

TOWN OF COBOURG HOLDINGS INC.
SHAREHOLDER MEETING
AGENDA
JULY 13TH, 2021
11:30 a.m.
Virtual 'ZOOM' Meeting

1. Call the meeting to order.

2. Approval of the Agenda *Page 1 – 3*
Resolution Required

3. Minutes of the Shareholder's Meeting of June 11th, 2020 *Page 4 – 7*
Resolution Required

4. Review of 2020 Year End Audited Financial Statements
Director Regulatory Compliance & Finance, Adam Giddings
 - Minutes Holdco Audit & Finance Meeting April 8th, 2021 *Page 8 – 10*
 - Holdco 2020 Year-End Consolidated Statements *Page 11 – 50*

Proposed Resolution

BE IT RESOLVED THAT:

- a. The Shareholders receive the Audited 2020 year-end Town of Cobourg Holdings Inc. (Holdco) Consolidated Financial Statements as presented.
- b. The Cobourg Shareholders post the 2020 year-end HOLDCO Consolidated Financial Statements on-line upon receipt.
- c. The Shareholders acknowledge that the appointment of Baker Tilly KDN LLP as the Lakefront Group of Companies Auditor continues until December 31st, 2022.

5. Declaration of Dividend

Proposed Resolution

BE IT RESOLVED THAT:

- a. The Shareholders acknowledge that a community services benefit of **\$149,633** including the provision of fibre-optic network services, was provided to the Town of Cobourg Shareholder in 2020 by the Lakefront Group of Companies.
- b. The Shareholders acknowledge that the Holdco Board has decided to declare no dividend for 2020 in order to maintain flexibility for dealing with potential financial effects of the Covid-19 pandemic and that Lakefront Utilities Inc. (LUI) is continuing the deferral of dividends.

- c. The Shareholders acknowledge that the cumulative Shareholders Financial Benefit as of 2020 year-end from the Town of Cobourg Holdings Inc. was **\$16.5M** consisting of interest and dividend payments.

6. Promissory Note

Proposed Resolution

BE IT RESOLVED THAT:

The Shareholders acknowledge that with regard to the Promissory Note between The Corporation of the Town of Cobourg and Lakefront Utilities Inc. (LUI) at the original principal amount of \$7M, the interest paid in the calendar year 2020 was at the rate of 3.72% reflecting the approved rate of the Ontario Energy Board (OEB) for affiliate debt set in the last Cost of Service Application (COS) in 2017, with the outstanding Balance of Principal as of December 31, 2020 being \$7M.

NOTE: Following the required five-year cycle, LUI is submitting a re-basing COS to the OEB on April 30th, 2021 for rates effective January 1st, 2022. Currently for 2021, OEB's deemed Long Term rate for affiliate debt is set at 2.85%. For rates effective January 1, 2022, LUI will not know the exact rate until November 2021. This may affect the rate of interest paid to the Town.

7. LUI Debt/Equity Ratio

Proposed Resolution

BE IT RESOLVED THAT:

The Shareholders acknowledge that as of year-end 2020, the Lakefront Utilities Inc. Debt/Equity ratio was **53/47** and thus well within the debt/equity ratio of 60/40 required under the Shareholders' Agreement as amended in 2009.

8. Information Items

Directors of Holdco and Subsidiaries

Proposed Resolution

BE IT RESOLVED THAT:

The Shareholders acknowledge that as of May 1, 2021, the Board of Holdco consists of six Directors and that the Subsidiary Boards of Lakefront Utilities Inc. and of Lakefront Utilities Services Inc. consist of five and three Directors respectively as indicated in the following which shows their respective individual terms of office.

Holdco Board: 6 Directors

Mayor of Cobourg: John Henderson Term of Council

Mayor of Cramahe: Mandy Martin Term of Council

Holdco Directors Approved by Town of Cobourg Council

| | |
|-----------------------------|----------------|
| Robert M. Bell (Vice-Chair) | April 30, 2024 |
| John Farrell | April 30, 2023 |
| Paul House | April 30, 2022 |
| David Tsubouchi (Chair) | April 30, 2022 |

Subsidiary Directors as Approved by the Holdco Board

Lakefront Utilities Inc. Board: 5 Directors

| | |
|-----------------------|----------------|
| Gil Brocanier (Chair) | April 30, 2023 |
| Barry Hugh Gutteridge | April 30, 2022 |
| Lisa Milne | April 30, 2023 |
| Manuela Ris-Schofield | April 30, 2022 |
| David Tsubouchi | April 30, 2022 |

Lakefront Utility Services Inc. Board: 3 Directors

| | |
|-------------------------|----------------|
| Peter Chilibeck (Chair) | April 30, 2022 |
| Marc Coombs | April 30, 2022 |
| Robert M. Bell | April 30, 2023 |

9. Other Business

10. Adjournment
Resolution Required

**TOWN OF COBOURG HOLDINGS INC.
SHAREHOLDER MEETING
MINUTES
JUNE 11th, 2020
11:00 a.m.
Virtual 'Zoom Meeting'**

PRESENT: Holdco Chair Barry Gutteridge
Cobourg Shareholder Representative Ian Davey
Cramahe Shareholder Representative Arryn McNichol
Holdco President & CEO Dereck Paul
Holdco Director Regulatory Finance Adam Giddings
Holdco Corporate Secretary Susan Spicer
Baker Tilly Representative Jeff Taylor

GUESTS: Holdco Director John Farrell
Holdco Director Bob Bell
Cramahe Mayor Mandy Martin (disconnected due to power outage)

1. Chair Gutteridge called the meeting to order at 11:20 a.m.

2. **Approval of the Agenda**

Resolution #2020-1

Moved by Arryn McNichol

Seconded by Ian Davey

BE IT RESOLVED THAT the Shareholders approve the Agenda of the Town of Cobourg Holdings Inc. Shareholder Meeting of June 11th, 2020, as presented. **CARRIED**

3. **Minutes of the Shareholder's Meeting of June 26th, 2019**

Resolution #2020-2

Moved by Arryn McNichol

Seconded by Ian Davey

BE IT RESOLVED THAT the Shareholders approve the Minutes of the Shareholder Meeting of June 26th, 2019, as presented. **CARRIED**

4. Review of 2019 Year End Audited Financial Statements

The Shareholders were presented with a copy of the Minutes of the Town of Cobourg Holdings Inc. Audit & Finance Meeting of April 9th, 2020, and the Town of Cobourg Holdings Inc. 2019 Year-End Consolidated Financial Statements

The Manager, Regulatory Compliance & Finance, Adam Giddings, reviewed the Holdco year-end consolidated financial statements with the Shareholder Representatives with the following motion resulting:

Resolution #2020-3

Moved by Ian Davey

Seconded by Arryn McNichol

BE IT RESOLVED THAT

- a. The Shareholders receive the Audited 2019 year-end Town of Cobourg Holdings Inc. (Holdco) Consolidated Financial Statements as presented.
- b. The Shareholders post the 2019 year-end HOLDCO Consolidated Financial Statements on-line upon receipt.
- c. The Shareholders acknowledge that the appointment of **Baker Tilly KDN LLP** as the Lakefront Group of Companies Auditor continues until December 31st, 2022.

CARRIED

5. Declaration of Dividend

Resolution #2020-4

Moved by Ian Davey

Seconded by Arryn McNichol

BE IT RESOLVED THAT

- a. The Shareholders acknowledge that a community services benefit of **\$143,230** including the provision of fibre-optic network services, was provided to the Town of Cobourg Shareholder in 2019 by the Lakefront Group of Companies.
- b. The Shareholders acknowledge that the Holdco Board has decided to declare no dividend for 2019 in order to maintain flexibility for dealing with potential financial effects of the current pandemic and that Lakefront Utilities Inc. is continuing the deferral of dividends until 2021 as projected.
- c. The Shareholders acknowledge that the cumulative Shareholders Financial Benefit as of 2019 year-end from the Town of Cobourg Holdings Inc. was **\$16,272,500** consisting of interest and dividend payments.

CARRIED

**6. Promissory Note
Lakefront Utilities Inc. and The Corporation of the Town of Cobourg**

Resolution #2020-5

Moved by Ian Davey

Seconded by Arryn McNichol

BE IT RESOLVED THAT the Shareholders acknowledge that with regard to the Promissory Note between The Corporation of the Town of Cobourg and Lakefront Utilities Inc. (LUI) at the original principal amount of \$7M, the interest paid in the calendar year 2019 was still at the rate of 7.25% with the outstanding Balance of Principal as of December 31, 2019 being \$7M. (On October 21, 2019, Cobourg Council approved the recommendations of a September 18th report from the Treasurer to reduce the interest rate from 7.25% to 3.72% to reflect the approved rate of the Ontario Energy Board for affiliate debt effective January 1, 2020. **CARRIED**

7. Lakefront Utilities Inc. Debt/Equity Ratio

Resolution #2020-6

Moved by Arryn McNichol

Seconded by Ian Davey

BE IT RESOLVED THAT the Shareholders acknowledge that as of year-end 2019, the Lakefront Utilities Inc. Debt/Equity ratio was 51/49 and thus well within the debt/equity ratio of 60/40 required under the Shareholders Agreement as amended in 2009.

CARRIED

**8. Information Items
Directors of Holdco and Subsidiaries**

Resolution #2020-7

Moved by Ian Davey

Seconded by Arryn McNichol

BE IT RESOLVED THAT the Shareholders acknowledge that as of May 1, 2020, the Board of Holdco consists of seven Directors and that the Subsidiary Boards of Lakefront Utilities Inc. and of Lakefront Utilities Services Inc. consist of five and three Directors respectively as shown in the following which includes their respective individual terms of office.

Holdco Board: 7 Directors

Mayor of Cobourg: John Henderson Term of Council

Mayor of Cramahe: Mandy Martin Term of Council

Holdco Directors Approved by Town of Cobourg Council

Robert M. Bell

April 30, 2021

| | |
|-------------------------------|----------------|
| John Farrell | April 30, 2023 |
| Barry Hugh Gutteridge (Chair) | April 30, 2021 |
| Paul House | April 30, 2022 |
| David Tsubouchi (Vice-Chair) | April 30, 2022 |

Subsidiary Directors as Approved by the Holdco Board

Lakefront Utilities Inc. Board: 5 Directors

| | |
|-----------------------|----------------|
| Gil Brocanier (Chair) | April 30, 2023 |
| Barry Hugh Gutteridge | April 30, 2021 |
| Lisa Milne | April 30, 2023 |
| Manuela Ris-Schofield | April 30, 2022 |
| David Tsubouchi | April 30, 2022 |

Lakefront Utility Services Inc. Board: 3 Directors

| | |
|-------------------------|----------------|
| Peter Chilibeck (Chair) | April 30, 2022 |
| Marc Coombs | April 30, 2022 |
| Robert M. Bell | April 30, 2023 |

CARRIED

9. Other Business
None

10. Adjournment

Resolution #2020-8

Moved by Ian Davey

Seconded by Arryn McNichol

BE IT RESOLVED THAT the meeting adjourn. **CARRIED**

Minutes approved _____

Shareholder Representative _____

Secretary _____

**MINUTES
TOWN OF COBOURG HOLDINGS INC.
AUDIT AND FINANCE COMMITTEE MEETING
VIRTUAL 'ZOOM MEETING'
APRIL 8TH, 2021
9:00 A.M.**

PRESENT: Chair Lisa Milne
Member Peter Chilibeck
President & CEO Dereck Paul
Director Regulatory Finance Adam Giddings
Baker Tilly Representative Jeff Taylor
Corporate Secretary Susan Spicer

REGRETS: Member John Farrell

1. Chair Milne called the meeting to order at 9:05 a.m.

2. Approval of the Audit & Finance Committee April 9, 2020 Minutes

Resolution #2021-1

Moved by Peter Chilibeck

Seconded by Lisa Milne

BE IT RESOLVED THAT the Committee approve the Minutes of the April 9th, 2020 Audit & Finance Committee Meeting, as presented. CARRIED

3. Review of the Draft 2020 Year End Financial Statements
The Director of Regulatory Finance, Adam Giddings, reviewed the draft financial statements with the Committee.

Resolution #2021-2

Moved by Peter Chilibeck

Seconded by Lisa Milne

BE IT RESOLVED THAT the Committee accept and recommend the following draft financial statements, with minor edits to the LUI financial statements and the Holdco consolidated statements, for presentation to the respective Boards of Directors/Council for final approval.

Lakefront Utility Services Inc. Statements

Lakefront Utilities Inc. Statements

Town of Cobourg Holdings Inc. Non-Consolidated Statements

Town of Cobourg Holdings Inc. Consolidated Statements

Waterworks of the Town of Cobourg Statements

CARRIED

Resolution #2021-3

Moved by Peter Chilibeck

Seconded by Lisa Milne

BE IT RESOLVED THAT the Committee accept and recommend the Veridian, Lakefront, Solera Joint Venture draft financial statements, for presentation to the Lakefront Utility Services Inc. Board of Directors for acceptance. **CARRIED**

4. Draft Disconnection Practices Report

Baker Tilly Representative, Jeff Taylor reviewed the draft Disconnection Practices Report with the Committee with the recommendation that it be incorporated into all disconnection notices issued. The Committee agreed that this be incorporated into the Disconnection Policy and understand that management will present this report to the Lakefront Utilities Inc. Board of Directors.

5. Baker Tilly Report to Finance Committee

a) Appendix C Baker Tilly Management Letter

b) Appendix D Baker Tilly Management Letter

Baker Tilly Representative, Jeff Taylor, reviewed the Baker Tilly Report and the Appendices with the Committee. Mr. Taylor thanked management for assisting with the audits, noting that it was a challenge this year not being on-site due to Covid-19, however, the audit went smoothly.

President Paul thanked Baker Tilly for their work on the 2020 audit.

6. Audit Committee discussion with the Auditors

The Committee requested that management leave the meeting.

Resolution #2021-4

Moved by Peter Chilibeck

Seconded by Lisa Milne

BE IT RESOLVED THAT the Committee move in-camera for a discussion with the Auditors. **CARRIED**

Resolution #2021-5

Moved by Peter Chilibeck

Seconded by Lisa Milne

BE IT RESOLVED THAT the Committee move out of being in-camera. **CARRIED**

The auditors were asked if there was anything that the Committee and Board of Directors should be aware of. The auditors expressed that the audit went well, and staff were very prepared. The Committee thanked Jeff Taylor and his Baker Tilly team.

7. Adjournment

Resolution #2021-6

Moved by Peter Chilibeck

Seconded by Lisa Milne

BE IT RESOLVED THAT the meeting adjourn at 11:30 a.m. CARRIED

Apr 9, 2021

Minutes approved _____

Chair Lisa Milne

Secretary Susan Spicer

Signature: Lisa Milne
Lisa Milne (Apr 9, 2021 10:20 EDT)

Email: lisamilne@milnemanagementgroup.com

Signature: Susan Spicer
Susan Spicer (Apr 9, 2021 10:20 EDT)

Email: sspicer@lusi.on.ca

**CONSOLIDATED
Financial Statements of**

**TOWN OF COBOURG HOLDINGS
INC.**

December 31, 2020

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CONFIDENTIAL

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of
Town of Cobourg Holdings Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Town of Cobourg Holdings Inc., which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated 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 consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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:

INDEPENDENT AUDITOR'S REPORT, continued

- ♦ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ♦ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Baker Tilly KDN LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
April 16, 2021

TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2020

| | 2020 | 2019 |
|--|------------|------------|
| | \$ | \$ |
| ASSETS | | |
| Current assets | | |
| Cash (note 5) | | |
| Cash | 843,128 | 1,290,109 |
| Restricted cash | 121,643 | 168,381 |
| Accounts receivable (note 27) | 2,866,386 | 3,114,055 |
| Unbilled revenue | 3,601,958 | 3,545,288 |
| Inventories | 464,155 | 432,906 |
| Prepaid expenses | 94,856 | 119,684 |
| Income taxes receivable | 6,712 | - |
| Due from related party (note 6) | - | 128,433 |
| Current portion of due from shareholder (note 7) | 69,300 | 71,730 |
| Current portion of loan receivable (note 8) | 2,381 | - |
| | 8,070,519 | 8,870,586 |
| Non current | | |
| Due from shareholder (note 7) | 360,000 | 405,000 |
| Loan receivable (note 8) | 109,587 | - |
| Property, plant and equipment (note 9) | 23,106,662 | 21,807,699 |
| Intangible asset (note 10) | 259,658 | 290,206 |
| Deferred tax asset (note 11) | 171,066 | 124,560 |
| | 24,006,973 | 22,627,465 |
| | 32,077,492 | 31,498,051 |
| Regulatory deferral account debit balances and related deferred tax (note 12) | 3,142,832 | 2,124,369 |
| | 35,220,324 | 33,622,420 |

The accompanying notes are an integral part of these financial statements

TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION, continued
As at December 31, 2020

| | 2020 | 2019 |
|---|-------------------|-------------------|
| | \$ | \$ |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 13) | 3,499,531 | 4,140,388 |
| Operating loan (note 14) | 1,700,000 | - |
| Income taxes payable | - | 21,905 |
| Due to related party (note 6) | 102,140 | - |
| Current portion of long-term debt (note 15) | 310,567 | 827,950 |
| Customer deposits refundable within one year (note 17) | 23,731 | 26,197 |
| | <u>5,635,969</u> | <u>5,016,440</u> |
| Non current | | |
| Deferred tax liability (note 11) | 495,011 | 396,479 |
| Long-term debt (note 15) | 10,368,015 | 10,148,400 |
| Contributions in aid of construction (note 16) | 2,810,177 | 2,625,609 |
| Customer deposits (note 17) | 217,327 | 261,032 |
| Employee future benefits (note 18) | 645,529 | 419,141 |
| | <u>14,536,059</u> | <u>13,850,661</u> |
| | <u>20,172,028</u> | <u>18,867,101</u> |
| Shareholder's equity | | |
| Share capital (note 19) | 7,002,145 | 7,002,145 |
| Retained earnings | 5,980,092 | 5,468,605 |
| Accumulated other comprehensive loss | (247,151) | (22,234) |
| | <u>12,735,086</u> | <u>12,448,516</u> |
| | <u>32,907,114</u> | <u>31,315,617</u> |
| Regulatory deferral account credit balances and related deferred tax (note 12) | <u>2,313,210</u> | <u>2,306,803</u> |
| | <u>35,220,324</u> | <u>33,622,420</u> |

Approved on behalf of the Board

_____ Director

_____ Director

The accompanying notes are an integral part of these financial statements

TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER
COMPREHENSIVE LOSS
For the year ended December 31, 2020

| | Share capital \$ | Retained earnings \$ | Accumulated other comprehensive loss \$ | Total equity \$ |
|-----------------------------------|---------------------|----------------------------|---|--------------------|
| Balance, December 31, 2018 | 7,002,145 | 5,153,485 | (22,234) | 12,133,396 |
| Net income for the year | - | 465,120 | - | 465,120 |
| Dividends paid | - | (150,000) | - | (150,000) |
| Balance, December 31, 2019 | 7,002,145 | 5,468,605 | (22,234) | 12,448,516 |
| Net income for the year | - | 511,487 | - | 511,487 |
| Other comprehensive loss | - | - | (224,917) | (224,917) |
| Balance, December 31, 2020 | 7,002,145 | 5,980,092 | (247,151) | 12,735,086 |

The accompanying notes are an integral part of these financial statements

TOWN OF COBOURG HOLDINGS INC.**CONSOLIDATED STATEMENT OF INCOME**

For the year ended December 31, 2020

| | 2020 | 2019 |
|---|------------|------------|
| | \$ | \$ |
| Revenue | | |
| Revenue (note 20) | 4,563,071 | 4,547,060 |
| Cost of power revenue | 33,152,355 | 29,531,634 |
| Contribution in aid of construction (note 16) | 90,915 | 89,416 |
| | 37,806,341 | 34,168,110 |
| Cost of power purchased | 34,162,755 | 29,963,422 |
| | 3,643,586 | 4,204,688 |
| Gross profit | | |
| Other operating revenue (note 21) | 755,665 | 949,089 |
| | 4,399,251 | 5,153,777 |
| Gross income from operations | | |
| Expenses | | |
| Amortization | 1,203,940 | 1,125,562 |
| Operating expenses (note 22) | 3,130,185 | 3,234,286 |
| | 4,334,125 | 4,359,848 |
| Income before undernoted items and income taxes | 65,126 | 793,929 |
| Finance income (note 24) | (110,930) | (144,571) |
| Finance costs (note 24) | 493,432 | 776,308 |
| | 382,502 | 631,737 |
| Income (loss) before income taxes and net movement in regulatory deferral accounts | (317,376) | 162,192 |
| Provision for income taxes (note 11) | | |
| Current | 48,418 | 30,793 |
| Deferred | 133,119 | 98,067 |
| | 181,537 | 128,860 |
| Income (loss) before net movement in regulatory deferral accounts | (498,913) | 33,332 |
| Net movement in regulatory deferral accounts | 1,010,400 | 431,788 |
| Net income for the year | 511,487 | 465,120 |

The accompanying notes are an integral part of these financial statements

TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2020

| | 2020 | 2019 |
|---|-----------|---------|
| | \$ | \$ |
| Net income for the year | 511,487 | 465,120 |
| Other comprehensive loss | | |
| Actuarial loss, net of deferred tax, not reclassified to net income | (224,917) | - |
| Total comprehensive income for the year | 286,570 | 465,120 |

The accompanying notes are an integral part of these financial statements

TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2020

| | 2020 | 2019 |
|--|-------------|-------------|
| | \$ | \$ |
| CASH PROVIDED FROM (USED FOR) | | |
| Operating activities | | |
| Net income for the year | 511,487 | 465,120 |
| Adjustments not requiring cash payment | | |
| Amortization of property, plant and equipment | 1,173,392 | 1,220,206 |
| Amortization of intangible asset | 30,548 | (94,641) |
| Change in deferred income taxes | 133,119 | 98,067 |
| Current income tax | 48,418 | 30,793 |
| Net financing costs | 382,503 | 631,738 |
| Change in employee future benefits | (79,622) | (1,759) |
| Recognition of contribution in aid of construction | (90,915) | (89,416) |
| Change in regulatory deferral accounts | (1,012,056) | (489,376) |
| | 1,096,874 | 1,770,732 |
| Change in non-cash working capital items (note 23) | (468,556) | 980,300 |
| | 628,318 | 2,751,032 |
| Investing activities | | |
| Purchase of property, plant and equipment | (2,472,355) | (1,548,066) |
| Contribution in aid of construction received | 275,483 | 136,890 |
| | (2,196,872) | (1,411,176) |
| Financing activities | | |
| Proceeds from operating loan | 1,700,000 | - |
| Advances from related party | 230,573 | 396,222 |
| Repayments to shareholder | 47,430 | 47,430 |
| Repayment of long-term debt | (297,768) | (282,932) |
| Repayments of loan receivable | 4,025 | - |
| Issuance of loan receivable | (115,993) | - |
| Interest paid | (493,432) | (776,309) |
| Dividends paid | - | (150,000) |
| | 1,074,835 | (765,589) |
| Increase (decrease) in cash | (493,719) | 574,267 |
| Cash - beginning of year | 1,458,490 | 884,223 |
| Cash - end of year | 964,771 | 1,458,490 |

The accompanying notes are an integral part of these financial statements

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

1. NATURE OF OPERATIONS

Town of Cobourg Holdings Inc. (the "Company") 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 Lakefront Utilities Inc. (LUI) is to distribute electricity to the residents and businesses in the Town of Cobourg and Village of Colborne under licence issued by the Ontario Energy Board (OEB). LUI is regulated by the OEB and adjustments to its distribution rates require OEB approval.

Lakefront Utility Services Inc. (LUSI) is a non-regulated services company which provides services to Municipalities related to the design, operation, and maintenance of electrical and water systems.

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, 2020 were approved and authorized for issue by the board of directors on April 16, 2021.

3. BASIS OF CONSOLIDATION

The financial statements include the assets, liabilities and operations of the Company and its wholly owned subsidiaries: Lakefront Utilities Inc. and Lakefront Utilities Services Inc. All significant intercompany transactions and balances have been eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of measurement

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

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

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

4. SIGNIFICANT ACCOUNTING POLICIES, continued

(b) Electricity regulation

LUI 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.

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, 2020 and December 31, 2019 are disclosed in note 12.

(c) Revenue recognition

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

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.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

4. 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 4(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.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

4. 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 above rates on buildings, equipment and vehicle 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 |
|-------------------|----------------------------|

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.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

4. 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%.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

4. 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 18.

(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 11.

(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 6.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

4. **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.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

4. **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 2021. Refer to note 29 for additional disclosure related to COVID-19.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

4. 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, unbilled revenue, due from related party, due from shareholder and loan receivable 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 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, 2020, the Company does not have any financial assets, classified at fair value through other comprehensive income.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

4. 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) Change in accounting policies

There were no changes in accounting policies in 2020 that impacted the Company.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(s) *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.

5. **CASH**

Included in Lakefront Utilities Inc. is restricted cash which consists of monies received by the Company from the Ontario provincial government to administer the Affordability Fund Trust (AFT) program.

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

| | 2020 | 2019 |
|--|----------------|------------------|
| | \$ | \$ |
| Town of Cobourg Holdings. (non consolidated) | 868,912 | 1,066,729 |
| Lakefront Utilities Inc. | (1,354,309) | (717,683) |
| Lakefront Utilities Services Inc. | 1,450,168 | 1,109,444 |
| | 964,771 | 1,458,490 |

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

6. DUE FROM/TO RELATED PARTY AND RELATED PARTY TRANSACTIONS

- (a) The Corporation of the Town of Cobourg is the majority shareholder of the Company with the Township of Cramahe, Town of Colborne owning one share. 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.

The Company provides water and sewage billing and collection services to the customers of the Corporation of the Town of Cobourg, the Township of Cramahe, Town of Colborne and the Hamlet of Grafton. During the year, the Company collected revenues of \$30,000 (2019 - \$30,000) from the Town of Cobourg and paid expenses of \$55,042 (2019 - \$56,649) and interest of \$260,400 (2019 - \$507,500) as detailed in Note 15.

The Company also has a promissory note receivable in the amount of \$405,000 (2019 - \$450,000) with interest receivable of \$24,300 (2019 - \$26,730) from the shareholder as described in note 7.

At year-end, included in accounts receivable is \$Nil (2018 - \$166,661) due from the Town of Cobourg. Included in accounts payable was \$7,581 (2019 - \$86,316) due to the Town of Cobourg.

The Company is also engaged in transactions in the normal course of operations with the Waterworks of the Town of Cobourg (Waterworks). The parties are related due to common control. During the year, the Company collected rent recoveries of \$54,046 (2019 - \$53,004) from Waterworks.

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 \$580,613 (2019 - \$462,593).

- (b) Due from related party

| | 2020 | 2019 |
|-----------------------------------|------|---------|
| | \$ | \$ |
| Waterworks of the Town of Cobourg | - | 128,433 |

- (c) Due to related party

| | 2020 | 2019 |
|-----------------------------------|---------|------|
| | \$ | \$ |
| Waterworks of the Town of Cobourg | 102,140 | - |

7. DUE FROM SHAREHOLDER

The amount due from shareholder of \$429,300 (2019 - \$476,730) relates to a project completed by the Company for the shareholder. The loan requires annual principal repayments of \$45,000, bears interest at a rate of 5.4% and matures December 2029.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

8. LOAN RECEIVABLE

The Company loaned money to a Joint Venture between Lakefront Utilities Services Inc., Veridian Connections Inc. and Solera Sustainable Energies Company Limited. The Joint Venture will undertake a solar power generation project at the property located at 739 D'Arcy Street, Cobourg, Ontario (Building 13). The property is owned by The Corporation of the Town of Cobourg. The loan is repayable in monthly principal and interest payments of \$730, with an interest rate of 5.75% and matures in 2044.

| | 2020 | 2019 |
|--|---------|---------|
| | \$ | \$ |
| Loan receivable | 111,968 | - |
| Less principal payments due within one year | 2,381 | - |
| Due beyond one year | 109,587 | - |
| Estimated principal repayments are as follows: | | |
| | | \$ |
| 2021 | | 2,381 |
| 2022 | | 2,521 |
| 2023 | | 2,670 |
| 2024 | | 2,828 |
| 2025 | | 2,995 |
| Subsequent years | | 98,573 |
| | | 111,968 |

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

9. **PROPERTY, PLANT AND EQUIPMENT**

| | Land and buildings \$ | Equipment and vehicles \$ | Distribution equipment \$ | Work in process \$ | Total \$ |
|---|-----------------------------|---------------------------------|---------------------------------|--------------------------|-------------------|
| Cost | | | | | |
| At January 1, 2020 | 1,355,486 | 2,818,178 | 23,477,604 | 479,662 | 28,130,930 |
| Additions | 8,513 | 107,256 | 2,019,369 | 598,203 | 2,733,341 |
| Transfers | - | - | - | (260,986) | (260,986) |
| At December 31, 2020 | 1,363,999 | 2,925,434 | 25,496,973 | 816,879 | 30,603,285 |
| Accumulated amortization | | | | | |
| At January 1, 2020 | 195,172 | 1,678,756 | 4,449,303 | - | 6,323,231 |
| Amortization | 34,639 | 255,469 | 883,284 | - | 1,173,392 |
| At December 31, 2020 | 229,811 | 1,934,225 | 5,332,587 | - | 7,496,623 |
| Net book amount at December 31, 2020 | 1,134,188 | 991,209 | 20,164,386 | 816,879 | 23,106,662 |

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

9. PROPERTY, PLANT AND EQUIPMENT, continued

| | Land and buildings \$ | Equipment and vehicles \$ | Distribution equipment \$ | Work in process \$ | Total \$ |
|---|-----------------------------|---------------------------------|---------------------------------|--------------------------|-------------------|
| Cost | | | | | |
| At January 1, 2019 | 1,347,138 | 2,973,658 | 22,319,868 | 285,177 | 26,925,841 |
| Additions | 8,348 | 158,333 | 1,186,900 | 450,013 | 1,803,594 |
| Disposals | - | (313,813) | (29,164) | - | (342,977) |
| Transfers | - | - | - | (255,528) | (255,528) |
| At December 21, 2019 | 1,355,486 | 2,818,178 | 23,477,604 | 479,662 | 28,130,930 |
| Accumulated amortization | | | | | |
| At January 1, 2019 | 160,701 | 1,656,570 | 3,628,731 | - | 5,446,002 |
| Amortization | 34,471 | 335,999 | 849,736 | - | 1,220,206 |
| Disposals | - | (313,813) | (29,164) | - | (342,977) |
| At December 21, 2019 | 195,172 | 1,678,756 | 4,449,303 | - | 6,323,231 |
| Net book amount at December 21, 2019 | 1,160,314 | 1,139,422 | 19,028,301 | 479,662 | 21,807,699 |

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

10. INTANGIBLE ASSET

| | Cost \$ | Accumulated amortization \$ | 2020 Net book value \$ | 2019 Net book value \$ |
|-------------------|------------|-----------------------------------|---------------------------------|---------------------------------|
| Computer software | 452,123 | 192,465 | 259,658 | 290,206 |

During the year, there were no additions (2019 - \$nil) or disposals (2019 \$28,665).

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

11. INCOME TAXES

- (a) The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.5% (2019 - 39.5%) to the income (loss) for the years as follows:

| | 2020 | 2019 |
|--|----------------|----------------|
| | \$ | \$ |
| Income (loss) for the year | (317,376) | 162,192 |
| Net movement in regulatory deferral accounts | 1,010,400 | 431,788 |
| Other comprehensive income (OCI) | (224,917) | - |
| Deferred tax included in OCI | (81,093) | - |
| | 387,014 | 593,980 |
| Anticipated income tax | 152,871 | 234,622 |
| Tax effect of the following: | | |
| Effect of items not deductible for tax | 5,122 | 4,486 |
| Timing income differences | 48,801 | (14,596) |
| General rate reduction | (25,098) | (10,314) |
| Refundable tax for investment income | - | (10,016) |
| Capital costs allowance in excess of accounting amortization | (111,367) | (173,898) |
| Ontario Co-op tax credit | (3,000) | - |
| Benefit of prior year loss carryforward | (18,911) | - |
| Future tax expense amounts | 133,119 | 98,067 |
| Other | - | 509 |
| | 181,537 | 128,860 |

- (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.

Deferred tax assets:

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

11. **INCOME TAXES, continued**

| | Opening balance at January 1, 2020 \$ | Recognize in net income \$ | Recognize in OCI \$ | Closing balance at December 31, 2020 \$ |
|--------------------------------|---|----------------------------------|---------------------------|---|
| Deferred tax assets | | | | |
| Employee future benefits | 111,872 | (21,899) | 81,093 | 171,066 |
| Non-capital loss carryforwards | 12,688 | (12,688) | - | - |
| | 124,560 | (34,587) | 81,093 | 171,066 |

| | Opening balance at January 1, 2019 \$ | Recognize in net income \$ | Recognize in OCI \$ | Closing balance at December 31, 2019 \$ |
|--------------------------------|---|----------------------------------|---------------------------|---|
| Deferred tax assets | | | | |
| Employee future benefits | 111,539 | 333 | - | 111,872 |
| Non-capital loss carryforwards | - | 12,688 | - | 12,688 |
| | 111,539 | 13,021 | - | 124,560 |

Deferred tax liabilities:

| | 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 | 98,532 | 495,011 |

| | 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 | 285,391 | 111,088 | 396,479 |

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

11. **INCOME TAXES, continued**

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

12. **REGULATORY DEFERRAL ACCOUNTS**

| | Note | Remaining recovery/ reversal period (years) | December 31, 2019 \$ | Balances arising in the period \$ | Recovery/ reversal \$ | December 31, 2020 \$ |
|--|------|--|----------------------------|--|-----------------------------|----------------------------|
| Regulatory deferral account debit | | | | | | |
| Low voltage | i | 2 | 1,660,000 | 843,210 | - | 2,503,210 |
| Retail settlement | iv | 2 | 364,991 | 172,904 | - | 537,895 |
| Recovery account | v | 2 | 99,378 | 2,349 | - | 101,727 |
| | | | 2,124,369 | 1,018,463 | - | 3,142,832 |

| | Note | Remaining recovery/ reversal period (years) | December 31, 2019 \$ | Balances arising in the period \$ | Recovery/ reversal \$ | December 31, 2020 \$ |
|---|------|--|----------------------------|--|-----------------------------|----------------------------|
| Regulatory deferral account credit | | | | | | |
| Cost of power | iii | 2 | 1,376,978 | (213,002) | - | 1,163,976 |
| Retail settlement | iv | 2 | 772,622 | 141,345 | - | 913,967 |
| Recovery account | v | 2 | 120,205 | 18,301 | - | 138,506 |
| Other DVA | ii | 2 | 36,998 | 59,763 | - | 96,761 |
| | | | 2,306,803 | 6,407 | - | 2,313,210 |

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12. 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

1509 – This account is used to record impacts arising from the COVID-19 Emergency. This deferral account includes three sub-accounts:

a) Billing and System Changes for Electricity Distributors as a Result of the Emergency Order Regarding Time-of-Use Pricing.

b) Lost Revenues Arising from the COVID-19 Emergency for Electricity Distributors.

c) Other Incremental Costs for Electricity Distributors.

Refer to note 29 for additional disclosures related to COVID-19.

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

TOWN OF COBOURG HOLDINGS INC.
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For the year ended December 31, 2020

12. REGULATORY DEFERRAL ACCOUNTS, continued

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.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2020 | 2019 |
|--|------------------|------------------|
| | \$ | \$ |
| Accounts payable - energy purchased | 2,643,192 | 3,077,867 |
| Other trade accounts payable and accrued liabilities | 850,920 | 1,099,731 |
| Deferred revenue (receivable) - CDM Program | (9,935) | (99,504) |
| Deferred revenue - AFT | 15,354 | 62,294 |
| | 3,499,531 | 4,140,388 |

14. CREDIT FACILITIES

The Company has a \$4,000,000 (2019 - \$4,000,000) credit facility consisting of \$2,500,000 (2019 - \$2,500,000) operating line and \$1,500,000 (2019 - \$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 \$1,700,000 from this line (2019 - \$Nil). The bank agreements require the Company to maintain certain financial covenants. At December 31, 2020, the Company was in compliance with the financial covenants.

The Company has posted \$1,222,663 (2019 - \$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.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

15. **LONG-TERM DEBT**

| | 2020 \$ | 2019 \$ |
|---|------------|------------|
| Bank loan, 3.22% per annum blended repayments of \$5,574 monthly, due February 29, 2030. | 530,182 | 577,375 |
| Infrastructure Ontario Loan, 3.90% per annum, blended repayments of \$5,520 monthly, due December 3, 2048 | 1,127,559 | 1,149,362 |
| Infrastructure Ontario Loan, 4.03% per annum, blended repayments of \$82,668 semi-annually, due September 3, 2028 | 1,121,110 | 1,237,728 |
| Infrastructure Ontario Loan, 3.38% per annum, blended repayments of \$72,708 semi-annually, due October 1, 2027 | 899,731 | 1,011,885 |
| Demand note payable, Corporation of Town of Cobourg, 3.72% per annum | 7,000,000 | 7,000,000 |
| | 10,678,582 | 10,976,350 |
| Less principal payments due within one year | 310,567 | 827,950 |
| Due beyond one year | 10,368,015 | 10,148,400 |

The demand 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, 2022. During the year the Company paid \$260,400 (2019 - \$507,500) in interest on the note.

The estimated principal repayments for 2021-2025 and subsequent years are related to the Company's bank loan and 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:

| | \$ |
|------------------|------------|
| 2021 | 310,567 |
| 2022 | 322,013 |
| 2023 | 333,884 |
| 2024 | 346,197 |
| 2025 | 358,968 |
| Subsequent years | 9,006,953 |
| | 10,678,582 |

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

16. CONTRIBUTION IN AID OF CONSTRUCTION

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

| | 2020 | 2019 |
|--|------------------|------------------|
| | \$ | \$ |
| Deferred contributions, net, beginning of year | 2,625,609 | 2,578,135 |
| Contributions in aid of construction received | 275,483 | 136,890 |
| Contributions in aid of construction recognized as revenue | (90,915) | (89,416) |
| | 2,810,177 | 2,625,609 |

17. 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.

18. 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:

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$ | \$ |
| Accrued benefit obligation, beginning of period | 419,141 | 420,900 |
| Current service cost | 25,221 | 23,229 |
| Past service costs | (59,595) | - |
| Interest on accrued benefit obligation | 12,489 | 14,048 |
| Benefits paid | (57,737) | (39,036) |
| Actuarial loss | 306,010 | - |
| | 645,529 | 419,141 |

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

18. 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 \$57,737 (2019 - \$39,036).

The actuarial assumptions used in the valuation are the discount rate of 2.7% (2019 - 3.5%), salary increase rate of 2% (rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion and for Company specific information) (2019 - 3%), health benefits include both health benefits 4.40% (2019 - 5.71%), and dental benefits 4.70% (2019 - 4.5%) and retirement age of 60 (2019 - 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 | 557,600 | (87,900) | (14) |
| Discount rate | (1) | 760,700 | 115,200 | 18 |
| Cost trend | 1 | 676,600 | 31,000 | 5 |
| Cost trend | (1) | 618,900 | (26,600) | (4) |

19. SHARE CAPITAL

Authorized

Unlimited number of common shares
number of common shares

Issued

| | 2020 \$ | 2019 \$ |
|---------------|------------|------------|
| Common shares | 7,002,145 | 7,002,145 |

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

20. **REVENUE**

| | 2020 | 2019 |
|----------------------|------------------|------------------|
| | \$ | \$ |
| Commercial revenue | 96,315 | 128,734 |
| Distribution revenue | 4,466,756 | 4,418,326 |
| | 4,563,071 | 4,547,060 |

21. **OTHER OPERATING REVENUE**

| | 2020 | 2019 |
|--------------------------|----------------|----------------|
| | \$ | \$ |
| Rentals | 115,066 | 114,785 |
| Miscellaneous | 44,952 | 105,079 |
| External services | 484,489 | 558,852 |
| Feed-in-tariff invoicing | 7,460 | 7,375 |
| Net recoverable work | 50,256 | 81,853 |
| Sewer billing | 30,000 | 30,000 |
| AFT, net | 23,442 | 51,145 |
| | 755,665 | 949,089 |

22. **OPERATING EXPENSES**

| | 2020 | 2019 |
|---------------------------------|------------------|------------------|
| | \$ | \$ |
| Customer billing and collecting | 528,441 | 504,153 |
| Distribution | 1,080,468 | 1,028,847 |
| General and administration | 1,521,276 | 1,701,286 |
| | 3,130,185 | 3,234,286 |

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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23. **CHANGE IN NON-CASH WORKING CAPITAL ITEMS**

| | 2020 | 2019 |
|---|------------------|----------------|
| | \$ | \$ |
| Decrease in accounts receivable | 247,669 | 63,204 |
| Increase in unbilled revenue | (56,670) | (383,340) |
| Decrease (increase) in inventories | (31,249) | 1,911 |
| Decrease (increase) in prepaid expenses | 24,828 | (22,780) |
| Increase (decrease) in accounts payable and accrued liabilities | (640,857) | 1,226,753 |
| Increase (decrease) in deposits held | (46,171) | 2,234 |
| Income taxes paid | (77,035) | (52,253) |
| Interest received | 110,929 | 144,571 |
| | (468,556) | 980,300 |

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

24. **FINANCE INCOME COSTS**

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

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$ | \$ |
| Interest income on accounts receivable | 26,231 | 43,394 |
| Interest income on bank deposits | 48,718 | 54,203 |
| Interest income on regulatory deferral accounts | 35,981 | 46,974 |
| | 110,930 | 144,571 |

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

| | 2020 | 2019 |
|---|----------------|----------------|
| | \$ | \$ |
| Interest on long term debt | 422,942 | 677,015 |
| Interest cost on regulatory deferral accounts | 48,819 | 72,359 |
| Other interest | 9,182 | 12,886 |
| Interest on employee future benefits | 12,489 | 14,048 |
| | 493,432 | 776,308 |

25. **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 2020 Annual Report disclosed actuarial liabilities of \$113,055 million in respect of benefits accrued for service with actuarial assets of \$109,844 million indicating an actuarial deficit of \$3,211 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 \$158,000 (2019 - \$145,775).

TOWN OF COBOURG HOLDINGS INC.
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26. 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:

| | 2020 \$ | 2019 \$ |
|---------------------------------------|-------------------|-------------------|
| Infrastructure Ontario loans | 3,148,400 | 3,398,975 |
| Operating loan | 1,700,000 | - |
| Bank loan | 530,182 | 577,375 |
| Net debt | 5,378,582 | 3,976,350 |
| Retained earnings and OCI | 5,732,941 | 5,446,371 |
| Share capital | 7,002,145 | 7,002,145 |
| Adjusted capital | 12,735,086 | 12,448,516 |
| Debt-to-adjusted capital ratio | 0.42 | 0.32 |

27. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash, accounts receivable, unbilled revenue, due from related party, due from shareholder and loan receivable which will result in future cash receipts, as well as accounts payable and accrued liabilities, operating loan, due to related party, customer deposits 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 29 for additional disclosure related to COVID-19.

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

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. FINANCIAL INSTRUMENTS, continued

(a) Fair value

The estimated fair values of cash, accounts receivable, unbilled revenue, due from shareholder, accounts payable and accrued liabilities 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.

(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.

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. **FINANCIAL INSTRUMENTS, continued**

(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, 2020 is \$20,000 (2019 - \$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, 2020, the Company holds security deposits in the amount of \$241,058 (2019 - \$287,229).

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 | 2,487,699 | 243,330 | - | 2,731,029 |
| 31-60 days | 20,336 | 1,130 | - | 21,466 |
| 61-90 days | 9,331 | 740 | - | 10,071 |
| 90+ days | 89,395 | 34,425 | (20,000) | 103,820 |
| | 2,606,761 | 279,625 | (20,000) | 2,866,386 |

TOWN OF COBOURG HOLDINGS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2020

27. **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 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 | 3,499,531 | - | - | - |
| Customer deposits | 18,877 | 4,854 | 194,411 | - |
| Long term debt | 78,069 | 232,498 | 322,013 | 10,046,003 |
| Employee future benefits | - | - | - | 645,529 |
| | 3,596,477 | 237,352 | 516,424 | 10,691,532 |

28. **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.

TOWN OF COBOURG HOLDINGS INC.
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29. COVID-19

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic.

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. The Company has included \$23,278 in Account 1509 as a result of the impact of COVID-19. It is not yet determined if these amounts are recoverable.

The full impact continues to evolve as of the date of this report, however the Company does not expect there to be any long term significant impact to liquidity and exposure to credit risk given the nature of operations.

30. COMPARATIVE AMOUNTS

The consolidated financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.