

# **Hamilton Enterprises Holding Corporation**

**Hamilton Enterprises Holding Corporation  
Auditors' Report to the Shareholder  
and Consolidated Financial Statements  
Year Ended December 31, 2019**

# **Table of Contents**

## **INDEPENDENT AUDITORS' REPORT**

Consolidated Financial statements	
Consolidated Statement of Financial Position	1
Consolidated Statement of Comprehensive Income	3
Consolidated Statement of Changes in Equity	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-31



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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, 2019
- 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, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

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

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

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

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

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

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

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

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

We also:

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

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

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

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada  
May 11, 2020

## Consolidated Statement of Financial Position

As at December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

	2019	2018
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 6]</i>	\$ 830	\$ 2,454
Accounts receivable	2,424	1,756
Accounts receivable from related parties <i>[note 18]</i>	3,510	223
Other current assets	1,612	725
Derivative asset <i>[note 8]</i>	-	11
	8,376	5,169
<b>Non-current assets</b>		
Property, plant and equipment <i>[note 9]</i>	53,086	53,858
Intangible Assets <i>[note 10]</i>	1,617	2,003
Right-of-use assets <i>[note 11]</i>	4,028	-
Goodwill	571	571
Deferred payments in lieu of income taxes <i>[note 12]</i>	4,514	2,128
	63,816	58,560
<b>Total assets</b>	\$ 72,192	\$ 63,729

## Consolidated Statement of Financial Position

As at December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

	2019	2018
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,175	\$ 1,235
Derivative liability [note 8]	96	-
Income taxes payable	129	143
Asset retirement obligation	37	35
Amounts owing to related parties [note 18]	2,941	181
Current portion of finance lease liabilities [note 11]	180	-
Current portion of long-term borrowings [note 8]	480	458
Current portion of amounts owing to corporations under common control [note 7]	324	324
Deferred revenue	316	57
	7,678	2,433
<b>Non-current liabilities</b>		
Long-term borrowings [note 8]	11,514	11,994
Finance lease liabilities [note 11]	3,938	-
Notes payable to corporations under common control [Note 18]	51,771	51,771
Amounts owing to corporations under common control [note 7]	6,156	6,480
Employee future benefits [note 13]	115	24
Deferred payment in lieu of income taxes [note 12]	5,268	3,452
	78,762	73,721
<b>Total liabilities</b>	86,440	76,154
<b>Shareholder's deficit</b>		
Share capital [note 15]	-	-
Non-controlling interest	83	91
Accumulated other comprehensive income	(24)	(24)
Retained deficit	(14,307)	(12,492)
<b>Total shareholder's deficit</b>	(14,248)	(12,425)
Subsequent events [note 21]		
<b>Total liabilities and shareholder's deficit</b>	\$ 72,192	\$ 63,729

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

On behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

## Consolidated Statement of Income and Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

	2019	2018
Solar generation	\$ 1,242	\$ 727
Telecommunication	5,312	5,069
Electricity, heating and cooling service charges	7,385	5,261
Other income	368	81
<b>Total revenue</b>	<b>14,307</b>	<b>11,138</b>
Expenses:		
Cost of goods sold	5,932	3,993
Operating expenses	5,688	5,042
Depreciation and amortization <i>[note 9, 10, 11]</i>	4,066	2,861
	15,686	11,896
<b>Loss from operating activities</b>	<b>(1,379)</b>	<b>(758)</b>
Finance income <i>[note 16]</i>	199	135
Finance charges <i>[note 16]</i>	(1,187)	(750)
<b>Loss before payment in lieu of income tax recovery</b>	<b>(2,367)</b>	<b>(1,373)</b>
Payments in lieu of income tax recovery <i>[note 12]</i>	(544)	(7)
<b>Loss for the year</b>	<b>(1,823)</b>	<b>(1,366)</b>
<b>Net loss attributable to:</b>		
Shareholder of the Corporation	(1,815)	(1,361)
Non-controlling interest of a subsidiary	(8)	(5)
	(1,823)	(1,366)
<b>Other comprehensive income</b>		
<b>Items that will not be subsequently reclassified to income:</b>		
Remeasurement of defined benefit obligation, net of tax	-	4
	-	4
<b>Total comprehensive loss</b>	<b>\$ (1,823)</b>	<b>\$ (1,362)</b>

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



## Consolidated Statement of Changes in Equity

Year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

			Accumulated other comprehensive loss	Non- Controlling Interest	2019 Total
2019	Share capital	Retained deficit			
<b>Balance at January 1</b>	\$ -	\$ (12,492)	\$ (24)	\$ 91	\$ (12,425)
Net loss	-	(1,815)	-	(8)	(1,823)
Other comprehensive income	-	-	-	-	-
<b>Balance at December 31</b>	\$ -	\$ (14,307)	\$ (24)	\$ 83	\$ (14,248)

  

			Accumulated other comprehensive loss	Non- Controlling Interest	2018 Total
2018	Share capital	Retained deficit			
<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)

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

## Consolidated Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

	2019	2018
Net loss	\$ (1,823)	\$ (1,366)
Adjustments for:		
Depreciation and amortization <i>[notes 9, 10, 11]</i>	4,066	2,861
Payments in lieu of income tax recovery <i>[note 12]</i>	(544)	(7)
Finance income	(199)	(135)
Finance charges	1,187	750
Finance charges received	199	135
Finance income paid	(1,071)	(750)
Accretion – ARO	2	-
Income taxes (paid) received	(37)	30
Change employee future benefits	91	-
Change in other assets and liabilities <i>[note 17]</i>	105	419
<b>Net cash from operating activities</b>	<b>1,976</b>	<b>1,937</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment <i>[note 9]</i>	(2,626)	(16,419)
Acquisition of intangible assets <i>[note 10]</i>	(31)	(158)
<b>Net cash used in investing activities</b>	<b>(2,657)</b>	<b>(16,577)</b>
<b>FINANCING ACTIVITIES</b>		
Net (decrease) increase in long-term borrowings	(458)	8,437
Increase in notes payable to corporations under common control	-	6,586
Repayment of finance lease liabilities	(161)	-
Repayment of amounts owing to corporations under common control	(324)	(324)
<b>Net cash from in financing activities</b>	<b>(943)</b>	<b>14,699</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(1,624)</b>	<b>59</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,454</b>	<b>2,395</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 830</b>	<b>\$ 2,454</b>

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

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(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, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

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### 1. REPORTING ENTITY (Continued)

In 2018, 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, Hamover Power General Partnership and Hamover Power Limited Partnership and 2291506 Ontario Inc. See notes 3 (j) and 5 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").

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

The consolidated financial statements were approved by the Board of Directors on April 28, 2020.

#### (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, 2019, with comparative information for 2018  
(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), (d), (l), 9, 10, 11– Property, plant, and equipment, intangible assets and right-of-use assets: estimation of useful lives
- (ii) Note 3(g), 13 – Employee future benefits: measurements of the defined benefit obligation and key actuarial assumptions
- (iii) Note 3(l) – leases – discount rate

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(m), 20 – Contingencies: whether a contingency is a liability
- (ii) Note 3(l) – leases – whether an arrangement contains a lease; lease term; underlying leased asset value

### 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(f)(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, 2019, with comparative information for 2018  
(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 is 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, 2019, with comparative information for 2018  
(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. Working-progress ("WIP") assets are not depreciated until the project is complete and the asset is available for use.

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

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Other PP&E	3 to 10 years
Buildings	25 years
Fibre & Data network	15 to 70 years
Heating and electricity generation equipment	7 to 50 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, 2019, with comparative information for 2018  
(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 lives for the current and comparative years are as follows:

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Computer software	3 to 5 years
Licenses	5 years
Customer contracts	3 years
Feed-in Tariff agreements	20 years

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

#### (e) Other assets – materials and supplies

Materials and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on a weighted average cost basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) 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, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) 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, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) 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.

#### (h) 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 and unrealized gains on derivatives.

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, finance lease liabilities, accretion of asset retirement obligations and unrealized loss on derivative liabilities.

#### (i) 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 ("OEFC"). 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 to the Canada Revenue Agency.

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, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (i) 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.

#### (j) 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 the date of restructuring.

#### (k) 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.

#### (l) Leases

At inception of a contract, the Corporation assess whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Corporation with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (l) Leases

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

The lease liability is initially measured at the present value of lease payments plus the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Corporation's incremental borrowing rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Corporation has elected not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less or for leases of low value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### (m) 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, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

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### 4. CHANGES IN ACCOUNTING POLICY

The Corporation has applied IFRS 16 *Leases* with a date of initial application of January 1, 2019. The Corporation applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. The details of the changes in accounting policies are disclosed below.

Except for the changes below, the Corporation has consistently applied the accounting policies to all periods presented in these financial statements.

Previously, the Corporation determined, at contract inception, whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Corporation assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(l). On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which contracts are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether they contained a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee, the Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet. The Corporation has decided to apply recognition exemptions to short-term leases and leases for which the value of the underlying asset is of low value.

#### **Leases previously classified as operating leases under IAS 17**

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Corporation used the following practical expedients and recognition exemptions when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases for which the underlying asset is of low value;
- Elected not to separate non-lease components from lease components, accounting for each lease component and associated non-lease components as a single lease component;
- Applied this standard to a portfolio of leases with similar characteristics using estimates and assumptions that reflect the size and composition of the portfolio;
- Applied a single discount rate to a portfolio of leases with similar characteristics;

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

### 4. CHANGES IN ACCOUNTING POLICY (CONTINUED)

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;

#### Impacts on financial statements

On transition to IFRS 16, the Corporation recognized \$4,279 of right-of-use assets and \$4,279 of lease liabilities. When measuring lease liabilities, the Corporation discounted lease payments using their incremental borrowing rate of approximately 5.25%.

### 5. 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 were transferred at book value to the Corporation.

### 6. CASH AND CASH EQUIVALENTS

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

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

Amounts owing to corporations under common control are owed to Hamilton Utilities Corporation ("HUC") and are 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 \$9,778 (2018 - \$10,154) with a cross-company guarantee provided by a corporation under common control.

Interest expense for the long-term borrowings was \$248 (2018 - \$268). Principal payments on the long-term borrowings and receivables are due as follows:

2020	\$	324
2021		324
2022		324
2023		324
2024		324
Thereafter		4,860
		<hr/> 6,480

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

### 8. LONG-TERM BORROWINGS

	2019	2018
Bank loan	\$ 3,883	\$ 4,039
Term Loan – Tranche A	5,495	5,703
Term Loan – Tranche B	2,616	2,710
	11,994	12,452
Less: current portion	480	458
	\$ 11,514	\$ 11,994

The bank loan bears interest at the cost of funds index plus 2.39% and is repayable in monthly instalments of 24 principal and interest. 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 unfavorable favorable position of \$96 (2018 – favorable - \$11).

In 2018, the Corporation entered into a lending agreement in two tranches secured by certain district energy assets which are 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:

2020	\$ 480
2021	506
2022	529
2023	556
2024	584
Thereafter	9,339
	\$ 11,994



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

### 9. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Heating and Electricity Generation infrastructure	Fibre & Data network	Other PP&E	WIP	2019 Total	2018 Total
<i>Cost or deemed cost</i>							
Balance at							
January 1	\$ 1,704	\$ 47,776	\$ 8,129	\$ 2,033	\$ 3,761	\$ 63,403	\$ 46,984
Additions	-	385	502	-	1,739	2,626	16,429
Transfers	-	-	1,037	-	(1,037)	-	-
Disposals	-	-	-	-	-	-	(10)
Balance at							
December 31	\$ 1,704	\$ 48,161	\$ 9,668	\$ 2,033	\$ 4,463	\$ 66,029	\$ 63,403
<i>Accumulated depreciation</i>							
Balance at							
January 1	\$ 786	\$ 5,506	\$ 2,196	\$ 1,057	\$ -	\$ 9,545	\$ 7,207
Depreciation charge	101	2,145	794	358	-	3,398	2,338
Disposals	-	-	-	-	-	-	-
Balance at							
December 31	\$ 887	\$ 7,651	\$ 2,990	\$ 1,415	\$ -	\$ 12,943	\$ 9,545
<i>Carrying amounts</i>							
December 31, 2018							\$ 53,858
December 31, 2019							\$ 53,086

During the year, borrowing costs of \$nil (2018 - \$nil) were capitalized as part of the cost of property, plant and equipment. Rooftop solar assets owned by a subsidiary of the Corporation with a net book value of \$4,641 (2018 - \$4,893) are subject to a registered security interest.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

### 10. INTANGIBLE ASSETS

	Customer Contracts and Licenses	Computer software	Feed-in Tariff	2019 Total	2018 Total
<i>Cost or deemed cost</i>					
Balance at January 1	\$ 2,314	\$ 611	\$ 638	\$ 3,563	\$ 3,405
Additions	-	31	-	31	158
Balance at December 31	\$ 2,314	\$ 642	\$ 638	\$ 3,594	\$ 3,563
	Customer Contracts and Licenses	Computer software	Feed-in Tariff	2019 Total	2018 Total
<i>Accumulated depreciation</i>					
Balance at January 1	\$ 1,176	\$ 352	\$ 32	\$ 1,560	\$ 1,037
Depreciation charge	278	107	32	417	523
Balance at December 31	\$ 1,454	\$ 459	\$ 64	\$ 1,977	\$ 1,560
<i>Carrying amounts</i>					
December 31, 2018					\$ 2,003
December 31, 2019					\$ 1,617

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

### 11. FINANCE LEASES

	Land and buildings	Rooftops	Total
<b>Right-of-use assets</b>			
<b>Cost</b>			
Balance at January 1, 2019	\$ -	\$ -	\$ -
Additions – IFRS16 transition	2,335	1,944	4,279
Remeasurement	-	-	-
Disposals/retirements	-	-	-
Balance at December 31, 2019	\$ 2,335	\$ 1,944	\$ 4,279
<b>Accumulated depreciation</b>			
Balance at January 1, 2019	\$ -	\$ -	\$ -
Additions	142	109	251
Remeasurement	-	-	-
Disposals/retirements	-	-	-
Balance at December 31, 2019	\$ 142	\$ 109	\$ 251
<b>Carrying amounts</b>			
At December 31, 2019	\$ 2,193	\$ 1,835	\$ 4,028
At December 31, 2018	\$ -	\$ -	\$ -
<b>Finance lease liability</b>			
Balance at January 1, 2019	\$ -	\$ -	\$ -
Additions – IFRS16 transition	2,335	1,944	4,279
Remeasurement	-	-	-
Interest	121	94	215
Repayments	(213)	(163)	(376)
Balance at December 31, 2019	\$ 2,243	\$ 1,875	\$ 4,118
At December 31, 2018	\$ -	\$ -	\$ -

Total cash outflows with respect to leasing arrangements during the year was \$376 (2018 - \$nil) consisting of principal and interest of \$161 and \$215, respectively (2018 - \$nil; \$nil).

The Corporation has several lease commitments for which the underlying asset value has been determined by the Corporation to be less than \$5,000 USD. These assets have not been accounted for under IFRS 16 *Leases* due to their low value. As such, the Corporation has expensed \$4 (2018 - \$nil) in profit or loss during the year for these leases.

Certain leases held by the Corporation provide the Corporation with extension options and termination options that may impact the term of the Lease which can impact the finance lease liability recognized in the statement of financial position. The Corporation has determined the lease term for all contracts based on all available information as at the reporting date.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

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### 11. FINANCE LEASES (CONTINUED)

The Corporation has leases for which certain payments made under the leasing arrangement are variable in nature and thus not included in the determination of the right-of-use asset and finance lease liability. These payments include payments for common area maintenance, insurance, and taxes. During the year, the Corporation recognized \$28 (2018 - \$nil) as an expense in profit or loss relating to variable lease payments. The Corporation expects to recognize \$30 within the next 12 months in profit or loss relating to variable payments.

Repayment of finance lease liabilities, both principal and interest, are as follows:

2020	\$	180
2021		190
2022		200
2023		210
2024		221
Thereafter		3,117
	\$	4,118

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## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

### 12. PAYMENTS IN LIEU OF INCOME TAXES

Current and deferred payments in lieu of income taxes

	2019	2018
Current payments in lieu of income taxes:		
Current year	\$ 25	\$ 23
Deferred payments in lieu of income taxes:		
Origination and reversal of temporary differences	(275)	(30)
Adjustments to prior provision	(294)	-
	(569)	(30)
Payments in lieu of income recovery	\$ (544)	\$ (7)

Reconciliation of effective tax rate

	2019	2018
Loss before taxes	\$ (2,367)	\$ (1,373)
Canada and Ontario statutory Income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	(627)	(364)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	3	1
Deferred PILS asset not recognized	395	433
Adjustments to prior provision	(294)	-
Other	(21)	(77)
Income tax recovery	\$ (544)	\$ (7)

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

### 12. PAYMENTS IN LIEU OF INCOME TAXES (CONTINUED)

Deferred tax balances

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

	2019	2018
Deferred payments in lieu of income taxes - liabilities:		
Property, plant, and equipment	\$ (5,268)	\$ (3,452)
Deferred payments in lieu of income taxes - assets		
Non-capital losses	4,345	1,977
Right-of-use assets	21	-
Other	19	22
CMT carry forward	129	129
	\$ 4,514	\$ 2,128

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

### 13. 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, 2019 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:

	2019	2018
Defined benefit obligation, beginning of year	\$ 24	\$ 24
Transfer in from related party	88	-
Current service cost	3	3
Interest cost	1	1
Benefits paid during the year	(1)	(1)
Actuarial gain recognized in other comprehensive income	-	(3)
Defined benefit obligation, end of year	\$ 115	\$ 24

As a result of the restructuring in 2018, the Corporation took over responsibility for all employment related liabilities of the previous corporation.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

### 13. 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% (2018 – 4.00%) 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% (2018 – 3.3%) per year.

### 14. 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 \$400 to OMERS (2018 - \$350).

The Corporation expects to make a contribution of \$400 to OMERS during the next fiscal year.



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

### 15. SHARE CAPITAL

	2019	2018
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 2019 or 2018.

### 16. FINANCE INCOME AND CHARGES

	2019	2018
Unrealized gain on derivative liability	\$ -	\$ 29
Interest income on bank deposits	199	106
Finance income	199	135
Finance lease liabilities	(215)	-
Accretion – ARO	(2)	-
Unrealized loss on derivative liability	(114)	-
Interest expense – note payable	(248)	(268)
Interest expense – long-term borrowings	(608)	(482)
Finance charges	(1,187)	(750)
Net finance costs recognized in income	\$ (988)	\$ (615)

### 17. CASH FLOW INFORMATION

Net change in other assets and liabilities:

	2019	2018
Temporary investments	\$ -	\$ 129
Accounts receivable	(668)	165
Accounts receivable from corporations under common control	(3,287)	486
Other current assets	(887)	99
Accounts payable and accrued liabilities	1,928	94
Amounts owing to related parties	2,760	(540)
Deferred revenue	259	(14)
	\$ 105	\$ 419

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

### 18. 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

Outstanding balances with related parties are as follows: Included in amounts owing

	2019	2018
Hamilton Utilities Corporation	\$ 3,310	\$ -
1278424 Ontario Inc.	200	223
	3,510	223
Bright Ray Solar	(135)	(135)
First Longwood Innovation Trust	(13)	-
Hamilton Utilities Corporation	(2,793)	(46)
	(2,941)	(181)
<b>Notes payable in exchange for shares (note 5)</b>		
Hamilton Utilities Corporation	51,771	51,771
	\$ 51,771	\$ 51,771

The Corporation received management and administrative and billing fees from a corporation under common control in the amount of \$353 (2018 - \$71).

#### (c) Transactions with related parties

The Corporation has amounts owing to corporations under common control through a borrowing agreement as described in note 7.

#### (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 2019 consisted of salaries and other short-term benefits as well as bonuses and amounted to \$1,463 (2018 - \$2,049).

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

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### 19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### *Fair value disclosure*

The carrying values of cash and cash equivalents, accounts receivable, accounts receivable and accounts payable 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 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, 2019 is \$31 (2018 - 25).

#### (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.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, with comparative information for 2018  
(stated in thousands of Canadian dollars)

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### 19. 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 long-term borrowings. As at December 31, 2019, long-term borrowings amount to \$11,994 (2018 - \$12,452).

### 20. 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.

### 21. Subsequent events

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Ontario resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Corporation's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time.