# Lakeland Power Distribution Ltd.
# Financial Statements
**For the Year Ended December 31, 2023**
**(Expressed in Canadian Dollars)**

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## For the Year Ended December 31, 2023
## (Expressed in Canadian Dollars)

Contents

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BDO Canada LLP
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# Independent Auditor's Report

**To the Shareholder of Lakeland Power Distribution Ltd.**

## Opinion

We have audited the financial statements of Lakeland Power Distribution Ltd. (the "Company"), which comprise the statement of financial position as at December 31, 2023, the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

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 its financial performance and 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.

## Other Matter

The financial statements of the Company for the year ended December 31, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on April 28, 2023.

## 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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Barrie, Ontario
April 29, 2024

# Lakeland Power Distribution Ltd.

## Statement of Financial Position

(Expressed in Canadian Dollars)

| December 31 | 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash (Note 16) | **$ 3,698,026** | $ 1,857,118 |
| Accounts receivable (Note 5 and 7) | **4,352,546** | 3,856,878 |
| Unbilled revenue (Note 5) | **3,821,807** | 3,826,515 |
| Payment in lieu of taxes receivable | **85,100** | 267,465 |
| Inventory (Note 8) | **585,954** | 846,418 |
| Prepaid expenses | **368,890** | 300,163 |
| **Total current assets** | **12,912,323** | 10,954,557 |
| Non current | | |
| Capital assets (Note 9) | **42,747,054** | 39,873,445 |
| Intangible assets (Note 10) | **668,174** | 628,855 |
| Goodwill (Note 11) | **1,150,014** | 1,150,014 |
| **Total non current assets** | **44,565,242** | 41,652,314 |
| **Total assets** | **57,477,565** | 52,606,871 |
| Regulatory deferral account debit balances and related deferred tax (Note 12) | **873,877** | 788,415 |
| **Total assets and regulatory deferral account debit balances** | **$ 58,351,442** | $ 53,395,286 |

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

# Lakeland Power Distribution Ltd.
## Statement of Financial Position
(Expressed in Canadian Dollars)

| December 31 | 2023 | 2022 |
|---|---|---|
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (Notes 6 and 7) | **$ 7,150,270** | $ 7,243,509 |
| Current portion of long-term debt (Note 20) | **10,698,887** | 1,162,500 |
| Current portion of contributions in aid of construction (Note 14) | **375,608** | 329,051 |
| **Total current liabilities** | **18,224,765** | 8,735,060 |
| Non current | | |
| Contributions in aid of construction (Note 14) | **12,377,605** | 10,797,837 |
| Customer deposits (Note 15) | **483,551** | 531,905 |
| Deferred taxes (Note 18) | **766,593** | 428,178 |
| Employee future benefits (Note 19) | **39,891** | 49,492 |
| Long-term debt (Note 20) | **10,487,500** | 17,023,887 |
| **Total non current liabilities** | **24,155,140** | 28,831,299 |
| **Total liabilities** | **42,379,905** | 37,566,359 |
| **Shareholder's Equity** | | |
| Share Capital (Note 21) | **9,226,787** | 9,226,787 |
| Contributed surplus | **4,986,711** | 4,986,711 |
| Retained earnings | **1,684,200** | 1,541,084 |
| Accumulated other comprehensive loss | **73,839** | 73,839 |
| **Total shareholder's equity** | **15,971,537** | 15,828,421 |
| **Total liabilities and shareholder's equity** | **58,351,442** | 53,394,780 |
| Regulatory deferral account credit balances and related deferred tax (Note 12) | **-** | 506 |
| **Total liabilities and shareholder's equity and regulatory deferral account credit balances** | **$ 58,351,442** | $ 53,395,286 |

**Contingencies** (Note 16) **and Commitments** (Note 17)

On behalf of the Board:

DocuSigned by: Philip Matthews 8543B1DADE5741F... Director

DocuSigned by: C4B004F1C40E4C5... Director

# Lakeland Power Distribution Ltd.
## Statement of Comprehensive Income
(Expressed in Canadian Dollars)

| For the year ended December 31 | 2023 | 2022 |
|---|---|---|
| Revenue | | |
| Electricity revenue | **$ 37,183,199** | $ 37,356,182 |
| Distribution revenue | **8,711,263** | 8,339,575 |
| Other revenue | **1,020,177** | 1,008,197 |
| Gain on disposal of property, plant and equipment | **35,000** | - |
| | **46,949,639** | 46,703,954 |
| Expenses | | |
| Purchased power | **36,981,656** | 37,502,658 |
| Operating expenses (Note 23) | **5,806,416** | 5,447,098 |
| Depreciation and amortization (Note 22) | **1,853,806** | 1,729,698 |
| Property taxes | **62,817** | 60,426 |
| | **44,704,695** | 44,739,880 |
| Income from operating activities | **2,244,944** | 1,964,074 |
| Other income (expense) | | |
| Finance income | **159,014** | 56,357 |
| Finance costs | **(951,779)** | (616,437) |
| | **(792,765)** | (560,080) |
| Income before provision for payments in lieu of taxes | **1,452,179** | 1,403,994 |
| Provision (recovery) for payments in lieu of taxes | | |
| Current (Note 18) | **2,487** | (42,664) |
| Deferred (Note 18) | **338,415** | 377,884 |
| | **340,902** | 335,220 |
| Profit before net movements in regulatory deferral account balances | **1,111,277** | 1,068,774 |
| Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement (Note 12) | **(168,161)** | 103,825 |
| Profit and net movements in regulatory deferral account balances | **943,116** | 1,172,599 |
| Other comprehensive income: | | |
| items that will not be reclassified to profit or loss, net of tax: | | |
| Remeasurements of defined benefit plan, net of tax $Nil (2022 - $7,774) (Note 19) | **-** | 21,560 |
| **Total comprehensive income** | **$ 943,116** | $ 1,194,159 |

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

# Lakeland Power Distribution Ltd.
## Statement of Changes in Equity
(Expressed in Canadian Dollars)

**For the year ended December 31, 2023**

| | Share Capital | Contributed Surplus | Retained Earnings | Accumulated Other Comprehensive Loss | Total Equity |
|---|---|---|---|---|---|
| **Balance, January 1, 2022** | $ 9,226,787 | $ 4,986,711 | $ 1,618,485 | $ 52,279 | $ 15,884,262 |
| Profit for the year | - | - | 1,172,599 | - | 1,172,599 |
| Dividends paid | - | - | (1,250,000) | - | (1,250,000) |
| Other comprehensive income | - | - | - | 21,560 | 21,560 |
| **Balance, December 31, 2022** | 9,226,787 | 4,986,711 | 1,541,084 | 73,839 | 15,828,421 |
| Profit for the year | - | - | 943,116 | - | 943,116 |
| Dividends paid | - | - | (800,000) | - | (800,000) |
| **Balance, December 31, 2023** | $ 9,226,787 | $ 4,986,711 | $ 1,684,200 | $ 73,839 | $ 15,971,537 |

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

# Lakeland Power Distribution Ltd.
## Statement of Cash Flows
(Expressed in Canadian Dollars)

| For the year ended December 31 | 2023 | 2022 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Comprehensive income | $ **943,116** | $ 1,194,159 |
| Adjustments for items not affecting cash: | | |
| Depreciation of property, plant, equipment, and intangible assets (Note 22) | **2,088,035** | 1,940,450 |
| Employee future benefits (Note 19) | **(9,601)** | (54,140) |
| Finance costs paid | **951,779** | 616,437 |
| Finance income received | **(159,014)** | (56,357) |
| Provision for payment in lieu and deferred taxes (Note 18) | **340,902** | 374,871 |
| | **4,155,217** | 4,015,420 |
| Adjustments for non-cash working capital items: | | |
| Accounts receivable (Note 5 and 7) | **(495,668)** | 454,279 |
| Inventory (Note 8) | **260,464** | (517,073) |
| Prepaid expenses | **(68,727)** | 34,512 |
| Unbilled revenue | **4,708** | (268,680) |
| Accounts payable and accrued liabilities (Note 6) | **(93,239)** | 258,694 |
| Customer deposits (Note 15) | **(48,354)** | 50,237 |
| Cash generated from operations | **3,714,401** | 4,027,389 |
| Payment in lieu of taxes paid | **179,878** | (182,388) |
| Net cash provided by operating activities | **3,894,279** | 3,845,001 |
| **Cash flows from investing activities** | | |
| Finance income received | **159,014** | 56,357 |
| Purchase of property, plant, and equipment (Note 9) | **(4,914,991)** | (4,307,782) |
| Purchase of intangible assets | **(85,972)** | (65,472) |
| Regulatory deferral account balances | **(85,968)** | (896,726) |
| Net cash used in investing activities | **(4,927,917)** | (5,213,623) |
| **Cash flows from financing activities** | | |
| Finance costs paid | **(951,779)** | (616,437) |
| Dividends paid | **(800,000)** | (1,250,000) |
| Contributions in aid of construction | **1,626,325** | 1,471,138 |
| Proceeds from issuance of long-term debt | **3,000,000** | - |
| Net cash provided by (used in) financing activities | **2,874,546** | (395,299) |
| **Net increase (decrease) in cash** | **1,840,908** | (1,763,921) |
| **Cash** at beginning of year | **1,857,118** | 3,621,039 |
| **Cash** at end of year | $ **3,698,026** | $ 1,857,118 |

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

## 1. Corporate Information

The Company was incorporated under the Canada Business Corporations Act in 2000, and has continued as a Company under the Business Corporations Act of Ontario. The Company distributes electricity to residents and businesses in the towns of Bracebridge, Huntsville, Parry Sound, Sundridge, Burk’s Falls and Magnetawan under a license issued by the Ontario Energy Board (“OEB”). The Company is regulated by the OEB and adjustments to the Company’s distribution and power rates require OEB approval.

The sole shareholder of the Company is Lakeland Holding Ltd.

## 2. Basis of Presentation

### a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations as issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

The financial statements were authorized for issue by the Board of Directors on April 29, 2024.

### b) Basis of measurement

The financial statements have been prepared on a historical cost basis except for the following items:

1. Financial instruments - fair value through profit and loss
2. Financial instruments - fair value through other comprehensive income
3. Employee future benefits - fair value through other comprehensive income

The financial statements are presented in Canadian dollars (CDN$), which is also the Company's functional currency

### c) Judgement and estimates

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 disclosed in Note 4.

## 3. Material Accounting Policy Information

**a) Explanation of Activities Subject to Rate Regulation**

Operating in a regulated environment exposes the company to regulatory and recovery risk.

***Regulatory Risk***

Regulatory risk is the risk that the Province and its regulator, the OEB, could establish a regulatory regime that imposes conditions that restrict the electricity distribution business from achieving an acceptable rate of return that permits financial sustainability of its operations including the recovery of expenses incurred for the benefit of other market participants in the electricity industry such as transition costs and other regulatory assets. All requests for changes in electricity distribution charges require the approval of the OEB.

***Recovery Risk***

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect distribution rates and other permitted recoveries in the future. Lakeland Power Distribution Ltd. is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

## 3. Material Accounting Policy Information (continued)

**b) Regulatory Deferral Accounts**

Regulatory deferral account debit balances represent future recoveries associated with certain costs incurred in the current period or in prior period(s) that are expected to be recovered from consumers in future periods through the rate-setting process. Management continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made. Regulatory deferral account credit balances are associated with the collection of certain revenues earned in the current period or in prior period(s) that are expected to be returned to consumers in future periods through the rate-setting process. Regulatory deferral account balances can arise from differences in amounts collected from customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by the Company in the wholesale market administered by the Independent Electricity Operator (the "IESO") after May 1, 2002. The amounts have been accumulated pursuant to regulation underlying the Electricity Act (the "EA") and deferred in anticipating of their future recovery or expense in electricity distribution service charges.

*Explanation of recognized amounts*

Regulatory deferral account balances are recognized and measured initially and subsequently at cost. They are assessed for impairment on the same basis as other non-financial assets as described below. Management continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

**3. Material Accounting Policy Information (continued)**

c) **Revenue**

***Sale and distribution of energy***

The Company is licensed by the OEB to distribute electricity. As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company has determined that they are acting as a principal for the electricity distribution and, therefore, have presented the electricity revenues on a gross basis.

Revenues from the sale and distribution of electricity are recognized upon delivery and provision of services over the period in which the delivery and service is performed and collectability is reasonably assured and includes unbilled revenues accrued in respect of electricity delivered but not yet billed in the reporting period. Sale and distribution of energy revenue is comprised of customer billings for distribution service charges. Customer billings for distribution service charges are recorded based on meter readings.

***Other***

Other revenues, which include revenues from pole use rental, collection charges and other miscellaneous revenues are recognized at the time services are provided. Where the Company has an ongoing obligation to provide services, revenues are recognized as the service is performed and amounts billed in advance are recognized as deferred revenue.

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as contributions in aid of construction and are recorded as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

**3. Material Accounting Policy Information (continued)**

**d) Financial Instruments**

Financial instruments are comprised of cash, accounts receivable, unbilled revenues, accounts payable and accrued liabilities, customer deposits and long-term debt.

*Recognition and derecognition*

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

*Classification and initial measurement of financial assets*

Financial assets are initially measured at fair value adjusted for transaction costs where applicable.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss ("FVTPL"); and
- fair value through other comprehensive income ("FVOCI").

The classification is determined by both:

- the Company's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

In the periods presented, the Company does not have any financial assets measured at FVOCI.

*Subsequent measurement of financial assets*

<u>Financial assets at amortized cost</u>

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 3. Material Accounting Policy Information (continued)

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash, accounts receivable, and unbilled revenues fall into this category of financial instruments.

<u>Financial assets at fair value through profit or loss (FVTPL)</u>

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at fair value through profit and loss. Further, irrespective of the business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

In the periods presented, the Company does not have any financial assets measured at FVTPL.

*Impairment of financial assets*

The Company assesses impairment using forward-looking information to recognize expected credit losses - the "expected credit loss (ECL) model." The Company considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and

- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

- ("Stage 3") would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

## 3. Material Accounting Policy Information (continued)

*Accounts receivable*

The Company makes use of a simplified approach in accounting for accounts receivable and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating the expected credit losses, the Company uses its historical experience and adjusts historical rates to reflect current and forward looking macroeconomic factors affecting the client's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of macroeconomic factors has not been considered significant within the reporting period.

The Company assesses impairment of accounts receivable on a collective basis as they possess shared credit risk characteristics.

Based on historical experience of low credit losses, management has determined that there are no impairments during the current and prior year.

*Classification and measurement of financial liabilities*

The Company’s financial liabilities include accounts payable and accrued liabilities, customer deposits, and long term debt.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

**3. Material Accounting Policy Information (continued)**

e) **Fair Value Measurements**

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement.

Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

The fair value hierarchy has the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(Expressed in Canadian Dollars)

**3. Material Accounting Policy Information (continued)**

**f) Property, Plant and Equipment**

*Recognition and measurement*

Property, plant and equipment (PP&E) are recognized at cost or deemed 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.

Depreciation of PP&E is recorded in the Statement of Comprehensive Income 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 annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful lives are as follows:

| | |
|---|---|
| Distribution plant | |
| Buildings and fixtures | 50 years |
| Conductors and devices | 60 years |
| Distribution station equipment | 40 years |
| Line transformers | 40 years |
| Meters | 15 years |
| New services distribution | 45 years |
| Poles, towers and fixtures | 45 years |
| Underground conduits | 40 to 45 years |
| General plant | |
| Building and fixtures | 50 years |
| Communication equipment | 5 to 10 years |
| Computer hardware | 5 years |
| Office furniture and equipment | 10 years |
| Tools and garage equipment | 10 years |
| Transportation equipment | 5 to 8 years |

*Major spare parts*

Major spares such as spare transformers and other items kept as standby/back up equipment are accounted for as PP&E since they support the Company's distribution system reliability.

*Contributions in aid of construction*

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction.

**3. Material Accounting Policy Information (continued)**

*Gains and losses on disposal*

Gains and losses on disposal of an item of PP&E are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are included in the Statement of Comprehensive Income when the asset is disposed of.

**g) Borrowing Costs**

The Company capitalizes interest expenses and other finance charges directly relating to the acquisition, construction or production of assets that take a substantial period of time to get ready for its intended use. Capitalization commences when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization will be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete.

**h) Intangible Assets**

*Computer software*

Computer software that is acquired or developed by the Company, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

*Land rights*

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are not amortized and are tested for impairment on an annual basis.

*Amortization*

Amortization is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, and those with indefinite lives, from the date that they are available for use. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date. The estimated useful lives for the current and comparative years are:

| | |
|---|---|
| Land rights | Indefinite |
| Computer software | 5 years |

### 3. Material Accounting Policy Information (continued)

**i) Impairment of Non-Financial Assets**

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs').

Impairment charges are included in the Statement of Comprehensive Income, except to the extent they reverse gains previously recognized in other comprehensive income. No impairment loss has been charged to income in 2023 (2022 - $Nil).

**3. Material Accounting Policy Information (continued)**

**j) Employee Future Benefits**

*Defined contribution plan*
The employees of the Company participate in the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan. The Company also makes contributions to the OMERS plan on behalf of its employees. The plan has a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. However, the plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is only one of a number of employers that participates in the plan and the financial information provided to the Company on the basis of the contractual agreements, is usually insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities.

The Company provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a group defined benefit plan. The Company's net obligation for these benefits is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. Any unrecognized past service costs are deducted.

The cost of these benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions.

Due to the complexity of the valuation and its long-term nature, the funding valuation is highly sensitive to changes in the assumptions, which are reviewed at each reporting date. Recent changes in interest rates and inflation has created uncertainty which could impact assumptions going forward. This uncertainty could create volatility in the funding status of the plan.

The calculation is performed by a qualified actuary using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities. The valuation is performed every third year or when there are significant changes to workforce.

Remeasurements of the defined benefit obligation are recognized directly within equity in other comprehensive income. The remeasurements include actuarial gains and losses.

Service costs are recognized in the Statement of Comprehensive Income in operating expenses, and include current and past service costs as well as gains and losses on curtailments.

## 3. Material Accounting Policy Information (continued)

Net interest expense is recognized in the Statement of Comprehensive Income in finance expense, and is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the balance of the net defined benefit obligation, considering the effects of benefit payments during the period. Gains or losses arising from changes to defined benefits or plan curtailment are recognized immediately in the Statement of Comprehensive Income.

Settlements of defined benefit plans are recognized in the period in which the settlement occurs.

**3. Material Accounting Policy Information (continued)**

**k) Payment in Lieu of 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.

*Current and deferred tax*

Provision for payments in lieu of taxes comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity (see Note 18). Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base. The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities/(assets) are settled/(recovered).

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

At the end of each reporting period, the Company reassesses both recognized and unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**3. Material Accounting Policy Information (continued)**

**l) Inventories**

Cost of inventories comprise of direct materials, which typically consists of distribution assets, streetlight repair parts and fibre optic cable not deemed as major spares, unless purchased for specific capital projects in process or as spare units. Costs, after deducting rebates and discounts, are assigned to individual items of inventory on the basis of weighted average cost.

Decommissioned assets that are transferred to inventory are tested for impairment once they are removed from service and placed in inventory. Inventory is recognized at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**m) Standards, Amendments and Interpretations Not Yet Effective**

Standards and amendments that are not yet effective and have not been adopted early by the Company and are expected to be relevant include:

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 Presentation of Financial Statements); and
- Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)

The Company is currently assessing the impact of these amendments. The Company does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities.

At the date of authorization of these financial statements, all accounting pronouncements which became effective on January 1, 2023 and have therefore been adopted do not have a material impact on the Company's financial results or position.

## 4. Use of Estimates and Judgements

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 critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

• The determination of useful lives of property, plant and equipment and intangible assets (Note 3 f), 3 h), 9 and 10);
• The determination of impairment of accounts receivable and the incorporation of forward-looking information into the measurement of the expected credit loss ("ECL") (Note 3 d) and 5);
• The determination for the provision for Payment in Lieu of Taxes since there are many transactions and calculations for which the ultimate tax determination is uncertain (Note 18); and
• The calculation of the net future obligation for certain unfunded health, dental and life insurance benefits for the Company's retired employees (Note 19).

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

(Expressed in Canadian Dollars)

## 5. Receivables and Unbilled Revenue

| | 2023 | 2022 |
|---|---|---|
| Related party receivables (Note 7) | **$ 38,862** | $ 89,667 |
| Accounts receivables | **4,313,684** | 3,767,211 |
| Unbilled revenue | **3,821,807** | 3,826,515 |
| | **$ 8,174,353** | $ 7,683,393 |

The related party receivables are unsecured, non-interest bearing and have no specific repayment terms.

### Credit risk

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits, which are reported separately from the Company's own cash (Note 15). Deposits to be refunded to customers within the next fiscal year are classified as a current liability. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2%.

Due to its short-term nature, the carrying amount of the receivables approximates its fair value. Unbilled revenue reflects the electricity delivered but not yet billed to customers. Customer billings generally occur within 30 days of delivery. The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company distributes electricity to over 14,000 customers within its licensed service territory in the Town of Bracebridge, Town of Huntsville, Town of Parry Sound, Town of Sundridge, Village of Burk's Falls and Municipality of Magnetawan which is comprised of 85% residential customers while approximately 12% are small business or industrial based. The Company considers an account receivable to be in default when the customer is unlikely to pay its credit obligations in full, without recourse by the Company, such as realizing security (if any is held). Accounts are past-due (in default) when the customers have failed to make the contractually requirements payments when due, which is generally within 30 days of the billing date.

The Company considered an account receivable to be credit-impaired when the customer had amounts more than 90 days past the billing date. The Company reviews commercial and industrial customer accounts on an individual basis and considers historical loss, payment experience, payment arrangements and economic conditions, as well as the aging and arrears status of the account in the determination of impairment.

(Expressed in Canadian Dollars)

### 5. Receivables and Unbilled Revenue (continued)

| | December 31, 2023 | | | December 31, 2022 | | |
|---|---|---|---|---|---|---|
| | Gross | Loss Allowance | Net | Gross | Loss Allowance | Net |
| Less than 31 days past billing date | $ 3,915,379 | $ (1,520) | $ 3,913,859 | $ 3,628,087 | $ (4,673) | $ 3,623,414 |
| 31-60 days past billing date | 267,321 | (2,615) | 264,706 | 28,926 | (3,737) | 25,189 |
| 61-90 days past billing date | 9,043 | (1,355) | 7,688 | 35,828 | (2,743) | 33,085 |
| More than 90 days past billing date | 151,090 | (23,659) | 127,431 | 112,577 | (27,054) | 85,523 |
| | **$ 4,342,833** | **$ (29,149)** | **$ 4,313,684** | **$ 3,805,418** | **$ (38,207)** | **$ 3,767,211** |

(Expressed in Canadian Dollars)

### 6. Accounts Payable and Accrued Liabilities

Major components of accounts payable and accrued liabilities consist of the following:

| | 2023 | 2022 |
|---|---|---|
| Accounts payable and accrued liabilities | **$ 4,186,479** | $ 4,229,293 |
| Purchased power | **1,710,823** | 1,863,494 |
| Related party payables | **1,252,968** | 1,150,722 |
| | **$ 7,150,270** | $ 7,243,509 |

The related party payables are unsecured, non-interest bearing and have no specific repayment terms.

(Expressed in Canadian Dollars)

## 7. Related Party Transactions

The related party transactions below are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties) which approximates the arm's length equivalent value. Bracebridge Generation Ltd. (BGL), Lakeland Energy Ltd. (LEL) and Lakeland Power Distribution Ltd. (LPDL) are all wholly-owned subsidiaries of Lakeland Holding Ltd. (LHL) and are therefore, related by common control.

The following table summarizes the Company's related party transactions for the year:

| | 2023 | 2022 |
|---|---|---|
| Lakeland Energy Ltd. | | |
| Information technology expenses, in administration and general | **$ 337,763** | $ 372,309 |
| Communication expenses, in administration and general | **$ 74,265** | $ 65,400 |
| Building rent revenue | **$ 42,000** | $ 42,000 |
| Other operating revenue | **$ 8,378** | $ 14,388 |
| Other operating and maintenance expenses | **$ 768** | $ 768 |
| Bracebridge Generation Ltd. | | |
| Building rent | **$ 6,000** | $ 6,000 |
| Other operating revenue | **$ 5,934** | $ 4,662 |
| Other operating and maintenance expenses | **$ -** | $ 595 |
| Lakeland Holding Ltd. | | |
| Management fee paid, in administration and general | **$ 949,333** | $ 859,778 |
| Purchases | | |
| Town of Bracebridge | **$ 31,492** | $ 29,853 |
| Town of Parry Sound | **$ 23,502** | $ 23,273 |
| Town of Huntsville | **$ 27,102** | $ 11,653 |
| Village of Sundridge | **$ -** | $ 1,000 |
| Sales | | |
| Town of Bracebridge | **$ 719,519** | $ 703,472 |
| Town of Parry Sound | **$ 765,742** | $ 719,933 |
| Town of Huntsville | **$ 482,124** | $ 401,440 |
| Village of Burk's Falls | **$ 140,960** | $ 136,643 |
| Village of Sundridge | **$ 120,179** | $ 112,108 |
| Municipality of Magnetawan | **$ 22,804** | $ 28,342 |
| Accounts receivable | | |
| BGL | **$ 18,322** | $ 18,486 |
| LEL | **$ 8,659** | $ 6,284 |
| LHL | **$ 11,881** | $ 64,897 |
| Accounts payable | | |
| BGL | **$ 1,087,497** | $ 987,623 |
| LEL | **$ 16,388** | $ 10,789 |
| LHL | **$ 149,085** | $ 152,310 |

## 7. Related Party Transactions (continued)

**Key management personnel compensation:**

The management fee paid to Lakeland Holding Ltd. is comprised of reimbursements for management and administrative expenses incurred by Lakeland Holding Ltd. Key management compensation for the Lakeland group of companies is paid by Lakeland Holding Ltd. The total management fee paid from Lakeland Power Distribution Ltd. to Lakeland Holding Ltd. was $949,333 (2022 - $859,778).

## 8. Inventory

| | **2023** | 2022 |
|---|---|---|
| Inventory expensed during the year | **$ 58,665** | $ 72,948 |

Inventory during the year was not impaired, further there were no reversals of impairment.

(Expressed in Canadian Dollars)

## 9. Property, Plant and Equipment

| | Land and building | Distribution equipment | Other fixed assets | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At January 1, 2022 | $ 2,854,741 | $ 59,638,548 | $ 4,907,763 | $ 67,401,052 |
| Additions | 7,271 | 3,689,756 | 610,755 | 4,307,782 |
| At January 1, 2023 | 2,862,012 | 63,328,304 | 5,518,518 | 71,708,834 |
| Additions | 6,971 | 4,257,854 | 650,166 | 4,914,991 |
| Disposals | - | - | (239,907) | (239,907) |
| At December 31, 2023 | $ 2,868,983 | $ 67,586,158 | $ 5,928,777 | $ 76,383,918 |
| **Accumulated depreciation** | | | | |
| At January 1, 2022 | $ 1,092,174 | $ 25,350,582 | $ 3,473,576 | $ 29,916,332 |
| Depreciation for the year | 81,545 | 1,534,656 | 302,856 | 1,919,057 |
| At January 1, 2023 | 1,173,719 | 26,885,238 | 3,776,432 | 31,835,389 |
| Depreciation for the year | 77,778 | 1,630,406 | 333,198 | 2,041,382 |
| Disposals | - | - | (239,907) | (239,907) |
| At December 31, 2023 | $ 1,251,497 | $ 28,515,644 | $ 3,869,723 | $ 33,636,864 |
| **Carrying amount December 31, 2022** | $ 1,688,293 | $ 36,443,066 | $ 1,742,086 | $ 39,873,445 |
| **Carrying amount December 31, 2023** | $ 1,617,486 | $ 39,070,514 | $ 2,059,054 | $ 42,747,054 |

(Expressed in Canadian Dollars)

## 10. Intangible Assets

| | Computer Software | Land rights | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at January 1, 2022 | **$ 1,102,050** | $ 567,931 | $ 1,669,981 |
| Additions | **65,472** | - | 65,472 |
| Balance at January 1, 2023 | **1,167,522** | 567,931 | 1,735,453 |
| Additions | **85,972** | - | 85,972 |
| Balance at December 31, 2023 | **$ 1,253,494** | $ 567,931 | $ 1,821,425 |
| **Accumulated depreciation** | | | |
| Balance at January 1, 2022 | **$ 1,020,007** | $ 50,055 | $ 1,070,062 |
| Depreciation for the year | **36,516** | 20 | 36,536 |
| Balance at January 1, 2023 | **1,056,523** | 50,075 | 1,106,598 |
| Depreciation for the year | **46,633** | 20 | 46,653 |
| Balance at December 31, 2023 | **$ 1,103,156** | $ 50,095 | $ 1,153,251 |
| **Carrying amount December 31, 2022** | **$ 110,999** | $ 517,856 | $ 628,855 |
| **Carrying amount December 31, 2023** | **$ 150,338** | $ 517,836 | $ 668,174 |

(Expressed in Canadian Dollars)

**December 31, 2023**

## 11. Goodwill

The Company is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

| | 2023 | 2022 |
|---|---|---|
| **Carrying amount** | | |
| Balance at January 1, 2022 | $ 1,150,014 | $ 1,150,014 |
| Impairment losses | - | - |
| **Balance at December 31, 2023** | **$ 1,150,014** | **$ 1,150,014** |

On March 27, 2014 in proceeding EB-2013-0427/EB-2013-0428, the Ontario Energy Board granted leave to Parry Sound Power Corporation and Lakeland Power Distribution Ltd. to amalgamate. On July 3, 2014, the companies notified the Board that the transaction had been completed. Parry Sound Power Corporation's Electricity distribution licence ED-2003-0006 was cancelled effective July 3, 2014 and Lakeland Power Distribution Ltd.'s electricity distribution licence was amended to include the service areas formerly served by Parry Sound Power Corporation. Goodwill arose on this transaction.

## 12. Regulatory Deferral Account Balances

The Company applies IFRS 14, Regulatory Deferral Accounts, to reflect the impact of regulation on its operations. In accordance with IFRS 14, the Company continues to apply the accounting policies it applied in accordance with the pre-changeover Canadian GAAP for the recognition, measurement and impairment of assets and liabilities arising from rate regulation. These are referred to as regulatory deferral account balances. Regulatory deferral account balances are recognized and measured initially and subsequently at cost. They are assessed for impairment on the same basis as other non-financial assets.

Regulatory deferral account credit balances are associated with the collection of certain revenues earned in the current period or in prior period(s) that are expected to be returned to consumers in future periods through the rate-setting process.

Regulatory deferral account debit balances represent future recoveries associated with certain costs incurred in the current period or in prior period(s) that are expected to be recovered from consumers in future periods through the rate-setting process. Management continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

All amounts deferred as regulatory deferral account debit balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered by customers (returned to customers) in future periods and as such regulatory deferral account balances are comprised of:

(Expressed in Canadian Dollars)

## 12. Regulatory Deferral Account Balances (continued)

| Regulatory deferral account debit/(credit) | Note | Expected recovery /reversal period (years) | Balance January 1, 2023 | Balances arising in the period | Recovery /reversal | Balance December 31, 2023 |
|---|---|---|---|---|---|---|
| Settlement variances | i) | 1-4 | $ 354,093 | $ (342,845) | $ 304,488 | $ 315,736 |
| Retail cost variances | ii) | 1-4 | (506) | 93,701 | 9,767 | 102,962 |
| COVID-19 emergency costs | iii) | 1-4 | 434,322 | 20,857 | - | 455,179 |
| | | $ - | $ 787,909 | $ (228,287) | $ 314,255 | $ 873,877 |

| Regulatory deferral account debit/(credit) | Note | Expected recovery /reversal period (years) | Balance January 1, 2022 | Balances arising in the period | Recovery /reversal | Balance December 31, 2022 |
|---|---|---|---|---|---|---|
| Settlement variances | i) | 1-4 | $ (468,242) | $ 526,365 | $ 295,970 | $ 354,093 |
| Retail cost variances | ii) | 1-4 | (66,408) | 361,872 | (295,970) | (506) |
| COVID-19 emergency costs | iii) | 1-4 | 425,829 | 8,493 | - | 434,322 |
| | | $ - | $ (108,821) | $ 896,730 | $ - | $ 787,909 |

## 12. Regulatory Deferral Account Balances (continued)

### i) Settlement Variances

This account is comprised of the variances between amounts charged by the Company to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by the Company. The settlement variances relate primarily to service charges, non-competitive electricity charges, imported power charges and the global adjustment.

The Company has recognized a settlement variance asset of $315,736 (2022 - asset of $354,093) arising from the recognition of regulatory deferral account balances. The settlement variance asset balance is presented within the total regulatory deferral account debit balance presented in the statement of financial position. Annually the Company makes an application for the recovery of the settlement variances for its customers in its rate application.

### ii) Retail Cost Variances

The Company has recognized a cost asset of $102,962 (2022 - liability of $506) mainly for costs in excess of the amount requested in the Company’s last Cost of Service Application. Included are Green Button implementation costs and pole attachment revenue variances. The other cost (liability) balance is presented within the total regulatory deferral account (credit) debit balances presented in the statement of financial position.

### iii) COVID-19 Emergency Costs

The Company has recognized a cost asset of $455,179 (2022 - asset of $434,322) related to the foregone revenue due to legislative directives and associated costs incurred from March 2020 to December 2020 surrounding COVlD-19. On March 25, 2020, the OEB established the COVID-19 Emergency Deferral Account in recognition that distributors will incur incremental costs and lost revenues resulting from the COVID-19 pandemic.

### iv) Disposition/Recovery – 2023, 2022

Disposition/recovery – On October 13, 2021, the Company filed an IRM application for 2022 distribution rates (EB-2021-0040) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On March 24, 2022, the OEB issued a decision approving the disposition of net regulatory liabilities of $289,096. The amounts consisted of principal balances as of December 31, 2020 with carrying charges projected to April 30, 2022. The OEB approved disposition over a one-year period commencing May 1, 2022 and ending April 30, 2023.

On October 18, 2022, the Company filed an IRM application for 2023 distribution rates (EB-2022-0047) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On March 23, 2023, the OEB issued a decision approving the disposition of net regulatory liabilities of $307,860. The amounts consisted of principal balances as of December 31, 2021 with carrying charges projected to April 30, 2023. The OEB approved disposition over a one-year period commencing May 1, 2023 and ending April 30, 2024.

(Expressed in Canadian Dollars)

## 13. Credit Facility Agreements

The Company maintains a Credit Facility Agreement with $Nil funds utilized as at year-end (2022 - $Nil). The credit limit under this agreement stands at $5,500,000.

## 14. Contributions in Aid of Construction

Contributions in aid of construction consists of capital contributions received from electricity customers to construct or acquire property, plant and equipment which has not yet been recognized as revenue, and also includes revenue not yet recognized from demand billable activities. Contributions in aid of construction are amortized into revenue over the average life of the assets which is 43 years.

| | **2023** | 2022 |
|---|---|---|
| Deferred contributions, net, beginning of year | **$ 11,126,888** | $ 9,655,750 |
| Contributions in aid of construction received | **1,978,654** | 1,779,257 |
| Contributions in aid of construction recognized as distribution revenue | **(352,329)** | (308,119) |
| Deferred contributions, net, end of year | **12,753,213** | 11,126,888 |
| Deferred contributions | **12,753,213** | 11,126,888 |
| Less current portion | **375,608** | 329,051 |
| | **$ 12,377,605** | $ 10,797,837 |

## 15. Customer Deposits

Customer deposits represent cash deposits from electricity distribution customers and retailers. Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

| | **2023** | 2022 |
|---|---|---|
| Customer deposits | **$ 483,551** | $ 531,905 |

(Expressed in Canadian Dollars)

## 16. Contingencies

The Company has a bank letter of credit outstanding for $452,305 (2022 - $452,305) which represents a hold on this amount of the Company's cash balance. Purchasers of electricity in Ontario, through the Independent Electricity Systems Operator (IESO) are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Company fails to make a payment required by default notice issued by the IESO. The maximum potential payment is the face value of the bank letters of credit.

The Company belongs to the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a self insurance plan that pools the risks of all of its members. Any losses experienced by MEARIE are shared amongst its members. As at December 31, 2023 the Company has not been made aware of any outstanding claims.

## 17. Commitments

The Company is committed to quarterly payments for rental of office printing equipment under a lease agreement that expires in 2029. The minimum annual lease payments for the next five years is as follows:

| | | |
|---|---|---|
| 2024 | $ | **7,167** |
| 2025 | | **7,167** |
| 2026 | | **7,167** |
| 2027 | | **7,167** |
| 2028 | | **7,167** |
| | $ | **35,835** |

## 18. Payments in Lieu of Income Taxes and Deferred Taxes

The significant components of the provision for payments in lieu of taxes expense are as follows:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| **Current tax** | | | | |
| Based on current year taxable income | $ | **2,487** | $ | (42,664) |
| **Deferred tax** | | | | |
| Origination and reversal of temporary differences | | **338,415** | | 385,658 |
| | | **340,902** | | 342,994 |

The payments in lieu of taxes varies from amounts which would be computed by applying the Company's combined statutory federal and provincial income tax rate. Reconciliation of the payments in lieu of taxes at the statutory income tax rate to the provision for payments in lieu of taxes is as follows:

(Expressed in Canadian Dollars)

## 18. Payments in Lieu of Income Taxes and Deferred Taxes (continued)

### a. Rate reconciliation before net movement in regulatory balances and OCI

| | 2023 | 2022 |
|---|---|---|
| Statutory tax rate | 26.50% | 26.50% |
| Profit before provision for payments in lieu of taxes and OCI and movement in regulatory balances | $ 1,452,179 | $ 1,387,922 |
| Expected payments in lieu of taxes: | $ 384,827 | $ 367,799 |
| Increase (decrease) from: | | |
| Items not deductible for tax purposes | 637 | 379 |
| Other | (44,562) | (32,958) |
| Provision for payment in lieu of taxes | $ 340,902 | $ 335,220 |

### b. Rate reconciliation after net movement in regulatory balances and OCI

| | 2023 | 2022 |
|---|---|---|
| Statutory tax rate | 26.50% | 26.50% |
| Profit before provision for payments in lieu of taxes and after net movement in regulatory balances and OCI | $ 1,284,018 | $ 1,580,379 |
| Expected payments in lieu of taxes | $ 340,265 | $ 418,800 |
| Increase (decrease) from: | | |
| Items not deductible for tax purposes | 637 | 379 |
| Other | - | (32,958) |
| Provision for payment in lieu of taxes | $ 340,902 | $ 386,221 |

(Expressed in Canadian Dollars)

## 18. Payments in Lieu of Income Taxes and Deferred Taxes (continued)

### c. Rate reconciliation for payments in lieu of taxes

| | **2023** | 2022 |
|---|---|---|
| Provision for payments in lieu of taxes before movement in regulatory balances and OCI | **$ 384,827** | $ 335,220 |
| Provision for payments in lieu of taxes recorded in net movement in regulatory balances | **(44,562)** | 43,227 |
| Provision for payments in lieu of taxes after net movement in regulatory balances and OCI | **$ 340,265** | $ 378,447 |
| Provision for payments in lieu of taxes recorded in OCI | **-** | 7,774 |
| Items not deductible for tax purposes | **637** | - |
| | **$ 340,902** | **$ 386,221** |

| **d. Deferred taxes** | Balance January 1, 2023 | Recognized in net income | Recognized in OCI | **Balance December 31, 2023** |
|---|---|---|---|---|
| **Deferred tax assets (liabilities)** | | | | |
| Property, plant and equipment | $ (461,681) | $ (315,508) | $ - | **$ (777,189)** |
| Intangible assets | 13,268 | 5 | - | **13,273** |
| Employee future benefits | 13,117 | (2,544) | - | **10,573** |
| General reserves | 10,125 | (2,401) | - | **7,724** |
| Credits | (3,007) | (17,967) | - | **(20,974)** |
| | $ (428,178) | $ (338,415) | $ - | **$ (766,593)** |

| | Balance January 1, 2022 | Recognized in net income | Recognized in OCI | Balance December 31, 2022 |
|---|---|---|---|---|
| **Deferred tax assets (liabilities)** | | | | |
| Property, plant and equipment | $ (93,409) | $ (368,272) | $ - | $ (461,681) |
| Intangible assets | 13,263 | 5 | - | 13,268 |
| Employee future benefits | 27,465 | (6,574) | (7,774) | 13,117 |
| General reserves | 10,161 | (36) | - | 10,125 |
| Credits | - | (3,007) | - | (3,007) |
| | $ (42,520) | $ (377,884) | $ (7,774) | $ (428,178) |

(Expressed in Canadian Dollars)

## 19. Employee Future Benefits

### (a) Defined contribution plan

The contribution payable in exchange for services rendered during a period is recognized as an expense during that period. The employer portion of amounts paid to OMERS during the year was $211,904 (2022 - $204,145). The contributions were made for current service and these have been recognized in net income.

Expected contributions to the plan for the next annual reporting period amount to $221,227, which is based on payments made to the multi-employer plan during the current fiscal year.

As at December 31, 2023, the OMERS plan was 97% funded on a smoothed basis (December 31, 2022 - 95%). OMERS has a strategy to return the plan to a fully funded position. The Company is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions.

### (b) Defined benefit plan

The plan is exposed to a number of risks, including:

Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation.

Longevity risk: changes in the estimation of mortality rates of current and former employees.

Health care cost risk: increases in cost of providing health, dental and life insurance benefits.

Information about the group unfunded defined benefit plan as a whole and changes in the present value of the unfunded defined benefit obligation and the accrued benefit liability are as follows:

| | **2023** | 2022 |
|---|---|---|
| Balance January 1 | **$ 49,492** | **$ 80,532** |
| Current service costs | **2,474** | 4,642 |
| Interest cost | **2,145** | 1,985 |
| Included in profit or loss | **4,619** | 6,627 |
| Actuarial (gain) loss from financial assumptions | **-** | (12,315) |
| Actuarial (gain) loss arising from changes in demographics | **-** | (461) |
| Actuarial (gain) loss from experience adjustments | **-** | (16,558) |
| Included in other comprehensive income | **-** | (29,334) |
| Benefits paid during the year | **(14,220)** | (8,333) |
| Balance, end of year | **$ 39,891** | $ 49,492 |

(Expressed in Canadian Dollars)

## 19. Employee Future Benefits (continued)

The main actuarial assumptions underlying the valuation are as follows:

| | **2023 Projected** | 2022 | Reasonable possible change |
|---|---|---|---|
| Discount rate | 5.05% | 5.05% | +/- 1% |
| Health care and dental costs | 4.90%-5.10% | 4.70%-4.90% | +/- 1% |
| Retirement age - males | 60 | 60 | - |
| Retirement age - females | 60 | 60 | - |

An actuarial valuation must be obtained at least every three years, but may occur more frequently. For example, a new actuarial valuation would be required when a significant event takes place.

The Company has an actuarial valuation performed every three years. In the years between valuations, the actuarial estimates the defined benefit obligation by performing a roll-forward technique.

The most recent full valuation was prepared for December 31, 2022, with the final report dated January 18, 2023.

(Expressed in Canadian Dollars)

## 20. Long-Term Debt

| | 2023 | 2022 |
|---|---|---|
| TD bank debt, fixed interest rate 3.62%, maturing March 2023 | $ - | $ 1,162,500 |
| TD bank debt, fixed interest rate 5.00%, maturing March 2033 | 1,162,500 | - |
| TD bank debt, TD prime rate + 0.75%, (2022 - fixed interest rate 3.04%), maturing July 2024 | 2,698,887 | 2,698,887 |
| TD bank debt, fixed interest rate 6.57% (2022 - fixed interest rate 2.94%), maturing August 2024 | 8,000,000 | 8,000,000 |
| TD bank debt, fixed interest rate 5.768%, maturing October 2026 | 2,325,000 | 2,325,000 |
| TD bank debt, fixed interest rate 2.98%, maturing February 2026 | 4,000,000 | 4,000,000 |
| TD bank debt, fixed interest rate, 5.95%, maturing July 2027 | 3,000,000 | - |
| | 21,186,387 | 18,186,387 |
| Less current portion | 10,698,887 | 1,162,500 |
| | $ 10,487,500 | $ 17,023,887 |

The bank debts are secured by a general security agreement conveying a first charge over all of the Company's present and after acquired personal property, as well as evidence of adequate liability insurance issued to the Company, Lakeland Holding Ltd., Lakeland Energy Ltd., and Bracebridge Generation Ltd.

The Company is subject to financial covenants, specifically a Debt Service Coverage Ratio and a Debt to Capitalization Ratio. At present, the Company is in compliance with these covenants.

Management intends to renegotiate the debts as they come due in order to further extend the principal payments.

Principal payments over the next five years and thereafter are as follows:

| | |
|---|---|
| 2024 | $ 10,698,887 |
| 2025 | - |
| 2026 | 6,325,000 |
| 2027 | 3,000,000 |
| 2028 | - |
| Subsequent years | 1,162,500 |
| | $ 21,186,387 |

(Expressed in Canadian Dollars)

## 21. Share Capital

### a) Ordinary shares

An unlimited number of common shares are authorized for issue.

As of December 31, 2023, the Company has issued and fully paid 7,428 (2022 - 7,428) common shares. The shares have no par value.

All shares are ranked equally with regards to the Company's residual assets.

### b) Movement in ordinary share capital

No movement in ordinary share capital has occurred during 2023.

## 22. Amortization of Property, Plant and Equipment and Intangible Assets

The transportation amortization is not included in the amortization on the Statement of Comprehensive Income as it has been expensed to operating lines or capitalized where the equipment was used in constructing an asset. Refer to the reconciliation below:

| | **2023** | 2022 |
|---|---|---|
| Amortization of property, plant and equipment and intangible assets | **$ 2,088,035** | $ 1,940,450 |
| Amortization on the statement of comprehensive income | **(1,853,806)** | (1,729,698) |
| Transportation amortization | **$ 234,229** | $ 210,752 |
| Transportation amortization - capitalized | **126,483** | 109,591 |
| Transportation amortization - expensed in operating expenses | **107,746** | 101,161 |
| | **$ 234,229** | $ 210,752 |

## 23. Expenses by Nature

| | **2023** | 2022 |
|---|---|---|
| Repairs and maintenance | **$ 1,369,496** | $ 1,234,673 |
| Staff costs (including post-employment benefits) | **1,805,048** | 1,792,930 |
| General administration and overhead | **2,604,232** | 2,384,439 |
| Bad debts | **27,640** | 35,056 |
| | **$ 5,806,416** | $ 5,447,098 |

(Expressed in Canadian Dollars)

## 24. Staff Costs

| | 2023 | 2022 |
|---|---|---|
| Wages, salaries and short-term employee benefits | **$ 2,775,743** | $ 2,693,210 |
| Wages, salaries and short-term employee benefits in revenue | **(67,387)** | (55,735) |
| Wages, salaries and short-term employee benefits capitalized | **(895,382)** | (842,839) |
| Post-employment benefits | **(7,926)** | (1,706) |
| | **$ 1,805,048** | $ 1,792,930 |

## 25. Financial Instruments and Risk Management

Fair value disclosure

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate their respective fair values because of the short maturity of these instruments.

The fair value of the term loans (Level 2) is $21,186,387 (2022 - $18,186,387). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date.

Risk management

The Company's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

(i) Credit risk:

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as cash and accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in six municipalities. No single customer accounts for revenues in excess of 10% of total revenue.

(ii) Market risk:

The Company is not exposed to significant market risk.

(iii) Interest rate risk:

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowings are therefore usually at fixed rates. At December 31, 2023, the Company is not exposed to any material changes in market interest rates on its long-term borrowing.

(Expressed in Canadian Dollars)

## 25. Financial Instruments and Risk Management (continued)

(iv) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. 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 to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The following table sets out the contractual maturities (representing undiscounted contractual cashflows) of financial liabilities:

| | Due within 1 year | Due between 1-2 years | Due past 2 years |
|---|---|---|---|
| **At December 31, 2023** | | | |
| Accounts payable and accrued liabilities | $ 5,897,302 | $ - | $ - |
| Customer deposits | 483,551 | - | - |
| Related party payables | 1,252,968 | - | - |
| Long-term debt | 10,698,887 | - | 10,487,500 |
| **At December 31, 2022** | | | |
| Accounts payable and accrued liabilities | $ 6,092,787 | $ - | $ - |
| Customer deposits | - | 531,805 | - |
| Related party payables | 1,150,722 | - | - |
| Long-term debt | 1,162,500 | 10,698,887 | 6,325,000 |

(Expressed in Canadian Dollars)

## 26. Capital Management

The Company's definition of capital is shareholder's equity, and total debt. As at December 31, 2023, shareholder's equity and total debt amounts to $37,157,924 (2022 - $34,014,808).

In managing its capital, the Company's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholder through a combination of capital growth and through the payment of periodic dividends to its common shareholder. The Company also seeks to ensure that access to funding is available in order to maintain and improve the equipment used in operations and maintain financial ratios within the recommended guidelines as prescribed by the OEB. In order to achieve these objectives, the Company develops detailed annual operating budgets and seeks to maintain distribution revenue levels and control costs to enable the Company to meet its working capital requirements and strategic investment needs. In making decisions to adjust its capital structure to achieve these objectives, the Company considers both its short-term position and long-term operational and strategic objectives.

The Company monitors capital based on the debt-to-equity ratio calculated as total debt divided by the sum of total debt plus equity, as shown in the following table. For purposes of comparing the measures below to benchmarks, the Company is evaluated by the Ontario Energy Board based on a 60/40 structure. A debt-to-equity ratio of more than 1.5 indicates that a distributor is more highly levered than the deemed capital structure. A high debt to equity ratio may indicate that an electricity distributor may have difficulty generating sufficient cash flows to make its debt payments. A debt-to-equity ratio of less than 1.5 indicates that the distributor is less levered than the deemed capital structure.

| | **2023** | 2022 |
|---|---|---|
| Current portion of long-term debt | **$ 10,698,887** | $ 1,162,500 |
| Long-term debt | **10,487,500** | 17,023,887 |
| Total debt | **$ 21,186,387** | $ 18,186,387 |
| Total shareholder's equity | **$ 15,971,537** | $ 15,828,421 |
| **Debt-to-equity ratio** | **1.33** | 1.15 |