

# **Hamilton Enterprises Holding Corporation**

**Hamilton Enterprises Holding Corporation  
Auditors' Report to the Shareholder  
and Consolidated Financial Statements  
Year Ended December 31, 2018**

# Hamilton Enterprises Holding Corporation

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## INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hamilton Enterprises Holding Corporation

### ***Opinion***

We have audited the accompanying consolidated financial statements of Hamilton Enterprises Holding Corporation (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity 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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

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

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



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

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

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

May 23, 2019  
Hamilton, Canada

# Hamilton Enterprises Holding Corporation

## Consolidated Statement of Financial Position

As at December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

	2018	2017
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 5]</i>	\$ 2,454	\$ 2,395
Temporary investments	-	129
Accounts receivable	1,756	1,921
Accounts receivable from related parties	223	709
Other current assets	725	824
Derivative asset	11	-
	5,169	5,978
<b>Non-current assets</b>		
Property, plant and equipment <i>[note 8]</i>	53,858	39,777
Intangible Assets <i>[note 9]</i>	2,003	2,368
Goodwill	571	571
Deferred payments in lieu of income taxes <i>[note 10]</i>	31	1
	56,463	42,717
<b>Total assets</b>	<b>\$ 61,632</b>	<b>\$ 48,695</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,235	\$ 1,141
Derivative liability	-	18
Asset retirement obligation	35	35
Amounts owing to related parties	181	312
Payments in lieu of income taxes payable	143	965
Current portion of long-term borrowings <i>[note 7]</i>	458	150
Current portion of amounts owing to corporations under common control <i>[note 6]</i>	324	324
Deferred revenue	57	71
	2,433	3,016
<b>Non-current liabilities</b>		
Long-term borrowings <i>[note 7]</i>	11,994	4,189
Notes payable to corporations under common control	51,771	45,185
Amounts owing to corporations under common control <i>[note 6]</i>	6,480	6,804
Employee future benefits <i>[note 11]</i>	24	24
Deferred payments in lieu of income taxes <i>[note 10]</i>	1,355	540
	71,624	56,742
<b>Total liabilities</b>	<b>74,057</b>	<b>59,758</b>
<b>Shareholder's deficit</b>		
Share capital <i>[note 13]</i>	-	-
Non-controlling interest	91	96
Accumulated other comprehensive income	(24)	(28)
Retained deficit	(12,492)	(11,131)
<b>Total shareholder's deficit</b>	<b>(12,425)</b>	<b>(11,063)</b>
<b>Total liabilities and shareholder's deficit</b>	<b>\$ 61,632</b>	<b>\$ 48,695</b>

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

On behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

## Hamilton Enterprises Holding Corporation

# Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

	2018	2017
Solar generation	\$ 727	\$ 594
Telecommunication	5,069	3,476
Electricity, heating and cooling service charges	5,261	5,391
Other income	81	28
<b>Total revenue</b>	<b>11,138</b>	<b>9,489</b>
Expenses:		
Cost of goods sold	3,993	5,703
Operating expenses	5,042	2,341
Depreciation and amortization <i>[note 8, 9]</i>	2,861	2,125
	<b>11,896</b>	<b>10,169</b>
<b>Loss from operating activities</b>	<b>(758)</b>	<b>(680)</b>
Finance income <i>[note 15]</i>	135	10
Finance charges <i>[note 15]</i>	(750)	(556)
<b>Loss before payments in lieu of income taxes</b>	<b>(1,373)</b>	<b>(1,226)</b>
Payments in lieu of income taxes (recovery) <i>[note 10]</i>	(7)	316
<b>Net loss</b>	<b>(1,366)</b>	<b>(1,542)</b>
<b>Other comprehensive income (loss)</b>		
<b>Items that will not be subsequently reclassified to income:</b>		
Remeasurement of defined benefit obligation, net of tax	4	17
	4	17
<b>Total comprehensive loss</b>	<b>\$ (1,362)</b>	<b>\$ (1,525)</b>

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

## Hamilton Enterprises Holding Corporation

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

2018	Share capital	Retained earnings	Accumulated other comprehensive income	Non-Controlling Interest	2018 Total
<b>Balance at January 1</b>	\$ -	\$ (11,131)	\$ (28)	\$ 96	\$ (11,063)
Net loss	-	(1,361)	-	(5)	(1,366)
Other comprehensive income	-	-	4	-	4
<b>Balance at December 31</b>	\$ -	\$ (12,492)	\$ (24)	\$ 91	\$ (12,425)

2017	Share capital	Retained earnings	Accumulated other comprehensive income	Non-Controlling Interest	2017 Total
<b>Balance at January 1</b>	\$ -	\$ 1,997	\$ (45)	\$ -	\$ 1,952
Net income	-	(1,543)	-	1	(1,542)
Acquisition	-	-	-	95	95
Fair market value on acquisition of subsidiaries	-	(11,585)	-	-	(11,585)
Other comprehensive income	-	-	17	-	17
<b>Balance at December 31</b>	\$ -	\$ (11,131)	\$ (28)	\$ 96	\$ (11,063)

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



## Hamilton Enterprises Holding Corporation

# Consolidated Statement of Cash Flows

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

	2018	2017
Net loss	\$ (1,366)	\$ (1,542)
Adjustments for:		
Depreciation and amortization [notes 8, 9]	2,861	2,125
Payments in lieu of income taxes expense [note 10]	(7)	316
Finance income	(135)	(10)
Finance charges	750	556
Finance charges paid	135	(538)
Finance income received	(750)	10
Payments in lieu of income taxes paid	30	-
Payments in lieu of income taxes received	-	536
Change employee future benefits	-	5
Change in other assets and liabilities [note 15]	419	960
<b>Net cash from operating activities</b>	<b>1,937</b>	<b>2,418</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment [notes 8]	(16,419)	(8,369)
Acquisition of intangible assets [note 9]	(158)	(2,294)
Acquisition of subsidiaries	-	(1,432)
<b>Net cash used in investing activities</b>	<b>(16,577)</b>	<b>(12,095)</b>
<b>FINANCING ACTIVITIES</b>		
Net increase in long-term borrowings	8,437	5,189
Increase in notes payable to corporations under common control	6,586	4,509
Repayment of amounts owing to corporations under common control	(324)	(324)
<b>Net cash from in financing activities</b>	<b>14,699</b>	<b>9,374</b>
<b>Increase in cash and cash equivalents</b>	<b>59</b>	<b>(303)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,395</b>	<b>2,698</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,454</b>	<b>\$ 2,395</b>

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

# Hamilton Enterprises Holding Corporation

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 1. REPORTING ENTITY

On December 18, 2017, Hamilton Enterprises Holding Corporation (the “Corporation”) was incorporated under the Business Corporations Act (Ontario). The Corporation is wholly owned by the City of Hamilton and is located in the City of Hamilton.

The Corporation, through its wholly owned subsidiaries, generates electricity, provides heat, cooling, electrical energy and voice and data solutions through fibre optic technologies to its customers. The Corporation’s subsidiaries include:

Hamilton Infrastructure Projects Corporation (“HIPCo”) – 100%

HCE Energy Inc. (“HCE”) – 100%

HIPCO-CUP Projects Corporation – 100%

HIPCO-FIT5 Projects Corporation – 100%

HIPCO-MIP Projects Corporation – 100%

Longwood Energy Inc. – 50%

HIPCO-FIT4 Projects Corporation – 100%

2622882 Ontario Inc – 100%

HIPCO-Portlands Projects Corporation – 100%

Hamilton Ventures Corporation (“HVCO”) – 100%

HCE Energy (2017) Inc. – 100%

HCE Energy (2018) Inc. – 100%

HCE Telecom (“Telecom”) – 100%

Hamover Power Limited Partnership (“Hamover LP”) – 75%

2291506 Ontario Inc. – 85%

Hamover Power General Partnership (“Hamover GP”) – 75%

HCE provides thermal heat, cooling and electricity to certain institutional, industrial and commercial customers through a district heating system. HCE Energy 2017 Inc. has a 75% interest in Hamover Power LP which leases a solar farm to its subsidiary, 2291506 Ontario Inc.

Telecom provides voice and data solutions for businesses using fibre optic technologies.

Hamover GP is the general partner holding a 25% interest in Hamover LP.

All other entities operate as a holding company with no direct operating activity.

## **Notes to the Consolidated Financial Statements**

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### **1. REPORTING ENTITY (Continued)**

During the year, a corporation under common control underwent a corporate restructuring whereby it transferred its investments in its subsidiaries to the Corporation. The investments transferred were HCE Energy Inc., HCE Telecom, Net6 Communications, Hamover Power General Partnership and Hamover Power Limited Partnership and 2291506 Ontario Inc. See notes 3 (i) and 4 for details.

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

### **2. BASIS OF PREPARATION**

#### **(a) Statement of compliance**

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements are prepared by the Corporation for income tax purposes and are intended solely for the use of the Corporation and for the federal and provincial income tax authorities and should not be used by parties other than the Corporation or the federal and provincial income tax authorities.

#### **(b) Approval of the consolidated financial statements**

The consolidated financial statements were approved by the Board of Directors on May 23, 2019.

#### **(c) Basis of measurement**

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

#### **(d) Functional and presentation currency**

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 2. BASIS OF PREPARATION (Continued)

#### (e) Use of estimates and judgements

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

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

- (i) Notes 3(c) –Property, plant, and equipment: estimation of useful lives
- (ii) Notes 3(d) – Intangible assets: estimation of useful lives
- (iii) Note 3(f), 10 – Employee future benefits: measurements of the defined benefit obligation and key actuarial assumptions

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

- (i) Note 3(k), 17 – Contingencies: whether a contingency is a liability

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) Financial instruments

All financial assets and all financial liabilities with the exception for the derivative liability are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(e)(i). The derivative liability is classified as a financial liability at fair value through profit or loss. Transaction costs are expensed in the year as incurred.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (b) Revenue recognition

##### *Telecommunication*

Telecommunications revenue is recognized in income over time as the performance obligation is satisfied. Connection charges are recognized as income at a point in time when the network connection is installed at a base location and the performance obligation satisfied.

##### *Solar generation*

The performance obligations are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Corporation has the right to bill.

##### *Heating and cooling*

These charges comprise charges to customers for use of the Corporation's electricity and thermal distribution systems. The performance obligations are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity and thermal services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Corporation has the right to bill.

##### *Other revenue*

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

#### (c) Property, plant and equipment

Items in property, plant and equipment ("PP&E") are measured at historical cost or deemed cost established on the transition date, less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Property, plant and equipment (continued)

The cost of self-constructed assets includes contracted services, materials and transportation, direct labour, directly attributable overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset using the weighted average cost of debt incurred on the Corporation's external borrowings. Qualifying assets are considered to be those that take a substantial period of time to construct.

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing part of an item of PP&E is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of PP&E are recognized in income or loss as incurred.

Depreciation is recognized in income or loss on a straight-line basis over the estimated useful life of each part or component of an item of PP&E.

The estimated useful lives for the current and comparative years are as follows:

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General office equipment	10 years
Computer equipment	3 to 5 years

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Gains and losses on disposal of an item of PP&E are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized in income or loss.

Depreciation methods, useful lives and residual values, if any, are reviewed at each reporting date and adjusted prospectively.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Intangible assets and Goodwill

Intangible assets with a finite life are measured at cost less accumulated amortization. Amortization is recognized in net income on a straight-line basis over the estimated useful life of the intangible asset from the date that they are available for use. The estimated useful life of the intangible asset is 3 years.

Goodwill arising on the acquisition of subsidiaries is subsequently measured at cost less accumulated impairment losses as described in note 3(e)(ii).

#### (e) Impairment

##### (i) Financial assets

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

##### (ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net income.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Employee future benefits

##### (i) Pension plan

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund.

OMERS is a defined benefit plan. However, as OMERS does not track information for individual employers, sufficient information is not available to enable the Corporation to account for the plan as a defined benefit plan, the plan has been accounted for as a defined contribution plan.

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in income or loss when they are due.

##### (ii) Other than pension

The Corporation provides its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. These benefits are provided through a group defined benefit plan. The Corporation has reflected the defined benefit costs and related liabilities, as calculated by the actuary, in these consolidated financial statements.

The Corporation's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs are deducted. The discount rate is the yield at the reporting date on high quality debt instruments with duration similar to the duration of the plan.



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Employee future benefits (continued)

##### (ii) Other than pension (continued)

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and the current service costs are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Remeasurements arising from defined benefit plans are recognised immediately in other comprehensive income and reported in retained earnings. When the benefits of a plan are improved the increases are recognized immediately in net income.

#### (g) Finance income and finance charges

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

Finance charges are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of qualifying assets. Finance charges comprises interest expense on borrowings.

#### (h) Payments in lieu of income taxes

The Corporation and some of its subsidiaries are exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA") (collectively the "Tax Acts").

Pursuant to the *Electricity Act, 1998 (Ontario)* ("EA"), and as a consequence of its exemption from income taxes under the Tax Acts, the Corporation and some of its subsidiaries are required to make payments in lieu of corporate income taxes ("PILs") to the Ontario Electricity Financial Corporation ("OEFEC"). These payments are calculated in accordance with the Tax Acts. Some of the Corporation's subsidiaries are not exempt from taxes under the ITA and accordingly calculate and pay income tax in accordance with the Tax Acts.

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

Current PILs is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) Payments in lieu of income taxes (continued)

Deferred PILS comprise the net tax effects of temporary differences between the tax basis of assets and liabilities and their respective carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### (i) Business reorganizations between entities under common control

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

#### (j) Set-off and reporting on a net basis

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

#### (k) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (I) New standards and interpretations not yet adopted

The Corporation is still evaluating the adoption of the following new and revised standards along with any subsequent amendments.

##### *Leases*

In January 2016, IASB issued IFRS 16, *Leases* to establish principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS 17 and it is effective for annual periods beginning on or after January 1, 2019. The Corporation does not expect that IFRS 16 will have a significant impact on its results of operations, financial position and disclosures..

### 4. BUSINESS REORGANIZATIONS WITH CORPORATIONS UNDER COMMON CONTROL

On December 31, 2018, the Corporation underwent a corporate restructuring whereby it received investments in its subsidiaries and partnerships from a company owned by the Corporation's parent ("the Transferor"). The transfer was made in return for notes payable which were valued at the fair value of the underlying shares and units of the companies and partnerships transferred. As a result, the Corporation recognized notes payable having a value of \$20,775. The difference between the book value of the investments and the value of the notes receivable was recognized directly in equity.

Other intercompany balances held by the Transferor have been transferred at book value to the Corporation. The comparative information has been restated to reflect the restructuring as of January 1, 2017.

### 5. CASH AND CASH EQUIVALENTS

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

### 6. AMOUNTS OWING TO CORPORATIONS UNDER COMMON CONTROL

Amounts owing to corporations under common control are owed to Hamilton Utilities Corporation ("HUC") and is due December 31, 2039, bearing interest at a fixed interest rate of 4.06% throughout the term of the loan. The loan is payable in annual principal repayments of \$324 plus interest. The amounts owing to HUC relate to the Corporation's acquisition of the City of Hamilton's Central Utilities Plant ("CUP").

The borrowings are secured by the assets of the CUP with a net book value of \$10,154 (2017 - \$10,509).

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

### 6. AMOUNTS OWING TO COROPRATIONS UNDER COMMON CONTROL (Continued)

Interest expense for the long-term borrowings was \$268 (2017 - \$288).

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

	Borrowings
2019	\$ 324
2020	324
2021	324
2022	324
2023	324
Thereafter	5,184
	6,804

### 7. LONG-TERM BORROWINGS

	2018	2017
Bank loan	\$ 4,039	\$ 4,189
Term loan	-	150
Term Loan – Tranche A	5,703	-
Term Loan – Tranche B	2,710	-
	12,452	4,339
Less current portion	458	150
	\$ 11,994	\$ 4,189

The bank loan bears interest at the cost of funds index plus 2.39% and is repayable in monthly instalments of 24. The loan is due January 12, 2022 and is secured by guarantees of HUC, Port Dover Farms Inc. and the Corporation's subsidiary 2291506 Ontario Inc. (the "Subsidiary") and a registered security interest in the rooftop solar power generation equipment owned by Hamover Power LP (the "Partnership"). The loan is further secured by an assignment of the assets between the Partnership and its subsidiary and the Feed-in Tariff contracts held by the subsidiary. In January 2016, the Partnership entered into an interest rate swap agreement with a notional value of \$5,760. Under the terms of the agreement, the Partnership has contracted to pay interest at a fixed rate of 2.46% while receiving a variable rate equivalent to the one-month Canadian Dollar Offer Rate. The interest rate swap agreement is recorded at fair value and is in a net favorable position of \$14 (2016 - \$(11)).

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 7. LONG-TERM BORROWINGS (CONTINUED)

During the year, the Corporation entered into a lending agreement in two tranches secured by certain district energy assets and is due March 16, 2036. Tranche A was issued in the amount of \$5,853 and bears interest at 5.322% per annum, repayable in blended quarterly principal and interest repayments of \$127. Tranche B was issued in the amount of \$2,733 and bears interest at 5.419% per annum, repayable in blended quarterly principal and interest repayments of \$60.

Repayment of long-term debt for the year ended December 31:

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2019	\$	458
2020		480
2021		506
2022		529
2023 and Thereafter		10,479
	\$	12,452

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## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
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### 8. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Heating and Electricity Generation infrastructure	Fibre & Data network	Other PP&E	WIP	2018 Total	2017 Total
<i>Cost or deemed cost</i>							
Balance at							
January 1	\$ 1,704	\$ 26,848	\$ 5,862	\$ 1,578	\$ 10,992	\$ 46,984	\$ 38,615
Additions	-	13,706	2,268	455		17,386	9,891
Transfers	-	7,231	-	-	(7,231)		(1,522)
Disposals	-	(9)	(1)	-	-	(10)	-
Balance at							
December 31	\$ 1,704	\$ 47,776	\$ 8,129	\$ 2,033	\$ 3,761	\$ 64,303	\$ 46,984
<i>Accumulated depreciation</i>							
Balance at							
January 1	\$ 685	\$ 4,047	\$ 1,589	\$ 886	\$ -	\$ 7,207	\$ 5,294
Depreciation charge	101	1,459	607	171	-	2,338	1,913
Disposals	-	-	-	-	-	-	-
Balance at							
December 31	\$ 786	\$ 5,506	\$ 2,196	\$ 1,057	\$ -	\$ 9,545	\$ 7,207
<i>Carrying amounts</i>							
December 31, 2017							\$ 39,777
December 31, 2018							53,858

During the year, borrowing costs of \$nil (2017 - \$150) were capitalized as part of the cost of property, plant and equipment.

## Hamilton Enterprises Holding Corporation

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

### 9. INTANGIBLE ASSETS

		Customer Contracts and Licenses	Computer software	Feed-in Tariff		2018 Total	2017 Total
<i>Cost or deemed cost</i>							
Balance at							
January 1	\$	\$ 2,314	\$ 453	\$638	\$	\$ 3,405	\$ 1,111
Additions	-	-	158	-	-	158	2,294
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Balance at							
December 31	\$	\$ 2,314	\$ 611	\$638	\$	\$ 3,563	\$ 3,405

		Customer Contracts and Licenses	Computer software	Feed-in Tariff		2018 Total	2017 Total
<i>Accumulated depreciation</i>							
Balance at							
January 1	\$	\$ 850	\$ 187	\$ -	\$	\$ 1,037	\$ 825
Depreciation charge	-	326	165	32	-	523	212
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Balance at							
December 31	\$	\$ 1,176	\$ 352	\$ 62	\$	\$ 1,560	\$ 1,037

#### *Carrying amounts*

December 31, 2017	\$	2,368
December 31, 2018		2,003

## Hamilton Enterprises Holding Corporation

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

### 10. PAYMENTS IN LIEU OF INCOME TAXES

Deferred and current payments in lieu of income taxes

	2018	2017
Current payments in lieu of income taxes:		
Current year	\$ 23	\$ -
Deferred payments in lieu of income taxes:		
Origination and reversal of temporary differences	(30)	316
Payments in lieu of income taxes (recovery)	\$ (7)	\$ 316

Reconciliation of effective tax rate

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

	2018	2017
Basic rate applied to net income before payments in lieu of income taxes	26.50%	26.50%
Increase (decrease) in payments in lieu of income taxes resulting from:		
Permanent difference	(.12)	-
Other	(25.92)	(0.73)
Effective rate applied to income before payment in lieu of income taxes	0.46%	25.77%

Deferred tax balances

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

	2018	2017
Deferred payments in lieu of income taxes:		
Property, plant, and equipment	\$ (3,452)	\$ (1,361)
Non-capital losses	1,977	826
Financing fees	16	-
Employee future benefits	6	27
CMT carry forward	129	(31)
Deferred payments in lieu of income taxes	\$ (1,324)	\$ (539)



## Hamilton Enterprises Holding Corporation

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 11. EMPLOYEE FUTURE BENEFITS

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a defined benefit plan. The Corporation has reflected the defined benefit costs and related liabilities, as calculated by the actuary, in these consolidated financial statements. The defined benefit liability and the expense for the year ended December 31, 2018 was based on results and assumptions determined by an actuarial valuation as at December 31, 2017.

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

	2018	2017
Defined benefit obligation, beginning of year	\$ 24	\$ 41
Current service cost	3	8
Interest cost	1	2
Benefits paid during the year	(1)	(5)
Actuarial gain recognized in other comprehensive income	(3)	(22)
Defined benefit obligation, end of year	\$ 24	\$ 24

## Hamilton Enterprises Holding Corporation

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 11. EMPLOYEE FUTURE BENEFITS (Continued)

The main actuarial assumptions underlying the valuation are as follows:

a) General inflation

The health care cost trend for prescription drugs is estimated to increase at a declining rate from 6.2% to 4.5% over 8 years. Other medical and dental expenses are assumed to increase at 4.5% per year.

The approximate effect on the accrued benefit obligation (“ABO”) and the estimated net benefit expense if the health care trend rate assumption was increased or decreased by 1% is as follows:

	Period Benefit Cost	ABO
1% increase in health care trend rate	2	8
1% decrease in health care trend rate	(1)	(1)

b) Interest (discount) rate

The obligation at the period end and the present value of future liabilities were determined using a discount rate of 4.0% (2017 – 3.40%) representing an estimate of the yield on high quality corporate bonds as at the valuation date.

c) Salary levels

Future general salary and wage levels were assumed to increase at 3.3% (2017 – 3.3%) per year.

### 12. PENSION

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the employer and its employees. In 2018 the Corporation made employer contributions of \$350 to OMERS (2017 - \$183).

The Corporation expects to make a contribution of \$365 to OMERS during the next fiscal year.

## Hamilton Enterprises Holding Corporation

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

### 13. SHARE CAPITAL

	2018	2017
Unlimited number of common shares (1,000 issued and outstanding)	\$ 0.1	\$ 0.1

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

#### *Dividends*

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

The Corporation did not pay a dividend in 2018 or 2017.

### 14. FINANCE INCOME AND CHARGES

	2018	2017
Interest income on bank deposits	\$ 135	\$ 10
Finance income	135	10
Interest expense – long-term borrowings	(750)	(556)
Finance charges	(750)	(556)
Net finance income recognized in income	\$ (615)	\$ (546)

### 15. CASH FLOW INFORMATION

Net change in other assets and liabilities:

	2018	2017
Temporary investments	\$ 129	\$ (129)
Accounts receivable	165	2,314
Accounts receivable from corporations under common control	486	8,136
Other current assets	99	(495)
Accounts payable and accrued liabilities	94	(1,025)
Amounts owing to related parties	(540)	(7,945)
Deferred revenue	(14)	69
Asset retirement obligation	-	35
	\$ 419	\$ 960

## Hamilton Enterprises Holding Corporation

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 16. RELATED PARTY TRANSACTIONS

**(a) Parent and ultimate controlling party**

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

**(b) Transactions with Companies under common control**

The Corporation entered into a borrowing agreement with a company under common control as described in note 6.

**(c) Transactions with related parties**

The Corporation has amounts owing to corporations under common control as described in note 6.

**(d) Key management personnel**

The key management personnel of the Corporation has been defined as members of its board of directors and executive management team members. Total key management compensation for the Corporation in 2018 consisted of salaries and other short-term benefits as well as bonuses and amounted to \$2,049 (2017 - \$1,949).

## Hamilton Enterprises Holding Corporation

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### *Fair value disclosure*

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

The fair value of the long-term borrowings and long-term receivables is \$7,124.

#### *Financial risks*

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk and liquidity risk as well as related mitigation strategies are discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

#### (i) Credit risk

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable and notes receivable, expose it to credit risk. The majority of accounts receivable was collected subsequent to year end.

The carrying amount of accounts receivable is reduced through an allowance for estimated credit losses and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2018 is \$25 (2017 – (\$3)).

#### (ii) Market risk

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity, foreign exchange or interest rate risk.

## Hamilton Enterprises Holding Corporation

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2018, with comparative information for 2017  
(stated in thousands of Canadian dollars)

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### 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(iii) Liquidity risk

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

The majority of accounts payable, as reported on the balance sheet, are due within 30 days.

(iv) Capital disclosures

The main objectives of the Corporation, when managing capital, are to ensure on-going access to funding to maintain infrastructure to supply services to customers, to prudently manage its capital structure and deliver appropriate financial returns. The Corporation's definition of capital includes shareholder's equity and long-term borrowings. As at December 31, 2018, long-term borrowings amount to \$11,994 (2017 - \$4,189).

### 17. CONTINGENCIES

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.