

Financial Statements of

NORTH SHORE POWER GROUP INC.

And Independent Auditor's Report thereon

Year ended December 31, 2022



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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of North Shore Power Group Inc.

Opinion

We have audited the financial statements of North Shore Power Group Inc. (the "Company"), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of income and comprehensive income for the year then ended
- the statement of changes in shareholder deficit for the year then ended
- the statement of cash flows for the year then ended
- and notes and schedules 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 Company as at December 31, 2022, 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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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 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 Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the 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 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- 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.
- 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

Sudbury, Canada

September 25, 2023

NORTH SHORE POWER GROUP INC.

Statement of Financial Position

December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash	\$ 2,144,717	\$ 6,037,654
Short term investments	1,000,000	-
Accounts receivable	129,341	155,548
Prepaid expenses and deposits	79,947	48,395
Current portion of mortgages receivable (note 5)	49,966	49,966
	<u>3,403,971</u>	<u>6,291,563</u>
Solar power generation equipment held for future projects (note 3)	42,199	49,310
Promissory note receivable (note 4)	34,723	298,679
Mortgages receivable (note 5)	918,672	969,310
Investment in Limited Partnership (note 6)	1,253,609	1,393,687
Deferred tax asset (note 15)	1,371,465	1,004,693
Rights of use assets (note 12)	48,474	8,713
Solar power generation equipment held for leasing purposes (note 7)	4,396,029	4,858,067
Property and equipment (note 8)	2,431,227	2,696,837
	<u>\$ 13,900,369</u>	<u>\$ 17,570,859</u>

See accompanying notes to financial statements.

NORTH SHORE POWER GROUP INC.

Statement of Financial Position (continued)

December 31, 2022, with comparative information for 2021


	2022	2021
Liabilities and Shareholder Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 603,724	\$ 953,833
Deferred revenue	17,596	16,683
Current portion of long-term debt (note 10)	665,956	645,252
Current portion of finance lease obligations (note 12)	4,958	8,636
	<u>1,292,234</u>	<u>1,624,404</u>
Long-term debt (note 10)	20,060,931	25,456,726
Asset retirement obligation (note 11)	284,000	284,000
Finance lease obligations (note 12)	37,152	-
	<u>21,674,317</u>	<u>27,365,130</u>
Shareholder deficiency:		
Share capital (note 13)	144,501	144,501
Deficit	(7,918,449)	(9,938,772)
	<u>(7,773,948)</u>	<u>(9,794,271)</u>
Commitments and contingencies (note 14)		
	<u>\$ 13,900,369</u>	<u>\$ 17,570,859</u>

See accompanying notes to financial statements.

Approved by the Board of Directors:



Director



Director

NORTH SHORE POWER GROUP INC.

Statement of Income and Comprehensive Income

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Operating revenue (Schedule 1)	\$ 1,907,658	\$ 1,956,265
Direct operating expenses (Schedule 1)	1,700,628	1,571,947
Gross profit	207,030	384,318
Expenses:		
Interest on long-term debt (note 10)	1,901,509	1,042,537
General and administrative (Schedule 2)	400,212	447,341
Depreciation	9,634	5,892
	2,311,355	1,495,770
Loss before undernoted items and income taxes	(2,104,325)	(1,111,452)
Other income (expenses):		
Income (loss) on disposal of property and equipment	10,065	(66)
Recovery on notes receivable	69,201	854,655
Interest income	3,614,688	1,550,742
Share of comprehensive income of Limited Partnership	63,922	71,999
	3,757,876	2,477,330
Income before income taxes	1,653,551	1,365,878
Deferred income tax recovery (note 15)	366,772	272,047
Income and comprehensive income for the year	\$ 2,020,323	\$ 1,637,925

See accompanying notes to financial statements.

NORTH SHORE POWER GROUP INC.

Statement of Changes in Shareholder Deficit

Year ended December 31, 2022, with comparative information for 2021

	Number of Shares	Share Capital	Deficit	Total
Balance, January 1, 2021	87,142	144,501 \$	(11,576,697) \$	(11,432,196)
Income and comprehensive income for the year	-	-	1,637,925	1,637,925
Balance, December 31, 2021	87,142	144,501	(9,938,772)	(9,794,271)
Income and comprehensive income for the year	-	-	2,020,323	2,020,323
Balance, December 31, 2022	87,142	\$ 144,501 \$	(7,918,449) \$	(7,773,948)

See accompanying notes to financial statements.

NORTH SHORE POWER GROUP INC.

Statement of Cash Flows

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operating activities:		
Income and comprehensive income for the year	\$ 2,020,323	\$ 1,637,925
Items not involving cash:		
Amortization of property and equipment	776,538	773,699
Share of comprehensive income of Limited Partnership	(63,922)	(71,999)
Deferred income taxes	(366,772)	(272,047)
Equipment transferred out of inventory	18,393	-
Recovery on note receivable	(69,201)	(298,678)
Loss on disposal of property and equipment	(10,065)	66
	2,305,294	1,768,966
Changes in non-cash working capital:		
Decrease in accounts receivable	26,207	1,110,372
Increase in prepaid expenses and deposits	(31,552)	(1,516)
Increase (decrease) in accounts payable and accrued liabilities	(350,109)	315,244
Increase (decrease) in deferred revenue	913	(125)
	1,950,753	3,192,941
Investing activities:		
Solar power generation equipment held for future projects	(11,282)	(3,944)
Distribution from limited partnership	204,000	-
Payments received on promissory note receivable	333,157	-
Purchase of short-term investments	(1,000,000)	-
Payments received on mortgages receivable	50,638	34,502
Purchase of equipment used for solar power generation for leasing purposes	(10,304)	(30,611)
Purchase of property and equipment	(34,470)	(23,828)
Proceeds on disposal of property and equipment	10,794	749
	(457,467)	(23,132)
Financing activities:		
Repayment of long-term debt	(6,760,277)	(664,076)
Repayment of lease liabilities	(11,132)	(16,436)
Interest accrued on long-term debt	1,385,186	498,173
	(5,386,223)	(182,339)
Increase (decrease) in cash during the year	(3,892,937)	2,987,470
Cash, beginning of year	6,037,654	3,050,184
Cash, end of year	\$ 2,144,717	\$ 6,037,654
Other information:		
Interest paid	\$ (511,391)	\$ (538,508)
Interest received	3,637,494	1,208,707

See accompanying notes to financial statements.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements

Year ended December 31, 2022

1. Nature of operations:

North Shore Power Group Inc. (the "Company" or "NSPGI") was incorporated on July 18, 2007 under the Ontario Business Corporations Act pursuant to section 142(1) of the Electricity Act, 1998 (Ontario). The Company undertakes economic development processes and projects to enhance the availability and financing of alternative energy sources in the province of Ontario.

The Company's head office is located at 80 Development Drive, Blind River, Ontario, Canada. The Company is wholly owned by its parent organization, The Corporation of the Town of Blind River (the "Town" or the "shareholder").

2. Significant accounting policies:

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

(a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

The financial statements were approved by the Board of Directors on September 13, 2023.

(b) Basis of measurement:

These financial statements were prepared using the historical cost basis of measurement.

(c) Functional and presentation currency:

The Company's functional and presentation currency is the Canadian dollar.

(d) Use of estimates and judgments:

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

- Note 12 – Measurement of leases: discount rate
- Note 8 – Property and equipment
- Note 11 – Asset retirement obligations
- Note 14 – Commitments and contingencies

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

2. Significant accounting policies (continued):

(d) Use of estimates and judgments (continued):

(ii) Judgments:

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following note:

Note 12 – leases: whether an arrangement contains a lease

Note 12 – leases: lease term, underlying leased asset value

(e) Cash:

Cash is defined as cash on hand, deposits with banks and other highly liquid investments with terms to maturity of ninety days or less at the date of purchase. The highly liquid investments are measured at their fair value using a level 1 fair value hierarchy.

(f) Revenue recognition:

Solar power generation revenue is recognized on an accrual basis based on the amount of electricity generated during the period at rates stipulated in the power purchase contract with the Ontario Power Authority (OPA). Solar power generation equipment leasing revenue is recognized on an accrual basis at the appropriate percentage, stipulated in the lease agreement, of electricity revenue generated by the leased equipment during the period at rates stipulated in the power purchase contract between the lessee and the Ontario Power Authority (OPA).

Finance lease revenue is recognized on accrual basis using the amortized cost method using the interest rate implicit in the lease agreement signed by the lessee.

Photovoltaic systems design and build revenue is recognized on an accrual basis as allowed for under the terms of the construction contracts.

Other revenue including land lease and operations and maintenance contract revenue is recognized in the period that these services are provided.

(g) Leased assets:

At inception of a contract, the Company assess whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Company with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. For leases and contracts that contain a lease, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

2. Significant accounting policies (continued):

(g) Leased assets (continued):

The right-of-use asset is subsequently depreciated using the straight-line method 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 estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

The lease liability is initially measured at the present value of lease payments plus the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less or for leases of low value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(h) Solar power generation equipment held for leasing purposes:

Solar power generation equipment held for leasing purposes are recorded at cost less accumulated depreciation and impairment charges. The Company provides for depreciation using the straight line method over 20 years, being the term of the leases from the start of the lessee's solar power generation contract with the OPA.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

2. Significant accounting policies (continued):

(i) Property and equipment:

Property and equipment are stated at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset when those costs are necessarily incurred for the asset to function in the manner intended by management and the net costs of dismantling and removing the leased items and restoring the site on which they are located. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

All assets having limited useful lives are depreciated using the straight-line or declining balance method over their estimated useful lives. In the year of acquisition, assets depreciated on a straight line basis are depreciated from the day the asset is put into revenue generating production and assets depreciated using the declining balance basis are depreciated at one half of the annual rate. Assets under development are not amortized until they are put in use.

The methods of amortization and amortization rates applicable for each class of asset are as follows:

Vehicles and moveable equipment	30% declining-balance
Furniture and equipment	20% declining-balance
Leasehold improvements	3 years straight-line
Computer hardware	30% declining-balance
Installation and maintenance equipment	5 years straight-line balance
Monitoring system	20% declining-balance
Industrial park	20 years straight-line
Dam and wind turbine	20 years straight-line
Solar power generation equipment	20 years straight-line

The golf course pilot project is in construction and has not yet been put in use. Amortization will commence when the assets are put in use.

The cost of replacing a component of property and equipment is capitalized if it is probable that future economic benefits embodied within the component will flow to the Company. The carrying amount of the replaced component is derecognized.

Costs of routine maintenance and repair are expensed in the period they are incurred.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

2. Significant accounting policies (continued):

(j) Impairment:

- Financial assets measured at amortized cost:

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for that asset.

- Non-financial assets:

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less cost to sell, the asset is written down accordingly.

For the purpose of determining 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.

When it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. Impairment charges are included in operations.

(k) Financial instruments:

All financial assets and all financial liabilities 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 2(j).

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

(l) Provision for asset retirement obligations:

A legal or constructive obligation to incur restoration and asset retirement costs arises when disturbance is caused by the construction of solar panels on a homeowner's property or other lands ongoing. A provision for management's best estimate of the future costs required for the retirement of these solar panels is recognized and capitalized to the carrying amount of the corresponding asset, as soon as the obligation to incur such costs arises. The provision is discounted to its present value using a risk-free rate of return. The unwinding of the discount is recognized each period as a finance cost. These costs are charged within income or loss over the economic life of the related assets through amortization over the assets useful life. The provision is adjusted each period for changes in the amount or timing of the estimated future cash flows and changes in the discount rate. These changes are recognized as an additional to or reduction from the corresponding asset.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

2. Significant accounting policies (continued):

(m) Foreign currency transactions:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the using the exchange rate in effect at that date.

At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in operations. Exchange rate gains and losses arising on the retranslation of monetary financial assets are treated as a separate component of the change in fair value and recognized in operations. Exchange gains and losses on non-monetary financial assets form part of the overall gain or loss recognized in respect of that financial asset.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated.

(n) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, 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 utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

2. Significant accounting policies (continued):

(o) Investment in limited partnership:

Limited partnerships are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

Limited partnerships are accounted for using the equity method and are recognized initially at cost. The financial statements includes the Corporation's share of the income and expenses and equity movements of the limited partnership, after adjustments to align the accounting policies with those of the Company and other adjustments arising from the elimination of intercompany transactions, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceed its interest in a limited partnership, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

3. Solar power generation equipment held for future projects:

Solar power generation equipment held for future projects are recorded at cost and consisting of spare parts and solar power generation equipment held for repairs to and replacement of parts on solar power generation equipment currently in use.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

4. Promissory note receivable:

	2022	2021
Promissory note receivable from Plasco Energy Group Inc., bearing interest at 4.0% per annum, repayable interest only beginning December 31, 2016 and each December thereafter, maturing December 31, 2026 at which time all principal and accrued interest is due, secured by a general security agreement.	\$ 18,656,238	\$ 18,989,396
Allowance for impairment	(18,621,515)	(18,690,717)
	<u>\$ 34,723</u>	<u>\$ 298,679</u>

This principal amount of the promissory note has been recognized in the statement of financial position at its estimated recoverable amount. Interest accrued and not received as on December 31, 2022 is \$Nil (2021 - \$29,134).

The terms of the note receivable agreement, amended on February 22, 2017, included a provision requiring payment of a principal bonus of 1% per month for each month the promissory note receivable remained outstanding which was due as of the date of payout of the promissory note receivable.

On January 1, 2021 Plasco Energy Group Inc. changed their name to OMNI Conversion Technologies Inc. ("OMNI"). Amendments to the promissory note receivable agreement were completed on December 17, 2021 with the following terms and conditions:

- The outstanding principal amount of the promissory note is to be carried over into the new promissory note, bearing interest at 4% per annum with interest payable over the outstanding principal at the end of each quarter;
- On all product sales by Omni, a 2.5% gross revenue product (GPR) is to be paid as a principal payment against the promissory note's principal amount;
- The accrued bonus interest which had been accumulating at 1% per month since September 2015 was frozen in the amount of \$14,606,016. This amount is to be retired in 21 equal quarterly instalments of \$695,525.

Within the year ending December 31, 2022, the following payments were made by OMNI:

- GPR of \$333,158, reducing the outstanding promissory note balance to \$18,656,238;
- Interest of \$800,380 for the year ending December 31, 2022
- Accrued bonus payment of \$2,782,098.

Subsequent to the year end, for the quarter ended March 31 and June 30, 2023, GRP of \$34,723, interest of \$269,972 and accrued bonus of \$1,391,049 were received respectively. An impairment reversal of \$298,679 has been made to reflect the subsequent receipt of the principal amount of the promissory note.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

5. Mortgages receivable:

	2022	2021
Vigor Clean Tech Inc. mortgages receivable in blended semi-annual payments of \$45,000, calculated with interest at 4.03% per annum using the effective interest rate method, maturing September 2036. The undiscounted balance receivable on these mortgages is \$1,260,000 (2021 - \$1,350,000).	\$ 968,638	\$ 1,019,276
Less current portion	(49,966)	(49,966)
	<u>\$ 918,672</u>	<u>\$ 969,310</u>

Estimated principal amounts to be received are as follows:

2023	\$ 49,966
2024	54,117
2025	56,320
2026	58,612
2027	60,998
Thereafter	688,625
	<u>\$ 968,638</u>

6. Investment in Limited Partnership:

The Company contributed cash and assets totaling \$1,326,000 to the Saturn Solar 5 Limited Partnership (SS5LP), a limited partnership formed under the Limited Partnerships Act (Ontario) on April 19, 2016. The limited partnership is managed by Saturn Power Inc. (a 49% limited partner) pursuant to an administrative services agreement. The operations and its solar power generation facilities are maintained by North Shore Power Group Inc. (a 51% limited partner) pursuant to an operations and maintenance agreement. The limited partnership's primary business activity is the development, operation and leasing of solar power generation facilities located in the Town of Blind River.

Investment in SS5LP	2022	2021
Balance, beginning of year	\$ 1,393,687	\$ 1,321,688
Share of earnings	63,922	71,999
Less: distributions of earnings	(204,000)	-
Balance, end of year	<u>\$ 1,253,609</u>	<u>\$ 1,393,687</u>

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

6. Investment in Limited Partnership (continued):

Condensed supplementary financial information on SS5LP is as follows:

	2022	2021
Current assets	\$ 819,232	\$ 1,029,377
Capital assets	8,375,998	8,774,609
Current liabilities	(527,623)	(506,686)
Long-term debt	(6,209,554)	(6,564,583)
Partner's capital	\$ 2,458,053	\$ 2,732,717
Revenue	\$ 1,110,874	\$ 1,140,322
Expenses	985,538	999,149
Net income	\$ 125,336	\$ 141,173

The Company has entered into a lease agreement with SS5LP to lease solar power generation equipment from SS5LP which is installed on sites for which the Company has solar power contracts with Hydro One Networks Inc. The lease fees paid by the Company are equal to 100% of the solar power generation revenue received by the Company from these solar power contracts. The lease fees over the next 5 years cannot be estimated as they are calculated based on the solar power generation revenue from the site which is variable.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

7. Solar power generation equipment held for leasing purposes:

Beginning in 2010, the Company entered into contracts to install ground and roof mounted solar panels at various sites within the province of Ontario. The Company leases the equipment to the property owner (the lessee) in exchange for a lease fee equal to 90% of the solar power generation revenue that is earned by the lessee. Each lease is for a 20 year term. The total solar power generation equipment under lease is as follows:

	Cost	Accumulated Depreciation	Net Book Value
January 1, 2021	\$ 9,180,615	\$(3,884,931)	\$5,295,684
Additions	30,611	(1,607)	29,004
Disposals	(18,367)	8,962	(9,405)
Depreciation expense	—	(457,216)	(457,216)
Balance, at December 31, 2021	9,192,859	(4,334,792)	4,858,067
Depreciation expense	—	(462,038)	(462,038)
Balance, at December 31, 2022	\$ 9,192,859	\$(4,796,830)	\$4,396,029

The Company is responsible for the repair, maintenance and monitoring of the leased equipment as well as the cost of one temporary removal of the equipment for the repair or replacement of the lessees' roof or premises. At the end of the lease, the lessees have the option to purchase the equipment for one dollar. The present value of the estimated cost to remove and dispose of the equipment for those lessees who do not wish to purchase the equipment at the end of the lease of \$186,000 is included in the cost of the equipment. The estimated cost to remove has been determined based on the cost of the removals completed.

Since the lease payments received by the Company are contingent upon the generation revenue earned by the lessees, it is not possible to determine what the minimum lease payments will be over the next 20 year lease periods.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

8. Property and equipment:

Cost:

	Dam and Wind Turbine	Golf Course Pilot Project	Industrial Park	Monitoring System	Furniture, Equipment and Leasehold Improvements	Vehicles and Moveable Equipment	Computer Hardware	Installation and Maintenance Equipment	Solar Power Generation Equipment	Total 2022
Balance, beginning of year	\$ 26,498	\$ 75,940	\$ 17,850	\$ 292,924	\$ 39,197	\$ 182,733	\$ 28,118	\$ 137,997	\$ 5,097,498	\$ 5,898,755
Additions	-	-	-	-	29,895	-	3,295	1,280	-	34,470
Disposals	-	-	-	-	-	-	-	-	-	-
Balance, end of year	\$ 26,498	\$ 75,940	\$ 17,850	\$ 292,924	\$ 69,092	\$ 182,733	\$ 31,413	\$ 139,277	\$ 5,097,498	\$ 5,933,225

Accumulated amortization:

	Dam and Wind Turbine	Golf Course Pilot Project	Industrial Park	Monitoring System	Furniture, Equipment and Leasehold Improvements	Vehicles and Moveable Equipment	Computer Hardware	Installation and Maintenance Equipment	Solar Power Generation Equipment	Total 2022
Balance, beginning of year	\$ 15,467	\$ -	\$ 4,375	\$ 255,623	\$ 24,121	\$ 151,577	\$ 24,777	\$ 73,192	\$ 2,652,786	\$ 3,201,918
Depreciation	1,325	3,797	893	7,460	7,798	9,347	1,497	13,088	254,875	300,080
Disposals	-	-	-	-	-	-	-	-	-	-
Balance, end of year	\$ 16,792	\$ 3,797	\$ 5,268	\$ 263,083	\$ 31,919	\$ 160,924	\$ 26,274	\$ 86,280	\$ 2,907,661	\$ 3,501,998

Net book value:

	Dam and Wind Turbine	Golf Course Pilot Project	Industrial Park	Monitoring System	Furniture, Equipment and Leasehold Improvements	Vehicles and Moveable Equipment	Computer Hardware	Installation and Maintenance Equipment	Solar Power Generation Equipment	Total 2022
At December 31, 2022	\$ 9,706	\$ 72,143	\$ 12,582	\$ 29,841	\$ 37,173	\$ 21,809	\$ 5,139	\$ 52,997	\$ 2,189,837	\$ 2,431,227

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

8. Property and equipment (continued):

Cost:	Dam and Wind Turbine		Golf Course Pilot Project		Industrial Park		Monitoring System		Furniture, Equipment and Leasehold Improvements		Vehicles and Moveable Equipment		Computer Hardware		Installation and Maintenance Equipment		Solar Power Generation Equipment		Total	
Balance, beginning of year	\$	26,496	\$	75,940	\$	17,850	\$	292,194	\$	27,328	\$	182,199	\$	28,118	\$	131,302	\$	5,097,498	\$	5,878,927
Additions	-	-	-	-	-	-	730	-	11,869	-	4,534	-	-	-	6,695	-	-	-	-	23,828
Disposals	-	-	-	-	-	-	-	-	-	-	(4,000)	-	-	-	-	-	-	-	-	(4,000)
	\$	26,496	\$	75,940	\$	17,850	\$	292,924	\$	39,197	\$	182,733	\$	28,118	\$	137,997	\$	5,097,498	\$	5,898,755

Accumulated amortization:

	Dam and Wind Turbine		Golf Course Pilot Project		Industrial Park		Monitoring System		Furniture, Equipment and Leasehold Improvements		Vehicles and Moveable Equipment		Computer Hardware		Installation and Maintenance Equipment		Solar Power Generation Equipment		Total	
Balance, beginning of year	\$	14,142	\$	-	\$	3,482	\$	246,389	\$	21,836	\$	142,380	\$	23,345	\$	57,828	\$	2,397,911	\$	2,907,313
Depreciation	1,325	-	-	-	893	-	9,234	-	2,285	-	12,381	-	1,432	-	15,364	-	254,875	-	297,789	
Disposals	-	-	-	-	-	-	-	-	-	-	(3,184)	-	-	-	-	-	-	-	-	(3,184)
Balance, end of year	\$	15,467	\$	-	\$	4,375	\$	255,623	\$	24,121	\$	151,577	\$	24,777	\$	73,192	\$	2,652,786	\$	3,201,918

Net book value:

	Dam and Wind Turbine		Golf Course Pilot Project		Industrial Park		Monitoring System		Furniture, Equipment and Leasehold Improvements		Vehicles and Moveable Equipment		Computer Hardware		Installation and Maintenance Equipment		Solar Power Generation Equipment		Total	
At December 31, 2021	\$	11,031	\$	75,940	\$	13,475	\$	37,301	\$	15,076	\$	31,156	\$	3,341	\$	64,805	\$	2,444,712	\$	2,696,837

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

8. Property and equipment (continued):

The dam was purchased from the Town at an amount equal to the Town's carrying value of the assets. All revenues from these assets are to be paid to the Town and all expenses from these assets are to be paid by Town. The Town assumes all liabilities that may arise from these assets.

The golf course pilot project is a net metering project set up at the Huron Pines Golf Course in the Town. All revenues from this asset are to be paid to the Huron Pines Golf Course, however, when the equipment is dismantled, the equipment will return to the inventory of the Company.

9. Accounts payable and accrued liabilities:

	2022	2021
Trade accounts payable and accrued liabilities	\$ 70,452	\$ 400,652
Government remittance payable	115,186	115,069
Accrued interest payable to the Town of Blind River (note 10)	418,086	438,112
	<u>\$ 603,724</u>	<u>\$ 953,833</u>

10. Long-term debt:

	2022	2021
Care Lending (formerly CWB Maximum), non-revolving term loan repayable in blended quarterly payments of \$13,764.06, including interest at 6.35% per annum, due April 1, 2025 and secured by specific solar power generation equipment with a net book value of \$445,744 (2021 - \$482,076).	\$ 113,839	\$ 172,776
Corporation of the Town of Blind River unsecured, non-interest bearing loan repayable in blended semi-annual payments of \$4,500, calculated with interest at 4.03% per annum using the effective interest rate method, maturity September 2036. The undiscounted balance payable on this loan is \$126,000 (2021 - \$135,000).	93,451	102,054
Corporation of the Town of Blind River term loan, repayable in blended annual payments of \$1,115,324 with interest at 4.03% per annum, due April 1, 2037 (accrued interest of \$418,086 (2021 - \$438,112) included in accounts payable and accrued liabilities).	12,374,631	12,967,372
Corporation of the Town of Blind River interest-free loan, calculated with interest at 4.03% per annum using the effective interest rate method, with the principal due in one balloon payment of \$14,254,837 at maturity on April 1, 2037. Accreted interest of \$3,424,541 (2021 - \$3,045,663) has been recorded.	8,144,966	12,859,776
	<u>20,726,887</u>	<u>26,101,978</u>
Less: current portion	(665,956)	(645,252)
	<u>\$ 20,060,931</u>	<u>\$ 25,456,726</u>

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

10. Long-term debt (continued):

The Corporation of the Town of Blind River loans are secured by a general security agreement over all assets of the Company.

The classification of the loan balance between current and non-current in the statement of financial position, as well as the disclosure of principal payments required over the next five years and thereafter are as follows:

2023	\$ 665,956
2024	692,629
2025	696,929
2026	700,083
2027	728,299
Thereafter	17,242,991

Interest on long-term debt is inclusive of interest and accreted interest on long-term debt as follows:

	2022	2021
Interest on long-term debt	\$ 515,350	\$ 545,396
Accreted interest on long-term debt	1,386,159	497,141
	\$ 1,901,509	\$1,042,537

The agreement with the Town includes an interest rate of 0% for the balloon payment portion of the loan. An imputed interest rate of 4.03% was applied to the balloon payment portion of the loan, consistent with the annual payments portion of the loan from the Town. The resulting imputed interest is accrued on the balloon payment annually until the maturity date in 2037.

11. Asset retirement obligations:

Estimated asset retirement obligations have been provided for the eventual disassembly, removal and disposal costs of the solar power generation equipment. The present value of the estimated cost of disassembling, removing and disposing of the equipment when the solar power generation contracts have ended has been included in the cost of the asset and is depreciated over the life of the solar power generation contract which the equipment is used for.

The asset retirement obligation may change materially based on future changes in operations, and regulatory requirements.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

12. Finance lease obligations:

	Monitoring system	Vehicles and moveable equipment	Total
<i>Right-of-use assets</i>			
<i>Cost</i>			
Balance, at December 31, 2021	\$ 5,647	\$ 48,713	\$ 54,360
Additions	–	55,948	55,948
Balance, at December 31, 2022	\$ 5,647	\$ 104,661	\$ 110,308
<i>Accumulated depreciation</i>			
Balance, at December 31, 2021	\$ 5,647	\$ 40,000	\$ 45,647
Depreciation	–	16,187	16,187
Balance, at December 31, 2022	\$ 5,647	\$ 56,187	\$ 61,834
<i>Carrying amounts</i>			
At December 31, 2021	\$ –	\$ 8,713	\$ 8,713
At December 31, 2022	–	48,474	48,474
<i>Finance lease liability</i>			
Balance, at January 1, 2022		\$ 8,636	\$ 8,636
Additions		46,869	46,869
Repayments		(13,395)	(13,395)
Balance, at December 31, 2022		\$ 42,110	\$ 42,110
<i>Made up of</i>			
Current portion		\$ 4,958	\$ 4,958
Long-term finance liability		37,152	37,152
		\$ 42,110	\$ 42,110

Certain leases held by the Company provide the Company with extension options and termination options that may impact the term of the Lease which can impact the finance lease liability recognized in the statement of financial position. The Company has determined the lease term for all contracts based on all available information as at the reporting date.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

13. Share capital:

	2022	2021
Authorized:		
Unlimited common shares		
Unlimited number of non-cumulative, discretionary dividend paying, redeemable at an amount equal to the consideration received on their issuance, non-voting special shares		
Issued:		
52,142 common shares	\$ 109,501	\$ 109,501
35,000 special shares	35,000	35,000
	\$ 144,501	\$ 144,501

14. Commitments and contingencies:

- (a) The Company has entered into land leases whereby solar power generation equipment owned by the Company is installed on land owned by third parties. The land leases are for the life of the solar power generation contracts with Hydro One Networks Inc. which are for 20 years beginning in 2011. The lease fees will be \$74,400 per year.
- (b) The Company has also entered into a roof lease contract whereby solar power generation equipment owned by the Company is installed on the roof of a property owned by a third party. The roof lease is for the life of the solar power generation contract with Hydro One Networks Inc. which is for 20 years. The lease fees over the next 5 years cannot be estimated as they are calculated as 7.5% of the solar power generation income from the site.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

15. Deferred income taxes:

The provision for income taxes recorded in the statement of income and comprehensive income differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2021 - 26.5%) to the earnings for the years as follows:

	2022	2021
Income for the year before income taxes	\$ 1,653,551	\$ 1,365,878
Anticipated income tax expense	\$ 438,191	\$ 361,974
Tax effect of the following:		
Non-deductible items	364	7
Change in unrecognized temporary differences	(780,668)	(633,705)
Non-taxable portion of capital gain	(27,030)	—
Other	2,371	(323)
Income tax recovery	\$ (366,772)	\$ (272,047)

The significant components of Company's deferred income tax balances are as follows:

	2022	2021
Deferred tax assets:		
Non-capital loss carry-forwards	\$ 1,918,427	\$ 2,142,563
Fixed assets	2,146,218	1,946,924
Mortgages receivable	77,211	87,642
Other	—	570
	4,141,856	4,177,699
Deferred tax liability:		
Long-term debt	(2,436,498)	(2,803,679)
Investment in limited partnerships	(332,206)	(369,327)
Right-of-use	(1,687)	—
	(2,770,391)	(3,173,006)
Net deferred tax asset	\$ 1,371,465	\$ 1,004,693

The Company has certain temporary differences that have not been recognized as a deferred tax asset as at December 31, 2022. It was determined, that in the opinion of management, it is not probable that tax benefit will be realized in the foreseeable future.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

15. Deferred income taxes (continued):

Unrecognized deferred tax assets

	2022	2021
Non-capital tax loss carry-forwards	\$ 945,265	\$ 2,216,700

The Company has non-capital tax losses of \$10,806,386 carried forward from prior years which can be applied to reduce future years' taxable income. These non-capital losses will expire in 2035. The portion of non-capital tax losses included in the table above have not been recognized as deferred tax assets within these financial statements. The unrecognized portion of the tax losses will be reviewed on an annual basis and the tax benefit recognized when it is determined to be probable that they will be realized.

16. Critical accounting estimates and judgments:

The Company makes estimates and assumptions about the future that affect the reported amounts of its assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in accounting estimate is recognized prospectively by including it in operations in the period of the change, if the change affects that period only or in the period of change and future periods, if the change affects both.

The estimates and assumptions that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(a) Income and sales taxes:

The Company periodically assesses its liabilities and contingencies related to current and deferred income taxes as well as sales taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties. Management believes that they have adequately provided for the probable outcome of these matters, however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

(b) Amortization expense:

In the determination of amortization rates, the Company makes judgments about the useful lives of its property and equipment, in particular solar panels. Management has based these judgments on information provided by the manufacturer of the panels, historical experience and the duration of the power generation contracts with the Hydro One Networks Inc.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

16. Critical accounting estimates and judgments (continued):

(c) Impairment of property and equipment:

The Company determines that its property and equipment and its investments are impaired when there has been a significant or prolonged decline in fair value below its carrying amount. The determination of what is significant or prolonged requires judgment. In making these judgments, the Company considers, among other factors, the financial health of the investee, future power generation potential and forecasted maintenance costs.

(d) Impairment of financial assets:

The Company determines that its financial assets are impaired when there is objective evidence of a decline in fair value below the carrying amount. The interpretation of the objective evidence requires judgment. In making these judgments, the Company considers, among other factors, the financial health of the investee and default or delinquency in interest or principal payments.

17. Related party transactions:

The Company is wholly owned by the Corporation of the Town of Blind River (the shareholder). The Company entered into the following transactions with its sole shareholder and key management personnel, which are defined by IAS 24 - Related Party Disclosures, as those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, including directors and management.

Effective March 1, 2010, the shareholder entered into a \$49,500,000 loan agreement with the Company. This loan agreement was amended in early 2015 whereby the remaining loan balance was split into two components. The first component of the loan is repayable on an annual basis. The balance of the repayable portion of the loan at December 31, 2022 is \$12,374,631 (2021 - \$12,967,372). Accrued interest of \$418,086 (2021 - \$438,112) relating to this loan is included within accounts payable and accrued liabilities. The second component of the loan is without interest and requires only a single balloon payment at maturity. The balance of the interest free portion of the loan is \$8,144,967 (2021 - \$12,859,776) including accrued interest using the amortized cost method of \$3,424,541 (2021 - \$3,045,663).

During the year, the Company paid a management fee of \$165,000 (2021 - \$180,000) plus HST to a corporation related to a director of the Company for management services provided by the corporation in the ordinary course of business. This expense is included in general and administrative expense shown in Schedule 2. There is no payable at year end related to these fees.

During the year, the Company rented office and warehouse space from the Blind River Development Corporation ("BRDC"), a corporation under common control. The total rent for 2022 was \$75,389 (2021 - \$77,675). A portion, \$6,238 (2021 - \$6,380), of this expense has been included in rent expense on Schedule 2: Planning and Administrative expenses. The remainder of the expense has been included in operating expenses allocated based on usage. There was no payable at year-end for rent for the year ended December 31, 2022.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

17. Related party transactions (continued):

Key management personnel:

The key management personnel of the Company have been defined as members of its board of directors and executive management team members, and their compensation is summarized below.

	2022	2021
Directors' fees	\$ 6,000	\$ 6,000

In 2010, the Company entered into a 20 year contract to install and lease solar power generation equipment to its shareholder. The lease agreement is identical to the lease agreements the Company has with substantially all of its other solar power generation equipment leases which stipulate a lease rate of 90% of the solar power generation revenue. The lease fees charged to its shareholder in 2022 were \$309,923 (2021 - \$317,291) and are included within equipment lease revenue.

A dam and wind turbine were purchased from the shareholder in a prior year at an amount equal to the shareholder's carrying value of the assets. All revenues from these assets are to be paid to the shareholder and all expenses from these assets are to be paid by the shareholder. The Corporation of the Town of Blind River assumes all liabilities that may arise from these assets. The company amortizes these assets on a straight line basis over 20 years. The shareholder has entered into a contract with the Company for the operations and maintenance of the dam beginning in May 2018 for \$3,000 per month. The \$37,758 (2021 - \$36,904) charged to the Town in 2022 is included in operation and maintenance contracts revenue within Schedule 1.

In 2013, the Company entered into a 20 year lease agreement with the shareholder for approximately 24.15 acres of land at the Blind River Industrial Park. The lease grants the Company the right to prepare the site for a solar generation project, the right to build or sublease the land for the building of a solar lease project, to connect the solar generation equipment installed on the land to electrical infrastructure and generate electricity from the solar generation equipment on the land. The Company has connected solar generation equipment located on the leased land to the Ontario power grid and has commenced transmitting electricity and generating revenue therefrom. The Company pays annual lease payments of \$4,058 to the shareholder and the Company is also responsible for all municipal taxes on the leased land. The term of the lease is 20 years from the date the first lease payment is due plus one year thereafter to decommission the site. In 2022, \$4,059 (2021 - \$4,058) of lease fees were paid to the Town. These lease fees are included as an operating expense on Schedule 1.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

17. Related party transactions (continued):

In 2013, the Company acquired 62 acres of land (consisting of 5 lots) at the Blind River Industrial Park from the Town in exchange for 10% of the annual gross revenue derived from any energy project developed on the property. In 2016, the Company completed all conditions necessary for the sale of 3 of those lots to Vigor Clean Tech Inc. for a total of \$1,800,000. The Company will pay the Town semi-annual payments of \$4,500 over 20 years for a total of \$180,000 representing 10% of the sale proceeds. On the 2 remaining lots, the Company has obtained 20 year FIT contracts, and as a result solar power generation installations owned by Saturn Solar 5 Limited Partnership (SS5LP) have been built on each lot, and the sites began generating revenue in July 2018. The Company has 20 year contracts with SS5LP for the lease of solar generation equipment equal to 100% of the power generation revenue earned from the sites. SS5LP will lease the 2 lots from the Company for \$1,000 per year. The Company will pay 10% of the lease fee to the Town. In addition, the Company will pay 10% of its 51% share of the net income of SS5LP directly related to those 2 solar power contracts to the Town for the purchase of 2 lots. In 2020, the Company paid \$3,540 to the Town for those 2 lots based on the information in the audited financial statements of SS5LP. As the payments are based on SS5LP's net income generated from the sites, it is not possible to estimate at this time the amount of the payments to be made over the next 5 years and the total amount to be paid to the Town for those 2 lots.

On March 1, 2016, the Company entered into three 20 year lease agreements with the Town to lease 3 lots of land at the Blind River Industrial Park for 10% of the gross power sales revenue from all power generation projects built on the site. The leases grant the Company the right to prepare the site for a solar generation project, the right to build, or sublease the land for the building of, a solar lease project, to connect the solar generation equipment installed on the land to electrical infrastructure and generate electricity from the solar generation equipment on the land. As the Company connected the solar generation equipment on the leased lands to the Ontario power grid in 2017 and has commenced transmitting electricity and generating revenue therefrom, the Company began paying annual lease payments to the Town in 2017. The Company is responsible for all municipal taxes on the leased land. The term of the lease is 20 years from the date the first lease payment is due and may be extended on a monthly basis after that time. In 2022, \$64,067 (2021 - \$66,113) of lease fees were paid to the Town. These lease fees are included as an operating expense on Schedule 1. These lease fees have been offset against the solar power revenue earned on the sites.

In 2016 the Company formed the limited partnership, Saturn Solar 5 LP along with Saturn Power Inc. The partnership was formed to build and lease solar power generation facilities to the Company. The Company has a 51 % equity interest in the limited partnership. During the year, the Company earned \$32,568 (2021 - \$31,476) in operation and maintenance fees from SS5LP and paid \$1,182,875 (2021 - \$1,142,323) in solar power equipment lease fees to SS5LP which have been offset against the solar power revenue earned from the sites where the leased equipment is being used.

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

18. Financial instruments and risk management:

(a) Fair value disclosure:

Cash is measured at fair value. The carrying values of accounts receivables and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

(b) Financial risks:

The Company understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Company'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.

i) 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 Company such as accounts receivable, mortgage receivable and the promissory note receivable, expose it to credit risk. The Company earns its revenue from customers located in the Town of Blind River. No single customer accounts for a balance in excess of 10% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for estimated credit losses and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously provisioned are credited to net income. There are no amounts included within the allowance for impairment at December 31, 2022 for accounts receivable. Within the promissory note receivable an impairment for the allowance for uncollectible accounts of \$18,989,396 (2021 - \$18,690,717) has been recorded.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from customers. At December 31, 2022, within customer trade accounts receivable there are no amounts considered to be past due.

ii) Market risk:

Market risk primarily refers to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have any material commodity, foreign exchange risk or interest rate risk.

iii) Liquidity risk:

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due.

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

NORTH SHORE POWER GROUP INC.

Notes to Financial Statements (continued)

Year ended December 31, 2022

18. Financial instruments and risk management (continued):

(b) Financial risks (continued):

iv) Capital disclosures:

The Company's objectives with respect to capital management are to maintain a sufficient capital base to meet its obligations under its long-term debt and to maintain or increase current operating levels. A secondary objective is to accumulate additional capital to allow the Company to pursue new alternative energy development projects in its operating region. Capital, for this purpose, consists of the sum of shareholder's deficit and subordinated loans from the Company's shareholder, the Corporation of the Town of Blind River. The Company is not subject to any externally-imposed capital requirements and has not changed its objectives, policies or processes for managing capital during the current year.

The Company's definition of capital includes shareholder's deficiency and long-term debt. As at December 31, 2022, shareholder's deficiency amounts to (\$7,773,948) (2021 - (\$9,794,271)) and long-term debt amounts to \$20,726,887 (2021 - \$26,101,978).

19. Comparative information:

Certain comparative information have been reclassified, where applicable, to conform to the financial statement presentation adopted in the current year. The changes do not affect prior year earnings.

NORTH SHORE POWER GROUP INC.

Schedule 1

Schedule of Revenue From Operations and Direct Operating Expenses

Year ended December 31, 2022, with comparative information for 2021

	Solar power generation	Solar power generation equipment leasing	Land lease	Operation and maintenance contracts	Total 2022	Total 2021
Revenue:						
Solar power generation revenue	\$ 609,603	\$ -	\$ -	\$ -	609,603	\$ 654,532
Equipment lease revenue	-	882,482	-	-	882,482	916,846
Other revenue	-	-	13,205	402,368	415,573	384,887
	609,603	882,482	13,205	402,368	1,907,658	1,956,265
Expenses:						
Amortization	254,875	495,315	892	16,059	767,141	767,807
Operations and maintenance	40,431	289,202	-	427,013	756,646	625,120
Land, roof and equipment lease	74,400	-	4,059	-	78,459	78,459
Insurance	11,982	32,206	-	10,814	55,002	58,730
Internet fees	14,474	13,528	-	-	28,002	25,857
Utility delivery charges	2,670	12,708	-	-	15,378	15,409
IESO Contract Administration	-	-	-	-	-	565
	398,832	842,959	4,951	453,886	1,700,628	1,571,947
Gross profit	\$ 210,771	\$ 39,523	\$ 8,254	\$ (51,518)	\$ 207,030	\$ 384,318

NORTH SHORE POWER GROUP INC.

Schedule 2

Schedule of General and Administrative Expenses

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
General and administrative expenses:		
Payroll	\$ 127,719	\$ 165,936
Management fees	165,000	180,000
Office supplies	58,895	40,421
Professional fees	17,075	38,731
Rent	6,238	6,380
Director fees	6,000	6,000
Telephone, internet and fax	5,465	6,147
Bank service charges	4,319	3,048
Memberships	9,501	678
	<u>\$ 400,212</u>	<u>\$ 447,341</u>

