

**FINANCIAL STATEMENTS OF**

**NEWMARKET - TAY POWER  
DISTRIBUTION LTD.**

**December 31, 2019**

**TABLE OF CONTENTS**

	Page
<b>INDEPENDENT AUDITOR'S REPORT</b>	
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	1 - 2
Statement of Changes in Equity and Accumulated Other Comprehensive Income (loss)	3
Statement of Income	4
Statement of Comprehensive Income	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 40

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of  
Newmarket - Tay Power Distribution Ltd.

### *Opinion*

We have audited the financial statements of Newmarket - Tay Power Distribution Ltd., which comprise the statement of financial position as at December 31, 2019, and the statements of changes in equity and accumulated other comprehensive income (loss), income, comprehensive income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with IFRS.

### *Basis for Opinion*

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

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

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

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

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

## **ASSURANCE • TAX • ADVISORY**

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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.



Chartered Professional Accountants  
Licensed Public Accountants

Peterborough, Ontario  
April 29, 2020

**NEWMARKET - TAY POWER DISTRIBUTION LTD.**  
**STATEMENT OF FINANCIAL POSITION**  
**As at December 31, 2019**

	2019	2018
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash (note 25)	3,415,535	-
Accounts receivable	16,417,880	17,287,521
Unbilled revenue	12,167,593	11,856,298
Inventories	1,059,688	882,196
Prepaid expenses	543,075	447,373
Income taxes receivable	3,586,402	1,489,892
	<u>37,190,173</u>	<u>31,963,280</u>
<b>Non current</b>		
Long-term investment (note 4)	100	100
Property, plant and equipment (note 5)	110,142,594	109,545,867
Right-of-use assets (note 14)	1,859,576	-
Intangible asset (note 6)	7,886,836	7,998,699
Goodwill (note 7)	6,864,284	6,864,284
Deferred income taxes (note 8)	967,968	552,850
	<u>127,721,358</u>	<u>124,961,800</u>
	164,911,531	156,925,080
<b>Regulatory deferral account debit balances and related deferred tax (note 9)</b>	<u>3,914,379</u>	<u>10,985,630</u>
	<u>168,825,910</u>	<u>167,910,710</u>

*The accompanying notes are an integral part of these financial statements*

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## STATEMENT OF FINANCIAL POSITION, continued

As at December 31, 2019

	2019	2018
	\$	\$
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 25)	-	3,536,972
Accounts payable and accrued liabilities (note 10)	19,241,895	15,297,440
Current portion of long-term debt (note 11)	6,986,701	3,232,267
Current portion of deposits held (note 16)	905,816	753,133
	<u>27,134,412</u>	<u>22,819,812</u>
<b>Non current</b>		
Long-term debt (note 11)	21,086,137	26,072,837
Interest rate swaps (note 12)	2,086,817	1,296,751
Subordinate debt (note 13)	23,742,821	23,742,821
Lease liabilities (note 14)	1,857,858	-
Contributed capital (note 15)	37,727,229	35,608,117
Deferred income taxes (note 8)	1,992,925	1,483,328
Advances from parent company (note 18)	2,415,359	2,450,663
Deposits held (note 16)	2,346,650	2,426,324
Employee future benefits (note 17)	1,565,894	1,157,004
	<u>94,821,690</u>	<u>94,237,845</u>
	<u>121,956,102</u>	<u>117,057,657</u>
<b>Shareholders' equity</b>		
Share capital (note 19)	27,140,206	27,140,206
Retained earnings	18,217,618	20,067,228
Accumulated other comprehensive income (loss)	(52,482)	32,973
	<u>45,305,342</u>	<u>47,240,407</u>
	<u>167,261,444</u>	<u>164,298,064</u>
<b>Regulatory deferral account credit balances and related deferred tax (note 9)</b>		
	<u>1,564,466</u>	<u>3,612,646</u>
	<u>168,825,910</u>	<u>167,910,710</u>

### Guarantee (note 20)

Approved on behalf of the Board

\_\_\_\_\_ Director

\_\_\_\_\_ Director

*The accompanying notes are an integral part of these financial statements*

**NEWMARKET - TAY POWER DISTRIBUTION LTD.**  
**STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME**  
**(LOSS)**  
For the year ended December 31, 2019

	Share capital \$	Retained earnings \$	Accumulated other comprehensive income (loss) \$	Total \$
<b>Balance, December 31, 2017</b>	27,140,206	21,551,925	32,973	48,725,104
Net income for the year	-	1,572,303	-	1,572,303
Dividends paid	-	(3,057,000)	-	(3,057,000)
<b>Balance, December 31, 2018</b>	27,140,206	20,067,228	32,973	47,240,407
Net loss for the year	-	(412,610)	-	(412,610)
Other comprehensive loss	-	-	(85,455)	(85,455)
Dividends paid	-	(1,437,000)	-	(1,437,000)
<b>Balance, December 31, 2019</b>	27,140,206	18,217,618	(52,482)	45,305,342

*The accompanying notes are an integral part of these financial statements*

**NEWMARKET - TAY POWER DISTRIBUTION LTD.****STATEMENT OF INCOME**

For the year ended December 31, 2019

	2019	2018
	\$	\$
<b>Revenue</b>		
Revenue	21,248,236	21,616,917
Cost of power revenue	102,658,368	80,224,152
	123,906,604	101,841,069
<b>Cost of power purchased</b>	98,168,972	85,026,423
	25,737,632	16,814,646
<b>Gross profit</b>		
<b>Other income (note 21)</b>	2,113,915	2,225,644
	27,851,547	19,040,290
<b>Gross income from operations</b>		
<b>Expenses</b>		
Amortization	5,450,293	6,127,765
Operating expenses (note 22)	12,940,556	11,592,217
Loss on interest rate swap (note 12)	790,066	1,296,751
Loss (gain) on disposal of property, plant and equipment	204,969	(469,800)
	19,385,884	18,546,933
	8,465,663	493,357
<b>Income before undernoted items and income taxes</b>		
<b>Finance income (note 23)</b>	(415,069)	(412,185)
<b>Finance costs (note 23)</b>	2,785,883	1,845,190
	6,094,849	(939,648)
<b>Income (loss) before income taxes and net movement in regulatory deferral accounts, net of deferred tax</b>		
<b>Provision for income taxes (note 8)</b>		
Current	-	877,089
Deferred	125,290	3,397,449
	125,290	4,274,538
	5,969,559	(5,214,186)
<b>Income (loss) before net movement in regulatory deferral accounts, net of deferred tax</b>		
<b>Net movement in regulatory deferral accounts, net of deferred tax</b>	(6,382,169)	6,786,489
	(412,610)	1,572,303
<b>Net income (Net loss) for the year</b>		

The accompanying notes are an integral part of these financial statements

**NEWMARKET - TAY POWER DISTRIBUTION LTD.**  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended December 31, 2019

	2019	2018
	\$	\$
<b>Net income (Net loss) for the year</b>	(412,610)	1,572,303
<b>Comprehensive loss</b>		
Actuarial loss, not reclassified to net income	(116,266)	-
Actuarial loss related deferred income tax not reclassified to net income	30,811	-
<b>Comprehensive loss</b>	(85,455)	-
<b>Net income and comprehensive income (loss) for the year</b>	(498,065)	1,572,303

*The accompanying notes are an integral part of these financial statements*



# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

	2019	2018
	\$	\$
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>Operating activities</b>		
Net income (Net loss) for the year	(412,610)	1,572,303
Items not affecting cash		
Amortization of property, plant and equipment	5,173,949	5,945,076
Amortization of intangible asset	282,070	581,968
Amortization of right-of-use assets	323,033	-
Deferred income taxes	125,290	3,397,449
Loss on disposal of property, plant and equipment	204,969	483,939
Change in employee future benefits	292,624	109,275
Current income tax	-	877,089
Net finance costs	2,370,814	1,433,005
Recognition of contributed capital	(944,042)	(1,229,868)
Loss on interest rate swap	790,066	1,296,751
Interest paid on lease liability	(324,751)	-
	7,881,412	14,466,987
Change in non-cash working capital items (note 24)	2,621,175	(6,303,438)
	10,502,587	8,163,549
<b>Investing activities</b>		
Purchase of long-term investment	-	(100)
Purchase of property, plant and equipment	(5,984,594)	(17,127,731)
Proceeds on disposal of property, plant and equipment	8,949	-
Change in regulatory deferral accounts	5,023,071	(13,360,255)
Purchase of intangible assets	(170,207)	(7,225,762)
Refundable deposit	-	1,000,000
Proceeds of contributed capital	3,063,154	3,012,023
Purchase of goodwill	-	(6,864,284)
	1,940,373	(40,566,109)
<b>Financing activities</b>		
Repayment of long-term debt	(1,232,266)	(747,844)
Proceeds of long-term debt	-	24,319,877
Advances from parent company repaid	(35,304)	(186,216)
Interest paid	(2,785,883)	(1,845,190)
Dividends paid	(1,437,000)	(3,057,000)
	(5,490,453)	18,483,627
<b>Decrease (increase) in bank indebtedness</b>	6,952,507	(13,918,933)
<b>Cash (bank indebtedness) - beginning of year</b>	(3,536,972)	10,381,961
<b>Cash (bank indebtedness) - end of year</b>	3,415,535	(3,536,972)

The accompanying notes are an integral part of these financial statements

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 1. NATURE OF OPERATIONS

Newmarket - Tay Power Distribution Ltd. (the "Company") is a subsidiary of Newmarket Hydro Holdings Inc. and was formed as a result of the amalgamation of Newmarket Hydro Ltd. and Tay Hydro Electric Distribution Company Inc. on May 1, 2007. The purchase of Midland Power Utility Corporation ("Midland PUC") was approved by the Ontario Energy Board ("OEB") in 2018. Midland PUC was amalgamated by the Company effective September 7, 2018. Tay Hydro Inc. has a 7% non-controlling interest in the Company. The address of its registered office and its principal place of business is 590 Steven Ct, Newmarket, ON L3Y 6Z2.

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

### 2. STATEMENT OF COMPLIANCE

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

The financial statements for the year ended December 31, 2019 were approved and authorized for issue by the board of directors on April 28, 2020.

### 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.

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

(b) *Electricity regulation*

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

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

**NEWMARKET - TAY POWER DISTRIBUTION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2019

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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 of repayment of regulatory liabilities. If recovery or repayment is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

Regulatory accounts recognized at December 31, 2019 and December 31, 2018 are disclosed in note 9.

(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.

*Distribution Revenue*

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

*Cost of Power Revenue*

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

*Contributed Capital*

Contributed capital represent certain items of property, plant and equipment which are acquired or constructed with financial assistance in the form of contributions from developers. Contributed capital in-kind were valued at their fair value at the date of their contribution.

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES, continued

#### (c) *Revenue recognition, continued*

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

Contributions from developers are not within the scope of IFRS 15 as they do not give rise to a contract with a customer. Currently, there is no specific IFRS guidance on accounting for contributions received from developers. The Company has an accounting policy for the initial recognition of such contributions and subsequent recognition of the related revenue, as described in note 3(i).

#### Conservation and Demand Management Revenue

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

#### Other Income

Other operating revenue is recorded when services are provided.

#### (d) *Cash*

Cash consists of balances with financial institutions.

#### (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 a weighted average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 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 or declining balance 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, distribution equipment, transportation equipment, office and other.

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	25-30 years
Distribution equipment	10-50 years
Transportation equipment	5-10 years
Office and other	5-10 years

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

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES, continued

#### (g) Goodwill and intangible assets

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

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

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

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

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

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

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES, continued

#### (h) *Right-of-use assets and lease liabilities*

The Company implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard. The Company is a party to two lease contracts for office space in use as well as electrical substation property in Midland.

Based on the accounting policy applied, the Company recognizes a right-of-use asset and a lease liability at the commencement date of the contract for all leases conveying the right to control the use of identified assets for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets and lease liability are initially measured at the present value of the future lease payments, which comprises:

- (a) the amount of the initial measurement of the lease liability,
- (b) any lease payments made at or before the commencement date, less any lease incentives,
- (c) any initial direct costs incurred by the lessee,
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets or restoring the site on which the assets are located.

The initial measurement of the lease liability is based on the lease payments excluding variable elements which are dependent on external factors such as e.g. sale volume in the point of sale leased. Variable lease payments not included in the initial measurement of the lease liability are recognized directly in the profit and loss. The lease payments are discounted using the OEB approved rate per the Company's most recent cost of service application. The lease term as determined by the Company comprises of the non-cancellable period of the lease contracts, periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the right-of-use assets are measured at the present value of the future lease payments, less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. The Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect lease payments made, and re-measuring the carrying amount to reflect any reassessment or lease modifications.

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES, continued

(i) *Contributed capital*

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

(j) *Impairment of non-financial assets*

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

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, 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.



**NEWMARKET - TAY POWER DISTRIBUTION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2019

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3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

*(k) Related parties*

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 18.

*(l) Employee future benefits*

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

The Company pays certain medical and life insurance benefits on behalf of its retired employees. These plans are not funded and accordingly have no plan assets. The Company's net obligation is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. This calculation is actuarially performed using the projected unit credit method. The last full valuation performed was as at December 31, 2019. 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 17.

*(m) Income taxes*

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 8.

**NEWMARKET - TAY POWER DISTRIBUTION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2019

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3. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(n) *Significant accounting estimates and judgements*

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

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

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

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

Employee future benefits - The cost of providing certain health, dental and life insurance benefits on behalf of its retired employees are determined using actuarial valuations. The actuarial valuation uses managements assumptions which have been outlined in note 17.

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.

Leases - Management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. \$5,544,634 of potential lease payments have not been included in the lease liabilities as it is not reasonably certain the extension options will be exercised.

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES, continued

#### (o) Provisions

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

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

#### (p) Financial instruments

Financial assets are identified and classified based on the business model used by the Company for managing those financial assets, as one of the following: at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss. Financial liabilities continue to be 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.

#### 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.

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES, continued

#### (p) *Financial instruments, continued*

The Company's accounts payable and accrued liabilities, customer deposits, subordinate debt, due to related parties and long term debt are classified as financial liabilities at amortized cost and recognized on the date at which the Company becomes a party to the contractual arrangement. Financial liabilities are derecognized when the contractual obligations are 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.

#### 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, 2019, the Company does not have any financial assets, classified at fair value through other comprehensive income.

#### At fair value through profit or loss

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

#### Impairment of financial assets at amortized cost

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

**NEWMARKET - TAY POWER DISTRIBUTION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2019**

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**3. SIGNIFICANT ACCOUNTING POLICIES, continued**

*(q) Change in accounting policies*

IFRS 16 Leases

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

The Company applied IFRS 16 with a date of initial application of 1 January 2019. The adoption of this new Standard has resulted in the Company recognizing a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as leases under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

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

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 3. SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

### 4. LONG-TERM INVESTMENT

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	2019	2018
	\$	\$
Utility Collaborative Services Inc. (UCS), recorded using the cost method, 100 common shares, 16.7% interest	100	100

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

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 5. PROPERTY, PLANT AND EQUIPMENT

	Land and building \$	Distribution equipment \$	Transportation and fibre cable equipment \$	Office and other \$	Total \$
Cost					
At January 1, 2019	5,716,726	120,653,836	2,550,343	2,673,044	131,593,949
Additions	69,278	5,130,887	8,945	775,484	5,984,594
Disposals	(69,836)	(415,403)	(45,282)	(58,069)	(588,590)
At December 31, 2019	5,716,168	125,369,320	2,514,006	3,390,459	136,989,953
Amortization					
At January 1, 2019	16,731	19,685,864	1,225,172	1,120,315	22,048,082
Additions	13,532	4,405,629	328,758	426,029	5,173,948
Disposals	(10,789)	(247,657)	(67,077)	(49,148)	(374,671)
At December 31, 2019	19,474	23,843,836	1,486,853	1,497,196	26,847,359
Net book amount at December 31, 2019	5,696,694	101,525,484	1,027,153	1,893,263	110,142,594

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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

	Land and building \$	Distribution equipment \$	Transportation and fibre cable equipment \$	Office and other \$	Total \$
<b>Cost</b>					
At January 1, 2018	5,766,004	100,299,258	1,584,860	2,045,656	109,695,778
Additions	20,000	20,956,677	1,276,849	644,025	22,897,551
Disposals	(69,278)	(602,099)	(311,366)	(16,637)	(999,380)
<b>At December 31, 2018</b>	<b>5,716,726</b>	<b>120,653,836</b>	<b>2,550,343</b>	<b>2,673,044</b>	<b>131,593,949</b>
<b>Amortization</b>					
At January 1, 2018	36,181	11,577,090	866,789	956,211	13,436,271
Additions	(11,186)	8,291,633	585,132	180,741	9,046,320
Disposals	(8,264)	(182,859)	(226,749)	(16,637)	(434,509)
<b>At December 31, 2018</b>	<b>16,731</b>	<b>19,685,864</b>	<b>1,225,172</b>	<b>1,120,315</b>	<b>22,048,082</b>
<b>Net book amount at December 31, 2018</b>	<b>5,699,995</b>	<b>100,967,972</b>	<b>1,325,171</b>	<b>1,552,729</b>	<b>109,545,867</b>

Included in distribution equipment additions is amortization expense of \$328,759 (2018 - \$86,445) and work in progress of \$4,123,454 (2018 - \$1,968,992). Included in land and building is land with a value of \$5,576,475 (2018 - \$5,576,475).



# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 6. INTANGIBLE ASSET

	Cost \$	Accumulated amortization \$	2019 Net book value \$
Computer software	1,526,475	984,493	541,982
Land rights	419,834	90,347	329,487
Licensed customer list	7,015,367	-	7,015,367
	<u>8,961,676</u>	<u>1,074,840</u>	<u>7,886,836</u>

	Cost \$	Accumulated amortization \$	2018 Net book value \$
Computer software	1,362,437	722,237	640,200
Land rights	419,706	76,574	343,132
Licensed customer list	7,015,367	-	7,015,367
	<u>8,797,510</u>	<u>798,811</u>	<u>7,998,699</u>

During the year, the Company had additions of \$170,207 (2018 - \$7,225,762), disposals of \$6,041 (2018 - \$559,717) and amortization of \$282,070 (2018 - \$581,968).

Included in intangible assets is work in progress of \$445,448 (2018 - \$317,182).

Based on the results of the annual licensed customer list impairment test, the Company determined that the recoverable amount of the cash generating unit is more than its carrying value. No impairment has been recorded in the period ended December 31, 2019.

### 7. GOODWILL

	Cost \$	Accumulated amortization \$	2019 Net book value \$
Goodwill	6,864,284	-	6,864,284

	Cost \$	Accumulated amortization \$	2018 Net book value \$
Goodwill	6,864,284	-	6,864,284

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 7. GOODWILL, continued

Goodwill, representing 4% of the Company's total assets, is allocated to the entire business as a cash generating unit. The goodwill at December 31, 2019 of \$6,864,284 (2018 - \$6,864,284) represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is not amortized.

Based on the results of the annual goodwill impairment test, the Company determined that the recoverable amount of the cash generating unit is more than its carrying value. No impairment has been recorded in the period ended December 31, 2019.

### 8. INCOME TAXES

- (a) Deferred income taxes assets are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of the underlying assets and their carrying amounts as per the financial statements are reflected as deferred income taxes. When the tax basis is greater than the carrying amount, a deferred tax asset is created. 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, 2019 \$	Recognize in net income \$	Closing balance at December 31, 2019 \$
<b>Deferred tax assets</b>			
Reserves deductible when paid	552,850	415,118	967,968

	Opening balance at January 1, 2018 \$	Recognize in net income \$	Closing balance at December 31, 2018 \$
<b>Deferred tax assets</b>			
Property, plant and equipment and cumulative eligible capital	2,189,266	(2,189,266)	-
Reserves deductible when paid	277,651	275,199	552,850
	2,466,917	(1,914,067)	552,850

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 8. INCOME TAXES, continued

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

	Opening balance at January 1, 2019 \$	Recognize in net income \$	Closing balance at December 31, 2019 \$
<b>Deferred tax liabilities</b>			
Property, plant and equipment	1,483,328	509,597	1,992,925
<hr/>			
	Opening balance at January 1, 2018 \$	Recognize in net income \$	Closing balance at December 31, 2018 \$
<b>Deferred tax liabilities</b>			
Property, plant and equipment	-	1,483,328	1,483,328
<hr/>			
		2019 \$	2018 \$
<hr/>			
<b>Deferred tax assets</b>			
Deferred tax assets to be recovered after more than 12 months		967,968	552,850
<hr/>			
		2019 \$	2018 \$
<hr/>			
<b>Deferred tax liabilities</b>			
Deferred tax liabilities to be recovered after more than 12 months		1,992,925	1,483,328

Included in reserves deductible when paid are post-employment benefits and net unrealized losses. Included in tax basis of property, plant and equipment are goodwill and intangible assets.

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 8. INCOME TAXES, continued

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

	2019	2018
	\$	\$
Income (loss) for the year before income taxes	6,094,849	(939,648)
Net movement in regulatory deferral accounts	(4,483,013)	4,802,272
	1,611,836	3,862,624
Anticipated income tax	636,675	1,525,736
Tax effect of the following:		
Permanent expense differences	3,875	7,739
Loss carryforward	(640,550)	-
General rate reduction	-	(502,141)
Impact of deferred taxes and other	125,290	3,243,204
Provision for income taxes	125,290	4,274,538

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 9. REGULATORY DEFERRAL ACCOUNTS

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

	Note	Remaining recovery/ reversal period (years)	December 31, 2018 \$	Net balances arising in the period \$	Recovered in the period \$	December 31, 2019 \$
<b>Regulatory deferral account debit</b>						
Retail						
settlement variance account	i	1	4,383,362	(4,399,339)	14,404	(1,573)
Other						
Regulatory Assets	ii	A	2,346,935	1,239,518	(1,669,817)	1,916,636
Deferred tax debit balance	iii	A	4,255,333	(2,256,017)	-	1,999,316
			10,985,630	(5,415,838)	(1,655,413)	3,914,379
<b>Regulatory deferral account credit</b>						
Recovery						
account	iv	A	29,869	1,374,888	(1,570,733)	(165,976)
Other	ii	A	91,712	(91,712)	-	-
IFRS						
conversion	v	1	2,625,052	1,584,795	(2,988,557)	1,221,290
Deferred Tax						
Credit Balance	iii	A	866,013	(356,861)	-	509,152
			3,612,646	2,511,110	(4,559,290)	1,564,466

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

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 9. REGULATORY DEFERRAL ACCOUNTS, continued

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

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

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

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

(v) In 2012, the Company adjusted the estimated useful life related to the amortization period for certain capital assets, based upon the Ontario Energy Board's regulatory accounting direction as contained in the revised 2012 Accounting Procedures Handbook for Electricity Distributors. As a result of OEB direction related to the settlement of these amounts, the company has recorded a payable in the deferral account of \$1,221,290 (2017 - \$2,625,052).

In 2019, the Company was approved through its annual Incentive Regulation Mechanism (IRM) application to the OEB for the settlement of this balance. The Company is continuing to refund this balance until April 30th of 2020, after which any remainder is expected to be approved for settlement through their 2020 IRM and the amount will be refunded to its respective customers by class. This balance also includes \$673,659 of carrying charges based on the Company's weighted average cost of capital.

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
	\$	\$
Accounts payable - purchased power	9,224,116	6,426,058
Other trade accounts payable and accrued liabilities	4,168,735	4,719,980
Water and sewer billings payable (note 18)	3,116,499	2,490,850
Credits on customer accounts	1,332,926	1,430,903
Conservation demand management programs	843,718	331,761
HST payable (recoverable)	555,901	(102,112)
	19,241,895	15,297,440

### 11. LONG-TERM DEBT

	2019	2018
	\$	\$
(a) Bank loan payable, 4.41% fixed rate, payable in blended monthly payments of \$50,956	9,974,300	10,142,213
(b) Bank loan payable, 4.4% fixed rate, payable in blended monthly payments of \$42,610	7,546,461	7,721,893
(c) Bank loan payable, 2.44% fixed rate, payable in blended monthly payments of \$65,738	4,402,848	5,076,065
(d) Bank loan payable, 4.26% fixed rate, payable in blended monthly payments of \$33,088	4,149,229	4,364,933
(e) Bank loan payable, 30 day bankers acceptances, interest only, no defined terms of repayment	2,000,000	2,000,000
	28,072,838	29,305,104
Less principal payments due within one year	6,986,701	3,232,267
Due beyond one year	21,086,137	26,072,837

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 11. LONG-TERM DEBT, continued

(a) The bank loan payable is a 30 year term loan due October 9, 2048 with a payment due at maturity of \$50,957. Refer to note 12 and 28 for details on interest rate swap agreements.

(b) The bank loan payable is a 10 year term loan due October 10, 2028 with a payment due at maturity of \$5,633,365. Refer to note 12 and 28 for details on interest rate swap agreements.

(c) The bank loan payable is a 5 year term loan due December 10, 2020 with a payment due at maturity of \$3,771,150. Refer to note 12 and 28 for details on interest rate swap agreements.

(d) The bank loan payable is a 15 year term loan due October 11, 2033 with a payment due at maturity of \$33,088. Refer to note 12 and 28 for details on interest rate swap agreements.

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

Estimated principal repayments are as follows:

	\$
2020	6,986,701
2021	609,758
2022	636,812
2023	665,066
2024	671,906
Subsequent years	18,502,595
	<u>28,072,838</u>

### 12. INTEREST RATE SWAPS

To reduce exposure to interest rate fluctuations, the Company has four interest rate swaps where they pay a fixed interest rate over the term of the loan. As at December 31, 2019, the mark-to-market loss related to the swap agreement is \$2,086,817 (\$2018 - 1,296,751). The current year loss was \$790,066 (2018 - \$1,296,751)

### 13. SUBORDINATE DEBT

	2019 \$	2018 \$
Note payable, 5.48% - Township of Newmarket	22,000,000	22,000,000
Note payable, 5.48% - Township of Tay	1,742,821	1,742,821
	<u>23,742,821</u>	<u>23,742,821</u>



# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 13. SUBORDINATE DEBT, continued

Estimated principal repayments are as follows:

	\$
Unspecified	23,742,821

These promissory notes are subordinated and postponed until all the bank loans payable listed in Note 11 are repaid. No repayment of this subordinated debt is permissible until all payment obligations of the bank loans payable listed in Note 11 are fulfilled.

### 14. LEASES

The Company has leases for two office buildings and a lease in place for electrical substations. Each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability.

Estimates on lease terms and lease extensions on lease contracts were measured based on circumstances at date of initial application. Lease payments are fixed, with leases of office buildings generally limited to a lease term of 5 to 10 years and leases of substations having a lease term of 5 years.

When measuring the lease liabilities, the Company determined the appropriate rate to discount lease payments as the long term debt rate from their most recent OEB board approved cost of service rate application.

#### *Right-of-use assets*

Additional information on right-of-use assets by class is as follows:

	Assets	Carrying amount	Additions	Depreciation
Office buildings	2	1,675,800	1,968,204	(292,404)
Electrical substations	5	183,776	214,405	(30,629)
	7	1,859,576	2,182,609	(323,033)

#### *Lease liabilities*

Lease liabilities are presented in the statement of financial position as follows:

	2019	2018
	\$	\$
Non-current	1,857,858	-

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 15. CONTRIBUTED CAPITAL

	2019	2018
	\$	\$
Deferred contributions, net, beginning of year	35,608,117	31,358,906
Contributed capital received	3,063,154	5,479,079
Contributed capital recognized as revenue (note 21)	(944,042)	(1,229,868)
	37,727,229	35,608,117

Included in contributed capital is WIP amounts of \$2,316,791 (2018 - \$2,467,056)

### 16. DEPOSITS HELD

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

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

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

	2019	2018
	\$	\$
Current portion of customer deposits	733,732	705,212
Current portion of construction deposits	172,084	47,921
	905,816	753,133
Long-term portion of customer deposits	1,880,284	2,208,681
Long-term portion of construction deposits	466,366	217,643
	2,346,650	2,426,324

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 17. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by an actuarial valuation. The most recent valuation was performed for December 31, 2019.

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

	2019 \$	2018 \$
Accrued benefit obligation, beginning of year	1,157,004	1,047,729
Past service cost	283,690	92,705
Current service cost	25,670	30,207
Interest expense	38,669	36,945
Benefits paid	(55,405)	(57,174)
Actuarial loss	116,266	6,592
	<b>1,565,894</b>	<b>1,157,004</b>

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial losses arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is \$464,297 (2018 - \$73,744). The increase in the benefit cost is partially a result of employees from Midland PUC being incorporated into the Company's benefit plan in 2019.

The actuarial assumptions used in the valuation of Newmarket-Tay staff are the discount rate of 3.1% (2018 - 3.4%), salary increase rate of 2.8% (2018 - 2.8%), cost trend including health benefits of 5.78% (2018 - 5.96%) and dental benefits 4.5% (2018 - 4.5%) and retirement age of 61 (2018 - 65). The health benefits are expected to decrease to 4.2% in 2020, then increase at a rate of 0.22% per year until 2025 when it reaches 5.30% and dental benefits are expected to decrease to 4.5% in 2020, then increase at a rate of 0.22% per year until 2025 when it reaches 5.60%

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	1,367,300	(198,600)	(13)
Discount rate	(1)	1,820,300	254,400	16
Cost trends	1	1,626,000	60,100	4
Cost trends	(1)	1,511,600	(54,300)	(3)

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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

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

Included in accounts payable (note 10) are water and sewer amounts collected which are due to the Town. These amounts are collected and remitted in accordance with a contract with URB Olameter.

Included in subordinate debt (note 13) are notes payable to related parties.

- (b) Transactions

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

	2019	2018
	\$	\$
Revenue		
Energy sales	2,881,949	2,707,348
Services - Street light capital	-	1,380
Services - Street light maintenance	7,070	19,686
Envi Networks Ltd. rental income	17,000	-
	<u>2,906,019</u>	<u>2,728,414</u>
Expenses		
Interest	1,205,600	1,205,600
Rent and property tax	421,739	440,874
	<u>1,627,339</u>	<u>1,646,474</u>

- (c) The following amounts are due from the Town of Newmarket and Envi Networks Ltd. and included in the financial statements:

	2019	2018
	\$	\$
Town of Newmarket accounts receivable	345,993	310,709
Envi Networks Ltd. accounts receivable	193,110	153,451
	<u>539,103</u>	<u>464,160</u>

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 18. RELATED PARTY TRANSACTIONS, continued

(d) The following amount is due to the parent company:

	2019	2018
	\$	\$
Newmarket Hydro Holdings Inc.	2,415,359	2,450,663

Advances from the parent company, Newmarket Hydro Holdings Inc. includes promissory notes in the amount of \$2,153,000 (2018 - \$2,153,000) which are due March 16, 2022. The remainder of the balance has no specific terms of repayment. As the parent company has confirmed they will not request repayment of this amount during the next fiscal year, the amount has been classified as a non-current liability in the financial statements.

The balances are unsecured and bear interest at the OEB deemed debt rate as of 5.48% for 2019 (2018 - 5.48%).

The key management personnel of the company has been defined as members of its board of directors, executives, and other management personnel. Total wages and benefits to these individuals total \$3,023,330 (2018 - \$2,606,622).

### 19. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	2019	2018
	\$	\$
10,000 Common shares	27,140,206	27,140,206

### 20. GUARANTEE

The Company has guaranteed loans of Envi Networks Ltd., a related company, to a maximum of \$3,500,000. As at December 31, 2019 Envi Networks Ltd. had \$2,050,000 of loans outstanding to which the guarantee applies.

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 21. OTHER INCOME

Other income consists of the following:

	2019	2018
	\$	\$
Account set up fees	173,213	132,142
Pole rental charges	153,228	237,278
Collection charges	31,425	125,994
Non rate-regulated utility operations, net	556,180	214,034
Recognition of contributed capital (note 15)	944,042	1,229,868
Other	255,827	286,328
	<u>2,113,915</u>	<u>2,225,644</u>

### 22. OPERATING EXPENSES

Operating expenses consist of the following:

	2019	2018
	\$	\$
Wages and benefits	4,976,012	4,033,766
Materials, equipment and other operating expenses	2,854,045	2,547,198
Administration and overhead	5,110,500	5,011,253
	<u>12,940,557</u>	<u>11,592,217</u>

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

### 23. FINANCE INCOME AND FINANCE COSTS

Finance income recognized in net income consists of the following:

	2019	2018
	\$	\$
Interest income on accounts receivable	244,910	188,978
Income on cash balance	66,109	130,245
Interest income on regulatory balances	104,050	92,962
	<u>415,069</u>	<u>412,185</u>

Finance costs recognized in net income consists of the following:

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 23. FINANCE INCOME AND FINANCE COSTS, continued

	2019	2018
	\$	\$
Interest on long-term debt	2,652,787	1,804,387
Interest expense on lease liability	94,982	-
Customer deposit interest	38,114	40,803
	2,785,883	1,845,190

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

	2019	2018
	\$	\$
Decrease (increase) in accounts receivable	869,641	(4,013,341)
Increase in unbilled revenue	(311,295)	(2,635,259)
Increase in inventories	(177,492)	(23,240)
Increase in prepaid expenses	(95,702)	(165,475)
Increase in accounts payable and accrued liabilities	3,944,455	2,473,951
Increase (decrease) in deposits held	73,009	(661,702)
Interest received	415,069	412,185
Taxes paid	(2,096,510)	(1,690,557)
	2,621,175	(6,303,438)

### 25. SHORT TERM CREDIT FACILITIES

The Company has \$7,250,000 available in operating facilities from a major chartered bank. The facilities include a 364 day committed revolving operating loan, bearing interest at prime plus 0%, to be repaid within one year from date of acquisition unless extended by the bank. A commitment fee of 0.125% per annum, payable quarterly applies to any unused portion of the facility. As at December 31, 2019 the Company has \$nil (2018 - \$2,865,805) on this facility with reconciling items of \$nil (2018 - \$915,182). The operating loan includes restrictive clauses with respect to repayment. Refer to note 31 for subsequent events related to the availability of this operating facility.

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

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 25. SHORT TERM CREDIT FACILITIES, continued

A general security agreement covering all assets of the Company and assignment of business/liability insurance has been pledged as security for the operating facilities. At December 31, 2019, the Company was in compliance with all covenants.

Included in the Company's bank balance is restricted cash in the amount of \$359,900 (2018 - \$244,015), which consists of monies received by the Company from the Ontario provincial government to administer the Affordability Fund Trust (AFT) program.

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

### 26. PENSION AGREEMENT

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

The Actuarial Opinion contained in the 2019 Annual Report disclosed actuarial liabilities of \$107,687 million in respect of benefits accrued for service with actuarial assets of \$104,290 million indicating an actuarial deficit of \$3,397 million. Because O.M.E.R.S. 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 O.M.E.R.S. pension surplus or deficit.

The amount contributed to O.M.E.R.S. for the year ended was \$664,314 (2018 - \$511,737).

### 27. CAPITAL DISCLOSURES

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

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



# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 28. 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, deposits held, advances from parent company 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.

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

(a) *Interest rate risk*

The Company manages exposure to interest rate risk through a combination of fixed and floating rate borrowings. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent that the floating rate credit facility bears interest at a floating rate. The Company is also exposed to interest rate price risk to the extent that loans bear interest at fixed rates and has entered into an interest rate swap arrangement to manage the impact of fluctuating interest rates on bank loan payable. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based (notes 11, 12 and 18).

(b) *Credit risk*

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

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of related impairment loss is recognized in the statement of income. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2019 is \$277,308 (2018 - \$127,628). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 52,000 customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2019, the Company holds security deposits in the amount of \$3,252,466 (2018 - \$3,179,457). The Company's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk. The accounts receivable balance is expected to be fully repaid within 90 days excluding the allowance for doubtful accounts portion of the balance.

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

### 28. FINANCIAL INSTRUMENTS, continued

#### (c) Liquidity risk

The Company does have a liquidity risk in accounts payable and accrued liabilities of \$19,241,896 (2018 - \$15,345,361). Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due, maintains an adequate line of credit to repay trade creditors and repays long-term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company is low and is not material.

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

	Between 0-3 months \$	Between 4 - 12 months \$	Over 1 year \$
Accounts payable and accrued liabilities	19,241,895	-	-
Deposits held	297,677	608,139	2,346,650
Long-term debt	145,963	6,840,738	21,086,137
Employee future benefits	-	-	1,565,894
Advances from parent company	-	-	2,415,359
Subordinated debt	-	-	23,742,821
	19,685,535	7,448,877	51,156,861

# NEWMARKET - TAY POWER DISTRIBUTION LTD.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

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### 29. CONTINGENT LIABILITIES

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

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

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

### 30. SUBSEQUENT EVENTS

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

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

The Company has increased its credit facility as outlined in note 25 to \$14,500,000 effective March 25, 2020 as a result of this pandemic.

### 31. COMPARATIVE FIGURES

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

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