

**FINANCIAL STATEMENTS OF
LAKEFRONT UTILITIES INC.
December 31, 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of
Lakefront Utilities Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lakefront Utilities Inc., which comprise the statement of financial position as at December 31, 2019, and the statements of changes in equity and accumulated other comprehensive loss, income, comprehensive income 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, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the 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.

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INDEPENDENT AUDITOR'S REPORT

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:

- 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 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 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 Company 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.

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 17, 2020

LAKEFRONT UTILITIES INC.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2019

	2019	2018
	\$	\$
ASSETS		
Current assets		
Cash (note 4)		
Cash and cash equivalents	321,115	281,940
Restricted cash	168,381	112,266
Accounts receivable (note 23)	2,963,254	2,917,080
Unbilled revenue	3,545,288	3,161,948
Inventories	432,906	434,817
Prepaid expenses	114,014	96,904
Income taxes receivable	8,888	8,856
	7,553,846	7,013,811
Non current		
Property, plant and equipment (note 5)	21,643,168	21,280,581
Intangible asset (note 6)	290,206	195,565
Deferred tax asset (note 7)	123,760	111,539
	22,057,134	21,587,685
	29,610,980	28,601,496
Regulatory deferral account debit balances (note 8)	1,980,452	1,394,036
	31,591,432	29,995,532

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2019

	2019	2018
	\$	\$
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	3,936,852	2,571,557
Customer deposits refundable within one year (note 13)	26,197	46,647
Due to related party (note 15)	1,207,179	1,268,053
Current portion of long-term debt (note 11)	250,575	241,485
	<u>5,420,803</u>	<u>4,127,742</u>
Non current		
Long-term debt (note 11)	10,148,400	10,398,976
Contributions in aid of construction (note 12)	2,593,716	2,539,896
Deferred tax liability (note 7)	396,479	283,991
Customer deposits (note 13)	261,032	238,348
Employee future benefits (note 14)	419,141	420,900
	<u>13,818,768</u>	<u>13,882,111</u>
	<u>19,239,571</u>	<u>18,009,853</u>
Shareholder's equity		
Share capital (note 16)	5,293,376	5,293,376
Retained earnings	4,917,833	4,648,691
Accumulated other comprehensive loss	(22,234)	(22,234)
	<u>10,188,975</u>	<u>9,919,833</u>
	<u>29,428,546</u>	<u>27,929,686</u>
Regulatory deferral account credit balances (note 8)	<u>2,162,886</u>	<u>2,065,846</u>
	<u>31,591,432</u>	<u>29,995,532</u>

Approved on behalf of the Board

 Director

 Director

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.**STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE LOSS**
For the year ended December 31, 2019

	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
	\$	\$	\$	\$
Balance, December 31, 2017	5,293,376	4,204,957	(22,234)	9,476,099
Net income for the year	-	443,734	-	443,734
Balance, December 31, 2018	5,293,376	4,648,691	(22,234)	9,919,833
Net income for the year	-	269,142	-	269,142
Balance, December 31, 2019	5,293,376	4,917,833	(22,234)	10,188,975

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
STATEMENT OF INCOME
For the year ended December 31, 2019

	2019	2018
	\$	\$
Revenue		
Distribution revenue	4,418,326	4,438,593
Cost of power revenue	29,531,634	25,882,435
Contribution in aid of construction	83,070	76,873
	34,033,030	30,397,901
Cost of power purchased	29,963,422	25,376,708
	4,069,608	5,021,193
Gross profit		
Other operating revenue (note 18)	390,237	489,446
Gross income from operations	4,459,845	5,510,639
Expenses		
Amortization	1,102,607	1,091,129
Operating expenses (note 19)	2,721,137	2,654,745
	3,823,744	3,745,874
Income before undernoted items and income taxes	636,101	1,764,765
Finance income (note 17)	(92,490)	(91,389)
Finance costs (note 17)	790,970	721,465
	698,480	630,076
Income (loss) before income taxes and net movement in regulatory deferral accounts	(62,379)	1,134,689
Provision for income taxes (note 7)		
Current	-	84,146
Deferred	100,267	101,082
	100,267	185,228
Income (loss) before net movement in regulatory deferral accounts	(162,646)	949,461
Net movement in regulatory deferral accounts	(431,788)	505,727
Net income for the year	269,142	443,734

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2019

	2019	2018
	\$	\$
Net income for the year	269,142	443,734
Other comprehensive income		
Total comprehensive income for the year	269,142	443,734

The accompanying notes are an integral part of these financial statements



LAKEFRONT UTILITIES INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2019

	2019	2018
	\$	\$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	269,142	443,734
Adjustments not requiring cash payment		
Amortization of property, plant and equipment	1,197,248	1,170,272
Amortization of intangible asset	(94,641)	(79,143)
Change in deferred income taxes	100,267	101,082
Current income tax	-	85,778
Net financing costs	698,480	630,076
Change in employee future benefits	(1,759)	(413)
Recognition of contribution in aid of construction	(83,070)	(76,873)
Change in regulatory deferral accounts	(489,376)	508,387
	1,596,291	2,782,900
Change in non-cash working capital items (note 20)	1,015,274	539,593
	2,611,565	3,322,493
Investing activities		
Purchase of property, plant and equipment	(1,559,835)	(1,314,313)
Contribution in aid of construction received	136,890	358,852
	(1,422,945)	(955,461)
Financing activities		
Operating loan received (repaid)	-	(460,000)
Advances to parent company	(60,874)	(1,764,126)
Repayment of long-term debt	(241,486)	(212,357)
Proceeds of long-term debt	-	1,170,315
Interest paid	(790,970)	(721,465)
	(1,093,330)	(1,987,633)
Increase in cash	95,290	379,399
Cash - beginning of year	394,206	14,807
Cash - end of year	489,496	394,206

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

1. NATURE OF OPERATIONS

Lakefront Utilities Inc. (the "Company") is a subsidiary of the Town of Cobourg Holdings Inc. and was incorporated under the Business Corporations Act (Ontario) on April 12, 2000. The address of its registered office and its principal place of business is 207 Division Street, Cobourg, Ontario, K9A 3P6.

The principal activity of the Company is to distribute electricity to the residents and businesses in the Town of Cobourg 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.

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, 2019 were approved and authorized for issue by the board of directors on April 15, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(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 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) under the authority of the Ontario Energy Board Act, 1988. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and ensuring that distribution companies meet their obligations to connect and service customers.

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

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(b) Electricity regulation, continued

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, 2019 and December 31, 2018 are disclosed in note 8.

(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.

Service Revenue

Service revenue is measured based on the OEB approved rate and the meter readings for customer usage, net of sales tax and debt retirement charge. Service 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").

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(c) Revenue recognition, continued

Contributions in Aid of Construction Revenue

Contributions in aid of construction represent certain items of property, plant and equipment which are acquired or constructed with financial assistance in the form of contributions from developers.

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 3(i).

Other Revenue

Other operating revenue is recorded when services are provided.

(d) Cash

Cash consists of balances with financial institutions.

(e) 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 an average cost basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(f) 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 or declining balance method 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 above rates on buildings, equipment and vehicles and distribution equipment.

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 as follows on a straight-line basis:

Buildings	50 years
Equipment and vehicles	5-20 years
Distribution equipment	15 to 55 years

(g) 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 - 15 years straight-line
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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.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(h) Contributions in aid of construction

When capital contributions in aid of construction are received toward the cost of constructing distribution assets, they are initially recorded at fair value with the corresponding amount recognized as contributions in aid of construction on the statement of income. Contributions are amortized based on the useful life of the related asset.

(i) 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.

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.

(j) Customer deposits

Customers may be required to post security to obtain electricity or other services, which are refundable. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported as part of the Company's own cash. Deposits to be refunded within the next fiscal year are classified as current. Interest rates paid on customer deposits are based on a chartered commercial bank's prime business rate less 2.0%.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(k) 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.

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 valuation performed was as at December 31, 2017. 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 post-employment benefits are detailed in Note 14.

(l) 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 (OEFCC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for corporate 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 7.

(m) 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 15.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(n) 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.

(o) Finance income and finance costs

Finance income comprises interest income on funds invested and gains on the disposal of financial assets. Interest income is recognized as it accrues in income, using the effective interest method.

Finance costs comprise interest expense on borrowings, net interest on employee future benefits, unwinding of the discount on provisions and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in comprehensive income using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(p) Significant accounting estimates and judgments

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, judgments and assumptions include the following:

Unbilled revenue - The measurement of unbilled revenue is based on an estimate of the amount of electricity delivered to customers between the date of the last bill and the end of the year.

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 Corporation 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 judgment is required in determining the deferred 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 for among other things, the discount rate, retirement age, health care costs and inflation.

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.

(q) 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 identified and 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.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(q) Financial instruments, continued

(i) At amortized cost

Cash, accounts receivable 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 accounts payable and accrued liabilities, customer deposits 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 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.

(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.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(q) Financial instruments, continued

(iv) 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.

(r) Change in accounting policies

IFRS 16 Leases

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

The Company applied IFRS 16 with a date of initial application of 1 January 2019, using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment to the opening balance of retained earnings for the current period. The adoption resulted in no impact to the opening balances of retained earnings as of January 1, 2019 as there were no significant leases.

The new Standard requires the Company to measure and recognize a right-of-use assets and related lease liability in connection with any operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

The change had no impact on the Company's financial statements.

(s) Standards and interpretations not yet effective or adopted

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 standard will have on the financial statements.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

4. CASH

Restricted cash 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.

5. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$	Equipment and vehicles \$	Distribution equipment \$	Work in process \$	Total \$
Cost					
At January 1, 2019	1,347,138	2,690,932	22,319,868	177,782	26,535,720
Additions	8,348	62,707	1,186,900	462,115	1,720,070
Transfers	-	-	-	(160,235)	(160,235)
Disposals	-	(196,375)	(29,164)	-	(225,539)
At December 31, 2019	1,355,486	2,557,264	23,477,604	479,662	27,870,016
Accumulated amortization					
At January 1, 2019	160,701	1,465,707	3,628,731	-	5,255,139
Amortization	34,470	313,042	849,736	-	1,197,248
Disposals	-	(196,375)	(29,164)	-	(225,539)
At December 31, 2019	195,171	1,582,374	4,449,303	-	6,226,848
Net book value at December 31, 2019	1,160,315	974,890	19,028,301	479,662	21,643,168

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

5. PROPERTY, PLANT AND EQUIPMENT, continued

	Land and buildings \$	Equipment and vehicles \$	Distribution equipment \$	Work in process \$	Total \$
Cost					
At January 1, 2018	1,332,072	2,562,783	21,273,154	53,398	25,221,407
Additions	15,066	128,149	1,046,714	195,678	1,385,607
Transfers	-	-	-	(71,294)	(71,294)
At December 31, 2018	1,347,138	2,690,932	22,319,868	177,782	26,535,720
Accumulated amortization					
At January 1, 2018	126,464	1,146,390	2,812,013	-	4,084,867
Amortization	34,237	319,317	816,718	-	1,170,272
At December 31, 2018	160,701	1,465,707	3,628,731	-	5,255,139
Net book value at					
December 31, 2018	1,186,437	1,225,225	18,691,137	177,782	21,280,581

Included in land and building is land with a cost of \$219,284 (2018 - \$219,284).

6. INTANGIBLE ASSET

	Cost \$	Accumulated amortization \$	2019 Net book value \$	2018 Net book value \$
Computer software	452,123	161,917	290,206	195,565

During the year, there were no additions (2018 - \$nil) and disposals of fully depreciated assets of \$28,665 (2018 - \$nil). The increase in net book value of intangible assets is due to the re-assessment of useful lives which resulted in an adjustment to the accumulated amortization.

7. INCOME TAXES

(a) The components of deferred income tax balances are as follows:

	2019 \$	2018 \$
Deferred income tax asset		
Non-capital loss carry-forwards	12,688	-
Reserves deductible when paid	111,072	111,539
Deferred income tax liability		
Carrying amount of property, plant and equipment in excess of tax basis	396,479	283,991

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

7. **INCOME TAXES, continued**

	Opening balance at January 1, 2019 \$	Recognize in net income \$	Closing balance at December 31, 2019 \$
Deferred tax assets			
Reserves deductible when paid	111,539	(467)	111,072
Non-capital loss carryforwards	-	12,688	12,688

	Opening balance at January 1, 2019 \$	Recognize in net income \$	Closing balance at December 31, 2019 \$
Deferred tax liabilities			
Carrying amount of property, plant and equipment in excess of tax basis	283,991	112,488	396,479

Deferred tax assets and liabilities are not expected to be recovered/paid within the next 12 months.

- (b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.5% (2018 - 39.5%) to the income (loss) for the years as follows:

	2019 \$	2018 \$
Income (loss) for the year	(62,379)	1,134,689
Net movement in regulatory deferral accounts	431,788	(505,727)
	369,409	628,962
Anticipated income tax	145,917	248,440
Tax effect of the following:		
Effect of items not deductible for tax	3,538	2,010
Timing income differences	(14,596)	(30,528)
General rate reduction	-	(32,839)
CCA in excess of amortization	(134,859)	(120,142)
Future tax expense amounts	100,267	101,082
Effect of prior period adjustments and other	-	17,205
Provision for income taxes	100,267	185,228

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

8. REGULATORY DEFERRAL ACCOUNTS

	Note	Remaining recovery/ reversal period (years)	December 31, 2018 \$	Balances arising in the period \$	Recovery/ reversal \$	December 31, 2019 \$
Regulatory deferral account debit						
Low voltage	i	1-2	1,098,720	561,279	-	1,659,999
Other DVA	ii	1-2	58,736	(62,891)	-	(4,155)
Retail settlement	iv	1-2	139,861	117,404	-	257,265
Recovery account	v	1-2	96,717	(29,374)	-	67,343
			1,394,036	586,418	-	1,980,452
Regulatory deferral account credit						
Cost of power	iii	1-2	1,237,176	139,801	-	1,376,977
Retail settlement	iv	1-2	737,113	(72,217)	-	664,896
Recovery account	v	1-2	91,470	(3,300)	-	88,170
Other DVA	ii	1-2	87	32,756	-	32,843
			2,065,846	97,040	-	2,162,886

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

8. REGULATORY DEFERRAL ACCOUNTS, continued

i) Low voltage

This account is used to record the variances arising from low voltage transactions which are not part of the electricity wholesale market. The account is used to record the net of the amount charged by a host distributor to an embedded distributor for transmission or low voltage services and the amount billed to the embedded distributor's customers based on the embedded distributor's approved rates.

ii) Other DVA

1518 – Retail cost variance account – retail: Is used to record the revenue derived, including accruals from establishing service agreements, distributor-consolidated billing, and retailer-consolidated billing. The account also includes costs of entering into service agreements, and related contract administration, monitoring, necessary to maintain the contract, as well as incremental costs incurred to provide the services as applicable and the avoided costs credit arising from retailer-consolidated billing, including accruals.

1548 – Retail cost variance – STR: Is used to record the revenues derived, including accruals, from the Service Transaction Request services and charged by the distributor, in the form of a request fee, processing fee, information request fee, default fee, and other associated costs. The account also includes the cost of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the service transaction request services

iii) Cost of power

1588 – RSVA Power: This account records the difference between the energy amount billed to customers and the energy charge to a distributor using the monthly settlement invoice received from the Independent Electricity System Operator.

1589 – RSVA Global Adjustment: This account records the difference between the global adjustment amounts billed to non-Regulated Price Plan consumers and the global adjustment charge to a distributor for non-Regulated Price Plan consumers using the monthly settlement invoiced received from the IESO.

iv) Retail settlement

Account includes RSVA accounts 1580, 1582, 1584, and 1586, which are used to record the amount charged by the IESO, based on the settlement invoice, for: a) the operation of the IESO administered markets and the operation of the IESO-controlled grid, b) wholesale market service charges, c) transmission networks services, and d) transmission connection services and the amount billed to customers using Board-approved rates.

v) Recovery account

This control account is used to record the disposition of deferral and variance account balances for electricity distributors receiving approval to recover (or refund) account balances in rates as part of the regulatory process.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
	\$	\$
Accounts payable - energy purchased	3,077,869	1,838,163
Other trade accounts payable and accrued liabilities	896,193	490,520
Deferred revenue (receivable) - CDM Program	(99,504)	40,419
Deferred revenue - AFT	62,294	83,483
HST Payable	-	117,570
HST Payable - AFT	-	1,402
	3,936,852	2,571,557

10. CREDIT FACILITIES

The Company has a \$2,500,000 (2018 - \$2,500,000) credit facility consisting of \$1,000,000 (2018 - \$1,000,000) operating line and \$1,500,000 (2018 - \$1,500,000) stand-by letters of guarantee.

The operating line bears interest at prime rate plus 0.5% per year and is secured by a General Security Agreement covering substantially all of the Company's assets. At year end, the Company had drawn \$Nil from this line (2018 - \$Nil). The bank agreements require the Company to maintain certain financial covenants. At December 31, 2019, the Company was in compliance with the financial covenants.

The Company has posted \$1,222,663 (2018 - \$1,222,663) in stand-by letters of guarantee with the Independent Electricity System Operator, as required by regulation. The facility bears interest at 0.75% per annum.

11. LONG-TERM DEBT

	2019	2018
	\$	\$
Demand note payable, Corporation of the Town of Cobourg, 7.25% per annum	7,000,000	7,000,000
Infrastructure Ontario Loan, 3.90% per annum, blended repayments of \$5,520 monthly, due December 3, 2048	1,149,362	1,170,315
Infrastructure Ontario Loan, 4.03% per annum, blended repayments of \$82,668 semi-annually, due September 3, 2028	1,237,728	1,349,786
Infrastructure Ontario Loan, 3.38% per annum, blended repayments of \$72,708 semi-annually, due October 1, 2027	1,011,885	1,120,360
	10,398,975	10,640,461
Less principal payments due within one year	250,575	241,485
Due beyond one year	10,148,400	10,398,976

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

11. LONG-TERM DEBT, continued

The note payable is unsecured and payable on demand. The note has been classified as a long-term liability as the Town has confirmed that they will not demand repayment prior to January 1, 2021. During the year the Company paid \$507,500 (2018 - \$507,500) in interest on the note. Subsequent to year end, the interest rate was updated to match the OEB approved rate in the last rate application.

The estimated principal repayments for 2020-2024 and subsequent years are related to the Company's loans with Infrastructure Ontario. Also included in subsequent years is the \$7,000,000 demand note payable with the Town of Cobourg. Estimated principal repayments are as follows:

	\$
2020	250,575
2021	260,011
2022	269,805
2023	282,618
2024	292,304
Subsequent years	9,043,662
	10,398,975

12. CONTRIBUTION IN AID OF CONSTRUCTION

The continuity of deferred customer contributions in aid of construction is as follows:

	2019	2018
	\$	\$
Deferred contributions, net, beginning of year	2,539,896	2,257,917
Contributions in aid of construction received	136,890	358,852
Contributions in aid of construction recognized as revenue	(83,070)	(76,873)
Deferred contributions, net, end of year	2,593,716	2,539,896

13. CUSTOMER DEPOSITS

Customer deposits 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.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

14. 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 actuarial valuation. The most recent valuation was performed for the year ended December 31, 2017.

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

	2019 \$	2018 \$
Accrued benefit obligation, beginning of period	420,900	421,313
Current service cost	23,229	23,238
Interest on accrued benefit obligation	14,048	14,086
Benefits paid	(39,036)	(37,737)
	419,141	420,900

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial gains (loss) arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is \$39,036 (2018 - \$37,323).

The actuarial assumptions used in the valuation are the discount rate of 3.5% (2018 - 3.5%), salary increase rate of 3% (rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion and for Company specific information) (2018 - 3%), health benefits include both health benefits 5.71% (2018 - 5.96%), and dental benefits 4.5% (2018 - 4.5%) and retirement age of 60 (2018 - 60). 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 impact of a change in the actuarial assumptions would have the following impact on the obligation:

	Reasonable possible change	Defined benefit obligation change	Difference \$	Difference %
Discount rate	1%	365,203	(53,938)	(12)
Discount rate	-1%	482,341	63,200	16
Cost trend	1%	432,507	13,366	4
Cost trend	-1%	401,593	(17,548)	(4)

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
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15. DUE TO RELATED PARTY AND RELATED PARTY TRANSACTIONS

During the year, the Company collected rent recoveries of \$53,004 (2018 - \$51,965) from related parties.

Related party transactions are in the normal course of operations and are measured at the exchange value being the amount of consideration established and agreed to by both parties.

In addition, the Company receives hydro and service revenue from related companies and the Corporation of the Town of Cobourg, the ultimate shareholder. During the year, the Company collected revenues of \$30,000 (2018 - \$30,000) from the Town of Cobourg and paid expenses of \$56,649 (2018 - \$58,220) and interest of \$507,500 (2018 - \$507,500) as detailed in Note 11.

The Company is also engaged in transactions in the normal course of operations with affiliated companies and the Waterworks of the Town of Cobourg. The parties are related due to common control.

The key management personnel of the corporation has been identified as members of its board of directors and management team members. Total wages and benefits to these individuals total \$462,593 (2018 - \$478,471).

At year-end, included in accounts receivable is \$166,661 (2018 - \$173,165) due from the Town of Cobourg and \$26,870 (2018 - \$14,943) due from Lakefront Utility Services Inc. Included in accounts payable is \$86,316 (2018 - \$284) due to the Town of Cobourg.

The amount due to related party is \$1,207,179 (2018 - \$1,268,053) owing to Lakefront Utility Services Inc. This balances represent payments made on behalf of the Company. The amount is unsecured, bearing interest at the OEB approved rate and has no terms of repayment.

16. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	2019	2018
	\$	\$
11,300,000 Common shares	5,293,376	5,293,376

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

17. FINANCE INCOME COSTS

Finance income, recognized in net income consists of the following:

	2019	2018
	\$	\$
Interest income on accounts receivable	40,863	55,945
Interest income on bank deposits	4,653	1,263
Interest income on regulatory deferral accounts	46,974	34,181
	92,490	91,389

Finance costs, recognized in net income consist of the following:

	2019	2018
	\$	\$
Interest on long term debt	643,008	605,695
Interest cost on regulatory deferral accounts	72,359	51,366
Other interest	61,555	50,318
Interest on employee future benefits	14,048	14,086
	790,970	721,465

18. OTHER OPERATING REVENUE

	2019	2018
	\$	\$
Rentals	114,785	123,487
Miscellaneous	105,079	92,434
Feed-in-tariff invoicing	7,375	10,319
Net recoverable work	81,853	137,541
Sewer billing	30,000	30,000
CDM	-	74,180
AFT, net	51,145	21,485
	390,237	489,446

LAKEFRONT UTILITIES INC.
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For the year ended December 31, 2019

19. **OPERATING EXPENSES**

	2019	2018
	\$	\$
Customer billing and collecting	504,153	465,722
Distribution	1,028,847	982,570
General and administration	1,188,137	1,206,453
	2,721,137	2,654,745

20. **CHANGE IN NON-CASH WORKING CAPITAL ITEMS**

	2019	2018
	\$	\$
Decrease (increase) in accounts receivable	(46,174)	1,916,576
Increase in unbilled revenue	(383,340)	(130,324)
Decrease (increase) in inventories	1,911	(159,379)
Decrease (increase) in prepaid expenses	(17,110)	110,115
Increase (decrease) in accounts payable and accrued liabilities	1,365,295	(1,448,366)
Increase (decrease) in deposits held	2,234	28,917
Income taxes received	(32)	130,665
Interest received	92,490	91,389
	1,015,274	539,593

21. **PENSION AGREEMENT**

The Company makes contributions to the Ontario Municipal Employees' Retirement System (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 Actuarial Opinion contained in the 2019 Annual Report disclosed actuarial liabilities of \$107,687 million in respect of benefits accrued for service with actuarial assets of \$104,290 million indicating an actuarial deficit of \$3,397 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the organization does not recognize any share of the OMERS pension surplus or deficit.

The amount that the Company contributed to O.M.E.R.S. for the year ended was \$145,775 (2018 - \$146,634).

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

22. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as outlined in the Shareholder Agreement between the Company's shareholder, Town of Cobourg Holdings Inc. and its shareholder, the Corporation of the Town of Cobourg. 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.

The Ontario Energy Board sets rates based on a deemed capital structure of 60% debt and 40% equity.

The Company's current capital structure is defined as follows:

	2019	2018
	\$	\$
Infrastructure Ontario loans	3,398,976	3,640,461
Note payable	7,000,000	7,000,000
Total debt	10,398,976	10,640,461
Share capital	5,293,376	5,293,376
Retained earnings and OCI	4,895,599	4,626,457
Capital	10,188,975	9,919,833
Debt-to-adjusted capital ratio	1.02	1.07

23. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, accounts receivable and unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, customer deposits, operating loan and long term debt which will result in future cash outflows.

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

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

(a) *Fair value*

The estimated fair values of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, operating loan and customer deposits, approximate their carrying values due to the relatively short-term nature of the instruments and/or floating interest rates on the instruments. The estimated fair values of long-term debt also approximate carrying values due to the fact that effective interest rates are not significantly different from market rates.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

23. **FINANCIAL INSTRUMENTS, continued**

(b) *Interest rate risk*

The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings. The fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

(c) *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 income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2019 is \$20,000 (2018 - \$30,000). The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 10,000 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, 2019, the Company holds security deposits in the amount of \$287,229 (2018 - \$284,995).

The following table sets out the maturities of accounts receivable:

	Trade accounts receivable \$	Accounts receivable - recoverable work \$	Allowance for doubtful accounts \$	Total \$
0-30 days	2,619,196	231,853	-	2,851,049
31-60 days	17,718	12,561	-	30,279
61-90 days	5,737	4,831	-	10,568
90+ days	81,661	9,697	(20,000)	71,358
	2,724,312	258,942	(20,000)	2,963,254

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019

23. FINANCIAL INSTRUMENTS, continued

(d) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investment requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a \$1,000,000 line of credit and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	Between 0-3 months \$	Between 3-12 months \$	Between 1-2 years \$	Over 2 years \$
Accounts payable and accrued liabilities	3,936,852	-	-	-
Customer deposits	23,989	2,208	16,122	244,910
Long term debt	63,099	187,476	260,011	9,888,389
Employee future benefits	-	-	-	419,141
	4,023,940	189,684	276,133	10,552,440

24. CONTINGENCIES

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.

25. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Company's environment and in the global markets, possible disruption in supply chains, and measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the Company's operations. The extent of the impact of this outbreak and related containment measures on the entity's operations cannot be reliably estimated at this time, and no amounts have been recorded in these consolidated financial statements.

On March 25, 2020 the Ontario Energy Board acknowledged that electricity distributors may incur incremental costs as a result of the ongoing COVID-19 pandemic, the severity and duration of which is uncertain at this time. The OEB established Account 1509 – Impacts Arising from the COVID 19 Emergency, together with three sub-accounts, for electricity distributors to use to track any increments costs and lost revenues related to the COVID-19 pandemic.