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SOLAIRE MCGARRY SOLAR INC.

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Solaire McGarry Solar Inc.

Opinion
We have audited the financial statements of Solaire McGarry Solar Inc., which comprise the statement of financial position as at December 31, 2022, and the statements of loss and comprehensive loss, changes in equity and cash flows 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 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.

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 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.

Material Uncertainty Related to Going Concern
We draw attention to Note 2 in the financial statements, which indicates that the company incurred a net loss of $538,550 during the year ended December 31, 2022 and, as of that date, the company's total liabilities exceeded its total assets by $1,637,638. As stated in Note 2, these events or conditions, along with other matters as set forth in that note, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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, 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 these 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.
- 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.

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.

Baker Tilly HKC

Chartered Professional Accountants
Licenced Public Accountants
September 26, 2023

SOLAIRE MCGARRY SOLAR INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2022

SOLAIRE MCGARRY SOLAR INC.

STATEMENT OF LOSS AND COMPREHENSIVE LOSS

YEAR ENDED DECEMBER 31, 2022

	2022	2021
SALE OF ENERGY	$ 175,498	$ 273,148
EXPENSES		
Amortization	222,982	222,982
Financing fees	2,805	2,805
Insurance	14,455	15,495
Interest and bank charges	2,739	2,732
Interest on long term debt	135,444	144,124
Interest on amounts due to related parties	116,163	111,149
Other expenses	347	566
Professional fees	4,250	4,100
Repairs and maintenance	25,813	30,222
Utilities	10,839	10,382
	535,837	544,557
LOSS FROM OPERATIONS	(360,339)	(271,409)
OTHER INCOME		
Settlement from Strathcona Solar Initiatives	-	100,000
LOSS BEFORE INCOME TAXES	(360,339)	(171,409)
FUTURE PAYMENT IN LIEU OF TAXES	(178,211)	43,280
NET LOSS AND COMPREHENSIVE LOSS	$ (538,550)	$ (128,129)

The accompanying notes are an integral part of these financial statements.

SOLAIRE MCGARRY SOLAR INC.

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2022

	Capital Stock	Accumulated Deficit	Total Deficit
Balance, December 31, 2020	$ 100	$ (971,059)	$ (970,959)
Net loss and comprehensive loss	-	(128,129)	(128,129)
Balance, December 31, 2021	100	(1,099,188)	(1,099,088)
Net loss and comprehensive loss	-	(538,550)	(538,550)
Balance, December 31, 2022	$ 100	$ (1,637,738)	$ (1,637,638)

The accompanying notes are an integral part of these financial statements.

SOLAIRE MCGARRY SOLAR INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2022

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash	$ 76,861	$ 187,303
Accounts receivable	159,478	177,648
Prepaid expenses	6,835	7,887
Due from related party (note 5)	50	50
	243,224	372,888
PROPERTY AND EQUIPMENT (note 6)	3,292,641	3,515,623
FUTURE PAYMENT IN LIEU OF TAXES (note 7)	-	178,211
	$ 3,535,865	$ 4,066,722
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 14,111	$ 4,156
Due to related parties (note 5)	3,037,589	2,893,771
Current portion of long-term debt	152,412	146,080
	3,204,112	3,044,007
LONG-TERM DEBT (note 8)	1,969,391	2,121,803
	5,173,503	5,165,810
GOING CONCERN (note 2)		
CAPITAL DEFICIENCY		
CAPITAL STOCK (note 9)	100	100
ACCUMULATED DEFICIT	(1,637,738)	(1,099,188)
	(1,637,638)	(1,099,088)
	$ 3,535,865	$ 4,066,722

The accompanying notes are an integral part of these financial statements.

SOLAIRE MCGARRY SOLAR INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2022

	2022	2021
OPERATING ACTIVITIES		
Net loss and comprehensive loss	$ (538,550)	$ (128,129)
Items not involving cash:		
Amortization	222,982	222,982
Future payment in lieu of taxes	178,211	(43,280)
	(137,357)	51,573
Changes in:		
Accounts receivable	18,170	8,628
Prepaid expenses	1,052	(322)
Accounts payable and accrued liabilities	9,955	(3,023)
	(108,180)	56,856
FINANCING ACTIVITIES		
Repayment of long-term debt	(146,080)	(140,109)
Advances from (to) Énergie Kapuskasing Energy Inc.	45,826	(68,094)
Advances from Solaire Kapuskasing Solar Inc.	79,466	76,410
Advances from Solaire Cobalt Solar Inc.	18,526	22,833
	(2,262)	(108,960)
CHANGE IN CASH POSITION	(110,442)	(52,104)
CASH POSITION, BEGINNING OF YEAR	187,303	239,407
CASH POSITION, END OF YEAR	$ 76,861	$ 187,303

The accompanying notes are an integral part of these financial statements.

SOLAIRE MCGARRY SOLAR INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

1. STATUS AND NATURE OF OPERATIONS

Solaire McGarry Solar Inc. was incorporated under the Ontario Business Corporations Act on September 13, 2012 pursuant to section 142 of the Electricity Act (Ontario). The address of its registered office and its principal place of business is in McGarry, Ontario.

The corporation is owned in proportion by the Corporation of the Town of McGarry and Énergie Kapuskasing Energy Inc., which is wholly owned by the Corporation of the Town of Kapuskasing.
The company's principal activity is the ownership, administration and management of solar power generating projects for the purpose of generating, transmitting, distributing and retailing electricity.

2. GOING CONCERN

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The company incurred operating losses since inception and as of Decemebr 31, 2022, the company's total liabilities exceeded its total assets by $1,637,638. The continuation of the company is dependent upon the continued availability of operating and long-term financing and achieving and maintaining a profitable level of operations. These conditions, among others, raise substantial doubt about the ability of the company to continue as a going concern.

Management is continuing to actively address the situation by increasing revenue, controlling costs and working with the company's creditors in order to ensure that it is able to meet its financing requirements. Management is also considering divestment. As the outcome of management's actions is dependent on future events, there is no certainty that management will be able to satisfactorily resolve these issues.

The accompanying financial statements do not include any adjustments relating to the recoverability of assets and to the reclassification of asset and liability amounts that might be necessary should the company be unable to continue its operations. These adjustments could be material.

SOLAIRE MCGARRY SOLAR INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

3. STATEMENT OF COMPLIANCE

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

The financial statements for the year ended December 31, 2022 were approved and authorized for issue by the board of directors on September 26, 2023.

4. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars, which is also the company's functional currency, and all values are rounded to the nearest dollar. Additionally, the financial statements have been prepared using the accrual basis of accounting.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies. The areas involving a higher degree of judgment, complexity, or areas where assumptions and estimates are significant to the financial statements are further discussed below under Significant Accounting Judgments and Estimates.

REVENUE RECOGNITION

Transmission revenue is collected through pre-approved rates, which are based on contractual agreements with the purchaser. Such sale of energy is recognized when electricity is transmitted and delivered to the purchaser and when collection is reasonably assured.

PROPERTY AND EQUIPMENT

Property and equipment are recognized at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the company, including eligible borrowing costs.

Amortization of property and equipment is recorded in the statement of profit or loss on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The estimated useful life is as follows:

Solar panel systems	20 years

4. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

INCOME TAXES

Tax status

The company is a Municipal Electricity Utility ("MEU") for purposes of the payments in lieu of taxes ("PILs") regime contained in the Electricity Act, 1998. As an MEU, the company is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Under the Electricity Act, 1998, the company is required to make, for each taxation year, PILs to Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

Future tax

Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount and their tax bases. Future income tax assets are recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are probable to be realized. These amounts are measured using enacted or substantively enacted tax rates and are re-measured annually for changes in these rates. Any future income tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in the period of the change.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized initially at fair value, plus for those financial assets and financial liabilities not classified at fair value through profit or loss, directly attributable transaction costs.

Financial assets are subsequently classified as either amortized cost, fair value through profit and loss or fair value through other comprehensive income. Financial assets classified as fair value through profit or loss are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as fair value through other comprehensive income are measured at fair value with any resultant gain or loss being recognized directly under other comprehensive income. Other financial assets are measured at amortized cost using the effective interest rate method. The company does not have any financial assets classified as fair value through profit or loss or fair value through other comprehensive income.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method or at fair value through profit or loss, depending on the nature of the liability. The company does not have any financial liabilities classified as fair value through profit or loss.

SOLAIRE MCGARRY SOLAR INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

4. SIGNIFICANT ACCOUNTING POLICIES, (CONT'D)

FINANCIAL INSTRUMENTS, (CONT'D)

The company's financial assets include accounts receivable and due from related parties. The company's financial liabilities include accounts payable and accrued liabilities, due to related parties and long-term debt. All financial assets and liabilities are measured at amortized cost.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The company makes certain estimates and assumptions regarding the future. 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 estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Useful lives of property and equipment

Management reviews its estimate of the useful lives of property and equipment at each reporting date. The actual useful lives of property and equipment may vary from estimated useful lives.

Payments in lieu of taxes

The company is required to make payments in lieu of taxes calculated on the same basis as income taxes. Significant judgment is required in determining the provision and liability or asset for PILs. Changes in future PILs may be required due to changes in future tax rates.

SOLAIRE MCGARRY SOLAR INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

5. DUE FROM / TO RELATED PARTIES

The company has the following related parties which are related by common control:

Corporation of the Town of McGarry	50% shareholder of the company
Énergie Kapuskasing Energy Inc.	50% shareholder of the company
Solaire Kapuskasing Solar Inc.	100% owned by Énergie Kapuskasing Energy Inc.
Solaire Cobalt Solar Inc.	49.50% owned by Énergie Kapuskasing Energy Inc.

Due from related party

	2022	2021
Due from the Corporation of the Town of McGarry	$ 50	$ 50

The balance due from related party is unsecured, non-interest bearing with no specific terms of repayment.

Due to related parties

	2022	2021
Due to Énergie Kapuskasing Energy Inc.	$ 875,115	$ 829,289
Due to Solaire Kapuskasing Solar Inc.	2,066,115	1,986,649
Due to Solaire Cobalt Solar Inc.	96,359	77,833
	$ 3,037,589	$ 2,893,771

The balances due to related parties bear interest of 4% and are unsecured with no specific terms of repayment.

Transactions with these related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Transactions with related parties were as follows:

	2022	2021
Interest to Énergie Kapuskasing Energy Inc.	$ 33,172	$ 31,906
Interest to Solaire Kapuskasing Solar Inc.	79,465	76,410
Interest to Solaire Cobalt Solar Inc.	3,526	2,833
	$ 116,163	$ 111,149

There is currently no key management compensation paid through the company.

SOLAIRE MCGARRY SOLAR INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

6. PROPERTY AND EQUIPMENT

	Solar panel systems
COST	
At December 31, 2021	$ 4,459,635
Capital additions	-
At December 31, 2022	4,459,635
ACCUMULATED AMORTIZATION	
At December 31, 2021	944,012
Amortization	222,982
At December 31, 2022	1,166,994
NET BOOK VALUE AT DECEMBER 31, 2022	$ 3,292,641

	Solar panel systems
COST	
At December 31, 2020	$ 4,459,635
Capital additions	-
At December 31, 2021	4,459,635
ACCUMULATED AMORTIZATION	
At December 31, 2020	721,030
Amortization	222,982
At December 31, 2021	944,012
NET BOOK VALUE AT DECEMBER 31, 2021	$ 3,515,623

SOLAIRE MCGARRY SOLAR INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

7. FUTURE PAYMENTS IN LIEU OF TAXES

Temporary differences between accounting and taxable income which result in future payment in lieu of taxes are as follows:

i) amortization on property and equipment recorded in excess of capital cost allowance claimed, and
ii) unused non-capital losses available to carry forward.

	2022	2021
Undepreciated capital cost for tax purposes	$ 4,459,635	$ 4,459,635
Property and equipment - net book value	(3,292,641)	(3,515,623)
	1,166,994	944,012
Unused non-capital losses available to carry forward	489,346	351,989
Temporary differences	$ 1,656,340	$ 1,296,001

Future income tax assets are recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are probable to be realized. Management has determined that the benefit of these deductions are no longer probable to be realized. Therefore, the future income tax asset has been derecognized.

The unused non-capital losses available to carry forward expire as follows:

2037	$ 53,864
2038	162,168
2039	85,927
2040	50,030
2042	137,357
	$ 489,346

SOLAIRE MCGARRY SOLAR INC.

NOTES TO FINANCIAL STATEMENTS

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8. LONG-TERM DEBT

	2022	2021
Loan payable to PNC Equipment Finance, payable in variable semi-annual principal payments and quarterly interest payments, bearing interest at 5.94%, due in 2033, secured by leasehold debenture on real property leases, the solar panel systems and anassignment of material contracts including the FIT contracts	$ 2,121,803	$ 2,267,883
Current portion	152,412	146,080
	$ 1,969,391	$ 2,121,803

The principal instalments to be paid over the next five fiscal years are as follows:

2023	$ 152,412
2024	159,127
2025	166,249
2026	173,801
2027	181,810
Subsequent years	1,288,404
	$ 2,121,803

9. CAPITAL STOCK

	2022	2021
Authorized		
Unlimited number of Class A shares, redeemable and retractable for $ 1,000 per share, entitled to a dividend at a rate of 4 % of the redemption amount, non-voting		
Unlimited number of Class B shares, entitled to one vote per share, and entitled to the remaining assets of the corporation on the dissolution of the corporation after payment of the redemption value of the Class A shares		
Issued		
100 Class B shares	$ 100	$ 100

10. FINANCIAL INSTRUMENTS RISKS AND UNCERTAINTIES

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The information below assists users of financial statements in assessing the extent of risk related to its financial instruments.

CAPITAL MANAGEMENT

The objectives of the company when managing capital are to:

Maintain a capital structure that allows it to finance its growth strategy with cash flows from its operations and its debt capacity;

Preserve its ability to meet its financial obligations by funding the capital needs via various private and institutional sources;

Optimise the use of its capital to provide an appropriate return on investment to its shareholders.

FAIR VALUE

The fair value of current financial assets and current financial liabilities approximates their carrying value due to the relatively short-term nature of the instruments. The fair value of long-term financial liabilities also approximate carrying values due to the fact that effective interest rates are not significantly different from market rates.

CREDIT RISK

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The company has credit risk in its accounts receivable. In the opinion of management, the credit risk exposure to the company is low.

LIQUIDITY RISK

Liquidity risk is the risk that the company cannot repay its obligations when they become due to its creditors. The company is exposed to liquidity risk in respect of their accounts payable and accrued liabilities, due to related parties and long-term debt. Management closely monitors cash flow requirements to ensure that current and long-term obligations are met. In the opinion of managementand as noted in note 2, the liquidity risk exposure to the company is currently high.

INTEREST RATE CASH FLOW RISK

The company is exposed to interest rate cash flow risk to the extent that the long-term debt bears interest at a floating interest rate. However, the company entered into an interest rate swap agreement in exchange for a fixed rate of interest. Therefore, the company is exposed to an interest rate price risk in relation to its long-term debt. In the opinion of management the interest rate risk exposure to the corporation is low.

SOLAIRE MCGARRY SOLAR INC.

NOTES TO FINANCIAL STATEMENTS

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10. FINANCIAL INSTRUMENTS RISKS AND UNCERTAINTIES, (CONT'D)

CLIMATE AND WEATHER RISK

The company is exposed to climate and weather risk. Climate and weather risk is the risk of changes in solar power electricity generation due to poor weather conditions, such as reduced or lack of sunshine. This risk could have an impact on the realization of revenues. The climate and weather risk exposure to the company is out of their control.

11. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the company.

Management anticipates that all of the relevant pronouncements will be adopted in the company's accounting policies for the first period beginning after the effective date of the pronouncement. The company does not expect the amendments to have a material impact on the financial statements.