CONSOLIDATED
FINANCIAL STATEMENTS OF

**NEWMARKET HYDRO HOLDINGS INC.**

**December 31, 2018**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of
Newmarket Hydro Holdings Inc.

*Report on the Audit of the Consolidated Financial Statements*

*Opinion*

We have audited the consolidated financial statements of Newmarket Hydro Holdings Inc., which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of changes in equity and accumulated other comprehensive income, income and comprehensive income and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 Consolidated Financial Statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Other Matter*

The consolidated financial statements of the Company as at and for the year ended December 31, 2017 were audited by Collins Barrow Kawarthas LLP, which became Baker Tilly KDN LLP effective January 10, 2019.

*Emphasis of Matter*

We draw attention to note 3 and note 28 of the consolidated financial statements, which describes the purchase of Midland Power Utility Company effective September 7, 2018.

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT, continued**

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Baker Tilly KDN LLP*

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
May 14, 2019

## NEWMARKET HYDRO HOLDINGS INC.
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**As at December 31, 2018**

| | 2018 $ | 2017 $ |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash (note 29) | - | 10,711,573 |
| Short term investment (note 5) | 25,084 | - |
| Accounts receivable (note 6) | 17,283,094 | 13,274,599 |
| Unbilled revenue | 11,856,298 | 9,221,039 |
| Inventories | 882,196 | 858,956 |
| Prepaid expenses | 460,089 | 281,898 |
| Income taxes receivable | 1,483,659 | 682,111 |
| | 31,990,420 | 35,030,176 |
| **Other assets** | | |
| Investments (note 7) | 100 | - |
| Property, plant and equipment (note 8) | 108,523,738 | 96,740,058 |
| Intangible assets (note 9) | 7,696,753 | 997,723 |
| Goodwill (note 10) | 6,864,284 | - |
| Deferred income taxes (note 11) | 844,922 | 2,466,971 |
| Refundable deposit | - | 1,000,000 |
| | 123,929,797 | 101,204,752 |
| | 155,920,217 | 136,234,928 |
| **Regulatory deferral account debit balances** (note 12) | 10,985,630 | 2,894,845 |
| | 166,905,847 | 139,129,773 |

**NEWMARKET HYDRO HOLDINGS INC.**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**As at December 31, 2018**

| | 2018 $ | 2017 $ |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities** | | |
| Bank indebtedness (note 29) | 2,037,029 | - |
| Accounts payable and accrued liabilities (note 13) | 15,613,407 | 12,833,230 |
| Bank loan (note 14) | 1,200,000 | - |
| Due to shareholder | - | 87,412 |
| Current portion of long-term debt (note 15) | 3,232,267 | 657,006 |
| Current portion of deposits held (note 18) | 705,212 | 498,000 |
| | 22,787,915 | 14,075,648 |
| **Long-term liabilities** | | |
| Long-term debt (note 15) | 26,072,837 | 5,076,065 |
| Interest rate swaps (note 16) | 1,296,751 | - |
| Subordinate debt (note 17) | 23,742,821 | 23,742,821 |
| Contributed capital (note 19) | 33,141,061 | 31,358,906 |
| Deferred income taxes (note 11) | 1,498,793 | - |
| Deposits held (note 18) | 2,426,324 | 3,343,159 |
| Employee future benefits (note 20) | 1,157,004 | 1,047,729 |
| | 89,335,591 | 64,568,680 |
| **EQUITY** | | |
| **Equity of the owners of the parent** | | |
| Share capital (note 22) | 29,609,342 | 29,609,342 |
| Retained earnings | 18,148,244 | 18,565,713 |
| Accumulated other comprehensive income | 30,665 | 30,665 |
| | 47,788,251 | 48,205,720 |
| **Non-controlling interest** (note 23) | 3,381,444 | 3,397,609 |
| | 51,169,695 | 51,603,329 |
| | 163,293,201 | 130,247,657 |
| **Regulatory deferral account credit balances** (note 12) | 3,612,646 | 8,882,116 |
| | 166,905,847 | 139,129,773 |

**Subsequent event (note 36)**

Approved on behalf of the Board

____________________ Director ____________________ Director

**NEWMARKET HYDRO HOLDINGS INC.**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME**
**For the year ended December 31, 2018**

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| | Share capital $ | Retained earnings $ | Accumulated other comprehensive income $ | Total $ | Non-controlling interest $ | Total equity $ |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2016** | 29,609,342 | 17,639,031 | 131,010 | 47,379,383 | 3,350,906 | 50,730,289 |
| Net income for the year | - | 2,255,129 | - | 2,255,129 | 162,809 | 2,417,938 |
| Other comprehensive loss | - | - | (100,345) | (100,345) | (7,553) | (107,898) |
| Dividends paid | - | (1,336,000) | - | (1,336,000) | (101,000) | (1,437,000) |
| **Balance, December 31, 2017** | 29,609,342 | 18,558,160 | 30,665 | 48,198,167 | 3,405,162 | 51,603,329 |
| Net income for the year | - | 926,084 | - | 926,084 | 56,282 | 982,366 |
| Investment in Envi Networks Ltd. | - | - | - | - | 134,400 | 134,400 |
| Dividends paid | - | (1,336,000) | - | (1,336,000) | (214,400) | (1,550,400) |
| **Balance, December 31, 2018** | 29,609,342 | 18,148,244 | 30,665 | 47,788,251 | 3,381,444 | 51,169,695 |

# NEWMARKET HYDRO HOLDINGS INC.

**CONSOLIDATED STATEMENT OF INCOME**
**For the year ended December 31, 2018**

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| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Revenue** | | |
| Distribution revenue | 21,616,917 | 15,108,008 |
| Cost of power revenue | 80,224,152 | 74,225,796 |
| | 101,841,069 | 89,333,804 |
| **Cost of power purchased** | 85,026,423 | 75,934,541 |
| **Gross profit** | 16,814,646 | 13,399,263 |
| **Other income** (note 24) | 2,225,644 | 1,219,972 |
| **Gross income from operations** | 19,040,290 | 14,619,235 |
| **Expenses** | | |
| Amortization | 6,151,855 | 3,598,756 |
| Operating expenses (note 25) | 12,510,889 | 9,404,893 |
| Loss on interest rate swap (note 16) | 1,296,751 | - |
| Gain on disposal of property, plant and equipment | (469,800) | (23,480) |
| | 19,489,695 | 12,980,169 |
| **Income (loss) before undernoted items and income taxes** | (449,405) | 1,639,066 |
| **Finance costs (income)** | | |
| Finance income (note 26) | (412,214) | (322,760) |
| Finance costs (note 26) | 1,737,568 | 1,481,411 |
| | 1,325,354 | 1,158,651 |
| **Income (loss) before income taxes and net movement on regulatory accounts, net of deferred tax** | (1,774,759) | 480,415 |
| **Provision for income taxes** (note 11) | | |
| Current | 908,522 | 845,889 |
| Deferred | 3,120,842 | 473,987 |
| | 4,029,364 | 1,319,876 |
| **Loss before net movement on regulatory accounts, net of deferred tax** | (5,804,123) | (839,461) |
| **Net movement on regulatory accounts, net of deferred tax** | 6,786,489 | 3,257,399 |
| **Net income for the year** | 982,366 | 2,417,938 |
| **Attributable to** | | |
| Owners of the parent | 926,084 | 2,255,129 |
| Non-controlling interests | 56,282 | 162,809 |
| | 982,366 | 2,417,938 |

| | 2018 $ | 2017 $ |
|---|---|---|
| **Net income for the year** | 982,366 | 2,417,938 |
| **Comprehensive loss** | | |
| Actuarial loss, not reclassified to net income | - | (146,800) |
| Actuarial loss related deferred income tax not reclassified to net income | - | 38,902 |
| **Comprehensive loss** | - | (107,898) |
| **Net income and comprehensive income for the year** | 982,366 | 2,310,040 |
| **Attributable to** | | |
| Owners of the parent | 926,084 | 2,154,784 |
| Non-controlling interests | 56,282 | 155,256 |
| | 982,366 | 2,310,040 |

# NEWMARKET HYDRO HOLDINGS INC.
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**For the year ended December 31, 2018**

| | 2018 $ | 2017 $ |
|---|---|---|
| **CASH PROVIDED FROM (USED FOR)** | | |
| **Operating activities** | | |
| Net income for the year | 982,366 | 2,417,938 |
| Items not affecting cash | | |
| Amortization of property, plant and equipment | 5,968,367 | 3,678,454 |
| Amortization of intangible asset | 582,770 | 175,389 |
| Deferred income taxes | 3,120,842 | 473,987 |
| Loss (gain) on disposal of property, plant and equipment | 483,939 | (23,480) |
| Change in employee future benefits | 109,275 | 24,421 |
| Current income tax | 908,522 | 845,889 |
| Net finance costs | 1,325,354 | 1,158,652 |
| Recognition of contributed capital | (1,229,868) | (707,028) |
| Loss on interest rate swap | 1,296,751 | - |
| | 13,548,318 | 8,044,222 |
| Change in non-cash working capital items (note 27) | (6,029,089) | 2,373,866 |
| | 7,519,229 | 10,418,088 |
| **Investing activities** | | |
| Purchase of investments | (100) | - |
| Purchase of short-term investments investments | (25,084) | - |
| Purchase of property, plant and equipment | (18,275,985) | (5,454,494) |
| Proceeds on disposal of property, plant and equipment | - | 23,480 |
| Purchase of goodwill | (6,864,284) | - |
| Refundable deposit | 1,000,000 | (1,000,000) |
| Change in regulatory deferral accounts | (13,360,255) | (391,411) |
| Proceeds of contributed capital | 3,012,023 | 1,405,507 |
| Purchase of intangible assets | (7,241,800) | (737,353) |
| | (41,755,485) | (6,154,271) |
| **Financing activities** | | |
| Advances to parent company | (87,412) | - |
| Repayment of long-term debt | (747,843) | (641,183) |
| Proceeds of long-term debt | 24,319,877 | - |
| Interest paid | (1,737,568) | (1,481,412) |
| Increase in bank indebtedness | 1,200,000 | - |
| Dividends paid | (1,459,400) | (1,437,000) |
| | 21,487,654 | (3,559,595) |
| **Increase (decrease) in cash** | (12,748,602) | 704,222 |
| **Cash - beginning of year** | 10,711,573 | 10,007,351 |
| **Cash (bank indebtedness) - end of year** | (2,037,029) | 10,711,573 |

## 1. NATURE OF OPERATIONS

Newmarket Hydro Holdings Inc. ("the Company") was incorporated April 10, 2000 under the Business Corporations Act of the Province of Ontario. The Company commenced operations on November 1, 2000. Newmarket Hydro Holdings Inc. is wholly-owned by the Town of Newmarket. The address of its registered office and its principal place of business is 590 Steven Ct, Newmarket, ON L3Y 6Z2.

The principal activity of the Company is to distribute electricity to the residents and businesses in the Town of Newmarket, the Town of Midland and the Township of Tay under licence issued by the Ontario Energy Board (OEB). The Company is regulated by the OEB and adjustments to its distribution rates require OEB approval.

The Company also offers high speed internet to the Newmarket community by providing its customers with the necessary infrastructure and equipment to utilize the service. The Company is looking to expand its operations into other surrounding local areas.The Company is regulated by the Canadian Radio-television Telecommunications Commission ("CRTC") and American Registry for Internet Numbers ("ARIN").

## 2. STATEMENT OF COMPLIANCE

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

The financial statements for the year ended December 31, 2018 were approved and authorized for issue by the board of directors on May 14, 2019.

## 3. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of its subsidiaries Newmarket-Tay Power Distribution Ltd. and Envi Networks Ltd. The purchase of Midland Power Utility Corporation ("Midland PUC") was approved by the Ontario Energy Board (OEB) in 2018. Midland PUC was amalgamated by Newmarket-Tay Power Distribution Ltd. effective September 7, 2018. Tay Hydro Inc. has a 7% interest in Newmarket-Tay Power Distribution Ltd and Envi Networks Ltd. All significant intercompany transactions and balances have been eliminated on consolidation.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards. The significant policies are detailed as follows:

## 4. SIGNIFICANT ACCOUNTING POLICIES, continued

(a) *Basis of measurement*

The financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

The consolidated financial statements are presented in Canadian dollars which is also the Company's functional currency.

(b) *Electricity regulation*

The Company is licensed and regulated by the Ontario Energy Board (OEB). The OEB is charged with the responsibility of approving rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfil obligations to connect and service customers.

The following regulatory policy is practiced in a rate regulated environment:

*Regulatory accounts*

Regulatory accounts represent future revenue or expenses incurred in the current or prior periods that are expected to be recovered (repaid) through the rate setting process.

These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. The Company continually assesses the likelihood of the recovery of regulatory assets and likelihood or repayment of regulatory liabilities. If recovery or repayment is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

Regulatory accounts recognized at December 31, 2018 and December 31, 2017 are disclosed in note 12.

(c) *Revenue recognition*

The Company recognizes revenue when it transfers control over a promised good or service, a performance obligation under the contract, to a customer and where the company is entitled to consideration as a result of completion or the performance obligation.

Prior to January 1, 2018, revenue was recognized to the extent that it was probable that economic benefits will flow to the company and that the revenue can be reliably measured.

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(c) *Revenue recognition, continued*

*Distribution Revenue*
Distribution revenue is measured based on the OEB approved rate and the meter readings for customer usage, net of sales tax and debt retirement charge. Distribution revenue also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is recognized as electricity is delivered and consumed by customers and measured.

*Cost of Power Revenue*
Cost of power revenue is recorded on the basis of the power billed by the Independent Electricity System Operator ("IESO").

*Contributed Capital*
Contributed capital represent certain items of property, plant and equipment which are acquired or constructed with financial assistance in the form of contributions from developers. Prior to January 1, 2018 such contributions, whether in cash or in-kind, were recognized as contributed capital and amortized into income over the life of the related assets. Contributed capital in-kind were valued at their fair value at the date of their contribution.

On implementation of IFRS 15, contributions received from customers where the Company has an ongoing performance obligation to the customer are within the scope of IFRS 15. These contributions will be initially recorded at fair value recognized on a straight-line basis over the estimated life of the contract with the customers. Where contracts are perpetual, the contributed asset will be used to provide ongoing goods or services to customers and as such the estimated life of the contract with the customers is estimated to be equivalent to the economical useful life of the asset to which the contribution relates.

Contributions from developers are not within the scope of IFRS 15 as they do not give rise to a contract with a customer. Currently, there is no specific IFRS guidance on accounting for contributions received from developers. The Company has an accounting policy for the initial recognition of such contributions and subsequent recognition of the related revenue, as described in note 4(i).

*Conservation and Demand Management Revenue*
Revenues related to Conservation and Demand Management ("CDM") agreements with the Independent Electricity System Operator ("IESO") are recognized on a net basis. Performance fees are recognized as CDM programs are delivered.

*Other Income*
Other operating revenue is recorded when services are provided.

(d) *Cash*

Cash consists of balances with financial institutions.

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(e) Foreign exchange*

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at year end exchange rates. Other assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the rates of exchange in effect at their transaction dates. The resulting gains or losses are included in operations.

*(f) Inventories*

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

*(g) Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are amortized using the straight-line over their estimated useful lives. Assets are amortized from the date of acquisition. Internally constructed assets are amortized from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, amortization is taken at one-half of the below rates.

The residual value, useful life and amortization method applied to each class of assets are reassessed at each reporting date.

The amortization rates applicable for each class of asset are calculated on a straight-line basis as follows:

| | |
|---|---|
| Land and building: | |
| - Building | 25 - 30 years |
| - Shelters | 10 years |
| Distribution equipment | 10 - 50 years |
| Transportation and fibre equipment: | |
| - Transportation equipment | 5 - 10 years |
| - Fibre cable and network equipment | 5 - 25 years |
| Office and other | 5 - 10 years |

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(g) Property, plant and equipment, continued*

An impairment loss is recognized when the carrying amount of these assets is not recoverable and exceeds their fair value.

*(h) Goodwill and intangible assets*

Intangible assets include computer software, land rights, licensed customer lists and goodwill. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, if applicable. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful lives of the intangibles are as follows:

| | |
|---|---|
| Computer software | 3-5 years |
| Land rights | 30 years |
| Licensed customer list | not amortized |
| Goodwill | not amortized |

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software, (expenditure relating to patches and other minor updates as well as their installation), are expensed as incurred.

Land rights are capitalized based on the payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

The licensed customer list is measured at cost and not amortized but assessed for impairment annually.

Goodwill represents the cost of acquired local distribution companies in Midland in excess of fair value of the net identifiable assets purchased. Goodwill is measured at cost and is not amortized but assessed for impairment annually.

*(i) Contributed capital*

Contributions for capital construction consist of contributions from customers and developers toward the cost of constructing distribution assets. The contributions are calculated through an economic evaluation as per the OEB Distribution Service Code (represents fair value) and are recorded as received. Contributed capital is amortized over the same period as the asset to which they relate, 10 to 50 years.

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(j) Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

*(k) Related parties*

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 21.

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(l) *Employee future benefits*

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined contribution plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made. No liability has been established for this plan.

The Company pays certain medical and life insurance benefits on behalf of its retired employees. These plans are not funded and accordingly have no plan assets. The Company's net obligation is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. This calculation is actuarially performed using the projected unit credit method. The last full valuation performed was as at December 31, 2017 for Newmarket-Tay Power Distribution Limited and December 31, 2016, updated September 7, 2018, for Midland Power Utility Corporation ("Midland PUC"). Service costs are recognized in the Statement of Income in operating expenses, and include current and past service costs as well as gains and losses on curtailment. Net interest expense is included in finance costs.

Details related to the employee future benefits are detailed in note 20.

(m) *Income taxes*

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 11.

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(n) Significant accounting estimates and judgements*

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates, judgements and assumptions include the following:

Useful lives of depreciable assets - Depreciation and amortization expense is based on estimates of the useful lives of property, plant and equipment and intangible assets. The Company estimates the useful lives of its property, plant and equipment and intangible assets based on management's judgment, historical experience and an asset study conducted by an independent consulting firm.

Payment in lieu of taxes payable - The Company is required to make payments in lieu of taxes calculated on the same basis as income taxes on taxable income earned. Significant judgement is required in determining the provision and liability or asset for income taxes. Changes in deferred taxes may be required due to changes in future tax rates.

Employee future benefits - The cost of providing certain health, dental and life insurance benefits on behalf of its retired employees are determined using actuarial valuations. The actuarial valuation uses managements assumptions which have been outlined in note 20.

Accounts receivable impairment - In determining the allowance for doubtful accounts, the Company considers the life-time expected credit losses that result from all possible default events over the expected life of the account balance.

*(o) Provisions*

A provision is recognized in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Some of the Company's assets may have provision obligations. As the Company expects to use the majority of its fixed assets for an indefinite period, no removal costs can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(p) *Financial instruments*

Financial assets are identified and classified based on the business model used by the Company for managing those financial assets, as one of the following: at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss. Prior to January 1, 2018, the financial assets were identified and classified as one of the following: measured at fair value through profit or loss or loans and receivables. Financial assets that were not classified in any of the above categories were designated as available-for-sale financial assets. Financial liabilities continue to be classified as measured at fair value through profit or loss or at amortized cost, as there is no change in classification of financial liabilities under IFRS 9.

Financial assets and financial liabilities are presented on a net basis when the Company has a legally enforceable right to offset the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

At amortized cost
Accounts receivable, due from related parties and unbilled revenue are classified as financial assets at amortized cost. These financial assets are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost when they are held for collection of cash flows, where those cash flows solely represent payments of principal and interest using the effective interest rate. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset, or a shorter period when appropriate, to the gross carrying amount of the financial asset.

The Company's bank indebtedness, accounts payable and accrued liabilities, customer deposits, subordinate debt, due to related parties and long term debt are classified as financial liabilities at amortized cost and recognized on the date at which the Company becomes a party to the contractual arrangement. Financial liabilities are derecognized when the contractual obligations are are discharged, cancelled or expire. Financial liabilities are initially recognized at fair value including discounts and premiums, plus directly attributable transaction costs, such as issue expenses, if any. Subsequently, these liabilities are measured at amortized cost using the effective interest rate method.

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(p) Financial instruments, continued*

At fair value through other comprehensive income
Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows solely represent payments of principal and interest, are classified as financial assets at fair value through other comprehensive income. These financial assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income, except for the recognition of impairment losses, reversal of impairment losses, interest income and foreign exchange gains and losses, gain or loss previously recognized in net income. On de-recognition of the financial asset, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to net income. Interest income from these financial assets is recognized as other income using the effective interest rate method. As at December 31, 2018, the Company does not have any financial assets, classified at fair value through other comprehensive income.

At fair value through profit or loss
Financial instruments at fair value through profit or loss include instruments that are designated as financial instruments at fair value through profit or loss or those financial instruments that do not meet the criteria for classification under any other category. Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Changes in fair value of financial instruments measured at fair value through profit or loss are recognized in net income.

Impairment of financial assets at amortized cost
The policy for accounts receivable and unbilled revenue allowances is to measure at an amount equal to the life-time expected credit losses that result from all possible default events over the expected life of a financial instrument. The policy for other financial assets is at life-time expected credit loss if credit risk increased significantly, if not, then at 12-month expected loss.

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(q) Change in accounting policies*

IFRS 9 Financial Instruments

The Company adopted IFRS 9 using the retrospective approach. The adoption resulted in no impact to the opening balances of retained earnings as of January 1, 2018. IFRS 9 replaces IAS 30 - Financial Instruments: Recognition and Measurement. The new standard amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 retains but simplifies the mixed measurement model and establishes profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The Company's updated accounting policies resulting from implementation of the new standard, along with analysis of the changes from the previous accounting standard as set of in the Financial Instruments section of the significant accounting policies.

IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15 using the modified retrospective approach with the cumulative effect of any adjustments recognized in the opening balance of retained earnings as of January 1, 2018. However, the implementation of IFRS 15 did not result in any adjustment to the retained earnings or to the presentation of the financial statements. IFRS 15 is based on the core principal to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IAS 11 - Construction Contracts and IAS 18 - Revenue and related interpretations. The Company's updated accounting policies resulting from implementation of the new standard, along with analysis of the changes from the previous accounting standard are set out in the Revenue Recognition section of the significant accounting policies.

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(r) New Standards and interpretations not yet effective or adopted*

Effective for annual periods beginning on or after January 1, 2019

IFRS 16 replaces IAS 17 Leases and brings leases onto companies' balance sheets, increasing the visibility of their assets and liabilities. IFRS 16 removes the classification of leases as either operating or finance leases for the lessee treating all leases as finance leases. Short term and low value assets are exempt from these requirements.

IFRIC 23 Uncertainty over Income Tax Treatments provides guidance on the recognition and measurement of current and deferred tax assets and liabilities under IAS 12 - Income Taxes, where there is uncertainty over income tax treatments.

Effective for annual periods beginning on or after January 1, 2020

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors have been amended by the IASB in October 2018. The amendments clarify the definition of material and how it should be applied. The amendments ensure that the definition is consistent across all IFRS standards. Early adoption is permitted.

The Company is currently assessing the impact that the standards will have on the statements.

5. **SHORT TERM INVESTMENT**

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Term deposit held with TD Canada Trust at an interest rate of 1.4% per annum with a maturity date of January 4, 2019. | 25,084 | - |

This short-term investment is related to a stand-by letter of guarantee in the amount of $25,000

6. **ACCOUNTS RECEIVABLE**

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Accounts receivable | 17,512,722 | 13,354,959 |
| Less: Allowance for doubtful accounts | 229,628 | 80,360 |
| | 17,283,094 | 13,274,599 |

## 7. INVESTMENTS

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Utility Collaborative Services Inc. (UCS), recorded using the cost method, 100 common shares, 16.7% interest | 100 | - |

Utility Collaborative Services Inc. (UCS) provides billing, mailing, call centre and IT infrastructure services for Midland PUC customers. The Company gave formal notice of retraction of the shares in UCS on January 16, 2019 effective May 16, 2019. The notice period is 3 years or a penalty equal to the previous 3 years of service fees will be levied.

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Land and building<br>$ | Distribution equipment<br>$ | Transportation and fibre equipment<br>$ | Office and other<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| Cost | | | | | |
| At January 1, 2018 | 5,768,783 | 100,777,027 | 1,584,860 | 2,045,656 | 110,176,326 |
| Additions | 342,480 | 18,329,033 | 2,090,466 | 656,183 | 21,418,162 |
| Disposals | (69,278) | (602,099) | (311,366) | (16,637) | (999,380) |
| At December 31, 2018 | 6,041,985 | 118,503,961 | 3,363,960 | 2,685,202 | 130,595,108 |
| Amortization | | | | | |
| At January 1, 2018 | 36,180 | 11,577,090 | 866,788 | 956,210 | 13,436,268 |
| Additions | (8,433) | 8,291,633 | 604,484 | 181,927 | 9,069,611 |
| Disposals | (8,264) | (182,859) | (226,749) | (16,637) | (434,509) |
| At December 31, 2018 | 19,483 | 19,685,864 | 1,244,523 | 1,121,500 | 22,071,370 |
| Net book value at December 31, 2018 | 6,022,502 | 98,818,097 | 2,119,437 | 1,563,702 | 108,523,738 |

8. **PROPERTY, PLANT AND EQUIPMENT, continued**

| | Land and building $ | Distribution equipment $ | Transportation and fibre equipment $ | Office and other $ | Total $ |
|---|---|---|---|---|---|
| Cost | | | | | |
| At January 1, 2017 | 5,756,446 | 96,257,378 | 1,446,777 | 1,261,232 | 104,721,833 |
| Additions | 12,337 | 4,519,649 | 138,083 | 784,424 | 5,454,493 |
| At December 31, 2017 | 5,768,783 | 100,777,027 | 1,584,860 | 2,045,656 | 110,176,326 |
| Amortization | | | | | |
| At January 1, 2017 | 27,068 | 8,348,699 | 591,468 | 790,580 | 9,757,815 |
| Additions | 9,112 | 3,228,391 | 275,320 | 165,630 | 3,678,453 |
| At December 31, 2017 | 36,180 | 11,577,090 | 866,788 | 956,210 | 13,436,268 |
| Net book value at December 31, 2017 | 5,732,603 | 89,199,937 | 718,072 | 1,089,446 | 96,740,058 |

Included in distribution equipment additions is amortization expense of $86,445 (2017 - $255,087) and work in progress of $1,968,992 (2017 - $15,115). Included in land and building is land with a value of $5,576,475 (2017 - $5,556,475). Included in the 2018 cost additions are amounts related to the Midland PUC purchase, refer to note 28 for business combination disclosures.

9. **INTANGIBLE ASSETS**

| | Cost $ | Accumulated amortization $ | 2018 Net book value $ | 2017 Net book value $ |
|---|---|---|---|---|
| Computer software | 1,063,130 | 723,039 | 340,091 | 997,723 |
| Land rights | 417,871 | 76,576 | 341,295 | - |
| Licensed customer list | 7,015,367 | - | 7,015,367 | - |
| | 8,496,368 | 799,615 | 7,696,753 | 997,723 |

During the year, the Company had additions of $7,241,801 (2017 - $737,353), disposals of $559,719 (2017 - $Nil) and amortization of $582,770 (2017 - $175,389). Additions are a result of the Midland PUC purchase during 2018, refer to note 28 for business combination disclosures.

10. **GOODWILL**

| | Cost<br>$ | Accumulated amortization<br>$ | 2018 Net book value<br>$ | 2017 Net book value<br>$ |
|---|---|---|---|---|
| Goodwill | 6,864,284 | - | 6,864,284 | - |

Goodwill, representing 4.2% of the Company's total assets, is allocated to the entire business as a cash generating unit. The goodwill at December 31, 2018 of $6,864,334 (2017 - $Nil) represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is not amortized.

Based on the results of the annual goodwill impairment test, Newmarket determined the recoverable amount of the cash generating unit is more than its carrying value. No impairment has been recorded in the period ended December 31, 2018.

The impairment analysis involves the use of an income approach that relies on estimating the net future cash flows and applying the appropriate discount rate to those future cash flows. This approach employs several assumptions: projected revenue growth, market expectations, financial margin, operating and administrative expenses, working capital requirements, future capital expenditure requirements, income tax rates, regulatory capital management requirements, as well as an appropriate discount rate. If future growth and results of the CGU differs significantly from management's current best estimates, it is reasonably possible that this could have an adverse impact on the estimate recoverable amounts of the CGU, including the amounts allocated to goodwill.

11. **INCOME TAXES**

(a) The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.5% (2017 - 39.5%) to the income (loss) for the years as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Income (loss) for the year before income taxes | (1,774,759) | 480,415 |
| Net movement in regulatory deferral accounts | 4,802,272 | 3,522,000 |
| | 3,027,513 | 4,002,415 |
| Anticipated income tax | 1,195,868 | 1,580,954 |
| Tax effect of the following: | | |
| Permanent expense differences | 8,025 | 230,026 |
| Other comprehensive income | - | (57,986) |
| General rate reduction | (393,577) | 131,523 |
| Impact of deferred taxes and other | 3,219,048 | (564,641) |
| Provision for income taxes | 4,029,364 | 1,319,876 |

## 11. INCOME TAXES, continued

(b) Deferred income tax assets are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of the underlying assets and their carrying amounts as per the financial statements are reflected as deferred income taxes. When the tax basis is greater than the carrying amount, a deferred tax asset is created. When the tax basis is less than the carrying amount, a deferred tax liability is created. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes.

| | Opening balance at January 1, 2018 $ | Recognize in net income $ | Closing balance at December 31, 2018 $ |
|---|---|---|---|
| **Deferred tax assets** | | | |
| Property, plant and equipment and cumulative eligible capital | 2,189,320 | (2,189,320) | - |
| Reserves deductible when paid | 277,651 | 275,200 | 552,851 |
| Loss carryforward | - | 292,071 | 292,071 |
| | 2,466,971 | (1,622,049) | 844,922 |

| | Opening balance at January 1, 2017 $ | Recognize in net income $ | Closing balance at December 31, 2017 $ |
|---|---|---|---|
| **Deferred tax assets** | | | |
| Property, plant and equipment and cumulative eligible capital | 1,859,780 | 329,540 | 2,189,320 |
| Reserves deductible when paid | 232,275 | 45,376 | 277,651 |
| | 2,902,055 | 374,916 | 2,466,971 |

| | Opening balance at January 1, 2018 $ | Recognize in net income $ | Closing balance at December 31, 2018 $ |
|---|---|---|---|
| **Deferred tax liability** | | | |
| Property, plant and equipment | - | 1,498,793 | 1,498,793 |
| | - | 1,498,793 | 1,498,793 |

11. **INCOME TAXES, continued**

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Deferred tax assets** | | |
| Deferred tax assets to be recovered after more than 12 months | 844,922 | 2,466,971 |

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Deferred tax liability** | | |
| Deferred tax liability to be recovered after more than 12 months | 1,498,793 | - |

The Company expects to be able to use the above tax loss carryforward before expiration. Included in reserves deductible when paid are post-employment benefits and net unrealized losses. Included in tax basis of property, plant and equipment are goodwill and intangible assets.

12. **REGULATORY DEFERRAL ACCOUNTS**

All amounts deferred as regulatory deferral account debit balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered in future periods which are comprised of the following:

| | Note | Remaining recovery/ reversal period (years) | December 31, 2017<br>$ | Net balances arising/ recovered in the period<br>$ | Recovery/ reversal<br>$ | December 31, 2018<br>$ |
|---|---|---|---|---|---|---|
| **Regulatory deferral account debit** | | | | | | |
| Retail settlement variance account | i | 1 | (54,843) | 4,438,205 | - | 4,383,362 |
| Other | ii | A | 758,386 | 1,588,549 | - | 2,346,935 |
| Deferred tax debit balance | iii | A | 2,191,302 | 2,064,031 | - | 4,255,333 |
| | | | 2,894,845 | 8,090,785 | - | 10,985,630 |

12. **REGULATORY DEFERRAL ACCOUNTS, continued**

| | | | | | | |
|---|---|---|---|---|---|---|
| **Regulatory deferral account credit** | | | | | | |
| Recovery account | iv | A | 508,729 | 209,795 | (688,655) | 29,869 |
| Other | ii | A | 203,217 | (111,505) | - | 91,712 |
| IFRS conversion | v | 1 | 7,648,830 | (645,620) | (4,378,158) | 2,625,052 |
| Deferred tax credit balance | iii | A | 521,340 | 344,673 | - | 866,013 |
| | | | 8,882,116 | (202,657) | (5,066,813) | 3,612,646 |

(a) These amounts are expected to reverse when the Company submits their next cost of service filing which is anticipated to be within the next ten years.

(i) Retail Settlement Variance Account variances represent the difference between the amounts charged by the company to its customers, and the amounts paid by the company to the Independent Electricity System Operator ("IESO") and Hydro One for the cost of energy. The settlement variances include network and connection service charges, energy sales and the global adjustment. The balance for settlement variances and carrying charges are calculated and recorded on a monthly basis.

(ii) Other Deferral Accounts include debit and credit balances in other regulatory assets, including Lost Revenue Adjustment Mechanism variances, Smart Metering Entity Charge variances, Retail Cost variances, IFRS transition expenditures, payments in lieu of taxes and Smart Meter expenditures. The costs incurred in these deferral accounts have been captured for future recovery or settlement. Carrying charges are recorded monthly on the opening balances.

(iii) Deferred tax on the regulatory balances that will ultimately be recovered from/paid back to its customers.

(iv) Recovery Accounts are used to record the disposition of deferral and variance account balances that have been approved by the OEB. The variances are to be recovered or settled when the company submits their next Cost of Service filing.

(v) In 2012, the Company adjusted the estimated useful life related to the amortization period for certain capital assets, based upon the Ontario Energy Board's regulatory accounting direction as contained in the revised 2012 Accounting Procedures Handbook for Electricity Distributors. As a result of OEB direction related to the settlement of these amounts, the company has recorded a payable in the deferral account of $2,625,052 (2017 - $7,648,830).

In 2018, the Company was approved through its annual Incentive Regulation Mechanism (IRM) application to the OEB for the settlement of this balance. The Company is continuing to refund this balance until April 30th of 2019, after which any remainder is expected to be approved for settlement through their 2019 IRM and the amount will be refunded to its respective customers by class over a one year period. This balance also includes $569,566 of carrying charges based on the Company's weighted average cost of capital.

## 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Accounts payable - purchased power | 6,329,726 | 5,201,533 |
| Other trade accounts payable and accrued liabilities | 5,030,167 | 3,249,271 |
| Water and sewer billings payable (note 21) | 2,490,850 | 2,606,698 |
| Credits on customer accounts | 1,430,903 | 1,482,348 |
| Conservation demand management programs | 331,761 | 293,380 |
| | 15,613,407 | 12,833,230 |

## 14. BANK LOAN

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Interim construction facility loan | 1,200,000 | - |

The Company has an interim construction facility loan with total credit available of $3,500,000. The loan is payable on demand with interest to be paid monthly bearing a rate of prime plus 0.25% per annum. The loan will be fully repaid in five years with the proceeds of a committed reducing term facility loan. The contract term starts five years from the date of drawdown of the interim construction facility loan.

A general security agreement covering all assets of Envi Networks Ltd. and assignment of business/liability insurance has been pledged as security for the interim construction facility.

Newmarket-Tay Distribution Ltd. is a limited guarantor of advances in the amount of the $3,500,000 credit available to Envi Networks Ltd.

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15. **LONG-TERM DEBT**

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| (a) Bank loan payable, 4.41% fixed rate, payable in blended monthly payments of $50,957 | 10,142,213 | - |
| (b) Bank loan payable, 4.4% fixed rate, payable in blended monthly payments of $42,611 | 7,721,893 | - |
| (c) Bank loan payable, 2.44% fixed rate, payable in blended monthly payments of $65,738 | 5,076,065 | 5,733,071 |
| (d) Bank loan payable, 4.26% fixed rate, payable in blended monthly payments of $33,088 | 4,364,933 | - |
| (e) Bank loan payable, 30 day bankers acceptances, interest only, no defined terms of repayment | 2,000,000 | - |
| | 29,305,104 | 5,733,071 |
| Less principal payments due within one year | 3,232,267 | 657,006 |
| Due beyond one year | 26,072,837 | 5,076,065 |

(a) The bank loan payable is a 30 year term loan due October 9, 2048 with a payment due at maturity of $50,957. Refer to note 16 and 32 for details on interest swap agreements.

(b) The bank loan payable is a 10 year term loan due October 10, 2028 with a payment due at maturity of $5,633,365. Refer to note 16 and 32 for details on interest swap agreements.

(c) The bank loan payable is a 5 year term loan due December 10, 2020 with a payment due at maturity of $3,771,150. Refer to note 16 and 32 for details on interest swap agreements.

(d) The bank loan payable is a 15 year term loan due October 11, 2033 with a payment due at maturity of $33,088. Refer to note 16 and 32 for details on interest swap agreements.

(e) The Company has $4,000,000 available in the form of a demand loan bearing interest at prime plus 0%. As at year-end $2,000,000 has been drawn upon.

Estimated principal repayments are as follows:

| | $ |
|---|---|
| 2019 | 3,232,267 |
| 2020 | 4,986,701 |
| 2021 | 609,758 |
| 2022 | 636,812 |
| 2023 | 665,056 |
| Subsequent years | 19,174,510 |
| | 29,305,104 |

16. **INTEREST RATE SWAPS**

To reduce exposure to interest rate fluctuations, the Company entered into four interest rate swaps during the year where they pay a fixed interest rate over the term of the loan. As at December 31, 2018, the mark-to-market loss related to the swap agreement is $1,296,751.

17. **SUBORDINATE DEBT**

| | 2018 $ | 2017 $ |
|---|---|---|
| Note payable, 5.48% - Township of Newmarket | 22,000,000 | 22,000,000 |
| Note payable, 5.48% - Township of Tay | 1,742,821 | 1,742,821 |
| | 23,742,821 | 23,742,821 |

Estimated principal repayments are as follows:

| | $ |
|---|---|
| Unspecified | 23,742,821 |

The notes payable are unsecured and have no specific terms of repayment. Since the holders of the notes have confirmed they will not request repayment of this amount during the next fiscal year, these amounts have been classified as a non-current liability in the accompanying financial statements.

18. **DEPOSITS HELD**

Deposits held represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

Construction Deposits represent cash payments from developers in order to secure the performance of the developer's obligations under the Construction Agreement for Expansion Facilities and Connection Assets Supplied by Developer - Residential Subdivision (The Construction Agreement).

| | 2018 $ | 2017 $ |
|---|---|---|
| Current portion of customer deposits | 705,212 | 498,000 |
| Long-term portion of customer deposits | 2,208,681 | 2,322,251 |
| Long-term portion of construction deposits | 217,643 | 1,020,908 |
| | 2,426,324 | 3,343,159 |

## 19. CONTRIBUTED CAPITAL

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Deferred contributions, net, beginning of year | 31,358,906 | 30,660,427 |
| Contributed capital received | 3,012,023 | 1,405,507 |
| Contributed capital recognized as revenue (note 24) | (1,229,868) | (707,028) |
| Deferred contributions, net, end of year | 33,141,061 | 31,358,906 |

## 20. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by an actuarial valuation. The most recent valuation was performed for December 31, 2017 for Newmarket-Tay Hydro Distribution Limited and December 31, 2016 for Midland PUC, updated for September 7, 2018.

Information about the Company's defined benefit plan is as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Accrued benefit obligation, beginning of year | 1,047,729 | 876,508 |
| Accrued benefit obligation, Midland PUC, September 7, 2018 | 92,705 | - |
| Current service cost | 30,207 | 38,200 |
| Interest expense | 36,945 | 33,300 |
| Benefits paid | (57,174) | (47,079) |
| Actuarial loss | 6,592 | 146,800 |
| | 1,157,004 | 1,047,729 |

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial losses arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is $73,744 (2017 - $218,300).

The actuarial assumptions used in the valuation of Newmarket-Tay staff are the discount rate of 3.4% (2017 - 3.4%), salary increase rate of 2.8% (2017 - 2.8%), cost trend including health benefits of 5.96% (2017 - 6.20%) and dental benefits 4.5% (2017 - 4.5%) and retirement age of 65 (2017 - 65). The health benefits are expected to decrease at 0.25% per year until 2025 when it reaches 4.50% and dental benefits will remain at 4.50% to 2025. The actuarial assumptions used in the valuation of Midland PUC is a discount rate of 3.7%.

The actuarial assumptions used in the valuation of Midland PUC staff for post-retirement life insurance is an assumed 10% of the total benefit obligation (2017 - 10%).

The impact of a change in the actuarial assumptions would have the following impact on the obligation:

| | Reasonable possible change | Defined benefit obligation<br>$ | Difference<br>$ | Difference<br>% |
|---|---|---|---|---|
| Discount rate | +1% | 1,017,100 | (139,904) | (12) |
| Discount rate | -1% | 1,335,100 | 178,096 | 15 |

## 21. RELATED PARTY TRANSACTIONS AND ADVANCES FROM PARENT COMPANY

(a) The Company entered into transactions with its parent, the Town of Newmarket which is the sole shareholder of Newmarket Hydro Holdings Inc. Revenue charged during the year included energy, street light capital and street light maintenance charged at commercial rates to the Town of Newmarket.

Included in accounts payable (note 13) are water and sewer amounts collected which are due to the Town. These amounts are collected and remitted in accordance with a contract with URB Olameter and remitted on their behalf.

Included in subordinate debt (note 17) are notes payable to related parties.

(b) Transactions

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Revenue | | |
| Energy sales | 2,707,348 | 2,035,574 |
| Services - Street light capital | 1,380 | 25,770 |
| Services - Street light maintenance | 19,686 | 59,268 |
| | 2,728,414 | 2,120,612 |
| Expenses | | |
| Interest | 1,205,600 | 1,205,600 |
| Rent and property tax | 440,874 | 424,988 |
| | 1,646,474 | 1,630,588 |

(c) The following amount is due from the Town of Newmarket and included in the financial statements:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Accounts receivable | 310,709 | 310,627 |

The key management personnel of the company has been defined as members of its board of directors, executives, and other management personnel. Total wages and benefits to these individuals total $2,606,622 (2017 - $2,136,294).

## 22. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

| | 2018 $ | 2017 $ |
|---|---|---|
| 10,000 Common shares | 29,609,342 | 29,609,342 |

## 23. NON-CONTROLLING INTEREST

The changes in non-controlling interest consist of:

| | 2018 $ | 2017 $ |
|---|---|---|
| Non controlling interest, beginning of year | 3,405,162 | 3,350,906 |
| Income | 56,282 | 162,809 |
| Dividends paid | (214,400) | (101,000) |
| Other comprehensive income | - | (7,553) |
| Investment in Envi Networks Ltd. | 134,400 | - |
| Non-controlling interest, end of year | 3,381,444 | 3,405,162 |

## 24. OTHER INCOME

Other income consists of the following:

| | 2018 $ | 2017 $ |
|---|---|---|
| Account set up fees | 132,142 | 121,290 |
| Pole rentals | 237,278 | 137,535 |
| Collection charges | 125,994 | 133,932 |
| Non rate-regulated utility operations, net | 214,034 | - |
| Recognition of contributed capital (note 19) | 1,229,868 | 707,028 |
| Other | 286,328 | 120,187 |
| Other income | 2,225,644 | 1,219,972 |

## 25. OPERATING EXPENSES

Operating expenses consist of the following:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Wages and benefits | 5,295,734 | 4,253,254 |
| Materials, equipment and other operating expenses | 2,098,184 | 1,678,827 |
| Administration and overhead | 5,116,971 | 3,472,811 |
| Operating expenses | 12,510,889 | 9,404,892 |

The prior year amounts have been restated to conform to current year classifications.

## 26. FINANCE INCOME AND FINANCE COSTS

Finance income recognized in net income consists of the following:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Interest income on accounts receivable | 188,923 | 186,503 |
| Income on cash balance | 130,329 | 109,120 |
| Interest income on regulatory balances | 92,962 | 27,137 |
| | 412,214 | 322,760 |

Finance costs recognized in net income consists of the following:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Interest on long-term debt | 1,696,765 | 1,448,363 |
| Customer deposit interest | 40,803 | 33,048 |
| | 1,737,568 | 1,481,411 |

## 27. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Decrease (increase) in accounts receivable | (3,965,095) | 823,941 |
| Decrease (increase) in unbilled revenue | (2,635,259) | 2,145,538 |
| Decrease (increase) in inventories | (23,240) | 16,195 |
| Decrease (increase) in prepaid expenses | (178,192) | 201,361 |
| Increase (decrease) in accounts payable and accrued liabilities | 2,780,177 | (1,641,205) |
| Increase (decrease) in deposits held | (709,623) | 833,681 |
| Interest received | 412,214 | 322,760 |
| Taxes paid | (1,715,758) | (1,528,000) |
| Taxes received | 5,687 | 1,199,595 |
| | (6,029,089) | 2,373,866 |

## 28. BUSINESS COMBINATIONS

Effective September 7, 2018, the Company acquired all issued and outstanding common shares of Midland Power Utility Corporation ("Midland PUC"), an Ontario regulated local distribution company, from the Corporation of the Town of Midland. The acquisition was accounted for by the purchase method. The total purchase price for Midland PUC was $21,969,487 plus working capital adjustment of $256,147. The results of operations are included in the accounts from the effective date of acquisition. Details of the acquisition are as follows:

| | $ |
|---|---|
| Fair value of net assets acquired: | |
| Cash and cash equivalents | 291,344 |
| Property, plant and equipment | 13,911,878 |
| Intangible assets | 7,073,929 |
| Regulatory assets | 989,212 |
| Goodwill | 6,695,577 |
| Long-term investments | 100 |
| Deferred Taxes | 24,103 |
| Working capital | (449,651) |
| Contributions in aid of construction | (2,142,898) |
| Customer and construction deposits | (223,845) |
| Long-term debt | (3,577,070) |
| Employee future benefits | (92,705) |
| Deferred taxes | (274,339) |
| | 22,225,635 |

| | $ |
|---|---|
| Consideration given: | |
| | 22,225,635 |

Goodwill of approximately $5,435,577 arising from the Midland PUC acquisition consists largely of the synergies and economies of scale expected from combining the operations of Newmarket and Midland PUC. This is in addition to goodwill of $1,260,000 previously recorded as an asset by Midland PUC. Midland PUC contributed revenues of $6,040,431 and $285,871 of net loss to the Company's financial results for the year ended December 31, 2018. All costs related to the acquisition have been expensed through the Statement of Income.

## 29. SHORT TERM CREDIT FACILITIES

The Company has $7,250,000 available in operating facilities from a major chartered bank, reduced from $11,750,000 in the year. The facilities include a 364 day committed revolving operating loan, bearing interest at prime plus 0%, to be repaid within one year from date of acquisition unless extended by the bank. A commitment fee of 0.125% per annum, payable quarterly applies to any unused portion of the facility. As at December 31, 2018 the Company has $2,865,805 (2017 - $Nil) on this facility with reconciling items of $915,182. The operating loan includes restrictive clauses with respect to repayment.

The Company has provided prudential support in the amount of $3,861,670 to the Independent Electricity System Operator. The prudential support is secured by a letter of credit with a major chartered bank for $3,861,670, contains restrictive clauses with respect to debt repayments and bears interest at 0.5% per annum.

A general security agreement covering all assets of the Company and assignment of business/liability insurance has been pledged as security for the operating facilities. At December 31, 2018, the Company was in compliance with all covenants.

Included in the Company's bank indebtedness balance is restricted cash in the amount of $244,015, which consists of monies received by the Company from the Ontario provincial government to administer the Affordability Fund Trust (AFT) program.

The AFT was established as part of the Fair Hydro Act, to serve house-holds not eligible for income qualified electricity support services. The AFT exists as a legal trust and the Company is only able to offer disbursements to qualified beneficiaries.

## 30. PENSION AGREEMENT

The Company makes contributions to the Ontario Municipal Employees' Retirement Fund (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The amount contributed to O.M.E.R.S. for the year ended was $511,737 (2017 - $423,036).

## 31. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as provided in the Shareholder Agreement with its shareholder, the Town of Newmarket. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

Changes to the Company's capital structure are constrained by existing covenants contained in the banking agreement. The Company must maintain a maximum debt to capitalization ratio of 0.60 to 1 and maintain a debt service coverage ratio of 1.2. As at year end the Company is compliant with these covenants.

32. **FINANCIAL INSTRUMENTS**

Financial instruments consist of recorded amounts of cash, accounts receivable, unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, bank loan, deposits held, due to shareholder, long-term debt and subordinate debt which will result in future cash outflows.

The Company does not believe that it is exposed to significant foreign exchange risk.

The Company is exposed to the following risks in respect of certain financial instruments held:

(a) *Interest rate risk*

The Company manages exposure to interest rate risk through a combination of fixed and floating rate borrowings. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent that the floating rate credit facility bears interest at a floating rate. The Company is also exposed to interest rate price risk to the extent that loans bear interest at fixed rates and has entered into an interest rate swap arrangement to manage the impact of fluctuating interest rates on bank loan payable. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based (notes 15, 16 and 21).

(b) *Credit risk*

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the service area. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of related impairment loss is recognized in the statement of income. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2018 is $229,628 (2017 - $80,360). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 43,970 customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2018, the Company holds security deposits in the amount of $3,131,536 (2017 - $3,841,159). The Company's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk. The accounts receivable balance is expected to be fully repaid within 90 days excluding the allowance for doubtful accounts portion of the balance.

32. **FINANCIAL INSTRUMENTS, continued**

(c) *Liquidity risk*

The Company does have a liquidity risk in accounts payable and accrued liabilities of $15,613,407 (2017 - $12,833,230). Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long-term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company is low and is not material.

The following are contractual maturities of financial liabilities, including estimated interest payments:

| | Between 0 -3 Months $ | Between 4 - 12 months $ | Over 1 year $ |
|---|---|---|---|
| Accounts payable and accrued liabilities | 15,613,407 | - | - |
| Deposits held | 176,303 | 528,909 | 2,426,324 |
| Long-term debt | 808,067 | 2,424,200 | 49,815,658 |
| Employee future benefits | - | - | 1,157,004 |
| Bank loan | - | - | 1,200,000 |
| | 16,597,777 | 2,953,109 | 54,598,986 |

The bank loan is classified as current in the statement of financial position given the demand features of the loan. The expected payment of the loan is in 5 years and therefore, has been shown as due in over 1 year above.

33. **COMMITMENT**

The Company is in negotiations with the Town of Newmarket on a new lease agreement for the building which was not finalized as of the report date.

The Company entered into a 10 year lease agreement on September 7, 2018, with the Town of Midland, to rent office space for minimum lease payments of $7,896 per month. In addition, an agreement was entered into with the Town of Midland to lease various substation properties for a period of twelve years at $49,980 per annum for the first five years, followed by fair market rental rate per annum for the remaining term of the lease.

## 34. CONTINGENT LIABILITIES

(a) In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The guarantees include indemnities under lease agreements, purchase and sale agreements, confidentiality agreements, outsourcing, service and information agreements. The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability related to the likelihood and predictability of future events. Historically, the Company has not made any significant payments under similar indemnification agreements and therefore no amount has been accrued in the statement of financial position with respect to these agreements.

(b) Indemnity has been provided to all directors and/or officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential suits or actions. The amount of any potential future liability which exceeds the amount of insurance coverage cannot reasonably be determined.

(c) The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

## 35. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. Due to a special audit performed in 2018, there was a reclass of $1,813,255 between cost of power purchased and net movement in regulatory deferral accounts. The changes do not affect retained earnings or equity and is solely a reclass between accounts receivable and the regulatory deferral account balances on the balance sheet.

## 36. SUBSEQUENT EVENT

Subsequent to year end, the Company purchased shares in CustomerFirst, for total consideration of $5,339. CustomerFirst designs high-quality energy efficient and renewable energy programs through partnerships with electric utilities, gas utilities and government agencies. This investment will be accounted for using the equity method.