

Financial Statements of
LAKEFRONT UTILITIES INC.
December 31, 2021

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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, 2021, 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, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 International Financial Reporting Standards, 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, continued

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 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 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 19, 2022

LAKEFRONT UTILITIES INC.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2021

	2021	2020
	\$	\$
ASSETS		
Current assets		
Cash (note 4)		
Cash	348,738	328,133
Restricted cash	-	121,643
Accounts receivable	3,010,931	2,699,736
Unbilled revenue	2,894,082	3,601,958
Inventories	456,497	464,155
Prepaid expenses	369,713	86,609
Income taxes receivable	10,592	10,592
	7,090,553	7,312,826
Non current		
Property, plant and equipment (note 5)	25,040,508	22,933,421
Intangible asset (note 6)	229,110	259,658
Deferred tax asset (note 7)	178,428	171,066
	25,448,046	23,364,145
	32,538,599	30,676,971
Regulatory deferral account debit balances and related deferred tax (note 8)	4,056,580	3,142,832
	36,595,179	33,819,803

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
STATEMENT OF FINANCIAL POSITION, continued
As at December 31, 2021

	2021	2020
	\$	\$
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	3,682,361	3,369,756
Operating loan (note 10)	220,000	1,700,000
Due to related party (note 15)	2,660,837	1,804,085
Current portion of long-term debt (note 11)	313,156	260,011
Customer deposits refundable within one year (note 13)	96,256	23,731
	<u>6,972,610</u>	<u>7,157,583</u>
Non current		
Long-term debt (note 11)	11,040,004	9,888,389
Contributions in aid of construction (note 12)	3,773,821	2,773,815
Deferred tax liability (note 7)	594,594	491,711
Customer deposits (note 13)	153,467	217,327
Employee future benefits (note 14)	643,928	645,529
	<u>16,205,814</u>	<u>14,016,771</u>
	<u>23,178,424</u>	<u>21,174,354</u>
Shareholder's equity		
Share capital (note 16)	5,293,376	5,293,376
Retained earnings	5,546,548	5,286,014
Accumulated other comprehensive loss	(247,151)	(247,151)
	<u>10,592,773</u>	<u>10,332,239</u>
	<u>33,771,197</u>	<u>31,506,593</u>
Regulatory deferral account credit balances and related deferred tax (note 8)		
	<u>2,823,982</u>	<u>2,313,210</u>
	<u>36,595,179</u>	<u>33,819,803</u>

Approved on behalf of the Board

Lindsay Arsenau-Mackinnon

Director

Fred Clifford

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, 2021

	Share capital \$	Retained earnings \$	Accumulated other comprehensive loss \$	Total equity \$
Balance, December 31, 2019	5,293,376	4,917,833	(22,234)	10,188,975
Net income for the year	-	368,181	-	368,181
Other comprehensive loss	-	-	(224,917)	(224,917)
Balance, December 31, 2020	5,293,376	5,286,014	(247,151)	10,332,239
Net income for the year	-	260,534	-	260,534
Balance, December 31, 2021	5,293,376	5,546,548	(247,151)	10,592,773

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
STATEMENT OF INCOME
For the year ended December 31, 2021

	2021	2020
	\$	\$
Revenue		
Distribution revenue	4,615,313	4,466,756
Cost of power revenue	28,239,916	33,152,355
Contribution in aid of construction (note 12)	107,479	88,134
	32,962,708	37,707,245
Cost of power purchased	28,800,698	34,162,755
Gross profit	4,162,010	3,544,490
Other operating revenue (note 18)	160,365	271,176
Gross income from operations	4,322,375	3,815,666
Expenses		
Amortization	1,205,047	1,186,274
Operating expenses (note 19)	2,762,331	2,703,355
	3,967,378	3,889,629
Income (loss) before undernoted items and income taxes	354,997	(73,963)
Finance income (note 17)	(30,716)	(64,565)
Finance costs (note 17)	590,441	505,415
	559,725	440,850
Loss before income taxes and net movement in regulatory deferral accounts	(204,728)	(514,813)
Provision for (recovery of) income taxes (note 7)		
Current	-	(1,613)
Deferred	95,521	129,019
	95,521	127,406
Loss before net movement in regulatory deferral accounts	(300,249)	(642,219)
Net movement in regulatory deferral accounts	560,783	1,010,400
Net income for the year	260,534	368,181

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2021

	2021	2020
	\$	\$
Net income for the year	260,534	368,181
Other comprehensive loss		
Actuarial loss, net of deferred tax, not reclassified to net income	-	(224,917)
Total comprehensive income for the year	260,534	143,264

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2021

	2021	2020
	\$	\$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	260,534	368,181
Items not affecting cash		
Amortization of property, plant and equipment	1,174,499	1,155,726
Amortization of intangible asset	30,548	30,548
Change in deferred income taxes	95,521	129,019
Current income tax	-	(1,613)
Net financing costs	559,725	440,850
Change in employee future benefits	(1,601)	(79,622)
Recognition of contribution in aid of construction	(107,479)	(88,134)
Change in regulatory deferral accounts	(402,976)	(1,012,056)
	1,608,771	942,899
Change in non-cash working capital items (note 20)	473,221	(345,787)
	2,081,992	597,112
Investing activities		
Purchase of property, plant and equipment	(3,281,586)	(2,445,981)
Contribution in aid of construction received	1,107,485	268,233
	(2,174,101)	(2,177,748)
Financing activities		
Operating loan received (paid)	(1,480,000)	1,700,000
Advances from parent company	856,752	596,906
Repayment of long-term debt	(295,240)	(250,575)
Proceeds of long-term debt	1,500,000	-
Interest paid	(590,441)	(505,415)
	(8,929)	1,540,916
Decrease in cash	(101,038)	(39,720)
Cash - beginning of year	449,776	489,496
Cash - end of year	348,738	449,776

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, 2021

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 and Village of Colbourne 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, 2021 were approved and authorized for issue by the board of directors on April 19, 2022.

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 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.

(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, 2021

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, 2021 and December 31, 2020 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 monthly service charge and distribution volumetric 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 comprised of the amounts charged by the Company to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service charged to the Company for the operation of the wholesale electricity market and grid, including commodity and global adjustment, various wholesale market settlement charges, and transmission charges.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

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(h).

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, 2021

3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(f) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation 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 depreciated using the straight-line method over their estimated useful lives. Assets are depreciated from the date of acquisition. 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 buildings, equipment and vehicles and distribution 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:

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

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

(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, 2021

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, 2021

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, 2020. 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 (OEFC). 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, 2021

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, 2021

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 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 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.

COVID-19 - On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. This pandemic may still have a material adverse effect on the Company's future operations, financial position and liquidity in fiscal year 2022. Refer to note 25 for additional disclosure related to COVID-19.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(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.

(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, operating loan, due to related party, 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 unrealised 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, 2021, the Company does not have any financial assets, classified at fair value through other comprehensive income.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

3. SIGNIFICANT ACCOUNTING POLICIES, continued

(q) Financial instruments, continued

(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 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) Standards and interpretations not yet effective or adopted

Effective for annual periods beginning on or after January 1, 2022.

IFRS 3 Business Combinations was amended by the IASB in May 2020. The amendment updates a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Earlier adoption is permitted if at the same time or earlier an entity also applies all the amendments made by Amendments to References to the Conceptual Framework in IFRS Standards, issued March 2018.

IFRS 9 Financial Instruments was amended by the IASB in May 2020. The amendment provides further explanation in determining fees in the 10 percent test for derecognition of financial liabilities.

IAS 16 Property, Plant and Equipment was amended by the IASB in May 2020. The amendment prohibits a company from deducting from the cost of the property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets was amended by the IASB in May 2020. The amendments specify which costs a company includes when assessing whether a contract will be loss-making.

The Company is currently assessing the impact, if any, that the standards will have on the financial statements.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

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 program was discontinued during the year and the balance has been repaid.

5. **PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings \$	Equipment and vehicles \$	Distribution equipment \$	Work in process \$	Total \$
Cost					
At January 1, 2021	1,363,999	2,638,146	25,496,973	816,879	30,315,997
Additions	1,904	-	3,153,517	768,078	3,923,499
Transfers	-	(19,983)	-	(621,930)	(641,913)
At December 31, 2021	1,365,903	2,618,163	28,650,491	963,027	33,597,584
Accumulated amortization					
At January 1, 2021	229,811	1,820,178	5,332,587	-	7,382,576
Amortization	34,743	186,953	952,803	-	1,174,499
At December 31, 2021	264,554	2,007,131	6,285,391	-	8,557,076
Net book amount at December 31, 2021	1,101,349	611,032	22,365,100	963,027	25,040,508
	Land and buildings \$	Equipment and vehicles \$	Distribution equipment \$	Work in process \$	Total \$
Cost					
At January 1, 2020	1,355,486	2,557,264	23,477,604	479,662	27,870,016
Additions	8,513	80,882	2,019,369	598,203	2,706,967
Transfers	-	-	-	(260,986)	(260,986)
At December 31, 2020	1,363,999	2,638,146	25,496,973	816,879	30,315,997
Accumulated amortization					
At January 1, 2020	195,172	1,582,375	4,449,303	-	6,226,850
Amortization	34,639	237,803	883,284	-	1,155,726
At December 31, 2020	229,811	1,820,178	5,332,587	-	7,382,576
Net book amount at December 31, 2020	1,134,188	817,968	20,164,386	816,879	22,933,421

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

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

Included in land and building is land with a cost of \$219,284 (2020 - \$219,284).

6. **INTANGIBLE ASSET**

	Cost \$	Accumulated amortization \$	2021 Net book value \$	2020 Net book value \$
Intangible asset	452,123	223,013	229,110	259,658

During the year, there were no additions (2020 - \$nil) or disposals (2020 - \$nil).

7. **INCOME TAXES**

- (a) 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% (2020 - 39.5%) to the loss for the years as follows:

	2021 \$	2020 \$
Loss for the year	(204,728)	(514,813)
Net movement in regulatory deferral accounts	560,783	1,010,400
Other comprehensive income (OCI)	-	(224,917)
Deferred tax included in OCI	-	(81,093)
	<u>356,055</u>	<u>189,577</u>
Anticipated income tax	140,642	74,883
Tax effect of the following:		
Benefit of income tax loss carry-forwards not previously recognized	-	(18,911)
Effect of items not deductible for tax	2,884	3,335
Timing income differences	(33,812)	49,900
CCA in excess of amortization	(110,899)	(107,137)
Ontario Co-op tax credit	1,185	(3,000)
Future tax expense amounts	95,521	129,019
General rate reduction	-	(683)
Actual income tax expense	<u>95,521</u>	<u>127,406</u>

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

7. **INCOME TAXES, continued**

(b) Deferred income taxes assets and liabilities 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 and when the carrying amount is greater than the tax basis, 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, 2021 \$	Recognize in net income \$	Closing balance at December 31, 2021 \$
Deferred tax assets			
Employee future benefits	171,066	(424)	170,642
Non-capital loss carryforwards	-	7,786	7,786
	171,066	7,362	178,428

	Opening balance at January 1, 2020 \$	Recognize in net income \$	Closing balance at December 31, 2020 \$
Deferred tax assets			
Employee future benefits	111,072	59,994	171,066
Non-capital loss carryforwards	12,688	(12,688)	-
	123,760	47,306	171,066

	Opening balance at January 1, 2021 \$	Recognize in net income \$	Closing balance at December 31, 2021 \$
Deferred tax liabilities			
Carrying amount of property, plant and equipment in excess of tax basis	491,711	102,883	594,594

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

7. **INCOME TAXES, continued**

	Opening balance at January 1, 2020 \$	Recognize in net income \$	Closing balance at December 31, 2020 \$
Deferred tax liabilities			
Carrying amount of property, plant and equipment in excess of tax basis	396,479	95,232	491,711

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

8. **REGULATORY DEFERRAL ACCOUNTS**

	Note	Remaining recovery/ reversal period (years)	December 31, 2020 \$	Balances arising in the period \$	Recovery/ reversal \$	December 31, 2021 \$
Regulatory deferral account debit						
Low voltage	i	2	2,503,210	799,853	-	3,303,063
Retail settlement	iv	2	537,895	112,921	-	650,816
Recovery account	v	2	101,727	974	-	102,701
			3,142,832	913,748	-	4,056,580

	Note	Remaining recovery/ reversal period (years)	December 31, 2020 \$	Balances arising in the period \$	Recovery/ reversal \$	December 31, 2021 \$
Regulatory deferral account credit						
Cost of power	iii	2	1,163,976	597,222	-	1,761,198
Retail settlement	iv	2	913,967	(185,152)	-	728,815
Recovery account	v	2	138,506	7,587	-	146,093
Other DVA	ii	2	96,761	91,115	-	187,876
			2,313,210	510,772	-	2,823,982

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

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

1592 – PILS and Tax Savings – This account is used specifically for the purposes of tracking the impact of changes in CCA rules. Electricity distributors are to use this sub-account for the impact of the Bill C-97 CCA rule changes as well as any future CCA changes instituted by relevant regulatory or taxation bodies.

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, 2021

9. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2021	2020
	\$	\$
Accounts payable - energy purchased	2,481,276	2,666,970
Other trade accounts payable and accrued liabilities	1,211,112	697,367
Deferred receivable - CDM Program	(10,027)	(9,935)
Deferred revenue - AFT	-	15,354
	3,682,361	3,369,756

10. **CREDIT FACILITIES**

The Company has a \$8,500,000 (2020 - \$8,500,000) credit facility consisting of \$2,500,000 (2020 - \$2,500,000) operating line, \$1,500,000 (2020 - \$1,500,000) stand-by letters of guarantee and \$4,500,000 (2020 - \$4,500,000) committed reducing term facility.

The committed reducing term facility bears interest at the bankers acceptance rate, plus stamping fee of 1.35% secured by a General Security Agreement covering substantially all of the Company's assets. At year end, the Company had drawn \$1,464,771 from this line (2020 - \$Nil). The Company has entered into a swap agreement with TD bank for the draw on the committed reducing term facility. As at December 31, 2021 the book value is representative of the fair market value of the swap.

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 \$220,000 from this line (2020 - \$1,700,000). The bank agreements require the Company to maintain certain financial covenants. At December 31, 2021, the Company was in compliance with the financial covenants.

The Company has posted \$1,500,000 (2020 - \$1,500,000) 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.

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

11. **LONG-TERM DEBT**

	2021 \$	2020 \$
Demand note payable, Corporation of the Town of Cobourg, 3.72% per annum	7,000,000	7,000,000
Infrastructure Ontario Loan, 3.90% fixed rate per annum, blended repayments of \$5,520 monthly, due December 3, 2048	1,104,890	1,127,559
Infrastructure Ontario Loan, 4.03% fixed rate per annum, blended repayments of \$82,668 semi-annually, due September 5, 2028	999,744	1,121,110
Infrastructure Ontario Loan, 3.38% fixed rate per annum, blended repayments of \$72,708 semi-annually, due October 1, 2027	783,755	899,731
Bank loan payable, 2.74% fixed rate, payable in blended monthly payments of \$6,912	1,464,771	-
	11,353,160	10,148,400
Less principal payments due within one year	313,156	260,011
Due beyond one year	11,040,004	9,888,389

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, 2023. During the year the Company paid \$260,400 (2020 - \$260,400) in interest on the note. Effective January 1, 2022 the interest rate with the Town of Cobourg was updated from 3.72% per annum to 3.49% based on the OEB's deemed long-term debt rate.

The estimated principal repayments for 2022-2026 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:

	\$
2022	313,156
2023	324,524
2024	336,311
2025	348,532
2026	1,596,854
Subsequent years	8,433,783
	11,353,160

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

12. CONTRIBUTION IN AID OF CONSTRUCTION

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

	2021	2020
	\$	\$
Deferred contributions, net, beginning of year	2,773,815	2,593,716
Contributions in aid of construction received	1,107,485	268,233
Contributions in aid of construction recognized as revenue	(107,479)	(88,134)
	3,773,821	2,773,815

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.

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, 2020.

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

	2021	2020
	\$	\$
Accrued benefit obligation, beginning of period	645,529	419,141
Current service cost	23,615	25,221
Past service costs	-	(59,595)
Interest on accrued benefit obligation	16,861	12,489
Benefits paid	(42,077)	(57,737)
Actuarial loss	-	306,010
	643,928	645,529

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

14. **EMPLOYEE FUTURE BENEFITS, continued**

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 \$42,077 (2020 - \$57,737).

The actuarial assumptions used in the valuation are the discount rate of 2.7% (2020 - 2.7%), salary increase rate of 2% (rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion and for Company specific information) (2020 - 2%), health benefits include both health benefits 4.40% (2020 - 4.40%), and dental benefits 4.70% (2020 - 4.70%) and retirement age of 60 (2020 - 60).

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	553,700	(90,200)	(14)
Discount rate	(1)	762,200	118,300	18
Cost trend	1	679,900	36,000	6
Cost trend	(1)	613,300	(30,600)	(5)

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

15. **DUE TO RELATED PARTY AND RELATED PARTY TRANSACTIONS**

During the year, the Company collected rent recoveries of \$55,146 (2020 - \$54,064) 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 (2020 - \$30,000) from the Town of Cobourg and paid expenses of \$48,745 (2020 - \$55,042) and interest of \$260,400 (2020 - \$260,400) 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 Company has been identified as members of its board of directors and management team members. Total wages and benefits to these individuals total \$593,973 (2020 - \$580,613).

At year-end, included in accounts receivable is \$1,569 (2020 - \$23,778) due from Lakefront Utility Services Inc. Included in accounts payable is \$6,900 (2020 - \$7,581) due to the Town of Cobourg and \$6,224 (2020 - \$nil) in accrued liabilities due to Waterworks.

The amount due to related party is \$2,660,837 (2020 - \$1,804,085) 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
number of common shares

Issued

	2021	2020
	\$	\$
Common shares	5,293,376	5,293,376

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

17. **FINANCE INCOME COSTS**

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

	2021	2020
	\$	\$
Interest income on accounts receivable	20,258	25,329
Interest income on bank deposits	4,678	3,255
Interest income on regulatory deferral accounts	5,780	35,981
	30,716	64,565

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

	2021	2020
	\$	\$
Interest on long term debt	411,271	386,817
Interest cost on regulatory deferral accounts	78,710	48,819
Other interest	35,177	23,288
Interest on employee future benefits	16,861	12,489
Interest on due to related party balance	48,422	34,002
	590,441	505,415

18. **OTHER OPERATING REVENUE**

	2021	2020
	\$	\$
Rentals	117,665	115,066
Miscellaneous	59,992	44,952
Feed-in-tariff invoicing	6,204	7,460
Net recoverable work	36,857	50,256
Sewer billing	30,000	30,000
Affordability Fund Trust	(90,353)	23,442
	160,365	271,176

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

19. **OPERATING EXPENSES**

	2021	2020
	\$	\$
Customer billing and collecting	514,200	528,441
Distribution	949,924	1,080,468
General and administration	1,298,207	1,094,446
	2,762,331	2,703,355

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

	2021	2020
	\$	\$
Decrease (increase) in accounts receivable	(311,195)	263,518
Decrease (increase) in unbilled revenue	707,876	(56,670)
Decrease (increase) in inventories	7,658	(31,249)
Decrease (increase) in prepaid expenses	(283,104)	27,405
Increase (decrease) in accounts payable and accrued liabilities	312,605	(567,094)
Increase (decrease) in deposits held	8,665	(46,171)
Income taxes received	-	(91)
Interest received	30,716	64,565
	473,221	(345,787)

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 2021 Annual Report disclosed actuarial liabilities of \$120,796 million in respect of benefits accrued for service with actuarial assets of \$117,655 million indicating an actuarial deficit of \$3,131 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 \$156,933 (2020 - \$158,000).

LAKEFRONT UTILITIES INC.
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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:

	2021	2020
	\$	\$
Infrastructure Ontario and bank loans	4,353,160	3,148,400
Operating loans	220,000	1,700,000
Net debt	4,573,160	4,848,400
Retained earnings and OCI	5,299,397	5,038,863
Share capital	5,293,376	5,293,376
Adjusted capital	10,592,773	10,332,239
Debt-to-adjusted capital ratio	0.43	0.47

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
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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.

There has been no significant change in the risk exposure of the Company in the year as a result of the COVID-19 pandemic. Refer to note 25 for additional disclosure related to COVID-19.

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

(a) Fair value

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arms' length transaction between knowledgeable, willing parties who are under no compulsion to act.

The 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.

Financial instruments which are disclosed at fair value are to be classified using a three-level hierarchy. Each level reflects the inputs used to measure the fair values disclosed of the financial liabilities, and are as follows:

- i. Level 1: Inputs are unadjusted quoted prices of identical instruments in active markets;
- ii. Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- iii. Level 3: Inputs for the liabilities that are not based on observable market data (unobservable inputs).

The Company's fair value hierarchy is classified as Level 2 for long-term debt and the bank loan payable interest rate swap.

The estimated fair values of long-term debt approximate carrying values due to the fact that effective interest rates are not significantly different from market rates. The company has entered into a interest rate swap agreement for its bank loan payable. As at December 31st, 2021 the carrying value of the swap is not significantly different from its fair market value.

LAKEFRONT UTILITIES INC.
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For the year ended December 31, 2021

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. The Company is also exposed to interest rate price risk to the extent that the bank loan bears interest at a fixed rate 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.

(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, 2021 is \$20,000 (2020 - \$20,000). The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has over 10,500 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, 2021, the Company holds security deposits in the amount of \$249,723 (2020 - \$241,058).

The following table sets out the maturities of accounts receivable:

	Trade accounts receivable \$	Accounts receivable - recoverable work \$	Allowance for doubtful accounts \$	Accounts receivable - miscellaneous \$	Total \$
0-30 days	2,598,938	195,762	-	21,494	2,816,194
31-60 days	22,979	-	-	-	22,979
61-90 days	11,251	4,250	-	-	15,501
90+ days	160,774	15,483	(20,000)	-	156,257
	2,793,942	215,495	(20,000)	21,494	3,010,931

LAKEFRONT UTILITIES INC.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

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 \$2,500,000 line of credit and a \$4,500,000 committed reducing term facility, 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	3,682,361	-	-	-
Customer deposits	92,700	3,556	25,184	128,283
Long term debt	79,057	234,099	324,524	10,715,480
Employee future benefits	-	-	-	643,928
	3,854,118	237,655	349,708	11,487,691

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. **COVID-19**

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 due to the 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 effect of the COVID-19 pandemic on the Company is uncertain however thus far business has not been significantly impacted.