

Brooke Telecom Co-operative Ltd.

Financial Statements

For the Year Ended December 31, 2023

Independent Auditors' Report

Opinion

We have audited the financial statements of Brooke Telecom Co-operative Ltd., which comprise the balance sheet as at December 31, 2023, the statement of income, retained earnings and cash flow 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, 2023, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditors' Report

To The Members of Brooke Telecom Co-operative Ltd.

Auditors' Responsibilities for the Audit 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.
- 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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.

Exeter, Ontario

March 7, 2024

PTMG LLP

Chartered Professional Accountants
Licensed Public Accountants

Brooke Telecom Co-operative Ltd.
Balance Sheet
December 31, 2023

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash	\$ 842,626	922,246
Short term investments	3,154	51,232
Accounts receivable (Note 2)	1,559,836	1,314,665
Income taxes receivable	117,118	53,019
Inventory	232,961	280,171
Prepaid expenses	<u>317,060</u>	<u>129,236</u>
	3,072,755	2,750,569
Capital Assets (Note 4)	11,328,559	9,543,950
Long Term Investments (Note 3)	<u>85,525</u>	<u>91,299</u>
	<u>\$14,486,839</u>	<u>12,385,818</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 6)	\$ 933,020	1,480,631
Customer deposits	8,171	10,192
Current portion of bank loans (Note 7)	<u>2,202,757</u>	<u>100,000</u>
	3,143,948	1,590,823
Future Income Taxes (Note 8)	<u>503,000</u>	<u>327,000</u>
	3,646,948	1,917,823
Shareholders' Equity		
Share Capital (Note 9)	1,858	1,744
Contributed Surplus	4,169,444	4,169,444
Retained Earnings	<u>6,668,589</u>	<u>6,296,807</u>
	<u>10,839,891</u>	<u>10,467,995</u>
	<u>\$14,486,839</u>	<u>12,385,818</u>

APPROVED BY THE BOARD:

_____, Director

_____, Director

See accompanying notes to the financial statements

Brooke Telecom Co-operative Ltd.
Statement of Income
For the Year Ended December 31, 2023

	<u>2023</u>	<u>2022</u>
Revenue		
Internet	\$ 2,024,670	1,811,946
Cellular	1,487,655	1,479,656
Television	636,779	575,054
Local telephone, long distance and rentals	481,237	506,772
Long distance interconnection settlement	60,946	61,778
Other operating revenue	<u>53,456</u>	<u>106,097</u>
	4,744,743	4,541,303
Expenses		
Internet and IPTV service and support	962,880	1,102,113
Cellular and equipment cost of sales	637,887	771,069
Maintenance of system - labour and materials	612,358	544,214
General office - salaries and expenses	606,296	620,601
Employee benefits	254,974	237,677
General services and licenses	123,588	111,240
Utilities	98,465	94,093
Property taxes and leases	65,652	64,842
Insurance and licences	62,421	78,522
Advertising and promotion	56,904	58,939
Interest on long term debt	45,377	-
Interest and bank charges	34,420	39,085
Employee training	16,602	16,271
Directors' fees	11,700	8,250
Donations and scholarships	9,145	9,225
Bad debts	<u>4,257</u>	<u>4,062</u>
	3,602,926	3,760,203
Other Income		
Interest	<u>45,412</u>	<u>19,297</u>
Income Before Amortization and Income Taxes	1,187,229	800,397
Amortization of capital assets	<u>748,947</u>	<u>680,553</u>
Income Before Income Taxes	438,282	119,844
Income Taxes		
Current	(109,500)	-
Future (Note 8)	<u>176,000</u>	<u>22,000</u>
	66,500	22,000
Net Income	\$ 371,782	97,844

See accompanying notes to the financial statements

Brooke Telecom Co-operative Ltd.
Statement of Retained Earnings
For the Year Ended December 31, 2023

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 6,296,807	6,198,963
Net income	<u>371,782</u>	<u>97,844</u>
Balance, end of year	<u>\$ 6,668,589</u>	<u>6,296,807</u>

See accompanying notes to the financial statements

Brooke Telecom Co-operative Ltd.
Statement of Cash Flow
For the Year Ended December 31, 2023

	<u>2023</u>	<u>2022</u>
Operating Activities		
Net income	\$ 371,782	97,844
Items not affecting cash		
Amortization of capital assets	748,947	680,553
Future income taxes	<u>176,000</u>	<u>22,000</u>
	1,296,729	800,397
Net change in non-cash working capital items		
Increase in accounts receivable	(245,171)	(324,954)
Increase in income taxes recoverable	(64,099)	(52,004)
Decrease (Increase) in inventory	47,210	(63,718)
Decrease (Increase) in prepaid expenses	(187,824)	51,628
Increase (Decrease) in accounts payable and accrued liabilities	(547,612)	1,163,233
Increase (Decrease) in deferred revenue	<u>(2,021)</u>	<u>941</u>
	297,212	1,575,523
Investing Activities		
Purchase of capital assets	(2,533,556)	(1,838,628)
Decrease in investments	<u>5,775</u>	<u>6,461</u>
	(2,527,781)	(1,832,167)
Financing Activities		
Increase in long term debt	2,250,000	100,000
Repayment of long term debt	(147,243)	-
Increase in member shares	<u>114</u>	<u>82</u>
	2,102,871	100,082
Net decrease in cash	(127,698)	(156,562)
Cash, beginning of year	<u>973,478</u>	<u>1,130,040</u>
Cash, end of year	\$ 845,780	973,478
Represented by:		
Cash	842,626	922,246
Short-term investments	<u>3,154</u>	<u>51,232</u>
	\$ 845,780	973,478

See accompanying notes to the financial statements

Brooke Telecom Co-operative Ltd.
Notes to the Financial Statements
December 31, 2023

1. Significant Accounting Policies

(a) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash on deposit, cheques issued and outstanding and investments in high interest bank accounts and 90-day term deposits, net of draws from the operating line of credit that is available to meet short-term cash requirements.

(b) Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined on a specific item basis.

(c) Investments

The company's investments are accounted for using the amortized cost method. Under the amortized cost method, investments are initially recorded at fair value and income from such investments is recognized only to the extent received or receivable.

(d) Capital assets

Capital assets are recorded at cost. Amortization based on the estimated useful life of the asset is calculated on a straight-line basis as follows:

Buildings	10 to 20 years%
Underground equipment	8 to 30 years%
Other plant equipment	5 years%
Vehicles	15 years%
Office equipment	15 years%
Computer equipment	3 to 10 years%

The Co-operative recognizes government assistance, related to capital projects, as a reduction of the capital cost when amounts are determinable and there is reasonable assurance that the Co-operative has complied and will continue to comply with the conditions of the contract.

(e) Future income taxes

Future tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse.

(f) Revenue recognition

Revenue from telephone and other services is recognized when the services are provided in accordance with the sales agreements, the amounts are determinable and collection is reasonable assured. Other revenue is recognized by the co-operative according to the terms of the agreements.

Brooke Telecom Co-operative Ltd.
Notes to the Financial Statements
December 31, 2023

1. Significant Accounting Policies

(g) Translation of foreign currencies

Transactions denoted in foreign currencies are translated into Canadian dollars on the following basis:

- Current monetary assets and liabilities at exchange rates prevailing at the balance sheet date;
- Revenues and expenses at the exchange rate prevailing at the transaction date.

(h) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Accounts Receivable

	<u>2023</u>	<u>2022</u>
Government grants receivable	\$ 983,158	999,757
Trade accounts receivable	311,639	314,908
HST recoverable	<u>265,039</u>	<u>-</u>
	<u>\$ 1,559,836</u>	<u>1,314,665</u>

3. Investment Assets

	<u>2023</u>	<u>2022</u>
Common Shares, at cost	\$ 27,402	27,402
Note Receivable, no set terms of repayment, bearing interest at the bank prime rate	56,523	62,297
Investment in Shares of Co-operative Synergies Inc., an organization providing billing services to its shareholders	1	1
Other	<u>1,599</u>	<u>1,599</u>
	<u>\$ 85,525</u>	<u>91,299</u>

Brooke Telecom Co-operative Ltd.
Notes to the Financial Statements
December 31, 2023

4. Capital Assets

	<u>2023</u>			<u>2022</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 158,667	-	158,667	158,667
Buildings	1,311,292	909,832	401,460	437,762
Underground equipment	14,930,146	5,624,847	9,305,299	7,722,148
Other plant equipment	4,822,771	3,512,923	1,309,848	1,027,764
Vehicles	426,861	360,664	66,197	75,081
Office equipment	86,395	55,949	30,446	35,814
Computer equipment	329,588	272,946	56,642	86,714
	<u>\$22,065,720</u>	<u>10,737,161</u>	<u>11,328,559</u>	<u>9,543,950</u>

Included in capital assets are costs relating to construction in progress of \$2,097,392 (2022: \$2,432,620) that are not being amortized.

Government assistance of \$2,514,965 (2022: \$1,451,728) has been recorded as a reduction of the cost of the capital assets.

5. Bank Indebtedness

The bank operating loan is due on demand, bears interest at bank prime rate plus 0.25%, and has a credit limit of \$500,000. At December 31, 2023, the co-operative had no amounts borrowed on the operating loan.

The company has a bank revolving term loan facility with an authorized credit limit of \$3,500,000 and bearing interest at prime + 1%. Any advances become a 5 year term loan and are repayable in monthly installments of principal and interest. All amounts owing under this facility are disclosed in note 7.

All bank indebtedness is secured by a general security agreement over all present and future property.

6. Accounts Payable and Accrued Liabilities

	<u>2023</u>	<u>2022</u>
Accounts payable and accrued liabilities	\$ 933,020	1,360,319
Government remittances payable	-	120,312
	<u>\$ 933,020</u>	<u>1,480,631</u>

Brooke Telecom Co-operative Ltd.
Notes to the Financial Statements
December 31, 2023

7. Bank Loans

	<u>2023</u>	<u>2022</u>
Prime + 1.00 % Bank loan, repayable in monthly payments of \$11,905 principal plus interest, due on demand	\$ 1,000,000	-
Prime + 1.00 % Bank revolving term loan, repayable in monthly payments of \$8,928 principal plus interest, due on demand	738,475	-
Prime + 1.00 % Bank loan, repayable in monthly payments of \$5,953 principal plus interest, due on demand	464,282	-
Prime + 0.75 % Bank loan, repayable in monthly payments of \$25,000 principal plus interest, due April 2024	-	100,000
	<u>2,202,757</u>	100,000
Current portion of long term debt	<u>2,202,757</u>	100,000
	<u><u>\$ -</u></u>	<u><u>-</u></u>

8. Future Income Taxes

The temporary differences between accounting and tax reporting resulting in a future tax liability are as follows:

	<u>2023</u>	<u>2022</u>
Capital Assets, excess of accounting cost over tax cost	\$ (3,794,000)	(1,942,000)
Tax losses available to reduce future taxable income	<u>646,000</u>	171,000
Temporary Differences	\$ (3,148,000)	(1,771,000)
Effective Tax Rate	<u>16.0%</u>	18.5%
Future Tax Liability	<u><u>\$ (503,000)</u></u>	<u><u>(327,000)</u></u>

Brooke Telecom Co-operative Ltd.
Notes to the Financial Statements
December 31, 2023

9. Share Capital

Authorized:

Member shares. 10,000,000 shares authorized.

Issued:

1,858 Member shares

	<u>2023</u>	<u>2022</u>
	<u>\$ 1,858</u>	<u>1,744</u>

10. Financial Instruments

The co-operative is exposed to interest rate risk on its prime based loans. It is the opinion of the Co-operative's management that the Company is not exposed to significant credit, currency or liquidity risks.

11. Transactions with Non-members

Approximately 23% of the Co-operative's business was transacted with non-members

12. Rate Regulation

Approximately 8% (2022 - 9%) of the Co-operatives' rental and subscribers' rates revenue is subject to rate regulation by the CRTC. The fact the Co-operative is subject to rate regulation does not result in the Co-operative selecting accounting policies that would differ from accounting standards for private enterprises.

13. Commitment

In 2022, the Co-operative entered into project agreements with the Universal Broadband Fund (UBF) to install infrastructure for the purpose of providing broadband connectivity to customers. The estimated cost of these projects is \$10,987,150, of which UBF will fund \$6,078,044 and the Co-operative the remainder. During the year, the Co-operative recognized \$2,299,274 (2022 - \$24,783) of UBF funding on these projects. The project has an expected completion date of December 2025.

14. Comparative Figures

The presentation of certain amounts on the financial statements for the previous year has been changed where necessary to conform with the financial statement presentation adopted for 2023. Net income for the previous year is not affected by this reclassification.