Financial Statements of

# 2438543 ONTARIO INC.

Year ended March 31, 2017

KPMG LLP
Commerce Place
21 King Street West, Suite 700
Hamilton Ontario L8P 4W7
Canada
Telephone (905) 523-8200
Fax (905) 523-2222

# INDEPENDENT AUDITORS' REPORT

To the Haudenosaunee Confederacy Chiefs Council

We have audited the accompanying financial statements of 2438543 Ontario Inc., which comprise the balance sheet as at March 31, 2017, the statements of operations, retained earnings and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of 2438543 Ontario Inc. as at March 31, 2017 and its results of operations and its cash flows for the years then ended in accordance with Canadian accounting standards for private enterprises**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

September 26, 2017
Hamilton, Canada

# 2438543 ONTARIO INC.

Balance Sheet

March 31, 2017, with comparative financial information for 2016

| | 2017 | 2016 (unaudited) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 135,548 | $ 8,600 |
| Distributions receivable | 100,000 | - |
| | 235,548 | 8,600 |
| Investment in GGV2LP (note 2) | 2,095,193 | 2,571,893 |
| Property (note 3) | 2,147,683 | 532,004 |
| | $ 4,478,424 | $ 3,112,497 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 4) | $ 126,479 | $ 4,599 |
| Payable to Haudenosaunee Development Institute (note 5) | 869,273 | 538,596 |
| Current portion – mortgage payable (note 6 (a)) | 281,095 | - |
| | 1,276,847 | 543,195 |
| Loan payable – investment in GGV2LP (note 6 (b)) | 2,734,608 | 3,720,453 |
| Mortgage payable – land (note 6 (a)) | 1,011,885 | - |
| | 3,746,493 | 3,720,453 |
| Total liabilities | 5,023,340 | 4,263,648 |
| Shareholders' equity: | | |
| 50 common shares | 50 | 50 |
| Retained earnings (deficit) | (544,966) | (1,151,201) |
| | (544,916) | (1,151,151) |
| | $ 4,478,424 | $ 3,112,497 |

See accompanying notes to financial statements.

On behalf of the Board:

________________ Director ________________ Director

# 2438543 ONTARIO INC.

Statement of Operations

Year ended March 31, 2017, with comparative financial information for 2016

| | 2017 | 2016 (unaudited) |
|---|---|---|
| Revenue | | |
| Investment gains on GGV2LP | $ 1,003,400 | $ - |
| Expenses: | | |
| Interest expense – loan (GGV2LP investment) | 256,155 | 585,135 |
| Interest expense – mortgage (land) | 11,994 | - |
| Success fees | 117,384 | - |
| Loss from investment in GGV2LP | - | 314,000 |
| Audit fees | 9,095 | - |
| Professional fees | 2,185 | 4,599 |
| Bank fees | 352 | - |
| | 397,165 | 903,734 |
| Net earnings (loss) | $ 606,235 | $ (903,734) |

Statement of Retained Earnings (Deficit)

Year ended March 31, 2017, with comparative information for 2016

| | 2017 | 2016 (unaudited) |
|---|---|---|
| Retained earnings (deficit), beginning of year | $ (1,151,201) | $ (247,467) |
| Net earnings (loss) | 606,235 | (903,734) |
| Retained earnings (deficit), end of year | $ (544,966) | $ (1,151,201) |

See accompanying notes to financial statements.

# 2438543 ONTARIO INC.

Statement of Cash Flows

Year ended March 31, 2017, with comparative financial information for 2016

| | 2017 | 2016 (unaudited) |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net earnings (loss) | $ 606,235 | $ (903,734) |
| Change in non-cash operating working capital: | | |
| Accounts payable and accrued liabilities | 121,880 | 4,599 |
| Distributions receivable | (100,000) | - |
| Payable to Haudenosaunee Development Institute | 330,677 | 532,004 |
| | 958,792 | (367,131) |
| Financing activities: | | |
| Repayment of loan – investment | (985,845) | 506,385 |
| Proceeds from mortgage for land | 1,405,988 | - |
| Repayment of mortgage | (113,008) | - |
| | 307,135 | 506,385 |
| Investing activities: | | |
| Purchase of land | (1,615,679) | (532,004) |
| Investments, net | 476,700 | 401,300 |
| | (1,138,979) | (130,704) |
| Increase in cash and cash equivalents | 126,948 | 8,550 |
| Cash and cash equivalents, beginning of year | 8,600 | 50 |
| Cash and cash equivalents, end of year | $ 135,548 | $ 8,600 |

See accompanying notes to financial statements.

2438543 Ontario Inc. (the "Company") is a private company incorporated under the Canada Business Corporations Act. The Company is 100% owned by the Haudenosaunee Confederacy Chiefs Council (“HCCC”). The Company’s shares are held in trust by Haudenosaunee Development Institute (“HDI”) an unincorporated organization owned and controlled by HCCC. The Company holds an investment in a wind farm and land with the intention of re-investing earnings in the community for development of resources available to the public.

**1. Significant accounting policies:**

These financial statements are prepared in accordance with Canadian accounting standards for private enterprises (“ASPE”). The Company's significant accounting policies are as follows:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposits which are highly liquid with original maturities of less than three months.

(b) Investments:

The Company applies the equity method as a basis of accounting for investments in a company which it exercises significant influence and does not control, jointly or otherwise. Under the equity method, the Company records these investments initially at cost, less any transaction costs, and the carrying amounts are adjusted thereafter to include the Company’s pro rate share of post-acquisition earnings of the investees, computed by the consolidation method. The adjustments are included in the determination of net income by the Company, and the investment accounts of the Company are also increased or decreased to reflect the Company’s share of capital transactions and changes in accounting policies and corrections of errors relating to prior period financial statements applicable to post-acquisition periods. Profit distributions received or receivable from investees reduce the carrying amount of the investments. Unrealized intercompany gains or losses are eliminated.

The Company’s determination of significant influence is based on consideration of voting interest in the investees along with other indicators such as representation on the board of directors, participation in policy-making processes, material intercompany transactions, interchange or managerial personnel or provision of technical information.

The investment in a company subject to significant influence is accounted for using the equity method.

**1. Significant accounting policies (continued):**

(c) Property, plant and equipment:

Property, plant and equipment are stated at cost, less accumulated amortization.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and exceeds its fair value.

(d) Related party transactions:

Monetary related party transactions and non-monetary related party transactions that have commercial substance and are in the normal course of business are measured at the exchange amount. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in ownership of the item transferred and there is independent evidence of the exchange amount. All other related party transactions are measured at the carrying amount.

(e) Income taxes:

The Company uses the taxes payable method to account for income taxes whereby the expense (income) of the period consists only of the cost (benefit) of current income taxes for that period, determined in accordance with the rules established by taxation authorities.

(f) Use of estimates:

The preparation of the financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of investments. Actual results could results could differ from those estimates.

## 1. Significant accounting policies (continued):

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Company has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Company determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Company expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

## 2. Investment:

The Company owns a 40% interest in Great Grand Valley 2 Limited Partnership (“GGV2LP”). Great Grand Valley 2 Limited Partnership owns a 25% interest in Grand Valley 2 Limited Partnership, a wind farm project consisting of 25 wind turbines producing 60 megawatts of green energy located in the Town of Grand Valley and the Township of Amaranth. This investment is accounted for using the equity method.

| Asset | 2017 | 2016 (unaudited) |
|---|---|---|
| Investment | $ 3,000,000 | $ 3,000,000 |
| Cumulative share of gains (losses) from investment | 662,593 | (340,807) |
| Cumulative return of capital | (760,200) | (87,300) |
| Distributions from partnership | (807,200) | - |
| | $ 2,095,193 | $ 2,571,893 |

**3. Property:**

| | | | 2016 | 2017 (unaudited) |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | $ 2,147,683 | $ - | $ 2,147,683 | $ 532,004 |
| | $ 2,147,683 | $ - | $ 2,147,683 | $ 532,004 |

**4. Accrued liabilities:**

Included in accrued liabilities are professional service fees for audit and other related services of $9,095 (2016 - $4,599) and amounts due to a director of HDI for success fees of $117,384 (2016 - $nil). At year-end, there are no amounts outstanding for HST or payroll related taxes.

**5. Related entities:**

Haudenosaunee Confederacy Chiefs Council (“the Council”):

The Council formed the Organization in 2007 in order to create a process and an institution to ensure certain rights are protected with respect to land development. The Organization represents the Council’s interest in development of lands within the Haudenosaunee jurisdiction.

The Organization receives applications for projects on land and recommends approval to the Council and the Council provides final approval. The Organization reports to Council on a regular basis on the status and progress of potential and on-going projects. The Organization is controlled by HCCC.

Haudenosaunee Development Institute:

Haudenosaunee Development Institute (‘HDI’), an unincorporated organization also 100% owned by the Haudenosaunee Confederacy Chiefs Council (‘HCCC’), provides services to the Company such as mortgage payments, land purchases and professional service fees made on behalf of the Company.  At March 31, 2017, payable to HDI includes $866,698 (2016 - $532,004) relating to land purchases and mortgage payments, and $2,575 (2016 – $6,592) relating to professional service fees.

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.

**5. Related entities (continued):**

A director of 2438543 Ontario Inc. provide services to the Company. These include but are not limited to success fees paid on any negotiated outcomes in relation to the acquisition of an interest in any wind project. During the year, success fees of $117,684 were accrued to one director of 2438543 Ontario Inc. based on return of capital and distributions received by the GGV2LP investment.

**6. Mortgage and loan payable:**

(a) Mortgage payable:

| | 2017 | 2016 (unaudited) |
|---|---|---|
| Mortgage loan to private lender (S.T.), bearing interest at 1.00%, payable in monthly instalments of $21,901, including interest, due April, 29 2022. Payments are reimbursed and completed through HDI. | $ 1,292,980 | $ - |
| Less: | | |
| Current portion of mortgage payable | 281,095 | - |
| | $ 1,011,885 | $ - |

The annual principal payments required on the mortgage debt is as follows:

| | |
|---|---|
| 2018 | $ 281,095 |
| 2019 | 283,913 |
| 2020 | 286,759 |
| 2021 | 289,634 |
| 2022 | 151,579 |
| | $ 1,292,980 |

## 6. Mortgage and loan payable (continued):

(b) Loan payable:

| | 2017 | 2016 (unaudited) |
|---|---|---|
| Loan payable to private lender (C.S), bearing interest at 8.44%, payable as GGV2LP distributes to funds to the Company at a rate of 90% of the distribution received from the investment | $ 2,734,608 | $ 3,720,453 |
| Less: | | |
| Current portion of loan payable | - | - |
| | $ 2,734,608 | $ 3,720,453 |

## 7. Income taxes:

At March 31, 2017, the Organization has the following amounts available to reduce future years' income for tax purposes. The potential tax benefit of these losses/costs has not been recorded in the financial statements.

| | |
|---|---|
| Unused non-capital losses for tax purposes expiring: | |
| 2034 | $ 210,698 |
| 2035 | 700,856 |
| 2036 | 397,665 |
| | $ 1,309,219 |

**8. Financial risks and concentration of credit risk:**

(a) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2016.

(b) Credit risk:

Credit risk refers to the risk that a counterpart may default on its contractual obligations resulting in a financial loss. The Company deals with creditworthy counterparties to mitigate the risk of financial loss from defaults. The Company monitors the credit risk of its investment in the GGV2LP.