

Financial Statements of

**ORANGEVILLE HYDRO
LIMITED**

And Independent Auditor's Report thereon

Year ended December 31, 2023



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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Orangeville Hydro Limited

Opinion

We have audited the financial statements of Orangeville Hydro Limited (the Entity), which comprise:

- the statement of financial position as at December 31, 2023
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the 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 financial position of the Entity as at December 31, 2023 and its financial performance and its 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 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 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 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 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.



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- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada

April 26, 2024

ORANGEVILLE HYDRO LIMITED

Statement of Financial Position

December 31, 2023, with comparative information for 2022

| | 2023 | 2022 |
|--|---------------|---------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 439,680 | \$ 1,595,236 |
| Accounts receivable (note 3) | 5,175,906 | 4,436,206 |
| Income taxes receivable | - | 172,933 |
| Unbilled revenue | 3,087,796 | 3,241,571 |
| Inventory | 452,655 | 450,531 |
| Prepaid expenses | 193,664 | 168,244 |
| Total current assets | 9,349,701 | 10,064,721 |
| Non-current assets: | | |
| Property, plant and equipment (note 4) | 25,924,403 | 24,592,614 |
| Intangible assets (note 5) | 205,861 | 205,626 |
| Total non-current assets | 26,130,264 | 24,798,240 |
| Total assets | 35,479,965 | 34,862,961 |
| Regulatory debit balances (note 7) | 3,257,885 | 4,505,500 |
| Total assets and regulatory balances | \$ 38,737,850 | \$ 39,368,461 |

See accompanying notes to financial statements.

ORANGEVILLE HYDRO LIMITED

Statement of Financial Position (continued)

December 31, 2023, with comparative information for 2022

| | 2023 | 2022 |
|---|---------------|---------------|
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 8) | \$ 4,995,668 | \$ 6,334,443 |
| Income taxes payable | 108,890 | - |
| Long-term debt due within one year (note 9) | 3,638,054 | 590,827 |
| Customer deposits | 150,000 | 200,000 |
| Other payables | 186,292 | 184,341 |
| Total current liabilities | 9,078,904 | 7,309,611 |
| Non-current liabilities: | | |
| Long-term debt (note 9) | 11,949,595 | 15,540,781 |
| Employee future benefits (note 10) | 452,416 | 434,474 |
| Customer deposits | 338,547 | 299,914 |
| Contributions in aid of construction (note 11) | 2,736,694 | 2,317,945 |
| Deferred tax liability (note 6) | 561,380 | 412,695 |
| Total non current liabilities | 16,038,632 | 19,005,809 |
| Total liabilities | 25,117,536 | 26,315,420 |
| Equity: | | |
| Share capital (note 12) | 8,290,714 | 8,290,714 |
| Accumulated other comprehensive loss | (14,964) | (14,964) |
| Retained earnings | 4,955,843 | 4,317,609 |
| | 13,231,593 | 12,593,359 |
| Regulatory credit balances (note 7) | 388,721 | 459,682 |
| Total liabilities, equity and regulatory balances | \$ 38,737,850 | \$ 39,368,461 |

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

ORANGEVILLE HYDRO LIMITED

Statement of Comprehensive Income

Year ended December 31, 2023, with comparative information for 2022

| | 2023 | 2022 |
|---|------------------|------------------|
| Revenue: | | |
| Sale of energy (note 13) | \$ 32,072,635 | \$ 31,873,671 |
| Distribution revenue (note 13) | 6,033,323 | 5,588,004 |
| Other (note 13) | 382,968 | 365,055 |
| | <u>6,416,291</u> | <u>5,953,059</u> |
| | 38,488,926 | 37,826,730 |
| Operating expenses: | | |
| Cost of power purchased | 30,272,632 | 32,063,987 |
| Operating and maintenance | 1,134,731 | 1,164,462 |
| Billing and collection | 1,154,191 | 1,003,017 |
| General and administrative | 1,672,166 | 1,523,517 |
| Depreciation and amortization | 1,029,373 | 981,573 |
| Loss on sale of property, plant and equipment and intangible assets | 19,141 | 45,768 |
| | <u>5,009,602</u> | <u>4,718,337</u> |
| | 35,282,234 | 36,782,324 |
| Income from operating activities | 3,206,692 | 1,044,406 |
| Finance costs (note 15) | (707,537) | (553,390) |
| Finance income (note 15) | 57,217 | 21,878 |
| Income before income taxes and undernoted items | 2,556,372 | 512,894 |
| Income tax expense (note 6) | (718,762) | (128,873) |
| Earnings before the undernoted items | 1,837,610 | 384,021 |
| Other income (expenses): | | |
| Net movement in regulatory balances (other) | (1,176,653) | 427,688 |
| Tax on net movement in regulatory balances | 351,069 | (64,130) |
| | <u>(825,584)</u> | <u>363,558</u> |
| Total comprehensive income for the year | \$ 1,012,026 | \$ 747,579 |

See accompanying notes to financial statements.

ORANGEVILLE HYDRO LIMITED

Statement of Changes in Equity

Year ended December 31, 2023, with comparative information for 2022

| | Share capital | Retained earnings | Accumulated other comprehensive loss | Total |
|--|---------------|-------------------|--------------------------------------|------------|
| Balance at January 1, 2022 | \$ 8,290,714 | \$ 4,055,694 | \$ (14,964) | 12,331,444 |
| Net income and net movement in regulatory balances | - | 747,579 | - | 747,579 |
| Dividends | - | (485,664) | - | (485,664) |
| Balance at December 31, 2022 | \$ 8,290,714 | \$ 4,317,609 | \$ (14,964) | 12,593,359 |
| Balance at January 1, 2023 | \$ 8,290,714 | \$ 4,317,609 | \$ (14,964) | 12,593,359 |
| Net income and net movement in regulatory balances | - | 1,012,026 | - | 1,012,026 |
| Dividends | - | (373,792) | - | (373,792) |
| Balance at December 31, 2023 | \$ 8,290,714 | \$ 4,955,843 | \$ (14,964) | 13,231,593 |

See accompanying notes to financial statements.

ORANGEVILLE HYDRO LIMITED

Statement of Cash Flows

Year ended December 31, 2023, with comparative information for 2022

| | 2023 | 2022 |
|---|--------------|--------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net Income and net movement in regulatory balances | \$ 1,012,026 | \$ 747,579 |
| Items not involving cash: | | |
| Depreciation and amortization | 1,130,699 | 1,084,978 |
| Loss on sale of property, plant and equipment and intangible assets | 19,142 | 45,768 |
| Net finance costs | 650,320 | 531,512 |
| Income tax expense | 718,762 | 128,874 |
| Tax on net movement in regulatory | (508,112) | 64,130 |
| Employee future benefits | 17,942 | 15,993 |
| Contributions received from customers revenue recognized | (73,015) | (66,847) |
| | 2,967,764 | 2,551,987 |
| Changes in non-cash operating working capital: | | |
| Accounts receivable | (739,700) | 127,338 |
| Unbilled revenue | 153,775 | (437,342) |
| Inventory | (2,124) | (92,604) |
| Prepaid expenses | (25,420) | (32,740) |
| Accounts payable and accrued liabilities | (1,338,777) | 1,418,038 |
| Other payables | 1,951 | 12,509 |
| Customer deposits | (11,367) | (14,933) |
| | (1,961,662) | 980,266 |
| Interest paid | (707,537) | (553,390) |
| Interest received | 57,217 | 21,878 |
| Income tax recovered (paid) | 62,816 | (206,451) |
| Regulatory balances | 1,333,696 | (428,015) |
| | 1,752,294 | 2,366,275 |
| Financing activities: | | |
| Repayment of long-term debt | (543,959) | (674,214) |
| Proceeds of long-term debt | - | 3,000,000 |
| Dividends paid | (373,792) | (485,664) |
| | (917,751) | 1,840,122 |
| Investing activities: | | |
| Purchase of property, plant and equipment | (2,450,750) | (2,954,194) |
| Proceeds on disposal of property, plant and equipment | - | 3,469 |
| Purchase of intangible assets | (31,113) | (25,735) |
| Contributions received from customers | 491,764 | 62,765 |
| | (1,990,099) | (2,913,695) |
| (Decrease) increase in cash | (1,155,556) | 1,292,702 |
| Cash, beginning of year | 1,595,236 | 302,534 |
| Cash, end of year | \$ 439,680 | \$ 1,595,236 |

See accompanying notes to financial statements.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements

Year ended December 31, 2023

Reporting entity:

Orangeville Hydro Limited (the "Corporation") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The address of the Corporation's registered office is 400 C Line, Orangeville, Ontario.

The Corporation delivers electricity and related energy services to residential and commercial customers in the Town of Orangeville and Town of Grand Valley. The Corporation is owned by the Town of Orangeville and Town of Grand Valley.

The financial statements are for the Corporation as at and for the year ended December 31, 2023.

1. Basis of presentation:

(a) Statement of compliance:

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

The financial statements were approved by the Board of Directors on April 18, 2024.

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis, unless otherwise stated.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(d) 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 year in which the estimates are revised and in any future years affected.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

1. Basis of presentation (continued):

(d) Use of estimates and judgments (continued):

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

- (i) Note 2(b) - measurement of unbilled revenue
- (ii) Notes 4, 5 - estimation of useful lives of its property, plant and equipment and intangible assets
- (iii) Note 7 - recognition and measurement of regulatory balances
- (iv) Note 10 - measurement of defined benefit obligations: key actuarial assumptions
- (v) Note 16 - recognition and measurement of provisions and contingencies

(e) Rate regulation:

The Corporation is regulated by the Ontario Energy Board (“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 sale of energy, 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 expenditures, 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 interveners and rates are approved based upon this review, including any revisions resulting from that review.

The application is based on the Annual IR Index option to set rates for 2021. The Corporation was required by the OEB to apply the Annual IR Index method after deferring its COS rate application for three consecutive years. The Annual IR Index is based on inflation less the OEB’s highest stretch factor assessment of a distributor’s efficiency.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

1. Basis of presentation (continued):

(e) Rate regulation (continued):

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.

The Corporation last filed a COS application in October 2013 for rates effective May 1, 2014 to April 30, 2019. The Corporation received approval for a deferral of a COS application for 2023 rates. The GDP IPI-FDD for 2023 is 3.7%, the Corporation's productivity factor is nil% and the stretch factor is 0.60%, resulting in a net adjustment of 3.1% to the previous year's rates.

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.

2. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

(a) Financial instruments:

At initial recognition, the Corporation measures its financial assets at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of the financial asset depends on the classification determined on initial recognition. Financial assets are classified as either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless the Corporation changes its business model for managing financial assets.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

2. Significant accounting policies (continued):

(f) Impairment (continued):

(a) Financial instruments (continued):

Financial liabilities are initially measured at fair value, net of transaction costs incurred. They 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 not entered into derivative instruments.

Hedge accounting has not been used in the preparation of these financial statements.

Cash equivalents include short-term investments with maturities of three months or less when purchased.

(b) Revenue recognition:

Sale and distribution of electricity

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Corporation has the right to bill. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

For customer billings related to 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 has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Capital contributions

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 are scoped out 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. The deferred revenue, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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.

Other revenue

Revenue earned from the provision of services is recognized as the service is rendered.

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(c) Inventory:

Inventory, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

(d) Property, plant and equipment:

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2015 are measured at the deemed cost (carrying value as elected under IFRS 1) established on the transition date, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the weighted average cost of debt incurred on the Corporation's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

2. Significant accounting policies (continued):

(d) Property, plant and equipment (continued):

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

Major spare parts and standby equipment are recognized as items of PP&E.

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Corporation has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

The estimated useful lives are as follows:

| Asset | Rate |
|---------------------------|-------------|
| Buildings | 20-60 years |
| Distribution equipment | 15-60 years |
| Vehicles | 8-15 years |
| Other tools and equipment | 10-60 years |
| Computer equipment | 5 years |

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

2. Significant accounting policies (continued):

(e) Intangible assets:

Intangible assets used in rate-regulated activities and acquired prior to January 1, 2015 are measured at deemed cost (carrying value as elected under IFRS 1) established on the transition date, less accumulated amortization. All other intangible assets are measured at cost.

Computer software that is acquired or developed by the Corporation after January 1, 2015, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

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 Corporation does not hold title. Land rights are measured at cost. Management has determined that land rights have an indefinite life. Land rights are tested for impairment when events or circumstances indicate their carrying amount exceeds their fair value. As at December 31, 2023, management has not identified any events or circumstances indicating that land rights are impaired.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate. The estimated useful lives are:

| Asset | Rate |
|-------------------|---------|
| Computer software | 5 years |

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

2. Significant accounting policies (continued):

(f) Impairment:

(i) Financial assets measured at amortized cost:

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than materials and supplies 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.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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) Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills. Interest is paid on customer deposits.

Deposits 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.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

2. Significant accounting policies (continued):

(h) 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.

(i) Regulatory balances:

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved 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 deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory deferral debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

The probability of recovery of the regulatory deferral debit account balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB, etc. Any resulting impairment loss is recognized in profit or loss in the year incurred. When the Corporation is required to refund amounts to ratepayers in the future, the Corporation recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The regulatory deferral credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

2. Significant accounting policies (continued):

(j) Post-employment benefits:

(i) Pension plan

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

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. Consequently, the plan has been accounted for as a defined contribution plan. The Corporation is not responsible for any other contractual obligations other than the contributions. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due.

(ii) Post-employment benefits, other than pension

The Corporation provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management’s best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses and the return on plan assets (excluding interest), are recognized immediately in other comprehensive income. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

(k) Leased assets:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For leases and contracts that contain 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

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

2. Significant accounting policies (continued):

(k) Leased assets (continued):

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 lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

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

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and low value assets

The Corporation has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(l) Finance income and finance costs:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash.

Finance costs comprise interest expense on borrowings and net interest expense on post-employment benefits. Finance costs are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

2. Significant accounting policies (continued):

(m) Income taxes:

The 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 Tax Acts 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. Payments in lieu of taxes are referred to as income taxes.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.

3. Accounts receivable:

| | 2023 | 2022 |
|------------------------------------|---------------------|---------------------|
| Trade customer accounts receivable | \$ 4,729,298 | \$ 4,024,710 |
| Other receivables | 481,608 | 446,496 |
| Provision uncollectible accounts | (35,000) | (35,000) |
| | <u>\$ 5,175,906</u> | <u>\$ 4,436,206</u> |

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

4. Property, plant and equipment:

| | Land and buildings | Distribution equipment | Other fixed assets | Construction- in-progress | Total |
|-------------------------------------|-----------------------|---------------------------|-----------------------|------------------------------|----------------------|
| <i>Cost of deemed cost</i> | | | | | |
| Balance at January 1, 2023 | \$ 2,156,960 | \$ 28,414,271 | \$ 1,697,003 | \$ 35,065 | \$ 32,303,299 |
| Additions | 67,168 | 2,393,013 | 25,636 | - | 2,485,817 |
| Disposals/ retirements | - | (25,979) | - | (35,065) | (61,044) |
| Balance at December 31, 2023 | \$ 2,224,128 | \$ 30,781,305 | \$ 1,722,639 | \$ - | \$ 34,728,072 |
| Balance at January 1, 2022 | \$ 2,118,927 | \$ 25,626,322 | \$ 1,644,441 | \$ 38,149 | \$ 29,427,839 |
| Additions | 38,033 | 2,845,006 | 71,155 | - | 2,954,194 |
| Transfers | - | 3,084 | - | (3,084) | - |
| Disposals/ retirements | - | (60,141) | (18,593) | - | (78,734) |
| Balance at December 31, 2022 | \$ 2,156,960 | \$ 28,414,271 | \$ 1,697,003 | \$ 35,065 | \$ 32,303,299 |
| <i>Accumulated depreciation</i> | | | | | |
| Balance at January 1, 2023 | \$ 721,205 | \$ 6,012,334 | \$ 977,146 | \$ - | \$ 7,710,685 |
| Depreciation | 72,980 | 889,865 | 141,267 | - | 1,104,112 |
| Disposals | - | (11,128) | - | - | (11,128) |
| Balance at December 31, 2023 | \$ 794,185 | \$ 6,891,071 | \$ 1,118,413 | \$ - | \$ 8,803,669 |
| Balance at January 1, 2022 | \$ 643,009 | \$ 5,195,681 | \$ 846,045 | \$ - | \$ 6,684,735 |
| Depreciation | 78,196 | 836,099 | 141,889 | - | 1,056,184 |
| Disposals | - | (19,446) | (10,788) | - | (30,234) |
| Balance at December 31, 2022 | \$ 721,205 | \$ 6,012,334 | \$ 977,146 | \$ - | \$ 7,710,685 |
| <i>Carrying amounts</i> | | | | | |
| At December 31, 2023 | \$ 1,429,943 | \$ 23,890,234 | \$ 604,226 | \$ - | \$ 25,924,403 |
| At December 31, 2022 | 1,435,755 | 22,401,937 | 719,857 | 35,065 | 24,592,614 |

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

5. Intangible assets:

| | Computer software | Land rights | Total |
|-------------------------------------|-------------------|-------------------|-------------------|
| <i>Cost of deemed cost</i> | | | |
| Balance at January 1, 2023 | \$ 271,373 | \$ 139,807 | \$ 411,180 |
| Additions | 31,113 | - | 31,113 |
| Disposals | (18,225) | - | (18,225) |
| Balance at December 31, 2023 | \$ 284,261 | \$ 139,807 | \$ 424,068 |
| Balance at January 1, 2022 | \$ 289,164 | \$ 139,807 | \$ 428,971 |
| Additions | 25,735 | - | 25,735 |
| Disposals | (43,526) | - | (43,526) |
| Balance at December 31, 2022 | \$ 271,373 | \$ 139,807 | \$ 411,180 |
| <i>Accumulated amortization</i> | | | |
| Balance at January 1, 2023 | \$ 205,554 | \$ - | \$ 205,554 |
| Amortization | 26,588 | - | 26,588 |
| Disposals | (13,935) | - | (13,935) |
| Balance at December 31, 2023 | \$ 218,207 | \$ - | \$ 218,207 |
| Balance at January 1, 2022 | \$ 219,549 | \$ - | \$ 219,549 |
| Amortization | 28,794 | - | 28,794 |
| Disposals | (42,789) | - | (42,789) |
| Balance at December 31, 2022 | \$ 205,554 | \$ - | \$ 205,554 |
| <i>Carrying amounts</i> | | | |
| At December 31, 2023 | \$ 66,054 | \$ 139,807 | \$ 205,861 |
| At December 31, 2022 | 65,819 | 139,807 | 205,626 |

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

6. Income tax expense:

Current tax expense (recovery):

| | 2023 | 2022 |
|--------------------------------|------------|-------------|
| Current tax expense (recovery) | \$ 570,077 | \$ (41,901) |
| Deferred tax expense | 148,685 | 170,774 |
| Income tax expense | \$ 718,762 | \$ 128,873 |

Reconciliation of effective tax rate:

| | 2023 | 2022 |
|---|--------------|------------|
| Income before taxes | \$ 2,556,372 | \$ 512,894 |
| Statutory income tax rates | 26.5 % | 26.5 % |
| Expected tax provision on income at statutory rates | \$ 677,439 | \$ 135,917 |
| Increase (decrease) in income taxes resulting from: | | |
| Permanent differences | 3,957 | 626 |
| Other | (2,514) | - |
| Adjustment for prior years | 39,880 | (7,670) |
| Income tax expense | \$ 718,762 | \$ 128,873 |

Significant components of the Corporation's deferred tax balances:

| | 2023 | 2022 |
|------------------------------------|--------------|--------------|
| Deferred tax assets (liabilities): | | |
| Property, plant and equipment | \$ (690,611) | \$ (536,545) |
| Post-employment benefits | 119,890 | 115,136 |
| Other | 9,341 | 8,714 |
| | \$ (561,380) | \$ (412,695) |

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

7. Regulatory account balances:

Reconciliation of the carrying amount for each class of regulatory balances:

| Regulatory deferral account debit balances | January 1, 2023 | Additions | Recovery/ reversal | December 31, 2023 | Remaining recovery/ reversal years |
|---|---------------------|---------------------|-----------------------|----------------------|--|
| Retail settlement variances | \$ 3,613,156 | \$ (477,643) | \$ (1,050,739) | \$ 2,084,774 | - |
| IFRS transition | 168,651 | 7,407 | - | 176,058 | - |
| Regulatory variances disposition | 306,945 | 31,071 | - | 338,016 | - |
| Deferred income tax | 414,450 | 147,062 | - | 561,512 | - |
| Other | 2,298 | 36,790 | 58,437 | 97,525 | - |
| | \$ 4,505,500 | \$ (255,313) | \$ (992,302) | \$ 3,257,885 | |

| Regulatory deferral account debit balances | January 1, 2022 | Additions | Recovery/ reversal | December 31, 2022 | Remaining recovery/ reversal years |
|---|---------------------|---------------------|-----------------------|----------------------|--|
| Retail settlement variances | \$ 3,149,419 | \$ 1,606,387 | \$ (1,142,650) | \$ 3,613,156 | - |
| IFRS transition | 165,840 | 2,811 | - | 168,651 | - |
| Regulatory variances disposition | 373,502 | - | (66,557) | 306,945 | - |
| Deferred income tax | 241,987 | 172,463 | - | 414,450 | - |
| Other | 1,939 | 359 | - | 2,298 | - |
| | \$ 3,932,687 | \$ 1,782,020 | \$ (1,209,207) | \$ 4,505,500 | |

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

7. Regulatory account balances (continued):

| Regulatory deferral account credit balances | January 1, 2023 | Additions | Recovery/ reversal | December 31, 2023 | Remaining recovery/ reversal years |
|--|--------------------|------------|-----------------------|----------------------|--|
| Retail settlement variances \$ | - \$ | 740,633 \$ | (740,633) \$ | - | - |
| Change in asset useful lives | 20,093 | - | - | 20,093 | - |
| Other | 439,589 | (129,398) | 58,437 | 368,628 | - |
| | \$ 459,682 | \$ 611,235 | \$ (682,196) | \$ 388,721 | |

| Regulatory deferral account credit balances | January 1, 2022 | Additions | Recovery/ reversal | December 31, 2022 | Remaining recovery/ reversal years |
|--|--------------------|-----------|-----------------------|----------------------|--|
| Retail settlement variances \$ | (55,560) \$ | - \$ | 55,560 \$ | - | - |
| Change in asset useful lives | 20,093 | - | - | 20,093 | - |
| Other | 350,351 | 89,238 | - | 439,589 | - |
| | \$ 314,884 | \$ 89,238 | \$ 55,560 | \$ 459,682 | |

The regulatory balances are recovered or settled through rates approved 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 balances.

Settlement of the Group 1 deferral accounts is done on an annual basis through application to the OEB. An application has been approved on an interim basis by the OEB to recover \$1,231,694 for the Group 1 deferral accounts for the 2023 rate application. 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.

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In 2023, the rate ranged from 4.73% to 5.39% (2022 - 0.57% to 3.87%).

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

8. Accounts payable and accrued liabilities:

| | 2023 | 2022 |
|-------------------------------------|---------------------|---------------------|
| Accounts payable – energy purchases | \$ 2,378,347 | \$ 3,762,569 |
| Water and sewer charges payable | 892,810 | 984,737 |
| Other | 1,724,511 | 1,587,137 |
| | <u>\$ 4,995,668</u> | <u>\$ 6,334,443</u> |

9. Long-term debt:

| | 2023 | 2022 |
|--|----------------------|----------------------|
| TD Bank term loan payable, interest at 4.87%, payable in monthly instalments of \$16,642, due 2027 | \$ 1,979,893 | \$ 2,080,483 |
| TD Bank term loan payable, interest at 5.07%, payable in monthly instalments of \$10,284 plus interest, due 2027 | 2,282,979 | 2,402,778 |
| TD Bank term loan payable, interest at 3.54%, payable in monthly instalments of \$18,366, due 2024 | 3,183,994 | 3,289,652 |
| TD Bank term loan payable, interest at 3.60%, payable in monthly instalments of \$10,118, due 2027 | 1,617,684 | 1,679,654 |
| TD Bank term loan payable, interest at 4.20%, payable in monthly instalments of \$10,780, due 2029 | 1,748,342 | 1,803,027 |
| TD Bank term loan payable, interest at 2.58%, payable in monthly instalments of \$4,409, due 2025 | 887,208 | 916,809 |
| TD Bank term loan payable, interest at 3.62%, payable in monthly instalments of \$5,071, due 2031 | 946,894 | 972,961 |
| TD Bank term loan payable, interest at 4.92%, payable in monthly instalments of \$15,961, due 2027 | 2,940,655 | 2,986,244 |
| | <u>15,587,649</u> | <u>16,131,608</u> |
| Less current portion of long-term debt | 3,638,054 | 590,827 |
| | <u>\$ 11,949,595</u> | <u>\$ 15,540,781</u> |

The TD Bank term loans holds as security a general security agreement representing a first charge on all assets and undertakings of the Corporation and assignment of general liability insurance for the Corporation.

The agreement with respect to the TD Bank term loans contain certain covenants regarding (i) leverage, (ii) liquidity, (iii) change in status of business, (iv) change in ownership, and (v) limitations on additional debt and encumbrance of assets.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

9. Long-term debt (continued):

The agreement with TD Bank also contains financial covenants that require the Corporation to maintain a maximum debt to capital ratio of 0.60 to 1 and a minimum debt service coverage ratio of 1.20x to be tested and calculated on a quarterly basis. The Corporation is in compliance with these covenants as at December 31, 2023.

Principal repayments are due as follows:

| | |
|------------|---------------|
| 2024 | \$ 3,638,054 |
| 2025 | 469,479 |
| 2026 | 1,278,114 |
| 2027 | 7,863,819 |
| 2028 | 98,391 |
| Thereafter | 2,239,792 |
| | <hr/> |
| | \$ 15,587,649 |

10. Post-employment benefits:

(a) OMERS 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. In 2023, the Corporation made employer contributions of \$197,916 to OMERS (2022 - \$196,157), of which has been recognized in profit or loss. The Corporation estimates that a contribution of \$220,683 to OMERS will be made during the next fiscal year.

As at December 31, 2023, OMERS had approximately 600,000 members, of whom 20 are current employees of the Corporation. 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 \$4.2 billion. This unfunded liability is likely to result in future payments by participating employers and members.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

10. Post-employment benefits (continued):

(b) Post-employment benefits other than pension:

The Corporation pays certain medical and life insurance benefits on behalf of some of its retired employees. The Corporation recognizes these post-employment benefits in the year in which employees' services were rendered. The Corporation is recovering its post-employment benefits in rates based on the expense and remeasurements recognized for post-employment benefit plans.

| Reconciliation of the obligation | 2023 | 2022 |
|---|---------------------|---------------------|
| Defined benefit obligation, beginning of year | \$ 434,474 | \$ 418,481 |
| Included in profit or loss: | | |
| Current service cost | 18,316 | 18,704 |
| Interest cost | 12,554 | 12,265 |
| | 30,870 | 30,969 |
| Benefits paid | 465,344 (12,928) | 449,450 (14,976) |
| | \$ 452,416 | \$ 434,474 |
| Actuarial assumptions | 2023 | 2022 |
| Discount (interest) rate | 3.00 % | 3.00 % |
| Medical costs | 4.90 % | 4.70 % |
| Dental costs | 5.10 % | 4.90 % |

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by \$65,200. A 1% decrease in the assumed discount rate would result in the defined benefit obligation increasing by \$88,900.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

11. Contributions in aid of construction:

| | 2023 | 2022 |
|--|--------------|--------------|
| Contributions in aid of construction, beginning of year | \$ 2,317,945 | \$ 2,322,027 |
| Contributions in aid of construction received | 491,764 | 62,765 |
| Contributions in aid of construction recognized as other revenue | (73,015) | (66,847) |
| | \$ 2,736,694 | \$ 2,317,945 |

12. Share capital:

| | 2023 | 2022 |
|-----------------------------------|--------------|--------------|
| Authorized: | | |
| Unlimited number of common shares | | |
| Issued: | | |
| 1,000 common shares | \$ 8,290,714 | \$ 8,290,714 |

13. Revenues:

| | 2023 | 2022 |
|--------------------------------------|------------|------------|
| Collection and other service charges | \$ 87,655 | \$ 109,846 |
| Water and sewer billing services | 77,348 | 23,856 |
| Rent | 85,895 | 95,173 |
| Other | 132,070 | 136,180 |
| Total other revenue | \$ 382,968 | \$ 365,055 |

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

13. Revenues (continued):

In the following table, sale of energy and distribution revenue is disaggregated by type of customer.

| | 2023 | 2022 |
|-------------|----------------------|----------------------|
| Residential | \$ 15,929,952 | \$ 16,070,700 |
| Commercial | 21,853,827 | 21,078,046 |
| Other | 322,179 | 312,929 |
| | <u>\$ 38,105,958</u> | <u>\$ 37,461,675</u> |

14. Employee salaries and benefits:

| | 2023 | 2022 |
|------------------------------|---------------------|---------------------|
| Salaries, wages and benefits | \$ 2,034,639 | \$ 2,031,014 |
| CPP and EI remittances | 82,366 | 81,677 |
| Contributions to OMERS | 197,916 | 196,157 |
| | <u>\$ 2,314,921</u> | <u>\$ 2,308,848</u> |

15. Finance income and costs:

| | 2023 | 2022 |
|--|---------------------|---------------------|
| Finance income: | | |
| Interest income on bank deposits | \$ 57,217 | \$ 21,878 |
| Finance costs: | | |
| Interest expense on long-term debt | (669,429) | (540,321) |
| Interest expense on customer deposits | (38,108) | (13,069) |
| | <u>(707,537)</u> | <u>(553,390)</u> |
| Net finance costs recognized in profit or loss | <u>\$ (650,320)</u> | <u>\$ (531,512)</u> |

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

16. Commitments and contingencies:

Cornerstone Hydro Electric Concepts ("CHEC"):

CHEC is an association of fifteen LDCs modelled after a co-operative to share resources and proficiencies (note 17).

The Corporation may terminate its membership at any time upon the following terms:

- (a) giving written notice 60 days in advance of termination; and
- (b) by making a prepayment in full of the balance of its contract service costs to CHEC. The amount of prepayment cost shall be the total cost which the Corporation would have paid over the three year term of the agreement less amounts already paid by it to the date of the termination. The current three year term for CHEC commitment goes to December 31, 2026. The prepayment cost of termination is a settlement of the Corporation's obligation under the agreement by reason of termination of its membership before the expiry of the term. The amount is liquidated damages and not a penalty for early termination and is intended to leave the remaining members in the same position as if the Corporation had not terminated the agreement. As at December 31, 2023, the obligation to CHEC includes the 2024 to 2026 membership dues of approximately \$48,000 per year, \$144,000 total.

Utility Collaborative Services Inc. ("UCS"):

The Corporation has the right to redeem its shares in UCS (note 17) by retraction upon the following terms:

- (a) notice of such retraction shall be given 120 days prior to the effective date; and
- (b) a redemption fee shall be paid equal to the previous three years' worth of average purchases from UCS for services or products; or in alternative to paying such fees, the Corporation may elect in writing to provide three years' written notice of the retraction, provided that the Corporation continues to receive services at the same or greater average volume as those received at the time the notice was given.

General Liability Insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2023, no assessments have been made.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

17. Related party transactions:

(a) Parents and ultimate controlling party:

The common shares of Orangeville Hydro Limited are owned by the Town of Orangeville and Town of Grand Valley, the ultimate parents.

(b) Outstanding balances with related parties:

| | 2023 | 2022 |
|-----------------------------------|---------------------|------------------|
| Town of Orangeville - receivable | \$ 137,044 | \$ 98,507 |
| Town of Grand Valley - receivable | 7,686 | - |
| Town of Orangeville - payable | (860,836) | - |
| Town of Grand Valley - payable | (31,974) | - |
| | <u>\$ (748,080)</u> | <u>\$ 98,507</u> |

(c) Transactions with ultimate parents:

The Corporation provides water and sewage billing and collection services to the customers of the Town of Orangeville and Town of Grand Valley, as well as supplying street light energy and street lighting maintenance services to the Town of Orangeville and Town of Grand Valley. Revenue includes \$455,854 (2022 - \$437,854) from the Town of Orangeville and \$39,357 (2022 - \$34,172) from the Town of Grand Valley for these services.

The Corporation delivers electricity to the Town of Orangeville and Town of Grand Valley throughout the year for the electricity needs of the Towns and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The Corporation also provides additional services to the Towns, including streetlight maintenance services, sentinel lights and water and waste water billing and customer care services.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

17. Related party transactions (continued):

(d) Transactions with related parties:

The Corporation paid \$71,668 (2022 - \$58,306) in membership fees and shared GIS services to Cornerstone Hydro Electric Concepts Association Inc. (CHEC). CHEC is an association of fifteen electricity distribution utilities modeled after a cooperative to share resources and proficiencies.

The Corporation owns 100 common shares, at a cost of \$100, in Utility Collaborative Services Inc. (UCS) which represents a 10% interest. At the time of purchase, due to the immaterial amount, the investment was expensed. The Corporation paid \$211,490 (2022 - \$216,969) in fees to UCS. UCS offers standards-based back office services and the collaboration allows leverage in the reduction of costs for items such as information technology hosting and software licensing.

(e) 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. The compensation paid during the year is \$510,296 (2022 - \$491,943).

18. Financial instruments and risk management:

Fair value disclosure:

The carrying values of cash, accounts receivable, unbilled revenue, due from/to related parties and accounts payable and accrued liabilities 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 TD Bank long-term debt at December 31, 2023 is \$15,246,217. 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 4.48%.

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.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

18. Financial instruments and risk management (continued):

(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 Town of Orangeville and Town of Grand Valley.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2023 is \$35,000 (2022 - \$35,000). An impairment loss of \$39,482 (2022 - \$15,821) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2023, approximately \$189,105 (2022 - \$156,611) is considered 60 days past due. The Corporation has over 12,000 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 and through credit insurance. As at December 31, 2023, the Corporation holds security deposits in the amount of \$488,547 (2022 - \$499,914) which also includes deposits received from developers.

(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 by \$158,596 (2022 - \$149,687), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

ORANGEVILLE HYDRO LIMITED

Notes to Financial Statements (continued)

Year ended December 31, 2023

18. Financial instruments and risk management (continued):

(c) 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 \$3,500,000 credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they become due. As at December 31, 2023, the Corporation has \$2,170,709 available on this credit facility.

The Corporation also has a facility for \$1,329,291 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which \$nil has been drawn and posted with the IESO (2022 - \$nil).

The majority of accounts payable, as reported on the statement of financial position, are due within 30 days.

(d) 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 equity and long-term debt. As at December 31, 2023, equity amounts to \$13,232,667 (2022 - \$12,593,359) and long-term debt amounts to \$15,587,649 (2022 - \$16,131,608).