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FINANCIAL STATEMENTS OF

ENVI NETWORKS LTD.

December 31, 2018

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Envi Networks Ltd.

Opinion
We have audited the financial statements of Envi Networks Ltd., which comprise the statement of financial position as at December 31, 2018, and the statements of changes in equity, loss and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2018, and its financial performance and its 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 Auditor's Responsibilities for the Audit of the 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 financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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:

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INDEPENDENT AUDITOR'S REPORT, continued

- 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 '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 's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group 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.

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
April 18, 2019

ENVI NETWORKS LTD.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2018

	2018 $
ASSETS	
Current assets	
Cash	1,159,184
Short-term investments (note 4)	25,084
HST receivable (note 5)	148,431
Prepaid expenses	12,717
	1,345,416
Non current	
Property, plant and equipment (note 6)	1,124,966
Intangible assets (note 7)	15,236
Future income taxes (note 8)	292,072
	1,432,274
	2,777,690
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Accounts payable and accrued liabilities	257,048
Due to Newmarket-Tay Power Distribution Ltd. (note 9)	153,451
Bank loan (note 10)	1,200,000
	1,610,499
Non current	
Future income taxes (note 8)	15,465
	1,625,964
Shareholders' equity	
Share capital (note 12)	1,300,000
Contributed surplus (note 11)	620,000
Deficit	(768,274)
	1,151,726
	2,777,690

The accompanying notes are an integral part of these financial statements

ENVI NETWORKS LTD.
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2018

	2018 $
Retained earnings - beginning of year	-
Net loss for the year	(768,274)
Deficit - end of year	(768,274)

The accompanying notes are an integral part of these financial statements

ENVI NETWORKS LTD.
STATEMENT OF LOSS
For the year ended December 31, 2018

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	2018 $
Revenue	
Interest Income	84
Expenses	
Professional fees (note 5)	503,526
Sub-contractors	209,475
Membership and licenses	138,119
Office and general	75,388
Advertising	60,830
Amortization	24,090
Bank charges and interest	16,232
Travel	6,635
Foreign exchange loss	3,850
Insurance	2,214
Meals and entertainment	2,157
Utilities	1,264
Repairs and maintenance	776
Training	409
	1,044,965
Loss before income taxes	(1,044,881)
Future income taxes	(276,607)
Net loss for the year	(768,274)

The accompanying notes are an integral part of these financial statements

ENVI NETWORKS LTD.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2018

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	2018 $
CASH PROVIDED FROM (USED FOR)	
Operating activities	
Net loss for the year	(768,274)
Items not affecting cash	
Amortization of property, plant and equipment	24,090
Future income taxes	(276,607)
	(1,020,791)
Change in non-cash working capital items	
Increase in HST receivable	(148,431)
Increase in prepaid expenses	(12,717)
Increase in accounts payable and accrued liabilities	257,048
Increase in due to Newmarket-Tay Power Distribution Ltd	153,451
	(771,440)
Investing activities	
Purchase of short-term investments	(25,084)
Purchase of property, plant and equipment	(1,148,254)
Purchase of intangible assets	(16,038)
	(1,189,376)
Financing activities	
Bank loan	1,200,000
Issuance of share capital	1,300,000
Contributed surplus	620,000
	3,120,000
Increase in cash	1,159,184
Cash - beginning of year	-
Cash - end of year	1,159,184

The accompanying notes are an integral part of these financial statements

1. **NATURE OF OPERATIONS**

Envi Networks Ltd. (the "Company") was incorporated under the Business Corporations Act of Ontario on October 6, 2000 and started operations in 2018. The Company is owned 93% by Newmarket Hydro Holdings Inc. and the remaining 7% by Tay Hydro Inc. The address of its registered office and its principal place of business is 590 Steven Ct, Newmarket, ON L3Y 6Z2.

Its primary activity is to provide 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 April 18, 2019.

3. **SIGNIFICANT ACCOUNTING POLICIES**

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

(a) Basis of accounting

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

(b) Revenue recognition

Revenue from service obligations is recognized when the service is rendered. All other revenues are recorded when amounts are known and collectible.

(c) Cash

Cash consists of balances with financial institutions.

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if applicable. 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 depreciated using the straight-line or declining balance method over their estimated useful lives. Assets are depreciated from the date put in use. Internally constructed assets are depreciated from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, depreciation is taken at one-half of the below rates on property, plant and equipment.

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

The methods of depreciation and depreciation rates applicable for each class of asset are as follows:

Cable	25 years
Network equipment	5 years
Shelter	10 years
Fences	40 years
Computer hardware	5 years
Office equipment	7 years

(e) Intangible assets

Intangible assets include computer software. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. 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	5 years straight-line

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.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(f) *Foreign exchange*

Monetary assets and liabilities of the 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.

(g) *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.

(h) *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 8.

(i) *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 and historical experience.

HST 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.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(j) 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.

(k) 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. Financial liabilities are classified as measured at fair value through profit or loss or at amortized cost.

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.

(i) *At amortized cost*

Cash and short term investments 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 accounts payable and accrued liabilities and bank loan 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 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.

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(k) Financial Instruments, continued

(ii) *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.

(iii) *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.

(iv) *Impairment of financial assets at amortized cost*

The policy of accounts receivable 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 is increased significantly, if not, then at 12-month expected loss.

4. **SHORT-TERM INVESTMENTS**

	2018 $
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.

5. HST RECEIVABLE

	2018 $
HST receivable	250,431
Allowance for doubtful collection	(102,000)
	148,431

The allowance for doubtful collections has been included in professional fees as an expense on the statement of loss.

6. PROPERTY, PLANT AND EQUIPMENT

	Cost $	Accumulated amortization $	2018 Net book value $
Cable	467,619	4,405	463,214
Network equipment	345,997	14,946	331,051
Shelter	304,326	2,752	301,574
Fences	18,154	-	18,154
Computer hardware	11,065	1,106	9,959
Office equipment	1,093	79	1,014
	1,148,254	23,288	1,124,966

In the current year there were no writedowns or disposals of property, plant and equipment.

7. INTANGIBLE ASSETS

	Cost $	Accumulated amortization $	2018 Net book value $
Computer software	16,038	802	15,236

8. **FUTURE INCOME TAXES**

The Company follows the tax allocation method of accounting for income taxes whereby the income tax provision is based on the income reported in the accounts. Under this method, the Company makes full provision for income taxes deferred as a result of claiming revenues and expenses for income tax purposes on a different basis than that for accounting purposes.

	2018 $
Future tax asset - loss carryforward	292,072

The Company expects to be able to use the above tax loss carryforwards before they expire.

	2018 $
Future tax liability - property, plant and equipment greater than undepreciated capital cost	15,465

9. **RELATED PARTIES**

During the year, the Company entered into transactions with Newmarket-Tay Power Distribution Inc. ("Newmarket-Tay") and Newmarket Hydro Holdings Inc., a majority shareholder.

Reimbursement of expenses paid on the Company's behalf of $327,985 were paid to Newmarket-Tay and an amount of $153,451 is due by the Company to Newmarket-Tay.as at December 31, 2018.

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These amounts have no specific terms of repayment.

10. **BANK LOAN**

	2018 $
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 the Company and assignment of business/liability insurance has been pledged as security for the interim construction facility.

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

11. CONTRIBUTED SURPLUS

The Company received a non-share capital investment in Envi Networks Ltd. during 2018 of $620,000. The investment contains no contractual obligation for the borrower to repay the contribution.

12. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	2018 $
100 Common shares	1,300,000

During the year Newmarket Hydro Holdings Inc. purchased 93 shares and Tay Hydro Inc. purchased 7 shares in Envi Networks Ltd.

13. COMMITMENTS

Envi Networks Ltd. entered into a sublease agreement on January 1, 2019 with Newmarket-Tay Power Distributions Ltd. The terms of the lease state equal monthly installments to equal $17,000 per annum with an increase of 3% per annum with no fixed end date.

14. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, and short term investments which will result in future cash receipts, as well as accounts payable and accrued liabilities, due to Newmarket-Tay Power Distribution Ltd and bank loan which will result in future cash outflows.

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 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.

14. **FINANCIAL INSTRUMENTS, continued**

(b) Foreign exchange risk

The Company is exposed to foreign exchange risk in United States dollars. Foreign exchange risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the company by a customer, or that an obligation in a foreign currency was made to the company to a supplier, is different at the time of settlement than it was at time that the obligation was determined. The Company reduces its exposure to foreign exchange risk by carefully monitoring exchange rates on obligations that are made to the company. The company does not utilize financial instruments to manage its foreign exchange risk

(c) Liquidity risk

The Company does have a liquidity risk in accounts payable and accrued liabilities of $257,048. 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.

	Between 0-3 months $	Between 4-12 months $	Over 1 year $
Accounts payable and accrued liabilities	257,048	-	-
Bank loan	-	1,200,000	-
	257,048	1,200,000	-

(d) Credit risk

The Company does have credit risk in HST receivable of $148,431. Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The Company reduces its exposure to credit risk by performing credit valuations on a regular basis; granting credit upon a review of the credit history of the applicant and creating an allowance for bad debts when applicable. The Company maintains strict credit policies and limits in respect to counterparties. In the opinion of management the credit risk exposure to the Company is low and is not material.