expenses and other finance charges directly relating to the acquisition, construction or production of assets that take a substantial period of time to get ready for its intended use. Capitalization commences when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization will be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete.

h) Intangible assets

Computer software

Computer software that is acquired or developed by the Company, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

3. Summary of significant accounting policies (continued)

Land rights

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

Waterpower generation rights

Amounts related to the acquisition of waterpower generation rights are classified as intangible assets. These rights are related to the Company's ability to access Crown lands and water beds and are considered to have an indefinite life.

Amortization

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

Land rights	Indefinite
Waterpower generation rights	Indefinite
Computer software	5 years

i) Impairment of non-financial assets

Non-financial assets are tested for impairment when facts and circumstances indicate that the carrying amount of non-financial assets may not be recoverable. Where the carrying value exceeds its recoverable amount, which is the higher of value in use and fair value less costs of disposal, 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 to which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed. An impairment loss is charged to the Statements of Comprehensive Income, except to the extent it reverses gains previously recognized in other comprehensive income.

3. Summary of significant accounting policies (continued)

j) 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. 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 agreements is usually insufficient to measure the Company’s proportionate share in the plan assets and liabilities on defined benefit accounting requirements. Therefore, 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 contribution payable in exchange for services rendered during a period is recognized as an expense during that period.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company’s net obligation on behalf of its retired employees unfunded extended medical and dental benefits as well as life insurance and 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 calculation is performed by a qualified actuary using the projected unit credit method every three years or when there are significant changes to workforce. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

Defined benefit obligations are measured using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities.

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

Service costs are recognized in the Statements of Comprehensive Income in operating expenses, and include current and past service costs as well as gains and losses on curtailments.

Net interest expense is recognized the Statements of Comprehensive Income in finance expense, and 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 Statements of Comprehensive Income. Settlements of defined benefit plans are recognized in the period in which the settlement occurs.

3. Summary of significant accounting policies (continued)

k) Payments in lieu of taxes

Tax status

The Company is a Municipal Electricity Utility ("MEU") for purposes of the payments in lieu of taxes ("PILs") regime contained in the Electricity Act, 1998. As an MEU, 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.

Current and deferred tax

Provision for payments in lieu of taxes comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity or regulatory deferral account balances (see Note 11). Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base. The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities/(assets) are settled/(recovered).

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

At the end of each reporting period, the Company reassesses both recognized and unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

l) Inventories

Cost of inventories comprise of direct materials, which typically consists of distribution assets, streetlight repair parts and fiber optic cable 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.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3. Summary of significant accounting policies (continued)

m) Standards, amendments and interpretations not yet effective

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that the relevant pronouncement will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019, and will be applied retrospectively with some exceptions. Early adoption is permitted if IFRS 15 has been adopted. The adoption of IFRS 16 is not expected to have a material impact on the consolidated financial statements.

4. Changes in accounting policies and recent accounting pronouncements

During the year, the Company adopted the following accounting pronouncements:

Revenue

IFRS 15 *Revenue from Contracts with Customers* and the related *Clarifications to IFRS 15 Revenue from Contracts with Customers* (hereinafter referred to as "IFRS 15") replaces IAS 18 Revenue, IAS 11 Construction Contracts, and several revenue related Interpretations and has an effective date of January 1, 2018. IFRS 15 has been applied retrospectively without restatement, with the cumulative effect of initial application recognized as an adjustment to the opening balance of retained earnings at January 1, 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at January 1, 2018.

The adoption of IFRS 15 did not have a material impact on the consolidated financial statements.

4. Changes in accounting policies and recent accounting pronouncements (continued)

Financial instruments

IFRS 9 *Financial Instruments* (hereinafter referred to as “IFRS 9”) replaces IAS 39 *Financial Instruments: Recognition and Measurement* and has an effective date of January 1, 2018. IFRS 9 makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an “expected credit loss” model for the impairment of financial assets.

When adopting IFRS 9, the Company has applied transitional relief and opted not to restate the prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement and impairment are recognized in retained earnings.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities’ risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness. The Company does not have any hedged items and therefore this requirement does not have any impact.

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements.

5. Use of estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Property, plant and equipment

The Company relies on a third party independent study to componentize and determine the estimated useful lives of its distribution system assets. The useful life values from the study were derived from industrial statistics, research studies, reports and past utility experience. For the remaining assets Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets and past utility experience. Actual lives of assets may vary from estimated useful lives.

Employee future benefits

The costs of post-employment medical and insurance 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, post-employment medical and insurance benefits are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. See Note 18 Employee Future Benefits.

(Expressed in Canadian Dollars)

5. Use of estimates and judgements (continued)

Payments in lieu of taxes

The Company is required to make payments in lieu of tax calculated on the same basis as income taxes on taxable income earned and capital taxes. Significant judgment is required in determining the provision for income taxes. 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 payments in lieu of taxes based on its understanding of the current 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 provisions in the period in which such determination is made.

Receivables

For amounts related to Small Communities Funding (SCF), an estimate of the expected funding is based on prior payment levels for specific submissions.

In determining the allowance for doubtful accounts, the Company considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances.

6. Receivables

	December 31 2018	December 31 2017
Accounts receivable	**$ 5,249,997**	$ 5,154,386
SCF Funding receivables	**859,621**	598,933
	$ 6,109,618	$ 5,753,319

Lakeland Energy has been approved for a Small Communities Fund (SCF) in order to build a fiber optic network to the rural areas of Bracebridge and Huntsville. This is a five year program expected to end in 2020 with 2/3 funding by the Provincial and Federal governments. Total project costs are expected to be $8,574,597, with $5,716,398 in funding. As submissions are made to the government agencies, a corresponding receivable is set up for the estimated funding expected. Accordingly, the receivable balance represents funding expected to be recovered for eligible expenditures incurred to December 31, 2018.

7. Inventory

The amount of spare parts inventories consumed by the Company and recognized as and expense during 2018 was $99,447 (2017 - $73,027)

(Expressed in Canadian Dollars)

8. Property, plant and equipment

Property, plant and equipment consist of the following:

	Land and buildings	Distribution equipment	Electricity generation equipment	Other fixed assets	Construction in progress	Total
Cost						
Balance at January 1, 2017	$ 8,375,164	$ 46,270,848	$ 30,845,891	$ 15,343,172	$ 9,925,878	**$ 110,760,953**
Additions	6,501,242	2,154,700	12,388,189	3,384,784	8,471,628	**32,900,543**
Disposals	-	63,387	-	262,088	17,786,416	**18,111,891**
Balance at December 31, 2017	$ 14,876,406	$ 48,362,161	$ 43,234,080	$ 18,465,868	$ 611,090	**$ 125,549,605**
Balance at January 1, 2018	$ 14,876,406	$ 48,362,161	$ 43,234,080	$ 18,465,868	$ 611,090	**$ 125,549,605**
Additions	256,037	2,287,087	71,863	5,855,614	950,852	**9,421,453**
Disposals	17,500	-	-	189,878	-	**207,378**
Balance at December 31, 2018	$ 15,114,943	$ 50,649,248	$ 43,305,943	$ 24,131,604	$ 1,561,942	**$ 134,763,680**
Accumulated depreciation						
Balance at January 1, 2017	$ 1,534,015	$ 18,814,202	$ 6,065,167	$ 5,886,039	$ -	**$ 32,299,423**
Depreciation for the year (Note 14)	287,490	1,180,795	826,851	979,067	-	**3,274,203**
Disposals	-	-	-	128,502	-	**128,502**
Balance at December 31, 2017	$ 1,821,505	$ 19,994,997	$ 6,892,018	$ 6,736,604	$ -	**$ 35,445,124**
Balance at January 1, 2018	$ 1,821,505	$ 19,994,997	$ 6,892,018	$ 6,736,604	$ -	**$ 35,445,124**
Depreciation for the year (Note 14)	359,684	1,232,143	968,174	1,187,330	-	**3,747,331**
Disposals	933	-	-	102,483	-	**103,416**
Balance at December 31, 2018	$ 2,180,256	$ 21,227,140	$ 7,860,192	$ 7,821,451	$ -	**$ 39,089,039**
Carrying amounts						
At December 31, 2017	**$ 13,054,901**	**$ 28,367,164**	**$ 36,342,062**	**$ 11,729,264**	**$ 611,090**	**$ 90,104,481**
At December 31, 2018	**$ 12,934,687**	**$ 29,422,108**	**$ 35,445,751**	**$ 16,310,153**	**$ 1,561,942**	**$ 95,674,641**

During the year ended December 31, 2018, the Company capitalized borrowing costs related to the construction of the Cascade Falls generating station amounting to $Nil (2017 - $240,359).

(Expressed in Canadian Dollars)

9. Intangible assets

Intangible assets consist of the following:

	Computer software	Land rights	Waterpower generation rights	Total
Cost				
Balance at January 1, 2017	$ 1,304,106	$ 567,931	$ 4,290,694	**$ 6,162,731**
Additions	151,212	-	-	**151,212**
Disposals	-	-	-	**-**
Balance at December 31, 2017	$ 1,455,318	$ 567,931	$ 4,290,694	**$ 6,313,943**
Balance at January 1, 2018	$ 1,455,318	$ 567,931	$ 4,290,694	**$ 6,313,943**
Additions	34,714	-	-	**34,714**
Disposals	-	-	-	**-**
Balance at December 31, 2018	$ 1,490,032	$ 567,931	$ 4,290,694	**$ 6,348,657**
Accumulated depreciation				
Balance at January 1, 2017	$ 1,129,546	$ 49,955	$ -	**$ 1,179,501**
Depreciation for the year (Note 14)	79,744	20	-	**79,764**
Balance at December 31, 2017	$ 1,209,290	$ 49,975	$ -	**$ 1,259,265**
Balance at January 1, 2018	$ 1,209,290	$ 49,975	$ -	**$ 1,259,265**
Depreciation for the year (Note 14)	89,797	20	-	**89,817**
Balance at December 31, 2018	$ 1,299,087	$ 49,995	$ -	**$ 1,349,082**
Carrying amounts				
At December 31, 2017	**$ 246,028**	**$ 517,956**	**$ 4,290,694**	**$ 5,054,678**
At December 31, 2018	**$ 190,945**	**$ 517,936**	**$ 4,290,694**	**$ 4,999,575**

(Expressed in Canadian Dollars)

10. Goodwill

Goodwill of $1,150,014 is primarily related to growth expectations, expected future profitability, the substantial skill and expertise of the workforce and expected costs. Goodwill has been allocated to the power segment and is not expected to be deductible for income tax purposes.

11. Payments in lieu of taxes payable

The significant components of the provision for payments in lieu of taxes expense are as follows:

	2018	2017
Current tax		
Based on current year taxable income	**$ 764,268**	$ 837,881
Total current tax	**764,268**	$ 837,881
Deferred tax		
Origination and reversal of temporary differences	**$ 1,241,967**	$ 1,279,576
Total deferred tax	**$ 1,241,967**	$ 1,279,576
Total provision for payments in lieu of taxes	**$ 2,006,235**	$ 2,117,457

The payments in lieu of taxes varies from amounts which would be computed by applying the Company's combined statutory federal and provincial income tax rate. Reconciliation of the payments in lieu of taxes at the statutory income tax rate to the provision for payments in lieu of taxes is as follows:

(Expressed in Canadian Dollars)

11. Payments in lieu of taxes payable (continued)

Rate reconciliation before net movements in regulatory balances and OCI

	2018	2017
Profit for the year before net movements in regulatory deferral account balances and OCI	**$ 7,894,974**	$ 8,795,399
Statutory tax rate	**26.5%**	26.5%
Expected payments in lieu of taxes	**2,092,169**	2,330,781
Increase (decrease) resulting from:		
Items not deductible (taxable) for tax purposes	**1,139**	(102,891)
Rate variances	**(75,711)**	(85,149)
Refundable taxes and ITCs	**(3,047)**	(11,032)
Other	**(8,315)**	(14,252)
Provision for payments in lieu of taxes	**$ 2,006,235**	$ 2,117,457

Rate reconciliation after net movements in regulatory balances

	2018	2017
Profit for the year before OCI	**$ 8,118,335**	$ 8,587,701
Statutory tax rate	**26.5%**	26.5%
Expected payments in lieu of taxes	**2,151,359**	2,275,741
Increase (decrease) resulting from:		
Items not deductible (taxable) for tax purposes	**1,139**	(102,891)
Rate variances	**(75,711)**	(85,149)
Refundable taxes and ITCs	**(3,047)**	(11,032)
Other	**(8,315)**	(14,252)
Provision for payments in lieu of taxes	**$ 2,065,425**	$ 2,062,417

	2018	2017
Provision for payments in lieu of taxes before net movements in regulatory deferral account balances and OCI	**$ 2,006,235**	$ 2,117,457
Provision for payments in lieu of taxes recorded in net movement in regulatory balances	**59,190**	(55,040)
Provision for payments in lieu of taxes after net movement in regulatory balances	**2,065,425**	2,062,417
Provision for payments in lieu of taxes recorded in OCI	**-**	-
Provision for payments in lieu of taxes	**$ 2,065,425**	$ 2,062,417

(Expressed in Canadian Dollars)

11. Payments in lieu of taxes payable (continued)

The movements in the deferred tax liabilities are:

	Balance January 1 2018	Recognized in Net Income	**Balance December 31 2018**
Deferred tax liabilities			
Property, plant and equipment	$ 4,637,101	$ 1,441,383	**$ 6,078,484**
Intangible assets	(13,243)	(6)	**(13,249)**
Losses carried forward	(1,913)	(143,915)	**(145,828)**
Employee future benefits	(83,675)	44	**(83,631)**
Other	(17,981)	3,651	**(14,330)**
Deferred tax liabilities	$ 4,520,289	$ 1,301,157	**$ 5,821,446**

	Balance January 1 2017	Recognized in Net Income	Balance December 31 2017
Deferred tax liabilities			
Property, plant and equipment	$ 3,402,251	$ 1,234,850	$ 4,637,101
Intangible assets	30,736	(43,979)	(13,243)
Losses carried forward	-	(1,913)	(1,913)
Employee future benefits	(82,970)	(705)	(83,675)
Other	(54,265)	36,284	(17,981)
Deferred tax liabilities	$ 3,295,752	$ 1,224,537	$ 4,520,289

12. Accounts payable and accrued liabilities

Major components of accounts payable and accrued liabilities consist of the following:

	December 31 2018	December 31 2017
Purchased power	**$ 1,942,367**	$ 2,063,040
Accounts payable and accrued liabilities	**5,215,787**	6,275,563
	$ 7,158,154	$ 8,338,603

(Expressed in Canadian Dollars)

13. Regulatory deferral account balances

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 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:

	Note	Remaining Recovery Reversal Period	Balance Jan. 1 2018	Balances arising in period	Recovery/ reversal	**Closing Balance Dec. 31 2018**
Regulatory Deferral Account Debit / (Credit)						
Settlement variances	*i)*	1	$ 164,364	$ (197,213)	$ (530)	**$ (33,389)**
Renewable generation	*ii)*	1	252,660	4,564	-	**257,224**
Retail cost variances	*iii)*	1	446,372	138,855	-	**585,227**
Smart meters	*iv)*	1	3,920	(7,325)	530	**(2,875)**
			$ 867,316	$ (61,119)	$ -	**$ 806,197**

	Note	Remaining Recovery Reversal Period	Balance Jan. 1 2017	Balances arising in period	Recovery/ reversal	**Closing Balance Dec. 31 2017**
Regulatory Deferral Account Debit / (Credit)						
Settlement variances	*i)*	1	$ 870,579	$ (708,500)	$ 2,285	**$ 164,364**
Renewable generation	*ii)*	1	245,384	7,276	-	**252,660**
Retail cost variances	*iii)*	1	370,151	76,221	-	**446,372**
Smart meters	*iv)*	1	7,902	(1,697)	(2,285)	**3,920**
			$ 1,494,016	$ (626,700)	$ -	**$ 867,316**

13. Regulatory deferral account balances (continued)

i. Settlement variances

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 service charges, non-competitive electricity charges, imported power charges and the global adjustment.

The Company has recognized a settlement variance liability of $33,379 (2017 – asset of $164,364) arising from the recognition of regulatory deferral account balances. The settlement variance liability balance is presented within the total regulatory deferral account debit balances presented in the statement of financial position. Annually the Company makes application for the recovery of the settlement variances for its customers in its rate application.

ii. Renewable Generation

The Company has recognized a cost asset of $257,224 (2017 - $252,660) for costs related to the Green Energy Act with the distributor being responsible for the cost of expansion up to the value of the generators renewable energy expansion cost of $90 per MW generation capacity. These amounts have not yet been submitted for recovery. The balance is presented within the total regulatory deferral account debit balances presented in the statement of financial position.

iii. Retail cost variances

The Company has recognized a cost asset of $585,227 (2017 - $446,372) mainly for costs in excess of the amount requested in the Company's last Cost of Service Application. Included is lost revenue as a result of CDM programs, IFRS conversion costs and a corporate tax true up from 2001 to 2006. The other cost asset balance is presented within the total regulatory deferral account debit balances presented in the statement of financial position.

iv. Smart meters

The Company has recognized a cost liability of $(2,875) (2017 - $3,920) related to the net balance of capital and operating expenditures for smart meters less recoveries received from the rate adder charged to customers.

(Expressed in Canadian Dollars)

14. Amortization of property plant and equipment and intangible assets

The amount of amortization of property, plant and equipment and intangible assets recorded during 2018 was $3,837,148 (2017 - $3,353,967). The line item *Amortization* on the Statement of Comprehensive Income only reflects $3,603,628 (2017 - $3,092,904) because of the transportation amortization of $233,520 (2017 - $261,063) where $122,154 (2017 - $166,662) has been expensed to operating lines and $112,366 (2017 - $94,401) has been capitalized where the equipment was used in constructing an asset.

15. Deferred revenue

The amount of deferred revenue is based on contracts in place for water heater rentals and fiber optic services that are billed one month in advance. In addition, amounts received from Small Communities Funding are deferred until the related assets are brought into use where at that time the deferred revenue is amortized over the useful life of the respective assets, which is 20 years. The third component is installation costs for customer site connections that is amortized over the term of the respective contracts.

	December 31 2018	December 31 2017
Small Communities Funding grants earned, net, beginning of year	**$ 3,595,955**	$ 2,655,669
Small Communities Funding grants earned in year	**1,597,165**	1,102,130
Small Communities Funding grants recognized in revenue	**(224,920)**	(161,844)
Small Communities Funding grants earned, net, end of year	**4,968,200**	$ 3,595,955
Wasauksing contract	**797,550**	-
Installation costs	**129,145**	164,486
Rental and services billed in advance	**437,502**	332,241
	$ 6,332,397	$ 4,092,682
Current portion	**$ 794,420**	$ 573,291
Non-current portion	**$ 5,537,977**	$ 3,519,391

As at December 31, 2018, the Company has accrued 95% (2017 – 55%) of the total grant funding expected to be received from Small Communities Funding based on the total project costs expected to be incurred and eligible for funding. The grant funding earned but not yet received and accrued as receivables is outlined in Note 6.

(Expressed in Canadian Dollars)

16. Contribution in aid of construction

Contributions in aid of construction consists of capital contributions received from electricity customers to construct or acquire property, plant and equipment which has not yet been recognized as revenue, and also includes revenue not yet recognized from demand billable activities.

		December 31 2018		December 31 2017
Deferred contributions, net, beginning of year	**$**	**6,389,349**	$	6,208,703
Contributions in aid of construction received		**347,817**		365,698
Contributions in aid of construction recognized as distribution revenue		**(193,447)**		(185,052)
Deferred contributions, net, end of year	**$**	**6,543,719**	$	6,389,349
Current portion	**$**	**197,539**	$	191,220
Non-current portion	**$**	**6,346,180**	$	6,198,129

17. Customers deposits

Customer deposits represent cash deposits from telecommunication and electricity distribution customers and retailers.

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.

		December 31 2018		December 31 2017
Customer deposits	**$**	**232,205**	$	210,876

18. Employee future benefits

a) Defined contribution plan

The employees of the Company participate in the Ontario Municipal Employees Retirement System ("OMERS"). Although the plan has a defined retirement benefit plan for employees, the related obligation of the Company cannot be identified. The OMERS plan has several unrelated participating municipalities and costs are not specifically attributed to each participant. The employer portion of amounts paid to OMERS during the year was $601,785 (2017 - $508,314). The contributions were made for current service and these have been recognized in net income.

(Expressed in Canadian Dollars)

18. Employee future benefits (continued)

b) Defined benefit plan

The Company pays post-retirement life insurance premiums and health & dental benefits for a defined group of employees. The Company recognizes these post-retirement costs in the period in which the employees render the services.

An actuarial valuation is prepared every third year or when there are significant changes to the workforce. A valuation based on management information was performed in accordance with IAS 19 for the 2016 fiscal period.

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.

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:

	Defined benefit liability	
	2018	2017
Balance January 1	**$ 304,258**	$ 301,646
Current service cost	**5,330**	5,658
Past service cost	**-**	-
Interest cost	**11,242**	11,193
Included in profit or loss	**16,572**	16,851
Remeasurement loss (gain)	**-**	-
Actuarial (gain) loss from financial assumptions	**-**	-
Included in other comprehensive income	**-**	-
Benefits paid during the year	**(16,822)**	(14,239)
Balance December 31	**$ 304,008**	$ 304,258

The main actuarial assumptions underlying the valuation are as follows:

Assumption	**2018**	2017	Reasonable Possible Change	Defined Benefit Increase	Obligation Decrease
Discount rate	3.8%	3.8%	1%	3%	(1.32)%
Retirement age - males	60	60	(2)	12.25%	-
Retirement age - females	60	60	(2)	12.25%	-

(Expressed in Canadian Dollars)

18. Employee future benefits (continued)

c) Other employee future benefits

Also included in the Employee future benefits is an amount for a self-insured life insurance plan regarding one employee from the original amalgamation of Lakeland Power in September, 2000. The amount is $23,100 and is payable upon death of the retiree.

19. Short term debt

The Company has short term indebtedness with Toronto Dominion Bank of $Nil (2017 - $11,085,422) out of $14,000,000 credit limit to finance upgrades to the Cascade Falls Generating plant. The facility bears interest at the prime rate, with no fixed term of repayment and ceased to exist upon the conversion of the indebtedness to a term loan.

20. Long term debt

	December 31 2018	December 31 2017
TD bank term loan, 3.62% (2017 – 2.94%) due March 2023	**$ 1,162,500**	$ 1,162,500
TD bank term loan, 3.21% due October 2022	**2,325,000**	2,325,000
TD bank term loan, 3.04% due July 2022	**2,698,887**	2,698,887
TD bank term loan, 2.17% due February 2022	**4,000,000**	4,000,000
TD bank term loan, 2.18%, renew rate July 2019, due June 2021	**7,403,058**	7,654,070
TD bank term loan, BA rate + 1.25% due March 2022	**2,421,894**	2,594,876
TD bank term loan, 3.79% due April 2023	**13,345,760**	-
TD reducing term facility loan, 3.74% due March 2022	**11,591,644**	12,419,629
	44,948,743	32,854,962
Current portion	**1,931,424**	2,414,492
	$ 43,017,319	$ 30,440,470

During the year, the Company renewed the $1,162,500 term loan that came due in March 2018 with the above noted term loan due March 2023.

The term loans are secured by a general security agreement conveying a first floating and fixed charge over certain assets and evidence of adequate liability insurance.

The agreements covering the above facilities contain certain restrictions regarding service coverage ratio and debt capitalization tests, which have been met.

The Company is only required to make interest only payments on the term loans with the balance due upon maturity except for loan of $8,000,000 which requires blended monthly payments of $34,615 over the next 1.5 years.

Management intends to renegotiate all term loans as they come due in order to further extend the principal payments.

(Expressed in Canadian Dollars)

20. Long term debt (continued)

Principal payments due in each of the next five years are as follows:

2019	$ 1,931,424
2020	1,906,886
2021	8,793,958
2022	20,835,033
2023	11,481,442

21. Interest rate swap

The Company has entered into an interest rate swap agreement as an “economic hedge” to manage the volatility of interest rates on the cash flows from the reducing term facility loan as described in Note 3 and 20 of the consolidated financial statements.

The floating interest rate on the bankers’ acceptance loan has been converted to a fixed rate of 3.74% by entering into an amortizing interest rate swap with an notional amount of $16,559,538 ($11,591,644 remaining, 2017 - $12,419,629). The maturity date of the interest rate swap is March 31, 2022. The fair value of the interest rate swap agreement is based on amounts determined by third party valuation of the interest rate swap.

As at December 31, 2018, the interest rate swap agreement was in a net unfavorable position representing a liability of $116,101 (2017 - $158,586) and $42,485 (2017 - $453,231) has been charged (credited) to comprehensive income for the annual change in fair value of the interest rate swap.

Under previous Canadian GAAP, the Company applied hedge accounting but it was not continued upon the transition to IFRS on January 1, 2014. The balance in Accumulated Other Comprehensive Loss related to the change in fair value of the interest rate swap at January 1, 2014 was $274,374. This cumulative balance is being amortized on a straight-line basis from January 1, 2014 to the maturity date of the interest rate swap and related term loan as the hedged item affects income and, accordingly, $33,257 (2017 - $33,257) is included in other expense in the Statement of Comprehensive Income.

22. Share capital

a) Ordinary shares

An unlimited number of common shares are authorized for issue. As of December 31, 2018, the Company has issued and fully paid 10,000 (2017 - 10,000) common shares. The shares have no par value.

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

b) Movement in ordinary share capital

No movement in ordinary share capital has occurred during 2018.

(Expressed in Canadian Dollars)

23. Related party transactions

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties) which approximates the arm's length equivalent value.

The following table summarizes the Company's related party shareholder transactions for the year:

		2018		2017
Purchases				
Town of Bracebridge				
Dividends	**$**	**1,042,488**	$	985,575
Operating expenses		**66,521**		34,742
Town of Huntsville				
Dividends		**402,398**		380,395
Operating expenses		**18,836**		11,589
Village of Burk's Falls				
Dividends		**63,372**		59,943
Operating expenses		**-**		1,338
Village of Sundridge				
Dividends		**69,372**		65,544
Municipality of Magnetawan				
Dividends		**23,526**		22,252
Operating expenses		**320**		280
Town of Parry Sound				
Dividends		**294,878**		236,292
Operating expenses		**23,639**		26,824
Sales				
Town of Bracebridge	**$**	**863,309**	$	1,019,691
Town of Huntsville		**430,235**		481,251
Village of Burk's Falls		**149,151**		156,213
Village of Sundridge		**125,785**		133,339
Municipality of Magnetawan		**36,599**		54,394
Town of Parry Sound		**888,029**		992,869

Key management personnel compensation comprised:

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

		2018		2017
Executive management & director compensation	**$**	**873,069**	$	909,070

(Expressed in Canadian Dollars)

24. Expenses by nature

	2018	2017
Repairs and maintenance	**$ 2,572,298**	$ 2,107,043
Staff costs (including post-employment benefits)	**5,848,977**	4,884,274
General administration and overhead	**2,011,188**	2,089,770
Bad debts	**41,589**	39,187
	$ 10,474,052	$ 9,120,274

25. Staff costs

	2018	2017
Wages, salaries and short-term employee benefits	**$ 7,223,404**	$ 6,151,642
Wages, salaries and short term employee benefits in revenue	**(58,768)**	(96,162)
Wages, salaries and short term employee benefits capitalized	**(1,315,409)**	(1,175,168)
Post-employment benefits	**(250)**	3,962
	$ 5,848,977	$ 4,884,274

26. Financial instruments and risk management

Fair value disclosure

The carrying values of cash and cash equivalents, receivables, unbilled service revenue, accounts payable and accrued liabilities and customer deposits approximate their respective fair values because of the short maturity of these instruments.

The fair value of the interest rate swap (Level 2) is $116,101 (2017 - $158,586). The fair value is based upon a third party valuation using standard pricing models for such instruments.

The fair value of the term loans (Level 2) is $45,055,652 (2017 - $33,618,440). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date.

Risk Management

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

26. Financial instruments and risk management (continued)

i) 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 distribution and energy revenue from a broad base of customers located in six municipalities. The Company earns its generation revenue from the IESO, a government entity. No other 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 Statement of Comprehensive Income. Subsequent recoveries of receivables previously provisioned are credited to the Statement of Comprehensive Income. The balance of the allowance for impairment at December 31, 2018 is $158,825 (2017 - $268,780). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2018, approximately $179,160 (2017 - $314,865) is considered 60 days past due. The Company has approximately 13,550 customers, the majority of which are residential. Credit risk is managed through the Company maintaining bank accounts at a reputable bank and the collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2018, the Company holds security deposits in the amount of $232,205 (2017 - $210,876).

ii) Market risk:

The Company is not exposed to significant market risk.

iii) Interest rate risk:

The Company’s policy is to minimize interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At December 31, 2018, the Company is not exposed to any material changes in market interest rates on its longer-term borrowing.

The TD bank term loan due March 2022 is exposed to interest rate risk as a portion of the loan is tied to the bankers’ acceptance floating rate, which gives rise to a risk that the Company’s income and cash flows may be adversely impacted by fluctuations in interest rates.

The reducing term facility may be exposed to interest rate risk if the Company is not in compliance with its year-end financial and capital expenditure covenants. The amount is currently being hedged via an interest rate swap and, therefore, has an effective fixed rate of 3.74%. The Company closely monitors its financial performance to ensure it remains in compliance with its banking covenants.

The interest rate swap is exposed to interest rate risk as it is recorded at fair value, which is dependent on projections of current and future interest rates.

(Expressed in Canadian Dollars)

26. Financial instruments and risk management (continued)

iv) 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 line of credit facilities totaling $6,000,000 and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

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

	Due within 1 year	Due between 1-2 years	Due past 2 years
At December 31, 2018			
Accounts payables and accrued liabilities	$ 7,158,154	$ -	$ -
Customer deposits	-	232,205	-
Long term debt	1,931,424	1,906,886	41,110,433
At December 31, 2017			
Accounts payables and accrued liabilities	$ 8,338,603	$ -	$ -
Customer deposits	-	210,876	-
Short term debt	11,085,422	-	-
Long term debt	2,414,492	1,150,342	29,290,128

27. Contingency

The Company has a bank letter of credit outstanding for $452,305 (2017 - $452,305). The letter of credit bears interest at a rate of 0.50% per annum. Purchasers of electricity in Ontario, through the Independent Electricity Systems Operator (IESO) are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Company fails to make a payment required by default notice issued by the IESO. The maximum potential payment is the face value of the bank letters of credit. As at December 31, 2018, the Company provided prudential support using bank letters of credit of $452,305 (2017 - $452,305).

28. 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, and the generation stations, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Company's definition of capital is shareholders' equity. As at December 31, 2018, shareholders' equity amounts to $54,000,644 (2017 - $49,810,510).