Financial Statements of

E.L.K. SOLUTIONS INC.

And Independent Auditors' Report thereon

Year ended December 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of E.L.K. Solutions Inc.

Opinion

We have audited the financial statements of E.L.K. Solutions Inc. (the Entity), which comprise:

- the statement of financial position as at December 31, 2021
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at end of December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Windsor, Canada

April 28, 2022

E.L.K. Solutions Inc.

Statement of Financial Position

December 31, 2021, with comparative information for 2020

	Note		2021		2020
Assets					
Current assets					
Cash	4	$	554,450	$	762,160
Accounts receivable			8,037		37,560
Due from related parties	10		69,702		47,807
Income taxes receivable			9,462		-
Inventory	5		18,502		8,795
Total current assets			660,153		856,322
Non-current assets					
Property, plant and equipment	6		30,715		32,876
			30,715		32,876
Total assets		$	690,868	$	889,198
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	5,398	$	9,175
Income taxes payable			-		6,559
Due to related parties	10		95,601		302,441
Total current liabilities			100,999		318,175
Equity					
Share capital	8		200		200
Retained earnings			589,669		570,823
Total equity			589,869		571,023
Total liabilities and equity		$	690,868	$	889,198

See accompanying notes to the financial statements.

On behalf of the Board:

Director

Director

E.L.K. Solutions Inc.

Statement of Comprehensive Income

Year ended December 31, 2021, with comparative information for 2020

	Notes		2021		2020
Revenue					
Service revenue		$	128,728	$	366,904
Other expenses					
Administration			7,871		7,852
Operations			93,642		297,958
Maintenance			-		419
Depreciation	6		7,185		7,185
			108,698		313,414
Income from operating activities			20,030		53,490
Finance income	9		5,646		8,322
Income before income taxes			25,676		61,812
Income tax expense	7		6,830		16,352
			6,830		16,352
Income for the year		$	**18,846**	$	**45,460**

See accompanying notes to the financial statements.

E.L.K. Solutions Inc.
Statement of Changes in Equity

Year ended December 31, 2021, with comparative information for 2020

		Share Capital		Retained earnings		Total
Balance at January 1, 2020		200		525,363		525,563
Net income and comprehensive income		-		45,460		45,460
Balance at December 31, 2019	$	200	$	570,823	$	571,023
Balance at January 1, 2021		200		570,823		571,023
Net income and comprehensive income		-		18,846		18,846
Balance at December 31, 2021	$	200	$	589,669	$	589,869

See accompanying notes to the financial statements.

E.L.K. Solutions Inc.

Statement of Cash Flows
(In thousands of Canadian dollars)

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Operating activities		
Net income	$ 18,846	$ 45,460
Adjustments for:		
Depreciation	7,185	7,185
Net finance income	(5,646)	(8,322)
Income taxes	6,830	16,352
	27,215	60,675
Changes in non-cash operating working capital:		
Accounts receivable	29,523	32,609
Due to/from related parties	(228,735)	155,532
Inventory	(9,707)	2,716
Accounts payable and accrued liabilities	(3,777)	3,775
	(185,481)	255,307
Income tax paid	(22,851)	(15,962)
Interest received	5,646	8,322
Net cash from operating activities	(202,686)	247,667
Investing activities		
Purchase of property, plant and equipment	(5,024)	(2,536)
Net cash used by investing activities	(5,024)	(2,536)
Change in cash and cash equivalents	(207,710)	245,131
Cash and cash equivalents, beginning of year	762,160	517,029
Cash and cash equivalents, end of year	$ 554,450	$ 762,160

See accompanying notes to the financial statements.

1. Reporting entity:

E.L.K. Solutions Inc. (the “Corporation”) supplies and maintains street lighting, sentinel lighting and water heater systems in the communities of Essex, Harrow, Belle River, Comber, Kingsville and Cottam. The Corporation is incorporated under the laws of Ontario, Canada. The Corporation is located in the Town of Essex. The address of the Corporation’s registered office is 172 Forest Avenue, Essex, Ontario, N8M 3E4.

The Corporation is wholly owned by E.L.K. Energy Inc. and the ultimate parent company is The Corporation of the Town of Essex.

The financial statements are for the Corporation as at and for the year ended December 31, 2021.

2. Basis of preparation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Approval of the financial statements:

The financial statements were approved by the Board of Directors on April 28, 2022.

(c) Basis of measurement:

These financial statements have been prepared on the historical cost basis, unless otherwise stated.

(i) Where held, financial instruments at fair value through profit or loss, are measured at fair value.

(d) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(e) Use of estimates and judgements:

(i) Assumptions and estimation uncertainty:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

(i) Note 6 – estimation of useful lives of its property, plant and equipment

3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

(a) Financial instruments:

All financial assets are classified as amortized cost and all financial liabilities are classified as amortized cost. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(e). The Corporation does not enter into financial instruments.

Hedge accounting has not been used in the preparation of these financial statements.

(b) Revenue recognition:

Revenue for provision of services is recognized when the services are performed.

(c) Property, plant and equipment:

Items of property, plant and equipment ("PP&E") acquired prior to January 1, 2014 are measured at deemed cost established on the transition date, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Corporation's borrowings. Qualifying assets are considered to be those that take in excess of nine months to construct.

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

3. Significant accounting policies (continued):

(c) Property, plant and equipment (continued):

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Corporation has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

The estimated useful lives are as follows:

	Years
Water heater rental units	10
Sentinel lighting rental units	10

(d) Inventories:

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(e) Impairment:

(i) Financial assets measured at amortized cost:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss is calculated as the difference between an asset’s carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

3. Significant accounting policies (continued):

(e) Impairment (continued):

(ii) Non-financial assets (continued):

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

(f) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

(g) Finance income and finance costs:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and cash equivalents.

Finance costs comprise interest expense on borrowings, finance lease obligations and unwinding of the discount on provisions, and impairment losses on financial assets. Finance costs are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

(h) Income taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Tax Acts as modified by the *Electricity Act*, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Significant accounting policies (continued):

(h) Income taxes (continued):

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.

4. Cash:

	2021	2020
Bank balances	$ 554,450	$ 762,160
Cash in the statement of cash flows	$ 554,450	$ 762,160

5. Inventory:

Inventory consists of parts and supplies acquired for capital, internal construction, maintenance and recoverable work. The amount of inventory consumed by the Corporation during 2021 was $4,097 (2020 - $16,773).

Amounts written down due to obsolescence in 2021 was $nil (2020 - $ nil).

6. Property, plant and equipment:

	Water heater Rental units	Sentinel lighting rental units	Total
Cost or deemed cost			
Balance at January 1, 2021	$ 84,534	$ 4,756	$ 89,290
Additions	3,880	1,144	5,024
Balance at December 31, 2021	$ 88,414	$ 5,900	$ 94,314
Balance at January 1, 2020	$ 82,062	$ 4,692	$ 86,754
Additions	2,472	64	2,536
Balance at December 31, 2020	$ 84,534	$ 4,756	$ 89,290
Accumulated depreciation			
Balance at January 1, 2021	$ 53,205	$ 3,209	$ 56,414
Depreciation	6,893	292	7,185
Balance at December 31, 2021	$ 60,098	$ 3,501	$ 63,599
Balance at January 1, 2020	$ 46,312	$ 2,917	$ 49,229
Depreciation	6,893	292	7,185
Balance at December 31, 2020	$ 53,205	$ 3,209	$ 56,414
Carrying amounts			
At December 31, 2021	$ 28,316	$ 2,399	$ 30,715
At December 31, 2020	$ 31,329	$ 1,547	$ 32,876

7. Income tax expense:

Current tax expense consists of:

		2021		2020
Current year	$	6,830	$	16,352
	$	6,830	$	16,352

8. Share capital:

		2021		2020
Authorized:				
Unlimited number of voting Class A common shares				
Unlimited number of non-voting Class B common shares				
Issued:				
10,000 Class A common shares	$	100	$	100
10,000 Class B common shares		100		100

9. Finance income:

		2021		2020
Finance income:				
Interest income on bank deposits	$	5,646	$	8,322
Net finance income recognized in profit or loss	$	5,646	$	8,322

10. Related party transactions:

(a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is E.L.K. Energy Inc., which in turn is wholly-owned by The Corporation of the Town of Essex (the “Town”). The Town produces consolidated financial statements that are available for public use.

(b) Outstanding balances due from (due to) related parties:

		2021		2020
Parent company – due from related parties	$	26,908	$	30,173
Town of Essex – due from related parties		42,794		17,634
	$	69,702	$	47,807
Parent company – due to related parties	$	(95,601)	$	(302,441)

10. Related party transactions (continued):

(c) Transactions with ultimate parent (the Town):

The Corporation had no significant transactions with its ultimate parent, a government entity.

The Corporation delivers electricity to the Town throughout the year for the electricity needs of the Town and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The Corporation also provides additional services to the Town, including streetlight maintenance services, sentinel lights and water and waste water billing and customer care services.

(d) Key management personnel:

The key management personnel of the Corporation have been defined as members of its board of directors. The compensation paid or payable is as follows:

	2021	2020
Directors' fees	$ 2,872	$ 2,852
	$ 2,872	$ 2,852

11. Financial instruments and risk management:

Fair value disclosure:

The carrying values of cash and cash equivalents, accounts receivable, due from/to related parties and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments

Financial risks:

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the communities of Essex, Harrow, Belle River, Comber, Kingsville and Cottam. The Town currently accounts for the entire balance in accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2021 is $20,644 (2020 - $nil). An impairment loss of $20,644 (2020 - $nil) was recognized during the year.

11. Financial instruments and risk management:

(a) Credit risk (conintued):

The Corporation’s credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2021, approximately $4,538 (2020 - $nil) is considered 60 days past due.

(b) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation’s objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation does not have access to a credit facility. E.L.K. Energy makes payments on behalf of the Corporation throughout the year to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they become due.

The majority of accounts payable, as reported on the statement of financial position, are due within 30 days.

(c) Capital disclosures:

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve operations. The Corporation’s focus is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the monitoring of cash flows and actual operating results.

The Corporation’s definition of capital includes shareholder’s equity. As at December 31, 2021, shareholder’s equity amounts to $589,869 (2020 - $571,023).