

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2020

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, 2020, 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, 2020, 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

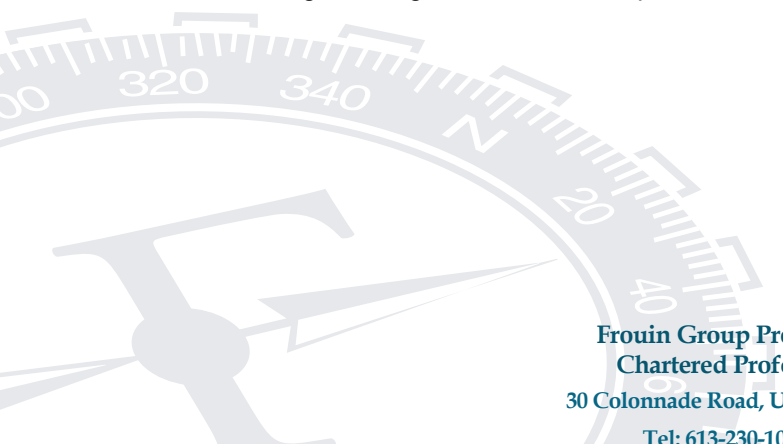
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the 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
December 4, 2020



Authorized to practice public accounting by the Chartered Professional Accountants of Ontario

FROUIN
GROUP

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

AUDITED STATEMENT OF FINANCIAL POSITION

AS AT AUGUST 31, 2020

	2020	2019 Restated (Note 17)
ASSETS		
CURRENT ASSETS		
Cash	\$ 756,028	\$ 615,595
Accounts receivable (net of allowance for doubtful accounts of \$6,379 (2019 - \$0))	300,968	541,975
Prepaid expenses	69,000	59,852
Loans receivable (Note 4)	0	56,008
HST receivable (Note 15)	<u>136,228</u>	<u>0</u>
	1,262,224	1,273,430
 LONG-TERM INVESTMENTS (Notes 2g and 6)	 162,447	 168,141
INTEREST IN JOINT ARRANGEMENTS (Notes 2f and 5)	1,330,931	1,428,996
LOAN TO RELATED PARTIES (Note 7)	1,034,978	1,149,874
PROPERTY AND EQUIPMENT (Notes 2d and 9)	<u>4,255,612</u>	<u>4,373,500</u>
TOTAL ASSETS	<u>\$ 8,046,192</u>	<u>\$ 8,393,941</u>
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 119,735	\$ 160,837
Current portion of loans payable (Note 8)	277,000	424,925
HST payable	0	59,105
Loan from related parties (Note 10)	<u>0</u>	<u>155,130</u>
	<u>396,735</u>	<u>799,997</u>
 LONG-TERM LIABILITIES		
Loan payable (Note 8)	590,000	550,000
REDEEMABLE PREFERENCE SHARES (Note 12)	<u>6,819,880</u>	<u>6,884,933</u>
TOTAL LIABILITIES	<u>7,806,615</u>	<u>8,234,930</u>
MEMBER'S EQUITY		
Membership shares (Note 12)	74,500	74,000
Restricted reserve (Note 18)	11,000	0
Retained earnings	<u>154,077</u>	<u>85,011</u>
	<u>239,577</u>	<u>159,011</u>
 TOTAL LIABILITIES AND EQUITY	 <u>\$ 8,046,192</u>	 <u>\$ 8,393,941</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, 2020

	2020	2019 Restated (Note 17)
REVENUES		
Solar revenue received directly	\$ 451,245	\$ 391,816
Income from joint arrangements (Note 2f)	233,618	198,263
Equipment lease	150,000	150,000
Partnership income	16,719	14,490
Grant revenue	1,652	20,493
Cost recovery	42,434	96,333
Management fee revenue	10,364	7,596
Dividend revenue	24,050	3,060
Interest revenue	19,409	33,406
	<u>949,491</u>	<u>915,457</u>
EXPENSES		
Advertising and promotion	931	1,457
Amortization (Notes 2d and 9)	259,306	241,631
Non-recoverable HST	32,745	0
Salaries	85,984	214,903
Projects	97,769	93,291
Insurance	5,016	5,557
Interest on long-term debt	27,692	41,983
Rent	11,600	13,800
Bad debts	28,348	10,025
Office costs	9,817	12,686
Professional fees	29,420	13,760
Expenses from joint arrangements (Note 2f)	126,609	126,523
	<u>715,237</u>	<u>775,616</u>
NET INCOME FOR THE YEAR	\$ <u>234,254</u>	\$ <u>139,841</u>

(See accompanying Notes to Financial Statements)

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

AUDITED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED AUGUST 31, 2020

	2020	2019 Restated (Note 17)
RETAINED EARNINGS (DEFICIT)		
Balance, beginning of year, as previously stated	\$ 85,011	\$ (10,391)
Prior period adjustment (Note 17a and 17c)	<u>0</u>	<u>(44,439)</u>
Balance, beginning of year, restated	85,011	(54,830)
Net income for the year, as previously stated	234,254	149,713
Prior period adjustment (Note 17b)	0	(6,637)
Prior period adjustment (Note 17c)	<u>0</u>	<u>(3,235)</u>
Net income for the year, restated	234,254	139,841
Transfer to restricted reserve	(11,000)	0
Dividend paid	<u>(154,188)</u>	<u>0</u>
Balance, end of year	<u>\$ 154,077</u>	<u>\$ 85,011</u>
RESTRICTED RESERVE (NOTE 18)		
Balance, beginning of year	\$ 0	\$ 0
Transfer from retained earnings	<u>11,000</u>	<u>0</u>
Balance, end of year	<u>\$ 11,000</u>	<u>\$ 0</u>

(See accompanying Notes to Financial Statements)

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

AUDITED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2020

	2020	2019 Restated (Note 17)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	\$ 234,254	\$ 139,841
Add: Amortization	259,306	241,631
Cash flows from current operating items	<u>(307,629)</u>	<u>405,827</u>
	<u>185,931</u>	<u>787,299</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(141,418)	(423,413)
Decrease in loan receivable	56,008	62,004
Decrease in long-term investment	5,693	8
Decrease in investment in joint arrangements	98,065	76,327
Decrease (increase) in loans to related parties	<u>114,895</u>	<u>(895,404)</u>
	<u>133,243</u>	<u>1,180,478</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in loan payable	40,000	(418,000)
Dividends paid	(154,188)	0
Issuance of membership share capital	500	700
Issuance of preferred share capital	<u>(65,053)</u>	<u>(65,067)</u>
	<u>(178,741)</u>	<u>(482,367)</u>
NET CHANGE IN CASH	140,433	(875,546)
CASH, beginning of year	<u>615,595</u>	<u>1,491,141</u>
CASH, end of year	<u>\$ 756,028</u>	<u>\$ 615,595</u>
REPRESENTED BY:		
Cash	<u>\$ 756,028</u>	<u>\$ 615,595</u>

(See accompanying Notes to Financial Statements)

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

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 under which the Corporation reports as an expense of the year only the cost of current income taxes for that year, determined in accordance with the rules established by taxation authorities.

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

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2020 fiscal year, the related company's share of solar income derived from this property was \$1,805 (2019 - \$1,768). 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, 2020

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 \$5,375 plus HST (2019 - \$5,050 plus HST). These transactions were recorded at the exchange amount.

During the fiscal year, the Corporation had entered into various agreements with ANF Engineering, who was also hired as a third party engineer for various projects during the construction phase. They are related parties by virtue of the fact that a director is also the owner of ANF Engineering. Total payments to this related party during the fiscal year were \$26,082 plus HST (2019 - \$1,060 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. The Corporation's proportionate share of the Partnership's income during the 2020 fiscal year was \$16,719 (2019 - \$14,490).

The Corporation leases equipment to the partnership at a rate of \$12,500 per month. Revenues derived from this lease agreement in the 2020 fiscal year were \$150,000 (2019 - \$150,000) 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 beginning November 2017. The payments were amended to \$2,044 beginning May 2019. Total interest earned as a result of this loan in the 2020 fiscal year was \$14,586 (2019 - \$16,252). The total balance receivable from the Partnership as at August 31, 2020 is \$235,616 (2019 - \$245,560).

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. Total management fees earned in the 2020 fiscal year were \$6,076 (2019 - \$4,000), which is the exchange amount.

As of August 31, 2020, there is a loan receivable from 10671401 Canada Inc. in the amount of \$799,362 (2019 - \$884,314). 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, 2020

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. Total management fees received in the 2020 fiscal year were \$3,373 (2019 - \$3,333), which is recorded at the exchange amount.

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 2020 fiscal year, the Corporation recognized \$42,434 as revenue under this cost sharing agreement (2019 - \$96,333), which is recorded at the exchange amount.

As of August 31, 2020, there is an amount receivable from CoEnergy Ontario Co-Operative Inc. in the amount of \$20,000 (2019 - \$20,000). This consists of a loan agreement of \$20,000 that 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%. However, the Corporation does not anticipate this loan will be repaid and has set up an allowance for doubtful accounts. The remainder of this receivable relates to cost recovery charges and is included in accounts receivable. Effective at year end, the loan was converted into a zero-interest demand note payable.

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. The loan was fully repaid in the current fiscal year.

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 loan was fully repaid in the current fiscal year.

The above receivables can be summarized as follows:

	2020	2019
Minto Skating (1995) Centre.	\$ 0	\$ 48,824
Switch Energy	<u>0</u>	<u>7,184</u>
	0	56,008
Less: Current portion	<u>0</u>	<u>(56,008)</u>
	<u>\$ 0</u>	<u>\$ 0</u>

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

5. INTEREST IN JOINT ARRANGEMENTS

The Corporation owns interests in the following joint arrangements:

	2020	2019
CSE-OREC Joint Venture, 50% interest	\$ 678,383	\$ 732,872
CECCE-OREC Joint Venture, 50% interest	<u>652,548</u>	<u>696,124</u>
	<u>\$1,330,931</u>	<u>\$1,428,996</u>

6. LONG-TERM INVESTMENTS

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

	2020	2019
OREC-Smith Joint Venture Inc., 49 of 100 Class A voting shares, 51 of 100 Class B non-voting shares	\$ 124,296	\$ 129,990
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 of 100 Class A shares	150	150
ASM Solar G1 Limited Partnership, 4 of 10,004 Class A Units	<u>1</u>	<u>1</u>
	<u>\$ 162,447</u>	<u>\$ 168,141</u>

7. LOANS 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:

	2020	2019
AP Muni P3 Limited Partnership, repayable in monthly blended payments of principal and interest (6.5%) of \$2,044.	\$ 235,616	\$ 245,560
10671401 Canada Inc., non-interest bearing with no specified repayment terms	799,362	884,314
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	20,000	20,000
Allowance for doubtful repayment of CoEnergy loan	<u>(20,000)</u>	<u>0</u>
	<u>\$1,034,978</u>	<u>\$1,149,874</u>

Subsequent to year end, a motion was passed to amend the terms of the CoEnergy loan, converting it into a zero-interest demand note payable effective August 31, 2020.

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

8. LOANS PAYABLE

	2020	2019
Loan from Desjardins with a set due date of October 3, 2019. Interest rate in force is 5.86%	\$ 0	\$ 6,925
Loan from Export Development Canada (EDC) under the Canada-Emergency Business Account Program (CEBA). Interest-free until December 31, 2022. Starting January 1, 2023, loan will bear an annual interest rate of 5%.	40,000	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.	0	50,000
Various 5 year notes payable to members with annual interest payments at the rate of 3%.	<u>827,000</u>	<u>918,000</u>
	867,000	974,925
Less: current portion	<u>(277,000)</u>	<u>(424,925)</u>
	<u>\$ 590,000</u>	<u>\$ 550,000</u>

Total principal payments required for the subsequent years are \$277,000 in 2021.

9. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value 2020	Net Book Value 2019
Solar equipment	<u>\$5,296,458</u>	<u>\$(1,040,846)</u>	<u>\$4,255,612</u>	<u>\$4,373,500</u>

10. LOAN FROM RELATED PARTIES

	2020	2019
Due from ASM Solar G1 LP, non-interest bearing with no specified repayment terms	\$ <u>0</u>	\$ <u>155,130</u>

11. TERM LOAN

The Corporation has an operating line of credit with Caisse Desjardins Ontario Entreprises. 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, 2020

12. MEMBERSHIP SHARES & PREFERENCE SHARES

Authorized:

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

	2020	2019
Issued:		
745 Membership Shares (2019 - 740)	\$ <u>74,500</u>	\$ <u>74,000</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

	2020	2019
Issued:		
1,952 Class A Series 1 Preference shares	\$ 845,880	\$ 910,933
2,500 Class A Series 2 Preference shares	1,250,000	1,250,000
2,660 Class A Series 3 Preference shares	1,330,000	1,330,000
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>\$6,819,880</u>	<u>\$6,884,933</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 of capital on the Series 1 Preference shares (2019 - \$65,067). Additional return of capital is scheduled to be paid in the following amounts:

2020/2021	\$148,067
2021/2022	\$310,133
2022/2023	\$310,133
2023/2024	\$406,033
2024-2025	\$463,333

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

13. 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, 2020:

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.

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.

14. 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 \$15,000 per annum. For certain contracts the minimum lease payment is calculated as a percentage of revenue for that project, ranging from 5 to 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, not including variable payments based on solar generation revenues, is \$41,625.

The Corporation has entered into a sublease agreement with Posterity Group Consulting Inc. Monthly payments arising from this lease are \$400 plus HST.

15. CONTINGENT LIABILITY

There is an HST assessment currently under appeal. The amount in dispute is \$158,022, of which the Corporation has paid and anticipates to recover. However, the total recoverable amount is ultimately unknown at this time.

OTTAWA RENEWABLE ENERGY CO-OPERATIVE INC.

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

16. 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>2020</u>	<u>2019</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	7.48 %	0.08 %
- Taxable income inclusion	2.12 %	0.00 %
Income or expenses claimed in different periods for income tax purposes		
- Capital cost allowance in excess of amortization	<u>(59.10)%</u>	<u>(49.58)%</u>
Effective Income Tax Rate	<u><u>0.00 %</u></u>	<u><u>0.00 %</u></u>

17. PRIOR PERIOD ADJUSTMENTS

a) During the current year, it was noted that an adjustment was made in the 2018 fiscal year that caused accounts receivable to be overstated. Consequently, a prior period adjustment was recorded to resolve the issue. The effect of this adjustment lead to a decrease in net assets by \$27,357.

b) A second prior period adjustment was required when it was determined that accrued interest payable for member invested notes was incorrectly written off in the previous year. The effect of this adjustment was to decrease net assets and increase expenses and liabilities by \$6,637.

c) A third prior period adjustment was required when it was determined that accumulated amortization of solar equipment was understated in 2019 and previous fiscal years. The effect of this adjustment was to decrease net assets and capital assets by \$20,317 of which \$17,082 relates to 2018 and prior fiscal years, and to increase expenses in 2019 by \$3,235.

d) A fourth and final prior period adjustment was required when it was determined that the balances for the 2019/2020 insurance policies were due within the 2019 fiscal year. The effect of this adjustment was to increase assets and liabilities by \$43,047. This has no effect on net income.

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NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

18. RESTRICTED RESERVE

Subsequent to year end, the Board approved the OREC Dividend and Reserve Policy. Part of this policy includes the setup of an Equipment Replacement Reserve. The reserve will be built up over time for the purpose of covering the replacement of inverters used in the Organization's solar projects, which will likely need to be replaced during the course of each project's 20 year FIT contract. In the current fiscal year, management allocated \$11,000 into the Restricted Reserve (2019 - \$0).

19. COMPARATIVE FIGURES AND PRIOR YEAR RECLASSIFICATION

The prior year comparative figures have been reclassified to conform to this year's presentation.