

Financial Statements

Lakeland Power Distribution Ltd.

December 31, 2019

(Expressed in Canadian Dollars)

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Lakeland Power Distribution Ltd.

Statement of Comprehensive Income

(Expressed in Canadian Dollars)

Year ended December 31

	2019	2018
Revenue		
Electricity revenue	\$ 37,270,072	\$ 34,129,330
Distribution revenue	8,040,502	8,536,399
Other revenue	554,586	942,525
Gain on disposal of property, plant and equipment	807	7,556
	<u>45,865,967</u>	<u>43,615,810</u>
Expenses		
Purchased power	36,753,141	34,354,941
Operating expenses (Note 22)	4,784,875	5,031,708
Depreciation and amortization (Note 21)	1,499,092	1,453,186
Taxes other than payments in lieu of taxes	57,787	54,391
	<u>43,094,895</u>	<u>40,894,226</u>
Income from operating activities	2,771,072	2,721,584
Other income		
Finance income	79,886	93,788
Finance costs	<u>(520,245)</u>	<u>(458,855)</u>
Income before provision for payments in lieu of taxes	2,330,713	2,356,517
Provision for payments in lieu of taxes		
Current (Note 12)	396,697	486,902
Deferred (Note 12)	<u>205,460</u>	<u>140,363</u>
	<u>602,157</u>	<u>627,265</u>
Profit before net movements in regulatory deferral account balances	1,728,556	1,729,252
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement (Notes 12 and 13)	<u>(378,981)</u>	<u>164,169</u>
Profit and net movements in regulatory deferral account balances	1,349,575	1,893,421
Other comprehensive loss: items that will not be reclassified to profit or loss, net of tax		
Remeasurements of defined benefit plan, net of tax of \$10,208 (2018 - \$Nil) (Note 18)	<u>(28,312)</u>	<u>-</u>
Total comprehensive income	<u>\$ 1,321,263</u>	<u>\$ 1,893,421</u>

Lakeland Power Distribution Ltd.

Statement of Financial Position

(Expressed in Canadian Dollars)

December 31

2019

2018

Assets

Current

Cash and cash equivalents	\$ 1,840,775	\$ 2,930,867
Receivables (Notes 6 and 7)	4,762,667	4,047,927
Unbilled revenue	4,705,385	3,908,152
Inventory (Note 8)	300,737	337,489
Prepaid expenses	417,652	295,180
Payment in lieu of taxes receivable	270,675	-

Total current

12,297,891 11,519,615

Non current

Property, plant and equipment (Note 9)	34,129,316	32,282,269
Intangible assets (Note 10)	590,603	577,251
Goodwill (Note 11)	1,150,014	1,150,014
Deferred payments in lieu of taxes (Note 12)	323,902	519,154

Total non current

36,193,835 34,528,688

Total assets

48,491,726 46,048,303

Regulatory deferral account debit balances and related deferred tax (Notes 12 and 13)

176,009 806,197

Total assets and regulatory deferral account balances

\$ 48,667,735 \$ 46,854,500

Lakeland Power Distribution Ltd.

Statement of Financial Position

(Expressed in Canadian Dollars)

December 31

2019

2018

Liabilities

Current

Accounts payable and accrued liabilities (Notes 7 and 15)	\$ 7,402,582	\$ 6,722,175
Current portion of contributions in aid of construction (Note 16)	218,768	197,539
Payment in lieu of taxes payable	-	51,461
Current portion of long-term debt (Note 19)	-	215,806

Total current

<u>7,621,350</u>	<u>7,186,981</u>
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Non current

Contributions in aid of construction (Note 16)	7,019,065	6,346,180
Customer deposits (Note 17)	254,835	218,158
Employee future benefits (Note 18)	116,073	80,780
Long-term debt (Note 19)	18,186,387	17,373,639

Total non current

<u>25,576,360</u>	<u>24,018,757</u>
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Total liabilities

<u>33,197,710</u>	<u>31,205,738</u>
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Shareholder's equity

Share capital (Note 20)	9,226,787	9,226,787
Contributed surplus	4,986,711	4,986,711
Retained earnings	1,200,812	1,351,237
Accumulated other comprehensive income	55,715	84,027

Total shareholder's equity

<u>15,470,025</u>	<u>15,648,762</u>
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Total liabilities and shareholder's equity

<u>48,667,735</u>	<u>46,854,500</u>
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Regulatory deferral account credit balances and related deferred tax (Notes 12 and 13)

<u>-</u>	<u>-</u>
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Total liabilities and shareholders' equity and regulatory deferral account credit balances

<u>\$ 48,667,735</u>	<u>\$ 46,854,500</u>
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Contingency (Note 25)

On behalf of the board

_____ Director

_____ Director

Lakeland Power Distribution Ltd.

Statement of Changes in Equity

(Expressed in Canadian Dollars)
Year ended December 31, 2019

	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2018	\$ 9,226,787	\$ 4,986,711	\$ 3,457,816	\$ 84,027	\$ 17,755,341
Profit for the year and net movements in regulatory deferral account balances	-	-	1,893,421	-	1,893,421
Dividends paid	-	-	(4,000,000)	-	(4,000,000)
Balance, December 31, 2018	9,226,787	4,986,711	1,351,237	84,027	15,648,762
Profit for the year and net movements in regulatory deferral account balances	-	-	1,349,575	-	1,349,575
Other comprehensive loss, net of tax:					
Remeasurements of defined benefit plan, net of tax (Note 18)	-	-	-	(28,312)	(28,312)
Dividends paid	-	-	(1,500,000)	-	(1,500,000)
Balance, December 31, 2019	\$ 9,226,787	\$ 4,986,711	\$ 1,200,812	\$ 55,715	\$ 15,470,025

Lakeland Power Distribution Ltd.

Statement of Cash Flows

(Expressed in Canadian Dollars)

Year ended December 31

2019

2018

Increase (decrease) in cash and cash equivalents

Operating

Comprehensive income	\$ 1,321,263	\$ 1,893,421
Items not affecting cash		
Depreciation and amortization of property, plant and equipment and intangible assets (Note 21)	1,604,447	1,581,142
Gain on sale of property, plant and equipment	(807)	(7,556)
Employee future benefits	35,293	236
Provision for payments in lieu of taxes	455,310	686,455
Finance income	(79,886)	(93,788)
Finance costs	520,245	458,855
	<u>3,855,865</u>	<u>4,518,765</u>

Change in non-cash working capital items

Receivables	(714,740)	324,688
Unbilled revenue	(797,233)	58,785
Inventory	36,752	28,472
Prepaid expenses	(122,472)	(10,689)
Accounts payable and accrued liabilities	680,407	504,632
Contributions in aid of construction	694,114	154,370
Customer deposits	36,677	7,282
Regulatory deferral account balances	630,188	61,119
	<u>443,693</u>	<u>1,128,659</u>

Payments in lieu of taxes paid

	<u>(582,194)</u>	<u>(513,427)</u>
	<u>3,717,364</u>	<u>5,133,997</u>

Financing

Repayment of long-term debt	(7,403,058)	(251,012)
Proceeds of long-term debt	8,000,000	-
Finance costs paid	(520,245)	(458,855)
Dividends paid	(1,500,000)	(4,000,000)
	<u>(1,423,303)</u>	<u>(4,709,867)</u>

Investing

Finance income received	79,886	93,788
Purchase of property, plant and equipment	(3,425,890)	(2,435,133)
Proceeds on disposal of property, plant and equipment	9,500	107,720
Purchase of intangible assets	(47,649)	(5,006)
	<u>(3,384,153)</u>	<u>(2,238,631)</u>

Decrease in cash and cash equivalents

	<u>(1,090,092)</u>	<u>(1,814,501)</u>
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Cash and cash equivalents

Beginning of year	<u>2,930,867</u>	<u>4,745,368</u>
End of year	<u>\$ 1,840,775</u>	<u>\$ 2,930,867</u>

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

1. Corporate information

Lakeland Power Distribution Ltd.'s (the "Company") main business activity is the distribution of electricity. The Company owns and operates an electricity distribution system. 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 sole shareholder of the Company is Lakeland Holding Ltd.

The Company was incorporated under the Canada Business Corporations Act in 2000, and has continued as a Company under the Business Corporations Act of Ontario. The Company distributes electricity to residents and businesses in the towns of Bracebridge, Huntsville, Parry Sound, Sundridge, Burk's Falls and Magnetawan under a license issued by the Ontario Energy Board ("OEB"). The Company is regulated by the OEB and adjustments to the Company's distribution and power rates require OEB approval.

2. Basis of presentation

a) Statement of compliance

The 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 financial statements were authorized for issue by the Board of Directors on April 24, 2020.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars (CDN\$), which is also the Company's functional currency.

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

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

2. Basis of presentation (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.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

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, 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.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

3. Summary of significant accounting policies (continued)

b) Revenue (continued)

Other

Other revenues, which include revenues from pole use rental, collection charges and other miscellaneous revenues are recognized at the time services are provided.

Where the Company has an ongoing obligation to provide services, revenues are recognized as the service is performed and amounts billed in advance are recognized as deferred revenue.

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.

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, amounts due to/from related parties, accounts payable, and term loans.

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.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

3. Summary of significant accounting policies (continued)

d) Financial instruments (continued)

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.

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, due from related parties, 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.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

3. Summary of significant accounting policies (continued)

d) Financial instruments (continued)

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 replaced 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”).

“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.

Accounts receivable and due from related parties

The Company makes use of a simplified approach in accounting for accounts receivable and due from related parties 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. Due from related parties are assessed on an individual basis. Based on historical experience of low credit losses, management has determined that there are no impairments during the period.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

3. Summary of significant accounting policies (continued)

d) Financial instruments (continued)

Classification and measurement of financial liabilities

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

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 does not have any financial assets or liabilities designated as a hedging instrument.

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.

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).

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

3. Summary of significant accounting policies (continued)

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

The estimated useful lives are as follows:

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

General plant

Building and fixtures	50 years
Communication equipment	5 & 10 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

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

3. Summary of significant accounting policies (continued)

f) Property, plant and equipment (continued)

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 Statement 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.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

3. Summary of significant accounting policies (continued)

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.

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.

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
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 Statement of Comprehensive Income, except to the extent it reverses gains previously recognized in other comprehensive income.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

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 Statement 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 Statement 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 Statement of Comprehensive Income. Settlements of defined benefit plans are recognized in the period in which the settlement occurs.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

3. Summary of significant accounting policies (continued)

k) Payment 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 12). 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.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
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3. Summary of significant accounting policies (continued)

m) Standards, amendments and interpretations not yet effective

Standards and amendments that are not yet effective and have not been adopted early by the Company and are expected to be relevant include:

- Definition of a Business (Amendments to IFRS 3);
- Definition of Material (Amendments to IAS 1 and IAS 8); and
- Conceptual Framework for Financial Reporting.

These amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made.

4. Changes in accounting policies and recent accounting pronouncements

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

IFRS 16 *Leases*

IFRS 16 *Leases* replaces IAS 17 *Leases* along with three Interpretations (IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases-Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*) and has an effective date of January 1, 2019. 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.

The adoption of IFRS 16 did not have a material impact on the financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 was issued by the IASB in May 2017 and is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. When there is uncertainty over income tax treatments, IFRIC 23 requires consideration of disclosures in applying IAS 1 *Presentation of Financial Statements*. The Company determines whether to disclose judgments made in determining taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates, and information about the assumptions and estimates made in determining taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates.

The adoption of IFRIC 23 did not have a material impact on the financial statements.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

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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. 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.

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

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.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

6. Receivables

	<u>2019</u>	<u>2018</u>
Intercompany receivables	\$ 31,529	\$ 43,411
Receivables	<u>4,731,138</u>	<u>4,004,516</u>
	<u>\$ 4,762,667</u>	<u>\$ 4,047,927</u>

The intercompany receivables are unsecured and have no specific interest or repayment terms.

7. Related company transactions

These transactions below 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. Bracebridge Generation Ltd. (BGL), Lakeland Energy Ltd. (LEL) and Lakeland Power Distribution Ltd. (LPDL) are all wholly-owned subsidiaries of Lakeland Holding Ltd. (LHL) and are therefore, related by common control.

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

	<u>2019</u>	<u>2018</u>
Lakeland Energy Ltd.		
Other operating revenue	\$ 10,802	\$ 13,512
Information technology expenses, in administration and general	424,000	392,292
Proceeds from sale of vehicle	-	48,000
Communication expenses, in administration and general	76,200	76,200
Other operating and maintenance expenses	768	12,959
Building rent revenue	42,000	42,000
Bracebridge Generation Ltd.		
Other operating revenue	\$ 49,529	\$ 35,746
Other operating and maintenance expenses	553	4,301
Building rent	6,000	6,000
Lakeland Holding Ltd.		
Management fees paid, in administration and general	\$ 897,728	\$ 969,967
Other operating and maintenance expenses	14,706	-

Shareholders of Lakeland Holding Ltd., the parent company

Purchases		
Town of Bracebridge	\$ 40,904	\$ 57,052
Town of Huntsville	50,773	17,924
Municipality of Magnetawan	-	320
Town of Parry Sound	27,773	20,143

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

7. Related company transactions (continued)

	<u>2019</u>	<u>2018</u>
Sales		
Town of Bracebridge	\$ 765,769	\$ 778,306
Town of Huntsville	525,652	404,056
Village of Burk's Falls	138,610	147,663
Village of Sundridge	123,856	125,785
Municipality of Magnetawan	28,237	32,549
Town of Parry Sound	868,704	873,619

Accounts receivable

	<u>2019</u>	<u>2018</u>
BGL	\$ 8,826	\$ 2,260
LEL	14,035	5,332
LHL	8,668	35,819
	<u>\$ 31,529</u>	<u>\$ 43,411</u>

Accounts payable

	<u>2019</u>	<u>2018</u>
BGL	\$ 1,179,052	\$ 1,223,529
LEL	8,612	8,881
LHL	166,006	201,907
	<u>\$ 1,353,670</u>	<u>\$ 1,434,317</u>

Key management personnel compensation comprised:

The management fee paid to Lakeland Holding Ltd. comprises of reimbursements for management and administrative expenses incurred by Lakeland Holding Ltd. Key management compensation for all the Lakeland group of companies is paid by Lakeland Holding Ltd. The total management fees paid from Lakeland Power Distribution Ltd. to Lakeland Holding Ltd. were \$897,728 (2018 - \$969,967). Additionally, director fees of \$36,065 (2018 - \$9,448) were also paid during the year.

8. Inventory

	<u>2019</u>	<u>2018</u>
Inventory expensed during the year	<u>\$ 51,737</u>	<u>\$ 85,550</u>

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

9. Property, plant and equipment

	<u>Land and buildings</u>	<u>Distribution equipment</u>	<u>Other fixed assets</u>	<u>Total</u>
Cost				
At January 1, 2018	\$ 2,860,562	\$ 48,362,161	\$ 3,910,476	\$ 55,133,199
Additions	(3,882)	2,287,087	151,928	2,435,133
Disposals	(17,500)	-	(160,440)	(177,940)
At January 1, 2019	2,839,180	50,649,248	3,901,964	57,390,392
Additions	15,561	3,108,670	301,659	3,425,890
Disposals	-	-	(27,817)	(27,817)
At December 31, 2019	<u>\$ 2,854,741</u>	<u>\$ 53,757,918</u>	<u>\$ 4,175,806</u>	<u>\$ 60,788,465</u>
Accumulated depreciation				
At January 1, 2018	\$ 745,520	\$ 19,994,997	\$ 2,911,147	\$ 23,651,664
Depreciation for the year (Note 21)	93,754	1,232,143	208,338	1,534,235
Disposals	(933)	-	(76,843)	(77,776)
At January 1, 2019	838,341	21,227,140	3,042,642	25,108,123
Depreciation for the year (Note 21)	86,623	1,305,744	177,783	1,570,150
Disposals	-	-	(19,124)	(19,124)
At December 31, 2019	<u>\$ 924,964</u>	<u>\$ 22,532,884</u>	<u>\$ 3,201,301</u>	<u>\$ 26,659,149</u>
Carrying amount at December 31, 2018	<u>\$ 2,000,839</u>	<u>\$ 29,422,108</u>	<u>\$ 859,322</u>	<u>\$ 32,282,269</u>
Carrying amount at December 31, 2019	<u>\$ 1,929,777</u>	<u>\$ 31,225,034</u>	<u>\$ 974,505</u>	<u>\$ 34,129,316</u>

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
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10. Intangible assets

	<u>Computer software</u>	<u>Land rights</u>	<u>Total</u>
Cost			
Balance at January 1, 2018	\$ 974,838	\$ 567,931	\$ 1,542,769
Additions	5,006	-	5,006
Disposals	-	-	-
	<u>979,844</u>	<u>567,931</u>	<u>1,547,775</u>
Balance at January 1, 2019	979,844	567,931	1,547,775
Additions	47,649	-	47,649
Disposals	-	-	-
	<u>1,027,493</u>	<u>567,931</u>	<u>1,595,424</u>
Balance at December 31, 2019	\$ 1,027,493	\$ 567,931	\$ 1,595,424
Accumulated depreciation			
Balance at January 1, 2018	\$ 873,642	\$ 49,975	\$ 923,617
Depreciation for the year (Note 21)	46,887	20	46,907
	<u>920,529</u>	<u>49,995</u>	<u>970,524</u>
Balance at January 1, 2019	920,529	49,995	970,524
Depreciation for the year (Note 21)	34,277	20	34,297
	<u>954,806</u>	<u>50,015</u>	<u>1,004,821</u>
Balance at December 31, 2019	\$ 954,806	\$ 50,015	\$ 1,004,821
Carrying amounts			
At December 31, 2018	<u>\$ 59,315</u>	<u>\$ 517,936</u>	<u>\$ 577,251</u>
At December 31, 2019	<u>\$ 72,687</u>	<u>\$ 517,916</u>	<u>\$ 590,603</u>

11. 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.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
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12. Payments in lieu of income taxes

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

	<u>2019</u>	<u>2018</u>
Current tax		
Based on current year taxable income	\$ 396,697	\$ 486,902
Deferred tax		
Origination and reversal of temporary differences	<u>205,460</u>	<u>140,363</u>
	<u>\$ 602,157</u>	<u>\$ 627,265</u>

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:

Rate reconciliation before net movements in regulatory balances and OCI

	<u>2019</u>	<u>2018</u>
Statutory tax rate	<u>26.5%</u>	<u>26.5%</u>
Profit for the year before net movements in regulatory deferral account balances and OCI	<u>\$ 2,330,713</u>	<u>\$ 2,356,517</u>
Expected payments in lieu of taxes	\$ 617,639	\$ 624,477
Increase (decrease) resulting from:		
Items not deductible (taxable) for tax purposes	433	1,232
Other	<u>(15,915)</u>	<u>1,556</u>
Provision for payments in lieu of taxes	<u>\$ 602,157</u>	<u>\$ 627,265</u>

Rate reconciliation after net movements in regulatory balances and OCI

	<u>2019</u>	<u>2018</u>
Profit for the year after net movements in regulatory deferral account balances and OCI	<u>\$ 1,776,573</u>	<u>\$ 2,579,876</u>
Expected payments in lieu of taxes	\$ 470,792	\$ 683,667
Increase (decrease) resulting from:		
Items not deductible (taxable) for tax purposes	433	1,232
Other	<u>(15,915)</u>	<u>1,556</u>
Provision for payments in lieu of taxes	<u>\$ 455,310</u>	<u>\$ 686,455</u>

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

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December 31, 2019

12. Payments in lieu of income taxes (continued)

	<u>2019</u>	<u>2018</u>		
Provision for payments in lieu of taxes before net movements in regulatory deferral account balances and OCI	\$ 602,157	\$ 627,265		
Provision for payments in lieu of taxes recorded in net movement in regulatory balances	<u>(136,639)</u>	<u>59,190</u>		
Provision for payments in lieu of taxes after net movement in regulatory balances and before OCI	465,518	686,455		
Provision for payments in lieu of taxes recorded in OCI	<u>(10,208)</u>	<u>-</u>		
Provision for payments in lieu of taxes	\$ 455,310	\$ 686,455		
	<u>Balance at January 1, 2019</u>	<u>Recognized in net income</u>	<u>Recognized in OCI</u>	<u>Balance at December 31, 2019</u>
Deferred tax assets				
Property, plant and equipment	\$ 484,498	\$ (215,284)	\$ -	\$ 269,214
Intangible assets	13,248	5	-	13,253
Employee future benefits	21,408	(855)	10,208	30,761
Other	-	10,674	-	10,674
	<u>\$ 519,154</u>	<u>\$ (205,460)</u>	<u>\$ 10,208</u>	<u>\$ 323,902</u>
	<u>Balance at January 1, 2018</u>	<u>Recognized in net income</u>	<u>Recognized in OCI</u>	<u>Balance at December 31, 2018</u>
Deferred tax assets				
Property, plant and equipment	\$ 624,928	\$ (140,430)	\$ -	\$ 484,498
Intangible assets	13,243	5	-	13,248
Employee future benefits	21,346	62	-	21,408
	<u>\$ 659,517</u>	<u>\$ (140,363)</u>	<u>\$ -</u>	<u>\$ 519,154</u>

At December 31, 2019, a deferred tax asset of \$323,902 (2018 - \$519,154) has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Company believes that this asset should be recognized as it will be recovered through future rates.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
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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 (years)	Balance January 1, 2019	Balances arising in the period	Recovery/ reversal	Balance, December 31, 2019
Regulatory deferral account debit/(credit)						
Settlement variances	i)	1	\$ (33,379)	\$ (626,541)	\$ 333,508	\$ (326,412)
Renewable generation	ii)	1	257,224	334	-	257,558
Retail cost variances	iii)	1	585,227	7,374	(337,216)	255,385
Smart meters	iv)	1	(2,875)	(11,355)	3,708	(10,522)
			<u>\$ 806,197</u>	<u>\$ (630,188)</u>	<u>\$ -</u>	<u>\$ 176,009</u>
Regulatory deferral account debit/(credit)						
	Note	Remaining recovery/ reversal period (years)	Balance January 1, 2018	Balances arising in the period	Recovery/ reversal	Balance, December 31, 2018
Settlement variances	i)	1	\$ 164,364	\$ (197,213)	\$ (530)	\$ (33,379)
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)
			<u>\$ 867,316</u>	<u>\$ (61,119)</u>	<u>\$ -</u>	<u>\$ 806,197</u>

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
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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 \$326,412 (2018 - \$33,379) 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 \$257,558 (2018 - \$257,224) 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 \$255,385 (2018 - \$585,227) 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 \$10,522 (2018 - \$2,875) related to the net balance of capital and operating expenditures for smart meters less recoveries received from the rate adder charged to customers.

14. Bank indebtedness

The Company has bank indebtedness of \$Nil (2018 - \$Nil), out of \$5,500,000 credit limit. The facility is secured by a general security agreement conveying a floating and fixed charge over all assets and evidence of adequate liability insurance and bears interest at the prime rate.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
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15. Accounts payable and accrued liabilities

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

	<u>2019</u>	<u>2018</u>
Purchased power	\$ 1,953,030	\$ 1,942,367
Accounts payable and accrued liabilities	4,095,882	3,345,491
Intercompany payables	<u>1,353,670</u>	<u>1,434,317</u>
	<u>\$ 7,402,582</u>	<u>\$ 6,722,175</u>

The intercompany payables are unsecured and have no specific interest or repayment terms.

16. Contributions 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. Contributions in aid of construction are amortized into revenue over the life of the assets which is 43 years.

	<u>2019</u>	<u>2018</u>
Deferred contributions, net, beginning of year	\$ 6,543,719	\$ 6,389,349
Contributions in aid of construction received	902,268	347,817
Contributions in aid of construction recognized as distribution revenue	<u>(208,154)</u>	<u>(193,447)</u>
Deferred contributions, net, end of year	<u>\$ 7,237,833</u>	<u>\$ 6,543,719</u>
Deferred contributions	\$ 7,237,833	\$ 6,543,719
Less current portion	<u>218,768</u>	<u>197,539</u>
	<u>\$ 7,019,065</u>	<u>\$ 6,346,180</u>

Lakeland Power Distribution Ltd.

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17. Customer deposits

Customer deposits represent cash deposits from 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.

	<u>2019</u>	<u>2018</u>
Customer deposits	\$ <u>254,835</u>	\$ <u>218,158</u>

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 \$186,273 (2018 - \$174,068). The contributions were made for current service and these have been recognized in net income.

(b) Defined benefit plan

The Company pays post-retirement life insurance premiums and health & dental benefits for a defined group of employees (previously with Parry Sound group of companies). 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 2019 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:

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

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18. Employee future benefits (continued)

(b) Defined benefit plan (continued)

	Defined benefit liability	
	2019	2018
Balance, January 1	\$ 57,680	\$ 57,444
Current service cost	1,461	1,324
Past service cost	-	-
Interest cost	2,063	2,122
Included in profit or loss	3,524	3,446
Remeasurement loss (gain)	-	-
Actuarial loss from financial assumptions	38,520	-
Included in other comprehensive income	38,520	-
Benefits paid during the year	(6,751)	(3,210)
Balance, December 31	\$ 92,973	\$ 57,680

The main actuarial assumptions underlying the valuation are as follows:

	2019	2018	Reasonable possible change	Defined benefit increase	Obligation decrease
Discount rate	3.20%	3.80%	+/- 1%	\$ 10,500	\$ (8,700)
Health care costs	4.20%- 4.50%	4.50% - 5.78%	+/- 1%	5,400	(4,500)
Retirement age - males	60	60	-	-	-
Retirement age - females	60	60	-	-	-

(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.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)
December 31, 2019

19. Long-term debt

	<u>2019</u>	<u>2018</u>
TD bank term loan, 3.62% 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 2024	2,698,887	2,698,887
TD bank term loan, 3.38% 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
TD bank term loan, 2.94% renew rate August 2023, due August 2024	8,000,000	-
	<u>18,186,387</u>	<u>17,589,445</u>
Less current portion	-	215,806
	<u>\$ 18,186,387</u>	<u>\$ 17,373,639</u>

The term loan due June 2021 required blended payments to be made until July 2019 when the loan was renegotiated and was replaced with the new term loan due August 2024. After July 2019, all of the Company's term loans have interest only payments with the balance due upon maturity.

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.

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

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

2020	\$ -
2021	-
2022	6,325,000
2023	1,162,500
2024	<u>10,698,887</u>
	<u>\$ 18,186,387</u>

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

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20. Share capital

a) Ordinary shares

An unlimited number of common shares are authorized for issue.

As of December 31, 2019, the Company has issued and fully paid 7,428 (2018 - 7,428) 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 2019.

21. Amortization of property plant and equipment and intangible assets

The transportation amortization is not included in the amortization on the Statement of Comprehensive Income as it has been expensed to operating lines or capitalized where the equipment was used in constructing an asset. Refer to the reconciliation below:

	<u>2019</u>	<u>2018</u>
Amortization of property, plant and equipment and intangible assets	\$ 1,604,447	\$ 1,581,142
Amortization on the Statement of Comprehensive Income	<u>(1,499,092)</u>	<u>(1,453,186)</u>
Transportation amortization	<u>\$ 105,355</u>	<u>\$ 127,956</u>
Transportation amortization - capitalized	\$ 60,052	\$ 57,669
Transportation amortization - expensed in operating expenses	<u>45,303</u>	<u>70,287</u>
	<u>\$ 105,355</u>	<u>\$ 127,956</u>

22. Expenses by nature

	<u>2019</u>	<u>2018</u>
Repairs and maintenance	\$ 881,769	\$ 951,171
Staff costs (including post-employment benefits)	1,464,153	1,479,849
General administration and overhead	2,403,387	2,570,602
Bad debts	27,675	30,086
Miscellaneous	<u>7,891</u>	<u>-</u>
	<u>\$ 4,784,875</u>	<u>\$ 5,031,708</u>

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23. Staff costs

	<u>2019</u>	<u>2018</u>
Wages, salaries and short-term employee benefits	\$ 2,407,858	\$ 2,187,687
Wages, salaries and short-term employee benefits in revenue	(57,090)	(58,698)
Wages, salaries and short-term employee benefits capitalized	(883,388)	(649,376)
Post-employment benefits	(3,227)	236
	<u>\$ 1,464,153</u>	<u>\$ 1,479,849</u>

24. 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 term loans (Level 2) is \$18,102,729 (2018 - \$17,137,560). 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.

(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 revenue from a broad base of customers located in six municipalities. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in the 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, 2019 is \$40,279 (2018 - \$138,575). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2019, approximately \$178,319 (2018 - \$158,613) is considered 60 days past due. The Company has approximately 13,657 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, 2019, the Company holds security deposits in the amount of \$254,835 (2018 - \$218,158).

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24. Financial instruments and risk management (continued)

(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, 2019, the Company is not exposed to any material changes in market interest rates on its longer-term borrowing.

(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 a \$5,500,000 line of credit 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 cashflows) of financial liabilities:

	Due within 1 year	Due between 1-2 years	Due past 2 years
At December 31, 2019			
Accounts payable and accrued liabilities	\$ 6,048,912	\$ -	\$ -
Customer deposits	-	254,835	-
Intercompany payables	1,353,670	-	-
Long term debt	-	-	18,186,387
At December 31, 2018			
Accounts payable and accrued liabilities	\$ 5,287,858	\$ -	\$ -
Customer deposits	-	218,158	-
Intercompany payables	1,434,317	-	-
Long term debt	215,806	165,044	17,208,595

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25. Contingency

The Company has a bank letter of credit outstanding for \$452,305 (2018 - \$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, 2019, the Company provided prudential support using bank letters of credit of \$452,305 (2018 - \$452,305).

26. Capital management

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

The Company's definition of capital is shareholder's equity. As at December 31, 2019, shareholder's equity amounts to \$15,470,025 (2018 - \$15,648,762).

27. Subsequent events

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. As the Company is considered an essential service, normal operations are continuing.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

28. Comparative figures

Comparative figures have been adjusted to conform to changes in the current year presentation.
