

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2019

Independent Auditors' Report
Statement of Financial Position
Statement of Income
Statement of Retained Earnings
Statement of Cash Flows
Notes to Financial Statements

INDEPENDENT AUDITORS' REPORT

To the Members of:
Ottawa Renewable Energy Co-operative Inc.

Opinion

We have audited the financial statements of Ottawa Renewable Energy Co-operative Inc., which comprise the statement of financial position as at August 31, 2019, and the statement of operations, statement of changes in net assets and cash flows statement 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 Ottawa Renewable Energy Co-operative Inc. as at August 31, 2019, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our 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 audit 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 Canadian accounting standards for private enterprises, 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 relating 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 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 these financial statements. As part of an audit in accordance with Canadian generally accepted audit 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 controls.
- 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 matter 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.



Frouin Group Professional Corporation
Ottawa, Ontario
November 26, 2019


OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.
(Incorporated under the Laws of Ontario)

AUDITED STATEMENT OF FINANCIAL POSITION

AS AT AUGUST 31, 2019

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 615,595	\$ 1,491,141
Accounts receivable	569,332	503,263
Prepaid expenses	16,805	1,430
Current portion of loan receivable (Note 4)	<u>56,008</u>	<u>0</u>
	1,201,732	1,995,834
LOAN RECEIVABLE (NOTE 4)	0	118,012
LONG-TERM INVESTMENTS (Notes 2g and 6)	168,141	168,149
INTEREST IN JOINT ARRANGEMENTS (Notes 2f and 5)	1,441,347	1,516,312
LOAN TO RELATED PARTIES (Note 7)	1,149,874	254,471
PROPERTY AND EQUIPMENT (Notes 2d and 8)	<u>4,381,467</u>	<u>4,197,811</u>
TOTAL ASSETS	<u>\$ 8,398,569</u>	<u>\$ 8,250,589</u>
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 111,154	\$ 254,429
Current portion of long-term liabilities (Note 9)	424,925	0
HST payable	59,105	15,251
Loan from related parties (Note 10)	<u>155,130</u>	<u>0</u>
	<u>750,314</u>	<u>269,680</u>
LONG-TERM LIABILITIES		
Loan payable (Note 9)	550,000	968,000
REDEEMABLE PREFERENCE SHARES (Note 12)	<u>6,884,933</u>	<u>6,950,000</u>
TOTAL LIABILITIES	<u>8,185,247</u>	<u>8,187,680</u>
MEMBER'S EQUITY		
Membership shares (Note 12)	74,000	73,300
Retained earnings (deficit)	<u>139,322</u>	<u>(10,391)</u>
	<u>213,322</u>	<u>62,909</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 8,398,569</u>	<u>\$ 8,250,589</u>

APPROVED ON BEHALF OF THE BOARD:

Director 

Director 

(See accompanying Notes to Financial Statements)

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

AUDITED STATEMENT OF INCOME

FOR THE YEAR ENDED AUGUST 31, 2019

	2019	2018
REVENUES		
Solar revenue received directly	\$ 391,816	\$ 390,272
Income from joint arrangements (Note 2f)	198,263	265,527
Equipment lease	150,000	120,417
Partnership income	14,490	4,230
Grant revenue	22,607	118,360
Cost recovery	96,333	0
Management fee revenue	7,333	0
Dividend revenue	3,060	5,100
Interest revenue	<u>33,406</u>	<u>26,117</u>
	<u>917,308</u>	<u>930,023</u>
EXPENSES		
Advertising and promotion	1,457	4,970
Amortization (Notes 2d and 8)	239,757	203,624
Salaries	214,903	181,513
Projects	91,765	86,805
Insurance	8,932	4,830
Interest on long-term debt	35,346	28,531
Rent	13,800	8,989
Office costs	22,712	24,089
Professional fees	13,761	17,299
Expenses from joint arrangements (Note 2f)	<u>125,162</u>	<u>116,336</u>
	<u>767,595</u>	<u>676,986</u>
NET INCOME FROM OPERATIONS	149,713	253,037
Loss on disposal of assets	<u>0</u>	<u>(21,493)</u>
NET INCOME FOR THE YEAR	<u>\$ 149,713</u>	<u>\$ 231,544</u>

(See accompanying Notes to Financial Statements)

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

AUDITED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED AUGUST 31, 2019

	2019	2018
RETAINED EARNINGS (DEFICIT), beginning of year	\$ (10,391)	\$ (53,737)
Net income for the year	149,713	231,544
Dividend paid	<u>0</u>	<u>(188,198)</u>
RETAINED EARNINGS (DEFICIT), end of year	<u>\$ 139,322</u>	<u>\$ (10,391)</u>

(See accompanying Notes to Financial Statements)

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

AUDITED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2019

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	\$ 149,713	\$ 231,544
Add: Amortization	239,757	203,624
Loss on disposal of capital assets	0	21,493
Cash flows from current operating items	<u>399,190</u>	<u>76,532</u>
	<u>788,660</u>	<u>533,193</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(423,413)	(1,178,998)
Decrease (increase) in loan receivable	62,004	325,170
Decrease (increase) in long-term investment	8	(6,616)
Decrease (increase) in investment in joint arrangements	74,966	98,179
Decrease (increase) in loans to related parties	<u>(895,404)</u>	<u>(63,844)</u>
	<u>(1,181,839)</u>	<u>(826,109)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in loan payable	(418,000)	0
Dividends paid	0	(188,198)
Issuance of membership share capital	700	5,500
Issuance of preferred share capital	<u>(65,067)</u>	<u>832,000</u>
	<u>(482,367)</u>	<u>649,302</u>
NET CHANGE IN CASH	(875,546)	356,386
CASH, beginning of year	<u>1,491,141</u>	<u>1,134,755</u>
CASH, end of year	<u>\$ 615,595</u>	<u>\$1,491,141</u>
REPRESENTED BY:		
Cash	<u>\$ 615,595</u>	<u>\$1,491,141</u>

(See accompanying Notes to Financial Statements)

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The Corporation is a for-profit corporation incorporated under subsection 6(1) of the Ontario Co-operative Corporation Act on September 3, 2010. The Co-operative generates electricity from renewable energy sources and sells electricity as generator.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Canadian accounting standards for private enterprises (ASPE) under Part II of the CPA Canada Handbook and include the following significant accounting policies:

a. Use of estimates

The preparation of these financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known.

b. Revenue recognition

Service revenue, which includes solar revenue, equipment lease, partnership income, income from joint arrangements, as well as management fees, is recognized when the appropriate services are performed and collection of the relevant receivable is probable.

Grant revenue is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Amounts received for future services are deferred until the service is provided and related expenses are incurred.

Cost recovery relates to fees charged CoEnergy Ontario Co-operative Inc. and is recognized as revenue in the same period as the costs are incurred.

Dividend income is recognized as revenue as at the declaration date and interest income is recognized on the accrual basis.

c. Income taxes

The Corporation applies the tax payable method of accounting for income taxes.

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Property and equipment

Property and equipment is recorded at cost. Amortization is provided on the straight line basis as follows:

- Solar equipment - 20 years

e. Financial instruments

Measurement of financial instruments

The carrying value of cash, accounts receivable and HST receivable/payable approximates their fair value because of the relatively short period to maturity of the instruments. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Transaction costs

The Corporation recognizes its transactions costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transactions costs that are directly attributable to their origination, issuance or assumption.

f. Joint arrangements

The Corporation owns interests in jointly-controlled operations and assets. The Corporation records its proportionate interest in assets and liabilities on the statement of financial position as well as its share of revenue and expenses incurred by the joint arrangement on the statement of income.

g. Long-term investments

Long-term investments include investments in other companies and partnerships subject to significant influence. The Corporation applies the cost method of accounting for these long-term investments. The investments are carried at cost and the net earnings of the investments are reflected in the determination of the net earnings of the Corporation only to the extent of income received or receivable.

3. RELATED PARTY TRANSACTIONS

Certain management, directors and members of their immediate family are owners of preference shares of the Corporation. During the year, dividends were paid on these preference shares at fair market value, which is the same rate as the amounts paid to non-related party preference shareholders.

The Corporation has entered into an agreement with a company owned by a member of the board of directors to install solar panels on the related company's property and produce solar income. During the 2019 fiscal year, the related company's share of solar income derived from this property was \$1,768 (2018 - \$1,892). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

3. RELATED PARTY TRANSACTIONS (continued)

During the fiscal year, the Corporation entered into various agreements with Apricity Renewables, who was hired as a third party engineer for various projects during the construction phase. They are related parties by virtue of the fact that a board member is also a director of Apricity Renewables. Total payments to this related party during the fiscal year were \$5,050 plus HST (2018 - \$6,325 plus HST). These transactions were recorded at the exchange amount.

AP Muni P3 Limited Partnership

The Corporation has entered into an agreement with AP Muni P3 Limited Partnership, of which the Corporation owns 5,100 of a total 10,004 Class A Units and 4,900 out of a total 10,000 Class B units, and which a member of the board of directors of OREC acts as general partner. The Corporation's proportionate share of the Partnership's income during the 2019 fiscal year was \$14,490 (2018 - \$4,230).

The Corporation leases equipment to the partnership at a rate of \$12,500 per month. Revenues derived from this lease agreement in the 2019 fiscal year were \$150,000 (2018 - \$120,417) and were recorded at the exchange amount.

On April 12, 2017 the Corporation entered into a loan agreement with the Partnership. The loan bears interest at a rate of 6.5% interest per annum, payable in monthly blended payments of principal and interest of \$1,879.92 beginning November 2017. Total interest earned as a result of this loan in the 2019 fiscal year was \$16,252 (2018 - \$14,156). The total balance receivable from the Partnership as at August 31, 2019 is \$245,560 (2018 - \$251,871).

10671401 Canada Inc.

The Corporation is related to 10671401 Canada Inc. through share ownership. Under the shareholders' agreement, the Corporation is entitled to a management fee of \$6,000 per year plus HST effective January 2019. Total management fees received in the 2019 fiscal year were \$4,000, which is the exchange amount.

As of August 31, 2019, there is a loan receivable from 10671401 Canada Inc. in the amount of \$884,314 (2018 - \$2,600). This loan has no specified repayment terms and is non-interest bearing.

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

3. RELATED PARTY TRANSACTIONS (continued)

ASM Solar G1 LP

The Corporation is related to ASM Solar G1 LP through their role as General Partner. Through the partnership agreement, the Corporation is entitled to a management fee of \$5,000 per year plus HST effective January 2019. Total management fees received in the 2019 fiscal year were \$3,333 (2018 - \$0), which is the exchange amount.

As of August 31, 2019, there is an amount payable to ASM Solar G1 LP in the amount of \$155,130 (2018 - \$0). This balance has no specified repayment terms and is non-interest bearing.

CoEnergy Ontario Co-Operative Inc.

The Corporation is related to CoEnergy Ontario Co-Operative Inc. by virtue of being under common control of the same Board of Directors. There is a Memorandum of Understanding dated November 13, 2018 whereby it is agreed that certain costs would be shared. In the 2019 fiscal year, the Corporation recognized \$96,333 as revenue under this cost sharing agreement (2018 - \$0), which is the exchange amount.

As of August 31, 2019, there is an amount receivable from CoEnergy Ontario Co-Operative Inc. in the amount of \$108,379 (2018 - \$0). There is a loan agreement for a portion of this loan: \$20,000 is repayable in a lump sum on December 1, 2020, with interest being accrued and paid in the interim at a rate of 7.5%. The remainder of this receivable relates to cost recovery charges and is included in accounts receivable.

4. LOAN RECEIVABLE

On March 9, 2018, the Corporation entered into a loan agreement with Minto Skating (1995) Centre (Minto). The Corporation loaned to Minto a principal sum of \$140,000, repayable in 24 equal consecutive blended monthly installments of principal and interest at the rate of 7%, calculated monthly.

On January 7, 2019, the Corporation entered into a loan agreement with Switch Energy. The Corporation loaned to Switch Energy a principal sum of \$14,000, repayable in 12 equal consecutive monthly instalments of \$1,230.82.

The above receivables can be summarized as follows:

	2019	2018
Minto Skating (1995) Centre.	\$ 48,824	\$ 118,012
Switch Energy	<u>7,184</u>	<u>0</u>
	56,008	118,012
Less: Current portion	<u>(56,008)</u>	<u>0</u>
	<u>\$ 0</u>	<u>\$ 118,012</u>

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

5. INTEREST IN JOINT ARRANGEMENTS

The Corporation owns interests in the following joint arrangements:

	2019	2018
CSE-OREC Joint Venture, 50% interest	\$ 737,640	\$ 792,324
CECCE-OREC Joint Venture, 50% interest	703,707	723,988
	<u>\$1,441,347</u>	<u>\$1,516,312</u>

6. LONG-TERM INVESTMENTS

The Corporation owns interests in the following long-term investments:

	2019	2018
OREC-Smith Joint Venture Inc., 49 of 100 Class A voting shares, 51 of 100 Class B non-voting shares	\$ 129,990	\$ 129,999
AP Muni P3 Limited Partnership, 5,100 of 10,004 Class A Units and 4,900 of 10,000 Class B Units	38,000	38,000
10671401 Canada Inc., 100 of 200 Common shares and 50 Class A shares	150	150
ASM Solar G1 Limited Partnership, 4 of 10,004 Class A Units	<u>1</u>	<u>0</u>
	<u>\$ 168,141</u>	<u>\$ 168,149</u>

7. LOAN TO RELATED PARTIES

The Corporation has issued loans to related parties during the year (please refer to note 3 for further information for each relationship). The issued loans to related parties are as follows:

	2019	2018
AP Muni P3 Limited Partnership, repayable in monthly blended payments of principal and interest (6.5%) of \$1,880.	\$ 245,560	\$ 251,871
10671401 Canada Inc., non-interest bearing with no specified repayment terms	884,314	2,600
CoEnergy Ontario Co-Operative Inc., bearing interest at a rate of 7.5% per year, with interest payments of \$375 due quarterly, and the principal payable in lump sum on December 1, 2020	<u>20,000</u>	<u>0</u>
	<u>\$1,149,874</u>	<u>\$ 254,471</u>

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

8. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value 2019	Net Book Value 2018
Solar equipment	<u>\$5,155,042</u>	<u>\$ (773,575)</u>	<u>\$4,381,467</u>	<u>\$4,197,811</u>

9. LOAN PAYABLE

	2019	2018
Loan from Desjardins with a set due date of October 3, 2019. Interest rate in force is 5.86%	6,925	0
Loan from Tolcor Investments Ltd., which is owned by a member, with quarterly interest payments at a rate of 2.5%, due March 1, 2020, callable with 90 days notice.	50,000	50,000
Various 5 year notes payable to members with annual interest payments at the rate of 3%.	<u>918,000</u>	<u>918,000</u>
	974,925	968,000
Less: current portion	<u>(424,925)</u>	<u>0</u>
	\$ 550,000	\$ 968,000

Total principal payments required for the subsequent years are \$550,000 in 2021.

10. DUE TO RELATED PARTIES

	2019	2018
Due from ASM Solar G1 LP, non-interest bearing with no specified repayment terms	<u>\$ 155,130</u>	<u>\$ 0</u>

11. TERM LOAN

The Corporation has an operating line of credit with Caisse Populaire Rideau-Vision D'Ottawa Inc. The current limit of the credit facility is \$250,000 at a rate of 3.95%, however, the current balance is \$0.

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

12. MEMBERSHIP SHARES & PREFERENCE SHARES

Authorized:

10,000 in Membership Shares at a par value of \$100 each

	2019	2018
Issued:		
740 Membership Shares (2018 - 733)	<u>\$ 74,000</u>	<u>\$ 73,300</u>

Authorized:

18,000 in Class A Preference Shares at a par value of \$500 each

20,000 in Class B Preference Shares at a par value of \$500 each

20,000 in Class C Preference Shares at a par value of \$500 each

	2019	2018
Issued:		
1,952 Class A Series 1 Preference shares	\$ 910,933	\$ 976,000
2,490 Class A Series 2 Preference shares	1,245,000	1,245,000
2,670 Class A Series 3 Preference shares	1,335,000	1,335,000
2,192 Class A Series 4 Preference shares	1,096,000	1,096,000
2,877 Class A Series 5 Preference shares	1,438,500	1,438,500
1,719 Class A Series 6 Preference shares	<u>859,500</u>	<u>859,500</u>
	<u>\$6,884,933</u>	<u>\$6,950,000</u>

These preference shares are redeemable at the holders' option at par value and carry a non-cumulative dividend.

In the current year, \$65,067 was paid as return on capital on the Series 1 Preference shares. Additional return on capital is scheduled to be paid in the following amounts:

2019/2020	\$148,067
2020/2021	\$237,067
2021/2022	\$310,133
2022/2023	\$406,033
2023/2024	\$463,333

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

13. INCOME TAXES

The Corporation accounts for income taxes using the taxes payable method. As a result, the Corporation's income tax expense varies from the amount that would otherwise result from the application of the statutory income tax rates as set out below:

Income Tax Rate	<u>2019</u>	<u>2018</u>
Combined basic federal and provincial tax rates	49.50 %	49.50 %
Increase (decrease) in income tax expense resulting from:		
- Non-taxable income or non-deductible expense for income tax purposes	0.08 %	0.08 %
Income or expenses claimed in different periods for income tax purposes		
- Capital cost allowance in excess of amortization	(49.58)%	(49.58)%
Effective Income Tax Rate	<u>0.00 %</u>	<u>0.00 %</u>

14. FINANCIAL INSTRUMENTS

Risk and concentrations

The Corporation may be exposed to various risks through its financial instruments. The following analysis provides a measure of the Corporation's risk exposure and concentrations at August 31, 2019:

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to this risk mainly in respect of its accounts payable. Accounts payable are normally paid within 30 days.

Currency risk

The Corporation's functional currency is the Canadian dollar. Thus, the Corporation does not enter into foreign currency transactions and does not use foreign exchange forward contracts.

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

14. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

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 Corporation has interest bearing liabilities, however the interest rates are set and do not fluctuate with the market. Therefore fluctuations in market rates of interest on cash do not have significant impact on the Corporation's result of operations.

15. COMMITMENTS

The Corporation is committed under several lease agreements relating to the use of roofs for the installation of solar panels. The annual minimum lease payments varies from \$800 to \$16,500 per annum. For certain contracts the minimum lease payment is calculated as a percentage of revenue for that project, ranging from 5-9% of revenues for the year. The term of the leases varies from a period of 20 years to 20 years and 6 months, with the earliest commencing on November 15th, 2012 and the latest expiring on July 31, 2037. The total annual minimum lease payments is \$68,300.

The Corporation has entered into a sublease agreement with Posterity Group Consulting Inc. for a term of one year ending May 31, 2020. Monthly payments arising from this lease are \$1,600 plus HST.

16. CONTINGENT LIABILITY

There is an HST assessment currently under appeal. The amount in dispute is \$188,489. It is management's opinion that this amount will be reduced significantly, but the total payable is ultimately unknown at this time.