Consolidated Financial Statements

Year ended December 31, 2023

(Expressed in thousands of dollars)

Consolidated Financial Statements
Year Ended December 31, 2023

Contents

KPMG LLP
120 Victoria Street South
Suite 600
Kitchener, ON N2G 0E1
Canada
Telephone 519 747 8800
Fax 519 747 8811

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of GrandBridge Corporation

Opinion

We have audited the consolidated financial statements of GrandBridge Corporation (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2023
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting 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 auditor's report.

We are independent of the Entity 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 IFRS Accounting 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 consolidated financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated 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 consolidated 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 Entity'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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada

April 4, 2024

Consolidated Statements of Financial Position
(in thousands of Canadian dollars)
As at December 31, 2023, with comparative information for 2022

		December 31, 2023		December 31, 2022
Assets				
Current Assets:				
Cash and cash equivalents (note 5)	$	1,769	$	17,259
Accounts receivable		30,481		28,420
Unbilled revenue		32,253		33,942
Inventories (note 6)		5,952		5,130
Other assets		1,471		1,557
Total current assets		**71,926**		**86,308**
Non-Current assets:				
Property, plant & equipment (note 7)		360,588		333,355
Intangible assets (note 7)		6,681		5,727
Derivative assets (note 26)		1,794		2,678
Goodwill (note 8)		78,548		78,548
Investment in associate (note 9)		843		1,001
Total non-current assets		**448,454**		**421,309**
Total Assets		**520,380**		**507,617**
Regulatory deferral account debit balances (note 10)		15,189		15,707
Regulatory asset associated with deferred tax liability		22,482		19,927
Deferred taxes associated with regulatory deferral accounts		(5,958)		(5,280)
		31,713		30,354
Total Assets and Regulatory Deferral Account Debit Balances	**$**	**552,093**	**$**	**537,971**

See accompanying notes to financial statements.

GrandBridge CORPORATION

Consolidated Statements of Financial Position (continued)
(in thousands of Canadian dollars)
As at December 31, 2023, with comparative information for 2022

		December 31, 2023		December 31, 2022
Liabilities				
Current Liabilities:				
Accounts payable and accrued liabilities	$	48,767	$	47,523
Payable in lieu of corporate taxes		582		1,491
Current portion of long-term debt (note 11)		1,047		1,049
Customer deposits (note 15)		17,353		18,435
Lease liabilities – current (note 16)		41		38
Intercompany debt (note 18)		3,020		3,020
Current liabilities		**70,810**		**71,556**
Non-Current Liabilities				
Long-term debt (note 11)		130,557		138,687
Deferred revenue (note 14)		57,478		43,499
Deferred tax liabilities (note 12)		19,580		17,560
Customer deposits (note 15)		6,279		5,322
Employee future benefits (note 13)		3,636		3,707
Lease liabilities (note 16)		347		357
Total non-current liabilities		**217,877**		**209,132**
Total Liabilities		**288,687**		**280,688**
Shareholders' Equity				
Share capital (note 17)		181,492		181,492
Accumulated other comprehensive income		456		1,128
Retained earnings		76,554		68,483
Total Shareholders' Equity		**258,502**		**251,103**
Total Liabilities and Shareholders' Equity		**547,189**		**531,791**
Regulatory deferral account credit balances (note 10)		4,904		6,180
Total Liabilities, Equity and Regulatory Deferral Account Credit Balances	**$**	**552,093**	**$**	**537,971**

See accompanying notes to financial statements.

GrandBridge CORPORATION

Consolidated Statements of Comprehensive Income
(in thousands of Canadian dollars)
Year ended December 31, 2023, with comparative information for eight month period ended December 31, 2022

	2023	2022
Revenues:		
Energy sales (note 19)	$ 312,762	$ 220,956
Distribution revenue (note 19)	63,142	40,722
Fibre optics and retail service revenue (note 19)	4,535	2,814
Other income from operations (note 20)	5,107	4,815
Total revenues	385,546	269,307
Expenses:		
Energy purchases	312,588	221,696
Operating expenses	36,421	23,648
Depreciation and amortization	13,853	9,035
Total expenses	362,862	254,379
Income from operating activities	**22,684**	**14,928**
Other expenses:		
Loss on disposal of property, plant and equipment	428	242
Revaluation of Class C Shares	989	-
Finance income (note 21)	(478)	(461)
Finance charges (note 21)	6,260	4,034
	7,199	3,815
Income before payments in lieu of corporate taxes	**15,485**	**11,113**
Income tax expense (note 12)	3,923	3,615
Income for the year before net movements in regulatory deferral account balances	**11,562**	**7,498**
Net movements in regulatory deferral account balances, net of tax	2,354	2,347
Net income for the year after net movements in regulatory deferral account balances	**13,916**	**9,845**
Net (loss) gain from equity investment in associate (note 9)	(158)	146
Net income before other comprehensive loss	**13,758**	**9,991**
Other comprehensive (loss) income, net of tax:		
Actuarial (loss) gain on employee future benefits (note 13)	(31)	137
Unrealized (loss) gain on derivatives	(884)	894
Income tax recovery (expense) on other comprehensive income	243	(280)
Other comprehensive (loss) income, net of tax	**(672)**	**751**
Total comprehensive income, for the year	**$ 13,086**	**$ 10,742**

See accompanying notes to financial statements.

GrandBridge CORPORATION

Consolidated Statements of Changes in Equity
(in thousands of Canadian dollars)
Year ended December 31, 2023, with comparative information for eight month period ended December 31, 2022

	Share Capital	Acc. Other Comprehensive Income	Retained Earnings	Total
Balance, May 2, 2022	**$ 41,034**	**$ 377**	**$ 59,701**	**$ 101,112**
Net income	-	-	9,991	9,991
Other comprehensive income	-	751	-	751
Issuance of shares related to				-
amalgamation (note 4)	140,458	-	-	140,458
Dividends	-	-	(1,209)	(1,209)
Balance, December 31, 2022	**$ 181,492**	**$ 1,128**	**$ 68,483**	**$ 251,103**
Balance, January 1, 2023	**$ 181,492**	**$ 1,128**	**$ 68,483**	**$ 251,103**
Net income	-	-	13,758	13,758
Other comprehensive loss	-	(672)	-	(672)
Dividends	-	-	(5,687)	(5,687)
Balance, December 31, 2023	**$ 181,492**	**$ 456**	**$ 76,554**	**$ 258,502**

See accompanying notes to financial statements.

GrandBridge CORPORATION

Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)
Year ended December 31, 2023, with comparative information for eight month period ended December 31, 2022

	2023	2022
Cash provided by (used in):		
Operating activities		
Total comprehensive income	$ 13,086	$ 10,742
Items not affecting cash:		
Depreciation and amortization	14,043	9,276
Amortization on right-of-use assets	18	13
Interest on lease liabilities	32	21
Net finance charges on debt, intercompany and other	5,723	3,535
Amortization of deferred revenue	(1,369)	(883)
Amortization of deferred financing costs	27	17
Loss on disposal of property, plant and equipment	428	242
Net loss (gain) from equity investment in associate	158	(146)
Change in non-current customer deposits	957	1,680
Unrealized loss (gain) on derivative assets	884	(894)
Income tax expense	3,680	3,895
Employee future benefits	(71)	(94)
	37,596	**27,404**
Income taxes paid	(2,569)	(827)
Net movements in regulatory balances	(2,635)	(2,615)
Revaluation of special shares	989	-
Net change in non-cash operating working capital (note 25)	(1,007)	(1,420)
	32,374	**22,542**
Financing activities		
Repayment of long-term debt	(8,159)	(787)
Dividends paid (note 17)	(5,687)	(1,209)
Preferred shares redemption	(989)	(203)
Net financing payments on debt, intercompany and other	(5,662)	(3,281)
Payments of lease liabilities	(39)	(25)
	(20,536)	**(5,505)**
Investing activities		
Purchase of property, plant and equipment	(42,783)	(21,107)
Proceeds on disposal of property, plant and equipment	107	85
Capital contributions received	15,348	7,476
	(27,328)	**(13,546)**
Increase (decrease) in cash and cash equivalents	**(15,490)**	**3,491**
Cash and cash equivalents, beginning of year	17,259	13,768
Cash and cash equivalents, end of year	**$ 1,769**	**$ 17,259**

See accompanying notes to financial statements.

1. Reporting entity:

GrandBridge Corporation (the "Corporation") was incorporated on May 2, 2022 under the Business Corporations Act (Ontario) by legal amalgamation (the “Amalgamation Transaction” as described in note 4) of the former entities: Cambridge and North Dumfries Energy Plus Inc. (“Energy Plus”) and Brantford Energy Corporation (“BEC”).

The Corporation is an investment holding company with a 100% ownership interest in GrandBridge Energy Inc. (“GrandBridge Energy”), GrandBridge Group Inc. (“GrandBridge Group”) and GrandBridge Solutions Inc. (“GrandBridge Solutions”). The address of the Corporation’s registered office is 39 Glebe St., Cambridge, Ontario, Canada.

The City of Cambridge (“Cambridge”), the City of Brantford (“Brantford”) and the Township of North Dumfries (“North Dumfries”) are the shareholders of the Corporation with a shareholding of 54.339%, 41.00% and 4.661% respectively.

For accounting purposes, the former Energy Plus was deemed the acquirer under the Amalgamation Transaction. Consequently, the opening balances of the comparative information in these financial statements are the balances of the former Energy Plus at May 1, 2022.

GrandBridge Energy is a rate regulated, municipally owned electricity distribution company that delivers electricity and related utility services to approximately 113,000 customers within the Cities of Brantford and Cambridge, the Township of North Dumfries, and the County of Brant. GrandBridge Energy was formed on May 2, 2022 as a result of the legal amalgamation between the former Energy+ Inc. and former Brantford Power Inc., pursuant to the provisions of the Business Corporations Act (Ontario).

GrandBridge Group is an unregulated services company and has two primary businesses - the provision of access to a fibre optics network including related operations and maintenance (NetOptiks) and the rental of water heaters, water treatment systems and other equipment (Enersure).

GrandBridge Solutions is an unregulated services company; the scope of which currently comprises streetlight maintenance and business development activities. GrandBridge Solutions owns a 1/3 interest in Grand River Energy Solutions Corp. (“GRE”), an unregulated generation and renewable energy solutions company. Enova Energy Corporation owns the other 2/3 interest in GRE.

2. Basis of presentation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS").

(b) Approval of the financial Statements:

The financial statements were approved by the Board of Directors on March 28, 2024.

(c) Basis of measurement:

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

i. Financial instruments, where held, are measured at fair value and any change in value is recorded through profit or loss.

ii. Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 26.

(d) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Basis of presentation (continued):

(e) Use of estimates and judgments (continued)

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

i. Note 3 (l) Revenue recognition: determination of the performance obligation for contributions from customers and the related amortization period.

ii. Note 3 (m) Leases: measurement of leases, including term and discount rate.

iii. Note 7 Property, plant and equipment: estimation of useful lives of its property, plant and equipment and intangible assets.

iv. Note 13 Employee future benefits: estimation provided by third party actuarial firm.

(f) Rate regulation:

The Corporation is regulated by the OEB, under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Corporation, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

Rate setting:

Distribution revenue

For the distribution revenue included in electricity sales, the Corporation files a "Cost of Service" ("COS") rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenses, debt and shareholder's equity required to support the Corporation's business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and intervenors and rates are approved based upon this review, including any revisions resulting from that review.

2. Basis of presentation (continued):

(f) Rate regulation (continued):

Rate setting (continued):

In the intervening years an Incentive Rate Mechanism application ("IRM") is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Index for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

In the Mergers, Amalgamations, Acquisitions and Divestitures ("MAADs") application for GrandBridge Energy, the OEB approved a ten-year deferred rebasing period. The service territories of the legacy entities will continue to have separate Tariffs of Rates and Charges until the end of the ten-year deferred rebasing period when rates are expected to be harmonized through the filing of a COS rate application. Harmonized rates are expected to be effective for 2032 distribution rates.

As a licensed distributor, the Corporation 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 Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

In August 2022, the Corporation filed a 2023 IRM application requesting new rates effective January 1, 2023. The OEB issued a Decision to approve the Corporation's 2023 rates on December 8, 2022. The approved rates were effective January 1, 2023.

In February 2023, the Corporation filed phase 2 of its 2023 IRM application requesting disposition of certain deferral and variance accounts. The OEB issued a Decision to approve disposition through rate riders on June 15, 2023. The approved rate riders were effective July 1, 2023.

In August 2023, the Corporation filed a 2024 IRM application requesting new rates effective January 1, 2024. The OEB issued a Decision to approve the Corporation's 2024 rates on December 12, 2023. The approved rates were effective January 1, 2024.

Electricity rates

The OEB sets electricity prices for low-volume consumers once each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

3. Material accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The details of the changes in accounting policies are disclosed in note 26.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries: (i) GrandBridge Energy; (ii) GrandBridge Group and (ii) GrandBridge Solutions. The Corporation's investment in GRE is accounted for in the consolidated financial statements using the equity method of accounting.

Subsidiaries are entities controlled by the Corporation. The financial statements of the subsidiaries are included in these consolidated financial statements from the date on which control commences until the date on which control ceases.

Associates are investments over which the Corporation has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee. Equity accounting involves recording the investment in associates initially at cost, and adjusting the carrying value of the investment from the date of acquisition based on the Corporation's share of the profit or loss of the associates included in the consolidated income statement.

All significant inter-company accounts and transactions have been eliminated.

(b) Financial instruments:

Financial assets are classified into one of three primary categories depending on the Corporation's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets: (i) amortized costs; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL").

At the time of initial recognition, financial assets included in the categories of amortized cost or FVOCI are measured at fair value plus transaction costs, and financial assets included in the category of FVTPL are measured at fair value with transaction costs expensed in profit or loss.

Subsequent measurement of the financial asset depends on the classification determined at initial recognition. Financial assets are not reclassified subsequent to their initial recognition, unless the Corporation changes its business model for managing financial assets.

Financial liabilities are initially measured at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized as an adjustment to interest expense over the period of the borrowings.

The Corporation has one derivative instrument related to its long-term debt facilities with the Royal Bank of Canada. Hedge accounting has been used in the presentation of these financial statements for the fully hedged instrument, which has been classified as a financial asset at fair value, with changes in fair value recorded in other comprehensive income.

3. Material accounting policies (continued):

(c) Inventory:

Inventory, which consists of parts and supplies acquired for internal construction or consumption for the maintenance of capital assets, is valued at the lower of cost and net realizable value. Cost is determined on a weighted moving average basis.

(d) Property, Plant & Equipment and Intangible Assets:

Property, plant and equipment are measured at historical cost or deemed cost, less accumulated depreciation and any accumulated impairment losses, if applicable.

If significant parts of an item of PP&E have different useful lives, then they are accounted for as separate major components of PP&E.

The cost of PP&E represents the original cost, consisting of direct materials and labour, contracted services, engineering costs, directly attributable overheads, and any other costs directly attributable to bringing the asset to a working condition for its intended use. Costs incurred to remove an existing asset from service that are not directly attributable to site preparation for the construction of new assets are expensed.

The carrying amount of a replaced item of PP&E is derecognized and the related loss is included as a loss on disposal of PP&E.

Major spare parts and standby equipment are recognized as items of PP&E. Right-of-use assets are recognized for contracts that are, or contain, leases.

Work in progress comprises capital assets under construction, assets not yet placed into service and pre-construction activities related to specific projects expected to be constructed.

Depreciation is recognized in net income on a straight-line basis over the estimated useful life of each part or component of an item of PP&E. Land is not depreciated.

Right-of-use assets are depreciated over the shorter of the lease term and their useful lives.

(in thousands of Canadian dollars)

3. Material accounting policies (continued):

(d) Property, Plant & Equipment and Intangible Assets (continued):

The estimated useful lives for PP&E are as follows:

	Estimated Service Life
Buildings	5 – 80 years
Transformer Station Equipment	15 – 60 years
Distribution Transformers	20 – 80 years
Distribution System	15 – 99 years
Meters	10 – 45 years
System Supervisory Equipment	15 years
Right-of-Use Assets	20 - 40 years
Fibre optics network	25 years
Fibre optics electronics	3 – 5 years
Heating ventilation and air conditioning	15 years
Water heat equipment rental units	10 years
Water treatment system rentals	10 years
Intangible Assets	2 – 50 years
Other Capital Assets	3 – 20 years

(e) Goodwill:

Goodwill arising on the acquisition of subsidiaries is measured at cost and is not amortized. Goodwill is tested annually for impairment.

(f) Impairment:

i. *Financial assets measured at amortized cost:*

Loss allowances for accounts receivable and unbilled revenue are measured at an amount equal to the lifetime expected credit losses that result from all possible default events over the expected life. Expected credit losses are recognized in profit or loss.

3. Material accounting policies (continued):

(f) Impairment (continued):

ii. *Non-financial assets:*

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. For assets other than goodwill, impairment recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Regulatory deferral accounts:

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The debit balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

3. Material accounting policies (continued):

(h) Regulatory deferral accounts (continued):

Regulatory deferral account credit balances are recognized if it is probable that future billings in an amount at least equal to the credit balance will be reduced as a result of rate-making activities. The offsetting amount is recognized in profit and loss. The credit balance is reduced by the amounts returned to customers as electricity is delivered to the customer at rates approved by the OEB for the return of the regulatory account credit balance.

The probability of recovery or repayment of the regulatory account balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover or repay the balance. Any resulting impairment loss is recognized in profit and loss in the period incurred.

Regulatory deferral accounts attract interest at OEB prescribed rates, which was 4.73% from January 1, 2023 to March 31, 2023, 4.98% from April 1, 2023 to June 30, 2023, 4.98% from July 1, 2023 to September 30, 2023, and 5.49% from October 1, 2023 to December 31, 2023.

(i) Customer deposits:

Customers may be required to post security to obtain electricity or other services. These amounts are recorded in the accounts as deposits, which are reported separately from the Corporation's own cash and cash equivalents. Interest is paid in accordance with the OEB regulations with interest rates based on a variable rate of prime less 2.0%, updated quarterly.

(j) Employee benefits:

(i) *Pension plan*

The Corporation provides a pension plan for its full-time employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards.

Participation in OMERS requires employers and employees to make contributions based on participating employee's contributory earnings.

OMERS is a defined benefit plan, however, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan as a defined benefit plan. Consequently, the plan has been accounted for as a defined contribution plan and the Corporation recognizes the expense related to this plan as an employee benefit expense in net income when contributions are due.

3. Material accounting policies (continued):

(j) Employee benefits (continued):

(ii) *Post-employment benefits other than pension*

The Corporation pays certain medical, dental, and life insurance benefits under unfunded defined benefit plans on behalf of its retired employees.

The cost of these benefits is expensed as earned by employees through employment service. The accrued benefit obligations and current service cost are actuarially determined by applying the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimates. The amount of the obligation is determined from actuarial valuations performed every three years. An actuarial valuation was completed for the year ended December 31, 2022.

Actuarial gains and losses arising from defined benefit plans are recognized immediately in other comprehensive income and reported in retained earnings.

(iii) *Short-term employee benefits*

The Corporation provides a short-term non-vesting sick-leave benefit to its employees. Actuarial gains and losses on accumulated sick leave credits are recognized in the consolidated statements of comprehensive income in the period in which they arise.

(k) Deferred revenue and assets transferred from customers

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as deferred revenue. Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity and is amortized to income on a straight-line basis over the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

3. Material accounting policies (continued):

(l) Revenue recognition:

(i) *Energy sales and distribution revenue*

Revenues from energy sales and electricity distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. The performance obligation is satisfied over time when the electricity is simultaneously received and consumed by the customer. The billing cycles and payment terms are on a monthly basis.

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and wholesale market service charges at current rates. Energy sales are presented on a gross basis as the Corporation has determined that it is acting as a principal for these electricity charges.

Distribution revenue is recorded based on OEB approved distribution tariff rates established to recover the costs incurred by the Corporation in delivering electricity to customers.

(ii) *Capital contributions*

Certain customers are also required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. These contributions fall within the scope of IFRS 15 Revenue from Contracts with Customers. The contributions are received to obtain a connection to the distribution system in order to receive ongoing access to electricity. The Corporation has concluded that the performance obligation is the supply of electricity over the life of the relationship with the customer which is satisfied over time as the customer receives and consumes the electricity. Revenue is recognized on a straight-line basis over the useful life of the related asset.

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions do not meet the criteria of IFRS 15 Revenue from Contracts with Customers. Cash contributions received from developers are recorded as deferred revenue. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue.

3. Material accounting policies (continued):

(l) Revenue recognition (continued):

(iii) *Fibre optics and retail service revenues*

Equipment rentals are recorded as revenue in the period of the rental. Installation revenue related to fibre optics is recognized as revenue on a straight-line basis over the life of the customer contract as the services are provided. The performance obligation for the provision of services is recognized over time using an output method based on the completion of fibre optic installations to measure the satisfaction of the performance obligation. Irrevocable right to use (IRU) fibre optics are first assessed to determine if they are an arrangement that contains a lease as described in this note under Leased assets. If it is determined that they do not contain a lease then the performance obligation is recognized over time using an output method based upon the service provided to measure the satisfaction of the performance obligation which is determined to be over the term of the contract on a straight-line basis.

(iv) *Other revenue*

Other revenue, which includes revenue from services ancillary to the distribution of electricity, revenue from water billing services, and other billable services is recognized as the services are rendered.

(m) Leases:

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease.

The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use-asset or the end of the lease term. The estimated useful life of a right-of-use asset is determined on the same basis as those for property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

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

3. Material accounting policies (continued):

(n) Finance income and finance charges:

At inception of a contract that contains a lease component, the Corporation allocates the consideration in the contract to each of the lease components based on their relative stand-alone prices. For the property leases, the Corporation has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Finance income is recognized as it accrues in net income and comprises interest earned on cash and cash equivalents, and late payments on customer electricity accounts receivable balances.

Finance charges comprise: (i) interest on borrowings; (ii) interest on deposits; and (iii) standby fees. Finance charges are computed using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of qualifying assets and except for instruments deemed to have a fully effective hedge.

(o) Payments in lieu of corporate taxes:

Payments in lieu of corporate taxes expense, also referred to as income tax expense, comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the Electricity Act, 1998, the Corporation makes payments in lieu of corporate taxes to the 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 Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes.

Current tax is the tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

3. Material accounting policies (continued):

(o) Payments in lieu of corporate taxes (continued):

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future periods that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(p) Business combinations:

The Corporation accounts for business combinations using the acquisition method when control is transferred to the Corporation. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity.

Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(in thousands of Canadian dollars)

4. Business combination:

On May 2, 2022, the Corporation was formed pursuant to a legal amalgamation between the former Energy Plus and BEC. Under the Amalgamation Transaction, shares of the former Energy Plus and BEC were exchanged for voting common shares of the Corporation. Certain post-closing adjustments provided under the agreements to the Amalgamation Transaction were made through a redemption of special shares (note 17). The Amalgamation Transaction was recognized as a business combination in accordance with IFRS 3, Business Combinations, using the acquisition method, with the former Energy Plus deemed as the acquirer based on its relative size compared to that of the former BEC.

The aggregate consideration was $140,458 for 100,000,000 common shares and a redemption of $203 for Special Class A and one dollar for Special Class B shares.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition:

Cash and cash equivalents		3,546
Accounts receivable and unbilled revenue		21,026
Property, plant & equipment, and intangibles		122,203
Payment in lieu of corporate taxes		789
Inventories		867
Other assets		566
Lease receivable		213
Derivative asset		1,784
Regulatory deferral account debit balances		2,598
Regulatory asset associated with deferred tax liability		5,114
Accounts payable and accrued liabilities		(18,563)
Lease liabilities		(16)
Customer deposits		(2,451)
Long-term debt		(36,232)
Deferred tax liability		(7,405)
Employee future benefits		(1,375)
Deferred revenue		(9,585)
Regulatory deferral account credit balances		(475)
Deferred tax liability associated with regulatory assets		(1,355)
Total identifiable net assets at fair value		81,249
Goodwill		59,412
Total consideration	**$**	**140,661**

4. Business combination (continued):

Prior to the Amalgamation Transaction, the predecessor corporations were parties to a long-term lease. The elimination of the lease on amalgamation resulted in a reduction to the finance lease receivable of the former BEC, an increase in PP&E, a decrease to the former Energy Plus lease obligation, with a corresponding incremental increase to Goodwill of $172.

5. Cash and cash equivalents

Cash and cash equivalents consist of overnight deposits at a Canadian chartered bank.

6. Inventories

	2023	2022
Stores	$ 5,876	$ 5,059
Other	76	71
	$ 5,952	$ 5,130

(in thousands of Canadian dollars)

7. Property, Plant & Equipment and Intangible Assets

(a) Cost or Deemed Cost

	Land and Buildings	Distribution System	Fibre Optics	Equipment Rentals	Other Assets	Right-of-Use Assets	Intangibles	Work -in-Progress	Total
Balance at January 1, 2023	$ 43,519	$ 304,173	$ 3,255	$ 3,070	$ 21,166	$ 739	$ 6,226	$ 6,654	$ 388,802
Additions	1,935	33,687	473	692	2,024	-	676	3,296	42,783
Disposals/retirements	-	(864)	-	(284)	(1,582)	(342)	-	-	(3,072)
Balance at December 31, 2023	$ 45,454	$ 336,996	$ 3,728	$ 3,478	$ 21,608	$ 397	$ 6,902	$ 9,950	$ 428,513
Balance at May 2, 2022	$ 13,834	$ 211,996	$ -	$ -	$ 14,759	$ 3,950	$ -	$ 5,261	$ 249,800
Acquisition additions	29,187	75,462	2,999	2,745	4,781	14	6,202	813	122,203
Acquisition disposal	-	-	-	-	-	(3,225)	-	-	(3,225)
Additions	498	17,293	256	468	1,988	-	24	580	21,107
Disposals/retirements	-	(578)	-	(143)	(362)	-	-	-	(1,083)
Balance at December 31, 2022	$ 43,519	$ 304,173	$ 3,255	$ 3,070	$ 21,166	$ 739	$ 6,226	$ 6,654	$ 388,802

(in thousands of Canadian dollars)

7. Property, plant & equipment (continued)

(b) Accumulated depreciation

	Land and Buildings	Distribution System	Fibre Optics	Equipment Rentals	Other Assets	Right-of-Use Assets	Intangibles	Work-in-Progress	Total
Balance at January 1, 2023	$ 2,010	$ 34,533	$ 224	$ 206	$ 11,876	$ 372	$ 499	$ -	$ 49,720
Depreciation charge	1,162	9,282	333	490	1,959	18	817	-	14,061
Disposals/retirements	-	(414)	-	(212)	(1,569)	(342)	-	-	(2,537)
Balance at December 31, 2023	$ 3,172	$ 43,401	$ 557	$ 484	$ 12,266	$ 48	$ 1,316	$ -	$ 61,244
Balance at May 2, 2022	$ 1,353	$ 28,545	$ -	$ -	$ 10,930	$ 460	$ -	$ -	$ 41,288
Acquisition disposal	-	-	-	-	-	(101)	-	-	(101)
Depreciation charge	657	6,295	224	311	1,290	13	499	-	9,289
Disposals/retirements	-	(307)	-	(105)	(344)	-	-	-	(756)
Balance at December 31, 2022	$ 2,010	$ 34,533	$ 224	$ 206	$ 11,876	$ 372	$ 499	$ -	$ 49,720

(c) Carrying amounts

	Land and Buildings	Distribution System	Fibre Optics	Equipment Rentals	Other Assets	Right-of-Use Assets	Intangibles	Work-in-Progress	Total
Balance at December 31, 2023	$ 42,282	$ 293,595	$ 3,171	$ 2,994	$ 9,342	$ 349	$ 5,586	$ 9,950	$ 367,269
Balance at December 31, 2022	$ 41,509	$ 269,640	$ 3,031	$ 2,864	$ 9,290	$ 367	$ 5,727	$ 6,654	$ 339,082

As at December 31, 2023, Work-in-progress includes $1,095 of intangible assets under development (2022 - $nil).

(in thousands of Canadian dollars)

8. Goodwill

As a result of the amalgamation transaction (note 4), the Corporation had additions to Goodwill of $59,584 in 2022.

		2022
Beginning Balance	$	18,964
Acquisition additions (note 4)		59,584
Closing Balance	$	78,548

9. Investment in associate

The investment in associate represents the Corporation's 1/3 ownership interest in GRE.

		2023		2022
Investment, opening balance	$	1,001	$	855
Equity share of net comprehensive (loss) income		(158)		146
Investment in associate, closing balance	$	843	$	1,001

10. Regulatory deferral account balances

Regulatory deferral account balances can arise as a result of the rate-making process (note 2(f)). The regulatory deferral account balances are recovered or settled through rates set by the OEB which are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Corporation has received approval from the OEB to establish its regulatory deferral account balances.

(in thousands of Canadian dollars)

10. Regulatory deferral account balances (continued)

The following is a reconciliation of the carrying amount for each class of regulatory deferral account balances:

	January 1, 2023	Balances arising in the period	Recovery/ reversal	December 31, 2023	Remaining recovery/ reversal period (years)
Regulatory deferral account debit balances					
Retail settlement variances	$ 13,105	$ 3,832	$ (3,848)	$ 13,089	< 2
Regulatory variances disposition	1,370	(2,323)	1,231	278	< 2
Other regulatory assets	993	538	-	1,531	9
IFRS/CGAAP transitional amounts	73	-	-	73	9
Other	166	52	-	218	9
Total amount related to regulatory deferral account debit balances	$ 15,707	$ 2,099	$ (2,617)	$ 15,189	

	January 1, 2023	Balances arising in the period	Recovery/ reversal	December 31, 2023	Remaining recovery/ reversal period (years)
Regulatory deferral account credit balances					
Retail settlement variances	$ 4,972	$ 1,138	$ (2,617)	$ 3,493	< 2
PILs and taxes – CCA changes	1,034	177	-	1,211	9
Smart meters	174	8	-	182	9
Other	-	18	-	18	< 2
Total amount related to regulatory deferral account credit balances	$ 6,180	$ 1,341	$ (2,617)	$ 4,904	

Settlement of the retail settlement variance accounts is generally done on an annual basis through application to the OEB. The 2023 IRM application was approved by the OEB on December 8, 2022 for the net disposition of retail settlement variances of $2,517 over a period of 12 months from January 1, 2023 to December 31, 2023. Phase 2 of the 2023 IRM application was approved by the OEB on June 15, 2023 for the net disposition of retail settlement variances of $402, including disposition of residual balances from previously disposed variances of ($1,688), over a period of 12 months from July 1, 2023 to July 1, 2024.

The OEB requires the Corporation to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates.

(in thousands of Canadian dollars)

11. Long-term debt

Long-term debt is comprised of:

	2023	2022
Series A, Senior Unsecured debentures 3.929%, interest payable semi-annually, and maturing January 27, 2045	$ 50,000	$ 50,000
Series B, Senior Unsecured debentures 2.968%, interest payable semi-annually, and maturing August 10, 2060	55,000	55,000
Non-revolving term facility with interest at prime, repayable in quarterly installments of $250,000, due March 30, 2045	21,750	22,750
Revolving credit facility with interest at prime, due May 3, 2027	5,000	12,112
Non-revolving term facility up to $1,500 with interest at prime, payable in monthly installments, due May 8, 2025	536	583
Less: Unamortized cost of debt insurance	(682)	(709)
	131,604	139,736
Less: Current portion of long-term debt	1,047	1,049
	$ 130,557	$ 138,687

Interest expense on long term debt:

	2023	2022
Series A Senior Unsecured Debentures	$ 1,965	$ 1,318
Series B Senior Unsecured Debentures	1,632	1,093
Non-revolving term facility	817	551
Revolving credit facility	327	391
	$ 4,741	$ 3,353

(in thousands of Canadian dollars)

12. Payments in lieu of corporate income taxes ("PILs"):

The provision for payments in lieu of corporate taxes recognized in income is as follows:

		2023		2022
Current PILS				
Current year	$	1,659	$	2,769
Deferred PILS				
Origination and reversal of temporary differences (excludes other comprehensive income)		2,264		846
Income tax expense	$	3,923	$	3,615

(i) Reconciliation of effective tax rate

PILs varies from amounts which would be computed applying the Corporation's combined statutory income tax rate as follows:

		2023		2022
Income before taxes, excludes other comprehensive	$	15,961	$	11,987
Canada and Ontario statutory income tax rates		26.5%		26.5%
Expected tax provision on income at statutory rates		4,230		3,177
Increase (decrease) in income taxes resulting from:				
Permanent differences		280		21
Prior periods		(786)		528
Other		199		(111)
	$	3,923	$	3,615

(ii) Deferred tax balances

Significant components of the Corporation's deferred tax balances are as follows:

		2023		2022
Deferred tax assets (liabilities):				
Property, plant and equipment	$	(35,827)	$	(30,273)
Deferred revenue - contributed capital		15,274		11,546
Derivative assets		(476)		(710)
Employee future benefits		964		983
Tax losses		137		213
Other		348		681
	$	(19,580)	$	(17,560)

(in thousands of Canadian dollars)

13. Employee future benefits:

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-retirement costs in the period in which employees' services were rendered. The accrued benefit liability and the expense for the year were based on results and assumptions determined by actuarial valuation as at December 31, 2022.

Information about the present value of the defined benefit unfunded obligation and the accrued benefit liability are as follows:

	2023	2022
Defined benefit obligation, beginning of year	$ (3,707)	$ (3,801)
Current service cost	(63)	(152)
Past service loss	(3)	-
Interest cost	(146)	(94)
Benefits paid during the year	314	203
Actuarial (loss) gain recognized in other comprehensive income	(31)	137
Accrued benefit liability, end of year	$ (3,636)	$ (3,707)

Components of net benefit expense recognized are as follows:

	2023	2022
Current service cost	$ (63)	$ (152)
Past service cost	(3)	-
Interest cost	(146)	(94)
Net expense recognized	$ (212)	$ (246)

Actuarial (loss) gains recognized in other comprehensive income:

	2023	2022
Cumulative balance beginning of year	$ 478	$ 377
Recognized during the year (net of tax)	(23)	101
Cumulative balance, December 31	$ 455	$ 478
Actuarial (loss) gain recognized during the year	$ (31)	$ 137
Deferred tax recovery (expense) on actuarial gain/loss	8	(36)
Net actuarial (loss) gain recognized, net of tax	$ (23)	$ 101

(in thousands of Canadian dollars)

13. Employee future benefits (continued):

The significant actuarial assumptions used in the valuation are as follows:

i. Discount (interest) rate - the discount rate used to determine the present value of future liabilities and the expense for the year ended December 31, 2023, was 4.6% (2022 - 5.0%);

ii. Salary levels - future general salary and wage levels were assumed to increase at 3.0% (2022 - 3.0%); and

iii. Health care cost trends – the health care cost trend for prescription drugs is estimated to increase at an inclining rate of 4.9% in 2023 to 5.3% over five years. Other medical and dental expenses are estimated to increase at an inclining rate of 5.1% in 2023 to 5.6% over five years.

The approximate effect on the accrued benefit obligation of the entire plan and the estimated net benefit expense of the entire plan if the health care trend rate assumption was increased or decreased by 1%, and all other assumptions were held constant, is as follows:

	Defined Benefit Obligation	Periodic Benefit Cost
1% increase in health care trend rate	$ 3,165	$ 162
1% decrease in health care trend rate	2,858	144

14. Deferred revenue:

	2023	2022
Balance at beginning of year	$ 43,499	$ 36,906
Amortization of deferred revenue	(1,369)	(883)
Capital contributions received	15,348	7,476
Balance at end of year	$ 57,478	$ 43,499

15. Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, these deposits are transferred to deferred revenue.

(in thousands of Canadian dollars)

15. Customer deposits (continued):

Customer deposits comprise:

		2023		2022
Current:				
Customer deposits	$	1,889	$	2,895
Construction deposits		15,464		15,540
	$	17,353	$	18,435
Non-Current:				
Customer deposits	$	6,279	$	5,322

16. Lease liabilities:

The Corporation has entered into lease agreements for buildings used in administrative and service related functions, as well as a lease for Solar PV roof-top equipment, representing right-of-use assets (note 7). Certain leases held by the Corporation provide the Corporation with extension options and termination options that may impact the overall term of the Lease. The Corporation has determined the lease terms based on all available information as at the reporting date.

Maturity analysis – contractual undiscounted cash flows		2023		2022
Less than one year	$	41	$	40
One to five years		152		192
More than five years		565		565
Total undiscounted lease liabilities		758		797
Interest included on the liabilities included in the statement of financial position		(370)		(402)
Lease liabilities – current		41		38
Lease liabilities – non-current	$	347	$	357

(in thousands of Canadian dollars)

17. Share capital:

	2023	2022
Authorized		
Unlimited common shares		
Issued		
100,000,000 common shares	$ 181,492	$ 181,492

Under the Amalgamation Transaction agreements, the following Special Shares were issued:

	2022
Class A Special Shares	1
Class B Special Shares	1,000
Class C Special Shares	1,000
Class D Special Shares	1

During the year, the Class C Special Shares were revalued for $989 and redeemed. During 2022, the Class A Special Shares were redeemed for $203 and the Class B Special Shares were redeemed for one dollar.

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time. Dividends were declared and paid to the shareholders as follows:

	2023	2022
City of Cambridge	$ 3,090	$ 657
City of Brantford	2,332	496
Township of North Dumfries	265	56
	$ 5,687	$ 1,209

(in thousands of Canadian dollars)

18. Related party transactions:

(a) Intercompany debt comprises:

		2023		2022
Township of North Dumfries				
4.993% unsecured promissory note, interest payable quarterly, principal due on two months demand notice	$	3,020	$	3,020

During the year, interest of $151 (2022 - $113) was paid to the Township of North Dumfries.

(b) Intercompany transactions:

i. Street lighting maintenance

During the year, the Corporation provided street lighting maintenance to the following related parties:

		2023		2022
City of Cambridge	$	372	$	258
Township of North Dumfries		10		3
	$	382	$	261

ii. Key management personnel

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members.

Key management compensation comprises:

		2023		2022
Directors' fees	$	402	$	201
Salaries, incentives, and other short-term benefits		2,139		1,238
Post-employment benefits		9		9
	$	2,550	$	1,448

(c) Other Intercompany transactions:

The Corporation has provided a guarantee of up to $6,000 to a financial institution on behalf of its associate GRE in the event of a default under the terms of GRE's credit facility.

(in thousands of Canadian dollars)

19. Revenue from contracts with customers:

The Corporation generates revenue primarily from the sale and distribution of electricity to its customers. Other sources of revenue include services ancillary to the electricity distribution, pole and duct rentals, water and sewer billing services, other regulatory service charges, and capital contributions.

	2023	2022
Revenue from contracts with customers		
Energy sales	$ 312,762	$ 220,956
Distribution revenue	63,142	40,722
Fibre optics revenue	3,298	2,030
Retail service revenue	1,237	784
	$ 380,439	$ 264,492
Other revenue	5,107	4,815
Total revenues	$ 385,546	$ 269,307

Energy sales and distribution revenue by customer class comprise:

2023	Energy sales	Distribution revenue	Total revenue from contracts with customers
Residential service	$ 94,982	$ 37,010	$ 131,992
General service	189,557	24,185	213,742
Large users	15,369	946	16,315
Embedded distributors	11,102	436	11,538
Other	1,752	565	2,317
Total	$ 312,762	$ 63,142	$ 375,904

2022	Energy sales	Distribution revenue	Total revenue from contracts with customers
Residential service	$ 69,929	$ 23,681	$ 93,610
General service	132,218	15,484	147,702
Large users	10,564	598	11,162
Embedded distributors	7,189	231	7,420
Other	1,056	728	1,784
Total	$ 220,956	$ 40,722	$ 261,678

(in thousands of Canadian dollars)

20. Other income from operations:

Other income comprises:

		2023		2022
Notification (document) charges	$	1,493	$	728
Amortization of deferred revenue		1,227		660
Pole and other rental income		723		645
Water and sewer billing services		556		353
Regulatory service charges		390		421
Street lighting maintenance		431		316
Metering network charges		133		89
Property rental		25		47
Miscellaneous		129		1,556
Total other income	$	5,107	$	4,815

21. Finance income and charge:

		2023		2022
Interest income on cash and cash equivalents	$	(478)	$	(461)
Finance income		(478)		(461)
Interest expense on long-term debt		4,741		3,356
Interest expense on intercompany debt		151		101
Interest expense on right-of-use leases		32		21
Interest expense and other finance charges		1,336		556
Finance charges		6,260		4,034
Net finance costs recognized in profit or loss	$	5,782	$	3,573

22. Commitments:

(i) *Credit Facility*

The Corporation has a Credit Facility Agreement ("Credit Facility") with a Canadian chartered bank which provides that the Corporation may borrow up to $70,000 to finance general corporate requirements, capital investments, and working capital requirements. Borrowings may be in the form of Bankers' Acceptances ("BAs"), prime rate loans, letters of credit, and/or current account overdrafts. Interest rates payable on the Credit Facility are based on a margin relative to the prime or BA rate. A standby fee is paid on any unutilized portion of the Credit Facility. The Credit Facility has a maturity date of May 3, 2027.

(ii) *Obligations under Capital Cost Recovery Agreement*

The Corporation is party to a connection and a cost recovery agreement ("CCRA") with Hydro One Network Inc. (HONI) whereby HONI agreed to build 115kV Switching Facilities at the Brant Transformer Station ("Brant TS") to provide additional capacity to meet the existing and future load growth expected on the transmission circuits. The Switching Facilities were placed into service on April 26, 2019.

Under the terms of the CCRA, the Corporation has agreed to an allocation of the costs of the project based on the expected future load growth. Annually, at the anniversary of the In-Service Date, if the expected future load growth does not meet an agreed upon load level, the Corporation may be subject to an allocation of a true-up adjustment based on the difference between the total capital cost of construction and the projected network revenue to be earned by HONI. The difference would represent a debt obligation of the Corporation based on the extent that the actual and forecast HONI revenue through the CCRA term is less than the amount of HONI revenue projected at the time the project was constructed. The Corporation's commitment is estimated at approximately $5,688.

In general terms, investments in regulated electricity distribution assets are recoverable from customers in future rate applications based on the rate-making policies of the OEB.

(iii) General Liability Insurance

The Corporation has obtained general liability and enhanced directors and officers insurance coverage from the Municipal Electric Association Reciprocal Insurance Exchange (The MEARIE Group). The MEARIE Group is an insurance reciprocal whereby all members through the unincorporated group share risks with each other. Members of the MEARIE Group are assessed a premium deposit at policy execution. Should the group experience losses that are in excess of the accumulated premium deposits of its members combined with reserves and supplementary insurance, members would be assessed a supplementary or retro assessment on a pro-rata basis for the periods in which the Corporation was a member.

(in thousands of Canadian dollars)

22. Commitments (continued):

(iv) General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

23. Pension plan:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. The Corporation made employer contributions of $1,932 (2022 - $1,182) to OMERS during the period. The Corporation estimates that a contribution of $2,397 to OMERS will be made during the next fiscal year.

As at December 31, 2023, OMERS had over 600,000 members. The most recently available OMERS annual report is for the year ended December 31, 2023, which reported that the plan was 97% funded, with an unfunded liability of $3.9 billion. The unfunded liability is likely to result in future payments by participating employers and members.

24. Employee benefits:

		2023		2022
Salaries, wages, and benefits	$	19,904	$	13,257
Contributions to OMERS		1,932		1,182
CPP and EI remittances		957		406
Expenses related to defined benefit plans		212		239
	$	23,005	$	15,084

(in thousands of Canadian dollars)

25. Cash flow information:

Net change in non-cash operating working capital comprises:

		2023		2022
Accounts receivable	$	(2,061)	$	(1,936)
Unbilled revenue		1,689		(5,904)
Inventories		(822)		(884)
Other assets		86		351
Current customer deposits		(1,082)		1,641
Accounts payable and accrued liabilities		1,183		5,312
	$	(1,007)	$	(1,420)

26. Financial instruments and risk management:

Fair value disclosure

Cash and cash equivalents are measured at fair value. The carrying values of receivables, and accounts payable and accrued charges approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

The fair value of the long-term debt, Series A Senior Unsecured Debentures at December 31, 2023 is $43,685 (2022 - $42,151) and Series B Senior Unsecured Debentures at December 31, 2023 is $37,043 (2022 - $35,303). 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. The interest rate used to calculate fair value at December 31, 2023 was 4.869% (2022 - 5.125%).

Financial risks

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the Cities of Cambridge and Brantford, Township of North Dumfries and within the County of Brant.

26. Financial instruments and risk management (continued):

Fair value risks (continued)

The carrying amount of accounts receivable is reduced through the use of a loss allowance and the amount of the related credit loss is recognized in net income. Subsequent recoveries of receivables previously provisioned are credited to net income. The balance of the loss allowance at December 31, 2023 is $2,770 (2022 - $2,782). A credit loss of $519 (2022 - $342) was recognized during the year.

At December 31, 2023, approximately $2,625 (2022 - $2,324) is considered 60 days past due. One customer accounts for a balance of $942 of the accounts receivable over 60 days, of which an amount of $384 has been included in the loss allowance. The Corporation has over 113,000 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2023, the Corporation holds customer security deposits in the amount of $8,145 (2022 - $8,194); Management believes that it has adequately provided for any exposure to normal customer and retailer credit risk.

(b) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation’s distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

A 1% increase in the interest rate at December 31, 2023 would have increased interest expense on the long-term debt, including the current portion, by $1,319, assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

(c) Interest rate risk:

Interest is paid on customer deposits at a market rate reset quarterly as directed by the Ontario Energy Board.

The non-revolving term facility loan bears interest at a floating rate and thus, the carrying value approximates fair value. However, the Corporation has entered an interest rate swap transaction, derivative instrument, the effect of which is to fix the interest rate on the non-revolving term loan at 2.54%. The potential savings to the Corporation of the interest rate swaps, representing estimated fair value as presented on the balance sheet, was $1,794 (2022 - $2,678) which was in the favour of the Corporation. The Corporation entered into these interest rate swap transactions to fix the interest rate over the long-term and intends to hold this to maturity at which time there should be no replacement cost.

26. Financial instruments and risk management (continued):

Fair value risks (continued)

(d) Prudential risk:

The Corporation is required, through the Independent Electricity System Operator (IESO), to provide security to mitigate the Corporation's risk of default based on its expected activity in the electricity market. The IESO could draw on this guarantee if the Corporation fails to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of the bank letter of credit. As at December 31, 2023, the Corporation provided prudential support in the form of a bank letter of credit of $13,057.

(e) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a $70,000 revolving credit facility. The Corporation monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they come due. Borrowings under the credit facilities may be in the form of prime rate loans; current account overdrafts, Bankers' Acceptances; or Letters of Credit and/or Letters of Guarantee in Canadian currency. As at December 31, 2023, $6,707 (2022 - $12,112) had been drawn under the revolving credit facility.

(f) Capital disclosures:

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholders' equity, intercompany debt, and long-term debt. As at December 31, 2023 shareholders' equity amounts to $258,502 (2022 - $251,103) and long- term debt amounts, including the current portion, and intercompany debt amounts to $134,624 (2022 - $142,756). The Corporation's capital structure as at December 31, 2023 is 34.2% (2022 - 36.2%) debt and 65.8% (2022 - 63.8%) equity. There have been no changes in the Corporation's approach to capital management during the year.

The Corporation's long-term debt agreements include both financial and non-financial covenants. As at December 31, 2023, the Corporation was in compliance with all covenants.

27. Changes in accounting policies:

The International Accounting Standards Board (IASB) has issued the following Standards, Interpretations and Amendments to Standards that were adopted by the Corporation effective January 1, 2023:

a) Definition of Accounting Estimate (Amendments to IAS 8)
b) Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
c) Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction - Amendments to IAS 12 Income Taxes

The amendments did not have a material impact on the financial statements.

28. Emerging accounting changes:

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Corporation and it is still to be determined if any will have a material impact on the Corporation's financial statements.

a) Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
b) Non-current Liabilities with Covenants (Amendments to IAS 1)
c) Lease liability in a sale and leaseback transaction (Amendments to IFRS 16)
d) Supplier finance arrangements (Amendments to IAS 7 and IFRS 7)