CONSOLIDATED FINANCIAL STATEMENTS OF

TOWN OF COBOURG HOLDINGS INC.

December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of
Town of Cobourg Holdings Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Town of Cobourg Holdings Inc., which comprise the consolidated consolidated statement of financial position as at December 31, 2023, and the consolidated statements of changes in equity and accumulated other comprehensive loss, income, comprehensive income and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT, continued

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated 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 these 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT, continued

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly KDN LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
April 22, 2024

TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2023

	2023 $	2022 $
ASSETS		
Current assets		
Cash and short-term investments (note 5)	687,983	2,995,815
Accounts receivable	3,903,378	2,995,761
Inventories	611,360	534,060
Prepaid expenses	290,166	347,878
Government remittances receivable	-	206,692
Income taxes receivable	935	-
Unbilled revenue	3,460,916	3,175,814
Current portion of due from shareholder (note 6)	66,206	56,592
Current portion of loan receivable (note 7)	2,828	2,670
	9,023,772	10,315,282
Non current		
Due from shareholder (note 6)	225,000	270,000
Loan receivable (note 7)	101,064	104,396
Property, plant and equipment (note 8)	31,532,212	27,532,323
Intangible asset (note 9)	168,014	198,562
Deferred tax asset (note 10)	172,572	110,120
	32,198,862	28,215,401
	41,222,634	38,530,683
Regulatory deferral account debit balances and related deferred tax (note 11)	2,086,859	2,848,402
	43,309,493	41,379,085

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

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TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION, continued
As at December 31, 2023

	2023 $	2022 $
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	3,027,874	4,298,570
Customer deposits refundable within one year (note 17)	46,647	46,647
Operating loan (note 13)	10,000	-
Government remittances payable	28,959	-
Income taxes payable	-	24,153
Due to related party (note 14)	5,088,012	4,507,405
Current portion of long-term debt (note 15)	419,158	378,438
	8,620,650	9,255,213
Non current		
Long-term debt (note 15)	11,745,775	11,088,975
Contributions in aid of construction (note 16)	4,672,312	4,049,705
Deferred tax liability (note 10)	965,120	766,271
Employee future benefits (note 18)	467,343	415,543
Customer deposits (note 17)	217,334	200,991
	18,067,884	16,521,485
	26,688,534	25,776,698
Shareholder's equity		
Share capital (note 19)	7,002,145	7,002,145
Retained earnings	7,572,829	7,235,101
Accumulated other comprehensive loss	(146,222)	(95,874)
	14,428,752	14,141,372
	41,117,286	39,918,070
Regulatory deferral account credit balances and related deferred tax (note 11)	2,192,207	1,461,015
	43,309,493	41,379,085

Approved on behalf of the Board

______________________ Director ______________________ Director

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

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TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE LOSS
For the year ended December 31, 2023

	Share capital $	Retained earnings $	Accumulated other comprehensive income $	Total equity $
Balance, December 31, 2021	7,002,145	6,345,311	(247,151)	13,100,305
Net income for the year	-	889,790	-	889,790
Other comprehensive income	-	-	151,277	151,277
Balance, December 31, 2022	7,002,145	7,235,101	(95,874)	14,141,372
Net income for the year	-	337,728	-	337,728
Other comprehensive loss	-	-	(50,348)	(50,348)
Balance, December 31, 2023	7,002,145	7,572,829	(146,222)	14,428,752

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

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TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2023

	2023 $	2022 $
Revenue		
Revenue (note 21)	5,176,299	4,877,655
Cost of power revenue	29,909,027	28,857,936
Contribution in aid of construction (note 16)	142,200	131,474
	35,227,526	33,867,065
Cost of power purchased	30,002,975	27,991,893
Gross profit	5,224,551	5,875,172
Other operating revenue (note 20)	783,418	718,696
Gross income from operations	6,007,969	6,593,868
Expenses		
Amortization	1,263,824	1,130,697
Operating expenses (note 22)	3,867,871	3,095,782
Gain on sale of property, plant and equipment	-	(8,000)
	5,131,695	4,218,479
Income before undernoted items and income taxes	876,274	2,375,389
Finance income (note 24)	(316,667)	(141,000)
Gain on derivatives (note 15)	(22,114)	-
Finance costs (note 24)	775,052	507,885
	436,271	366,885
Income before income taxes and net movement in regulatory deferral accounts	440,003	2,008,504
Provision for income taxes (note 10)		
Current	41,674	71,828
Deferred	154,549	180,843
	196,223	252,671
Income before net movement in regulatory deferral accounts	243,780	1,755,833
Net movement in regulatory deferral accounts	93,948	(866,043)
Net income for the year	337,728	889,790

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

TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2023

	2023 $	2022 $
Net income for the year	337,728	889,790
Other comprehensive income (loss)		
Actuarial gain (loss), net of deferred tax, not reclassified to net income	(50,348)	151,277
Total comprehensive income for the year	287,380	1,041,067

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

TOWN OF COBOURG HOLDINGS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2023

	2023 $	2022 $
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	337,728	889,790
Items not affecting cash		
Amortization of property, plant and equipment	1,233,276	1,100,150
Amortization of intangible asset	30,548	30,548
Change in deferred income taxes	154,549	180,843
Gain on sale of property, plant and equipment	-	(8,000)
Gain on derivatives	(22,114)	-
Current income tax	41,674	71,828
Net financing costs	458,385	366,884
Change in employee future benefits	(16,700)	(22,566)
Recognition of contribution in aid of construction	(142,200)	(131,474)
Change in regulatory deferral accounts	1,492,735	(154,789)
	3,567,881	2,323,214
Change in non-cash working capital items (note 23)	(1,981,104)	94,211
	1,586,777	2,417,425
Investing activities		
Purchase of property, plant and equipment	(5,233,165)	(3,436,488)
Proceeds on disposal of property, plant and equipment	-	8,000
Contribution in aid of construction received	764,807	378,206
	(4,468,358)	(3,050,282)
Financing activities		
Proceeds from (repayment of) operating loan	10,000	(220,000)
Repayments from shareholder	35,386	55,278
Advances from related party	580,607	2,361,696
Repayment of long-term debt	(780,366)	(365,372)
Proceeds of long-term debt	1,500,000	-
Repayment from loan receivable	3,174	2,521
Interest paid	(775,052)	(507,885)
	573,749	1,326,238
Increase (decrease) in cash	(2,307,832)	693,381
Cash - beginning of year	2,995,815	2,302,434
Cash - end of year	687,983	2,995,815

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

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1. NATURE OF OPERATIONS

Town of Cobourg Holdings Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) on April 12, 2000. The address of its registered office and its principal place of business is 207 Division Street, Cobourg, Ontario, K9A 3P6.

The principal activity of Lakefront Utilities Inc. (LUI) is to distribute electricity to the residents and businesses in the Town of Cobourg and Village of Colborne under licence issued by the Ontario Energy Board (OEB). LUI is regulated by the OEB and adjustments to its distribution rates require OEB approval.

Lakefront Utility Services Inc. (LUSI) is a non-regulated services company which provides services to Municipalities related to the design, operation, and maintenance of electrical and water systems.

2. STATEMENT OF COMPLIANCE

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

The financial statements for the year ended December 31, 2023 were approved and authorized for issue by the board of directors on April 22, 2024.

3. BASIS OF CONSOLIDATION

The financial statements include the assets, liabilities and operations of the Company and its wholly owned subsidiaries: Lakefront Utilities Inc. and Lakefront Utilities Services Inc. All significant intercompany transactions and balances have been eliminated on consolidation.

4. MATERIAL ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The material accounting policies are detailed as follows:

(a) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

The consolidated financial statements are presented in Canadian dollars which is also the Company’s functional currency.

4. **MATERIAL ACCOUNTING POLICIES, continued**

(b) *Electricity regulation*

LUI is licensed and regulated by the Ontario Energy Board (OEB) under the authority of the Ontario Energy Board Act, 1988. The OEB is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and ensuring that distribution companies meet their obligations to connect and service customers.

The following regulatory policy is practiced in a rate regulated environment:

Regulatory accounts

Regulatory accounts represent future revenue or expenses incurred in the current or prior periods, that are expected to be recovered (repaid) through the rate setting process.

These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. The Company continually assesses the likelihood of the recovery of regulatory assets and likelihood or repayment of regulatory liabilities. If recovery or repayment is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

Regulatory accounts recognized at December 31, 2023 and December 31, 2022 are disclosed in note 11.

(c) *Revenue recognition*

The Company recognizes revenue when it transfers control over a promised good or service, a performance obligation under the contract, to a customer and where the company is entitled to consideration as a result of completion or the performance obligation.

Service Revenue
Service revenue is measured based on the OEB approved monthly service charge and distribution volumetric charge. Service revenue also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is recognized as electricity is delivered and consumed by customers and measured.

Cost of Power Revenue
Cost of power revenue is comprised of the amounts charged by the Company to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service charged to the Company for the operation of the wholesale electricity market and grid, including commodity and global adjustment, various wholesale market settlement charges, and transmission charges.

4. **MATERIAL ACCOUNTING POLICIES, continued**

(c) *Revenue recognition, continued*

Contributions in Aid of Construction Revenue
Contributions in aid of construction represent certain items of property, plant and equipment which are acquired or constructed with financial assistance in the form of contributions from developers.

Contributions received from customers where the Company has an ongoing performance obligation to the customer are within the scope of IFRS 15. These contributions will be initially recorded at fair value recognized on a straight-line basis over the estimated life of the contract with the customers. Where contracts are perpetual, the contributed asset will be used to provide ongoing goods or services to customers and as such the estimated life of the contract with the customers is estimated to be equivalent to the economical useful life of the asset to which the contribution relates.

Contributions from developers are not within the scope of IFRS 15 as they do not give rise to a contract with a customer. Currently, there is no specific IFRS guidance on accounting for contributions received from developers. The Company has an accounting policy for the initial recognition of such contributions and subsequent recognition of the related revenue, as described in note 4(h).

Other Revenue
Other operating revenue is recorded when services are provided.

(d) *Cash and short-term investments*

Cash and short-term investments consists of balances with financial institutions and a guaranteed investment certificate.

(e) *Inventories*

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

4. **MATERIAL ACCOUNTING POLICIES, continued**

(f) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are amortized using the straight-line or declining balance method over their estimated useful lives. Assets are amortized from the date of acquisition. Internally constructed assets are amortized from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, amortization is taken at one-half of the specified rates.

The residual value, useful life and amortization method applied to each class of assets are reassessed at each reporting date.

The methods of amortization and amortization rates applicable for each class of asset are as follows:

Buildings	50 years
Equipment and vehicles	5-20 years
Distribution equipment	15 to 55 years

An impairment loss is recognized when the carrying amount of these assets is not recoverable and exceeds their fair value.

(g) *Intangible assets*

Intangible assets include computer software. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful lives of the intangibles are as follows:

Computer software	5 - 15 years straight-line

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software, (expenditure relating to patches and other minor updates as well as their installation), are expensed as incurred.

4. **MATERIAL ACCOUNTING POLICIES, continued**

(h) Contributions in aid of construction

When capital contributions in aid of construction are received toward the cost of constructing distribution assets, they are initially recorded at fair value with the corresponding amount recognized as contributions in aid of construction on the statement of income. Contributions are amortized based on the useful life of the related asset.

(i) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(j) Customer deposits

Customers may be required to post security to obtain electricity or other services, which are refundable. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported as part of the Company's own cash. Deposits to be refunded within the next fiscal year are classified as current. Interest rates paid on customer deposits are based on a chartered commercial bank's prime business rate less 2.0%.

4. **MATERIAL ACCOUNTING POLICIES, continued**

(k) Employee future benefits

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined contribution plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made.

The Company pays certain medical and life insurance benefits on behalf of its retired employees. These plans are not funded and accordingly have no plan assets. The Company's net obligation is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. This calculation is actuarially performed using the projected unit credit method. The last valuation performed was as at December 31, 2023. Service costs are recognized in the Statement of Income in operating expenses, and include current and past service costs as well as gains and losses on curtailment. Net interest expense is included in finance costs.

Details related to the post-employment benefits are detailed in Note 18.

(l) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 10.

(m) Related parties

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 14.

4. **MATERIAL ACCOUNTING POLICIES, continued**

(n) Provisions

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

Some of the Company's assets may have provision obligations. As the Company expects to use the majority of its fixed assets for an indefinite period, no removal costs can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

(o) Finance income and finance costs

Finance income comprises interest income on funds invested and gains on the disposal of financial assets. Interest income is recognized as it accrues in income, using the effective interest method.

Finance costs comprise interest expense on borrowings, net interest on employee future benefits, unwinding of the discount on provisions and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in comprehensive income using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

4. **MATERIAL ACCOUNTING POLICIES, continued**

(p) *Significant accounting estimates and judgments*

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates, judgments and assumptions include the following:

Unbilled revenue - The measurement of unbilled revenue is based on an estimate of the amount of electricity delivered to customers between the date of the last bill and the end of the year.

Useful lives of depreciable assets - Depreciation and amortization expense is based on estimates of the useful lives of property, plant and equipment and intangible assets. The Company estimates the useful lives of its property, plant and equipment and intangible assets based on management's judgment, historical experience and an asset study conducted by an independent consulting firm.

Payment in lieu of taxes payable - The Company is required to make payments in lieu of taxes calculated on the same basis as income taxes on taxable income earned. Significant judgment is required in determining the deferred liability or asset for income taxes. Changes in deferred taxes may be required due to changes in future tax rates.

Employee future benefits - The cost of providing certain health, dental and life insurance benefits on behalf of its retired employees are determined using actuarial valuations. The actuarial valuation uses managements assumptions for among other things, the discount rate, retirement age, health care costs and inflation.

Accounts receivable impairment - In determining the allowance for doubtful accounts, the Company considers the life-time expected credit losses that result from all possible default events over the expected life of the account balance.

Regulatory deferral and variance accounts - In determining the balances in the cost of power regulatory deferral and variance accounts, the Company has estimated a receivable from the IESO, impacting the balances in Accounts 1588 and 1589. Additional information is disclosed in notes 11 and 29.

4. **MATERIAL ACCOUNTING POLICIES, continued**

(q) Financial instruments

Financial assets are identified and classified based on the business model used by the Company for managing those financial assets, as one of the following: at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss. Financial liabilities are identified and classified as measured at fair value through profit or loss or at amortized cost.

Financial assets and financial liabilities are presented on a net basis when the Company has a legally enforceable right to offset the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

(i) *At amortized cost*

Cash, accounts receivable and unbilled revenue are classified as financial assets at amortized cost. These financial assets are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost when they are held for collection of cash flows, where those cash flows solely represent payments of principal and interest using the effective interest rate. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset, or a shorter period when appropriate, to the gross carrying amount of the financial asset.

The Company's accounts payable and accrued liabilities, operating loan, due to related party, customer deposits and long term debt are classified as financial liabilities at amortized cost and recognized on the date at which the Company becomes a party to the contractual arrangement. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire. Financial liabilities are initially recognized at fair value including discounts and premiums, plus directly attributable transaction costs, such as issue expenses, if any. Subsequently, these liabilities are measured at amortized cost using the effective interest rate method.

(ii) *At fair value through other comprehensive income*

Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows solely represent payments of principal and interest, are classified as financial assets at fair value through other comprehensive income. These financial assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at fair value with unrealised gains and losses recognized in other comprehensive income, except for the recognition of impairment losses, reversal of impairment losses, interest income and foreign exchange gains and losses, gain or loss previously recognized in net income. On de-recognition of the financial asset, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to net income. Interest income from these financial assets is recognized as other income using the effective interest rate method. As at December 31, 2023, the Company does not have any financial assets, classified at fair value through other comprehensive income.

4. **MATERIAL ACCOUNTING POLICIES, continued**

(q) Financial instruments, continued

(iii) *At fair value through profit or loss*

Financial instruments at fair value through profit or loss include instruments that are designated as financial instruments at fair value through profit or loss or those financial instruments that do not meet the criteria for classification under any other category. Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Changes in fair value of financial instruments measured at fair value through profit or loss are recognized in net income.

(iv) *Impairment of financial assets at amortized cost*

The policy for accounts receivable and unbilled revenue allowances is to measure at an amount equal to the life-time expected credit losses that result from all possible default events over the expected life of a financial instrument. The policy for other financial assets is at life-time expected credit loss if credit risk increased significantly, if not, then at 12-month expected loss.

(r) Change in accounting policies

The 2023 amendments required the Company to disclose their material accounting policies rather than their significant accounting policies. There were no other changes in accounting policies in 2023 that impacted the Company.

4. **MATERIAL ACCOUNTING POLICIES, continued**

(s) Standards and interpretations not yet effective or adopted

Effective for annual periods beginning on or after January 1, 2024.

IFRS 7 Financial Instruments: Disclosures
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7). The amendments add disclosure requirements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.
For annual reporting periods beginning on or after 1 January 2024.

IFRS 10 Consolidated Financial Statements
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28); incorporates Effective Date of Amendments to IFRS 10 and IAS 28. Amended to provide clarity and additional guidance on loss of control of a subsidiary.

IFRS 16 Leases
The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.
For annual reporting periods beginning on or after 1 January 2024.

IAS 1 Presentation of Financial Statements
The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. Other amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of non-current liabilities with covenants.
For annual reporting periods beginning on or after 1 January 2024.

IAS 7 Statement of Cash Flows
Amendments are for ease of reading in relation to amendments to IFRS 7 above, supplier finance arrangements. An entity shall apply the amendments for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

IAS 28 Investments in Associates and Joint Ventures
Incorporates Effective Date of Amendments to IFRS 10 and IAS 28. Amended to provide clarity and additional guidance on the sale or contribution of assets between an Investor and its associate or joint venture.

The Company is currently assessing the impact, if any, that the standards will have on the financial statements.

5. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments consists of balances with financial institutions and a guaranteed investment certificate bearing interest at 5.33%, maturing July 10, 2024.

For additional details regarding credit facilities refer to note 13.

	2023 $	2022 $
Town of Cobourg Holdings. (non consolidated)	8,337	419,916
Lakefront Utilities Inc.	246,164	351,305
Lakefront Utilities Services Inc.	(12,414)	2,224,594
Guaranteed investment certificate	445,896	-
	687,983	2,995,815

6. DUE FROM SHAREHOLDER

The amount due from shareholder of $291,206 (2022 - $326,592) relates to a project completed by the Company for the shareholder. The loan requires annual principal repayments of $45,000, bears interest at a rate of 5.4% with interest receivable of $21,206 (2022 - $11,592) and matures December 2029.

7. LOAN RECEIVABLE

The Company loaned money to a Joint Venture between Lakefront Utilities Services Inc., Elexicon Energy Inc. and Solera Sustainable Energies Company Limited. The Joint Venture undertook a solar power generation project at the property located at 739 D'Arcy Street, Cobourg, Ontario (Building 13). The property is owned by The Corporation of the Town of Cobourg. The loan is repayable in monthly principal and interest payments of $730, with an interest rate of 5.75% and matures in 2044.

	2023 $	2022 $
Loan receivable	103,892	107,066
Less principal payments due within one year	2,828	2,670
Due beyond one year	101,064	104,396

7. **LOAN RECEIVABLE, continued**

Estimated principal repayments are as follows:

	$
2024	2,828
2025	2,994
2026	3,171
2027	3,359
2028	3,557
Subsequent years	87,983
	103,892

8. **PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings $	Equipment and vehicles $	Distribution equipment $	Work in process $	Total $
Cost					
At January 1, 2023	1,378,013	2,910,384	31,038,945	1,895,559	37,222,901
Additions	11,105	542,036	5,318,213	5,380,816	11,252,170
Transfers	-	-	-	(6,019,005)	(6,019,005)
Disposals	-	(59,783)	-	-	(59,783)
At December 31, 2023	1,389,118	3,392,637	36,357,158	1,257,370	42,396,283
Accumulated amortization					
At January 1, 2023	299,438	2,200,316	7,190,824	-	9,690,578
Amortization	35,115	185,260	1,012,901	-	1,233,276
Disposals	-	(59,783)	-	-	(59,783)
At December 31, 2023	334,553	2,325,793	8,203,725	-	10,864,071
Net book amount at December 31, 2023	1,054,565	1,066,844	28,153,433	1,257,370	31,532,212

8. PROPERTY, PLANT AND EQUIPMENT, continued

	Land and buildings $	Equipment and vehicles $	Distribution equipment $	Work in process $	Total $
Cost					
At January 1, 2022	1,365,903	2,904,282	28,650,491	963,027	33,883,703
Additions	12,110	103,394	2,388,454	1,554,462	4,058,420
Transfers	-	-	-	(621,930)	(621,930)
Disposals	-	(97,292)	-	-	(97,292)
At December 31, 2022	1,378,013	2,910,384	31,038,945	1,895,559	37,222,901
Accumulated amortization					
At January 1, 2022	264,554	2,137,775	6,285,391	-	8,687,720
Amortization	34,884	159,833	905,433	-	1,100,150
Disposals	-	(97,292)	-	-	(97,292)
At December 31, 2022	299,438	2,200,316	7,190,824	-	9,690,578
Net book amount at December 31, 2022	1,078,575	710,068	23,848,121	1,895,559	27,532,323

Included in land and building is land with a cost of $219,284 (2022 - $219,284).

9. INTANGIBLE ASSET

	Cost $	Accumulated amortization $	2023 Net book value $	2022 Net book value $
Intangible asset	452,123	284,109	168,014	198,562

During the year, there were no additions (2022 - $nil) or disposals (2022 - $nil).

10. INCOME TAXES

(a) The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.5% (2022 - 39.5%) to the income for the years as follows:

	2023 $	2022 $
Income for the year	440,003	2,008,504
Net movement in regulatory deferral accounts	93,948	(866,043)
	533,951	1,142,461
Anticipated income tax	210,911	451,272
Tax effect of the following:		
Effect of items not deductible for tax	6,790	5,182
Timing income differences	100,112	(157,700)
General rate reduction	(21,971)	(35,236)
Capital costs allowance in excess of accounting amortization	(242,321)	(191,690)
Future tax expense amounts	124,549	235,385
Income tax expense	196,223	252,671
Deferred tax	154,549	180,843
Current income tax	41,674	71,828

(b) Deferred income taxes assets and liabilities are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of the underlying assets and their carrying amounts as per the financial statements are reflected as deferred income taxes. When the tax basis is greater than the carrying amount, a deferred tax asset is created and when the carrying amount is greater than the tax basis, a deferred tax liability is created. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes.

Deferred tax assets and liabilities are not expected to be recovered/paid within the next 12 months.

10. **INCOME TAXES, continued**

Deferred tax assets:

	Opening balance at January 1, 2023 $	Recognize in net income $	Recognize in OCI $	Closing balance at December 31, 2023 $
Deferred tax assets				
Employee future benefits	110,120	(4,427)	18,153	123,846
Gain on swap	-	5,595	-	5,595
Non-capital loss carryforwards	-	43,131	-	43,131
	110,120	44,299	18,153	172,572

	Opening balance at January 1, 2022 $	Recognize in net income $	Recognize in OCI $	Closing balance at December 31, 2022 $
Deferred tax assets				
Employee future benefits	170,642	(5,980)	(54,542)	110,120
Non-capital loss carryforwards	7,786	(7,786)	-	-
	178,428	(13,766)	(54,542)	110,120

Deferred tax liabilities:

	Opening balance at January 1, 2023 $	Recognize in net income $	Closing balance at December 31, 2023 $
Deferred tax liabilities			
Carrying amount of property, plant and equipment in excess of tax basis	766,271	198,849	965,120

10. **INCOME TAXES, continued**

	Opening balance at January 1, 2022 $	Recognize in net income $	Closing balance at December 31, 2022 $
Deferred tax liabilities			
Carrying amount of property, plant and equipment in excess of tax basis	599,194	167,077	766,271

11. **REGULATORY DEFERRAL ACCOUNTS**

	Note	Remaining recovery/ reversal period (years)	December 31, 2022 $	Balances arising in the period $	Recovery/ reversal $	December 31, 2023 $
Regulatory deferral account debit						
Retail settlement	iv		1,330,938	176,217	(301,767)	1,205,388
Recovery account	v		1,517,464	(1,503,175)	867,182	881,471
			2,848,402	(1,326,958)	565,415	2,086,859

	Note	Remaining recovery/ reversal period (years)	December 31, 2022 $	Balances arising in the period $	Recovery/ reversal $	December 31, 2023 $
Regulatory deferral account credit						
Cost of power	iii		1,607,198	(395,022)	-	1,212,176
Other DVA	ii		133,923	66,015	(5,897)	194,041
Low voltage	I		(280,106)	494,784	571,312	785,990
			1,461,015	165,777	565,415	2,192,207

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11. **REGULATORY DEFERRAL ACCOUNTS, continued**

i) Low voltage
This account is used to record the variances arising from low voltage transactions which are not part of the electricity wholesale market. The account is used to record the net of the amount charged by a host distributor to an embedded distributor for transmission or low voltage services and the amount billed to the embedded distributor's customers based on the embedded distributor's approved rates.

ii) Other DVA
1518 – Retail cost variance account – retail: Is used to record the revenue derived, including accruals from establishing service agreements, distributor-consolidated billing, and retailer-consolidated billing. The account also includes costs of entering into service agreements, and related contract administration, monitoring, necessary to maintain the contract, as well as incremental costs incurred to provide the services as applicable and the avoided costs credit arising from retailer-consolidated billing, including accruals.

1548 – Retail cost variance – STR: Is used to record the revenues derived, including accruals, from the Service Transaction Request services and charged by the distributor, in the form of a request fee, processing fee, information request fee, default fee, and other associated costs. The account also includes the cost of labour, internal information system maintenance costs, and delivery costs related to the provision of the services associated with the service transaction request services

1592 – PILS and Tax Savings – This account is used specifically for the purposes of tracking the impact of changes in CCA rules. Electricity distributors are to use this sub-account for the impact of the Bill C-97 CCA rule changes as well as any future CCA changes instituted by relevant regulatory or taxation bodies.

iii) Cost of power
1588 – RSVA Power: This account records the difference between the energy amount billed to customers and the energy charge to a distributor using the monthly settlement invoice received from the Independent Electricity System Operator.

1589 – RSVA Global Adjustment: This account records the difference between the global adjustment amounts billed to non-Regulated Price Plan consumers and the global adjustment charge to a distributor for non-Regulated Price Plan consumers using the monthly settlement invoiced received from the IESO.

The OEB provided an inspection report in December 2022 concerning the Company's Deferral and Variance Accounts in Group 1, which includes Accounts 1588 and 1589. The report indicated that certain items might impact the Company's payable or receivable from the IESO,and balances in Accounts 1588 and 1589. The Company is currently investigating the findings of this report. Despite these potential changes, the report's effect is expected to be immaterial to the financial statements as a whole, and does not impact the company's net income or retained earnings.
Additional details are disclosed in note 29.

11. REGULATORY DEFERRAL ACCOUNTS, continued

iv) Retail settlement
Account includes RSVA accounts 1580, 1582, 1584, and 1586, which are used to record the amount charged by the IESO, based on the settlement invoice, for: a) the operation of the IESO administered markets and the operation of the IESO-controlled grid, b) wholesale market service charges, c) transmission networks services, and d) transmission connection services and the amount billed to customers using Board-approved rates.

v) Recovery account
This control account is used to record the disposition of deferral and variance account balances for electricity distributors receiving approval to recover (or refund) account balances in rates as part of the regulatory process.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2023 $	2022 $
Accounts payable - energy purchased	2,091,636	2,765,238
Other trade accounts payable and accrued liabilities	933,479	2,016,393
Deferred revenue (receivable) - CDM Program	(26,200)	(483,061)
HST Payable	28,959	-
	3,027,874	4,298,570

13. CREDIT FACILITIES

The Company has a $8,500,000 (2022 - $8,500,000) credit facility consisting of $2,500,000 (2022 - $2,500,000) operating line, $1,500,000 (2022 - $1,500,000) stand-by letters of guarantee and $4,500,000 (2022 - $4,500,000) committed reducing term facility.

The committed reducing term facility bears interest at the bankers acceptance rate, plus stamping fee of 1.35% secured by a General Security Agreement covering substantially all of the Company's assets. At year end, the Company had drawn $2,870,322 from this line (2022 - $1,421,419). The Company has entered into a swap agreement with TD bank for the draw on the committed reducing term facility. As at December 31, 2023 the book value is representative of the fair market value of the swap.

The operating line bears interest at prime rate plus 0.5% per year and is secured by a General Security Agreement covering substantially all of the Company's assets. At year end, the Company had drawn $10,000 from this line (2022 - $0). The bank agreements require the Company to maintain certain financial covenants. At December 31, 2023, the Company was in compliance with the financial covenants.

The Company has posted $1,500,000 (2022 - $1,500,000) in stand-by letters of guarantee with the Independent Electricity System Operator, as required by regulation. The facility bears interest at 0.75% per annum.

14. DUE TO RELATED PARTY AND RELATED PARTY TRANSACTIONS

(a) The Corporation of the Town of Cobourg is the majority shareholder of the Company with the Township of Cramahe, Town of Colborne owning one share. Related party transactions are in the normal course of operations and are measured at the exchange value being the amount of consideration established and agreed to by both parties.

The Company provides water and sewage billing and collection services to the customers of the Corporation of the Town of Cobourg, and the Hamlet of Grafton. During the year, the Company collected revenues of $30,000 (2022 - $30,000) from the Town of Cobourg and paid expenses of $100,255 (2022 - $49,584) and interest of $244,296 (2022 - $244,300) as detailed in Note 15.

The Company also has a promissory note receivable in the amount of $270,000 (2022- $315,000) with interest receivable of $21,206 (2022 - $11,592) from the shareholder as described in note 7.

At year-end, included in accounts payable is nil (2022 - $10,727) due to the Town of Cobourg

The Company is also engaged in transactions in the normal course of operations with the Waterworks of the Town of Cobourg (Waterworks). The parties are related due to common control. During the year, the Company collected rent recoveries of $28,687 (2022 - $56,249) from Waterworks.

The key management personnel of the Company has been identified as members of its board of directors and management team members. Total wages and benefits to these individuals total $464,706 (2022 - $537,475).

(b) Due to related party

	2023 $	2022 $
Waterworks of the Town of Cobourg	5,088,012	4,507,405

15. LONG-TERM DEBT

	2023 $	2022 $
Bank loan, 3.22% per annum blended repayments of $5,574 monthly, due February 29, 2030.	378,110	427,417
Infrastructure Ontario Loan, 3.90% fixed rate per annum, blended repayments of $5,520 monthly, due December 3, 2048	1,056,817	1,081,322
Infrastructure Ontario Loan, 4.03% fixed rate per annum, blended repayments of $82,668 semi-annually, due September 3, 2028	741,990	873,430
Infrastructure Ontario Loan, 3.38% fixed rate per annum, blended repayments of $72,708 semi-annually, due October 1, 2027	539,808	663,825
Demand note payable, Corporation of Town of Cobourg, 3.49% per annum	6,600,000	7,000,000
Bank loan payable, 2.74% fixed rate, payable in blended monthly payments of $6,912	1,442,510	1,421,419
Bank loan payable, 5.98% fixed rate, payable in blended monthly payments of $9,649	1,405,698	-
	12,164,933	11,467,413
Less principal payments due within one year	419,158	378,438
Due beyond one year	11,745,775	11,088,975

The note payable is unsecured and payable on demand. The note has been classified as a long-term liability as the Town has confirmed that they will not demand repayment prior to January 1, 2025. During the year the Company paid $244,296 (2022- $244,300) in interest on the note.
The interest rate with the Town of Cobourg is 3.49% per annum based on the OEB's deemed long-term debt rate.

15. LONG-TERM DEBT, continued

The estimated principal repayments for 2024-2028 and subsequent years are related to the Company's loans with Infrastructure Ontario,TD Bank, and the Town of Cobourg. Also included in principal repayments is $22,114 for the mark to market value of this interest rate swaps. Estimated principal repayments are as follows:

	$
2024	419,158
2025	434,870
2026	1,752,489
2027	418,451
2028	1,540,131
Subsequent years	7,599,834
	12,164,933

16. CONTRIBUTION IN AID OF CONSTRUCTION

The continuity of deferred customer contributions in aid of construction is as follows:

	2023 $	2022 $
Deferred contributions, net, beginning of year	4,049,705	3,802,973
Contributions in aid of construction received	764,807	378,206
Contributions in aid of construction recognized as revenue	(142,200)	(131,474)
	4,672,312	4,049,705

17. 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 demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

18. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by actuarial valuation. The most recent valuation was performed for the year ended December 31, 2023.

Information about the Company's defined benefit plan is as follows:

	2023 $	2022 $
Accrued benefit obligation, beginning of period	415,543	643,928
Current service cost	14,600	25,940
Interest on accrued benefit obligation	19,700	16,508
Benefits paid	(51,000)	(65,014)
Actuarial (gain) loss	68,500	(205,819)
	467,343	415,543

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial gains (loss) arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is $51,000 (2022 - $65,014).

The actuarial assumptions used in the valuation are the discount rate of 5.65% (2022 - 5.05%), salary increase rate of 3.3% per annum for the first 5 years, and 2.5% per annum going forward (rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion and for Company specific information) (2022 - 2%), cost trends include both health and dental benefits 4.2% (2022 health benefit - 4.9% and dental benefits 5.10%) and retirement age of 60 (2022 - 60).

The impact of a change in the actuarial assumptions would have the following impact on the obligation:

	Reasonable possible change $	Defined benefit obligation change $	Difference $	Difference $
Discount rate	1	424,500	(42,900)	(9)
Discount rate	(1)	520,900	53,600	11
Cost trend	1	484,500	17,200	4
Cost trend	(1)	452,500	(14,900)	(3)

19. SHARE CAPITAL

Authorized

Unlimited number of common shares
number of common shares

Issued

	2023 $	2022 $
Common shares	7,002,145	7,002,145

20. OTHER OPERATING REVENUE

	2023 $	2022 $
Rentals	146,679	142,007
Miscellaneous	50,805	73,691
External services	413,114	346,368
Feed-in-tariff invoicing	2,129	2,129
Net recoverable work	140,691	124,501
Sewer billing	30,000	30,000
	783,418	718,696

21. REVENUE

	2023 $	2022 $
Commercial revenue	174,204	70,815
Distribution revenue	5,002,095	4,806,840
	5,176,299	4,877,655

22. OPERATING EXPENSES

	2023 $	2022 $
Customer billing and collecting	547,929	526,832
Distribution	1,042,450	874,138
General and administration	2,277,492	1,694,812
	3,867,871	3,095,782

23. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2023 $	2022 $
Increase in accounts receivable	(907,617)	(92,489)
Increase in inventories	(77,300)	(77,563)
Decrease in prepaid expenses	57,712	32,700
Decrease (increase) in government remittances receivable	206,692	(58,794)
Increase in unbilled revenue	(285,102)	(281,732)
Increase (decrease) in accounts payable and accrued liabilities	(1,270,696)	451,827
Increase in government remittances payable	28,959	-
Increase (decrease) in deposits held	16,343	(2,085)
Income taxes paid	(66,762)	(18,653)
Interest received	316,667	141,000
	(1,981,104)	94,211

24. FINANCE INCOME COSTS

Finance income, recognized in net income consists of the following:

	2023 $	2022 $
Interest income on accounts receivable	26,106	25,209
Interest income on bank deposits	263,045	62,955
Interest income on regulatory deferral accounts	7,034	46,600
Interest on loans receivable	6,078	6,236
Interest on investments	14,404	-
	316,667	141,000

Finance costs, recognized in net income consist of the following:

	2023 $	2022 $
Interest on long term debt	407,614	408,671
Interest cost on regulatory deferral accounts	134,283	41,091
Other interest	27,315	38,694
Interest on employee future benefits	19,700	16,508
Interest on due to related party balance	130,437	-
Interest on short term debt	55,703	2,921
	775,052	507,885

25. PENSION AGREEMENT

Certain employees of the Company are eligible members of the Ontario Municipal Employees Retirement System (OMERS), a multi-employer pension plan.

The Actuarial Opinion contained in the 2023 Annual Report disclosed total actuarial liabilities of $136,185 million in respect of benefits accrued for service with actuarial assets of $131,983 million indicating an actuarial deficit of $4,202 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Municipality does not recognize any share of the OMERS pension surplus or deficit.

The amount that the Company contributed to O.M.E.R.S. for the year ended was $139,686 (2022 - $141,778).

26. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as outlined in the Shareholder Agreement between the Company's shareholder, Town of Cobourg Holdings Inc. and its shareholder, the Corporation of the Town of Cobourg. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

The Ontario Energy Board sets rates based on a deemed capital structure of 60% debt and 40% equity.

The Company's current capital structure is defined as follows:

	2023 $	2022 $
Infrastructure Ontario and bank loans	6,564,933	4,467,413
Operating loans	10,000	-
Net debt	6,574,933	4,467,413
Retained earnings and OCI	7,426,607	7,139,227
Share capital	7,002,145	7,002,145
Adjusted capital	14,428,752	14,141,372
Debt-to-adjusted capital ratio	0.46	0.32

27. FINANCIAL INSTRUMENTS

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

27. FINANCIAL INSTRUMENTS, continued

(a) Fair value

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arms' length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, operating loan and customer deposits, approximate their carrying values due to the relatively short-term nature of the instruments and/or floating interest rates on the instruments.

Financial instruments which are disclosed at fair value are to be classified using a three-level hierarchy. Each level reflects the inputs used to measure the fair values disclosed of the
financial liabilities, and are as follows:

i. Level 1: Inputs are unadjusted quoted prices of identical instruments in active markets;
ii. Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and,
iii. Level 3: Inputs for the liabilities that are not based on observable market data (unobservable inputs).
The Company's fair value hierarchy is classified as Level 2 for long-term debt and the bank loan payable interest rate swap.

The estimated fair values of long-term debt approximate carrying values due to the fact that effective interest rates are not significantly different from market rates. The company has entered into a interest rate swap agreement for its bank loan payable. As at December 31st, 2023 the carrying value of the swap is not significantly different from its fair market value.

(b) Interest rate risk

The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings. The fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Company is also exposed to interest rate price risk to the extent that the bank loan bears interest at a fixed rate and has entered into an interest rate swap arrangement to manage the impact of fluctuating interest rates on bank loan payable. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based.

27. **FINANCIAL INSTRUMENTS, continued**

(c) Credit risk

The Company does have credit risk in the financial assets detailed in the following chart. Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The Company reduces its exposure to credit risk by performing credit valuations on a regular basis; granting credit upon a review of the credit history of the applicant and creating an allowance for bad debts $39,816 (2022 - $20,000) when applicable. The Company maintains strict credit policies and limits in respect to counterparties. In the opinion of management the credit risk exposure to the Company is low and is not material.
Expected settlement dates of financial assets recognized in the financial statements as at December 31, 2023 are presented below.

	Accounts receivable and recoverable work (allowance for doubtful accounts) $	Unbilled revenue $	Short term investment and note receivable $	Loan receivable from Town of Cobourg $
0-3 Months	3,439,724	3,460,916	692	66,206
4-6 Months	503,470	-	702	-
7-9 Months	-	-	446,608	-
9-12 Months	-	-	722	-
12+ Months	(39,816)	-	101,064	225,000
	3,903,378	3,460,916	549,788	291,206

(d) Liquidity risk

The Company does have a liquidity risk in the financial liabilities detailed in the following chart. Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company is low and is not material.
Expected settlement dates of financial liabilities recognized in the financial statements as at December 31, 2023 are presented below.

27. FINANCIAL INSTRUMENTS, continued

	Accounts payable and accrued liabilities $	Customer deposits $	Long term debt and bank indebtedness $	Due to Waterworks of the Town of Cobourg $
0-3 Months	2,838,846	3,744	115,662	-
4-6 Months	135,305	2,324	101,976	-
7-9 Months	53,723	5,353	107,822	-
10-12 Months	-	35,226	103,698	-
12+ Months	-	217,334	11,745,775	5,088,012
	3,027,874	263,981	12,174,933	5,088,012

28. CONTINGENCIES

The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

29. MEASUREMENT UNCERTAINTY

These financial statements include an amount payable to the IESO of $116,542. This amount is based on reconciliations completed to date for past filings with the IESO. The ultimate realization of this amount is dependent upon the result of internal audits to be undertaken by the Company, as well as review and approval from the IESO, accordingly, there is uncertainty as to the amount to be recovered.

Differences that may arise due to this uncertainty will change the balances in Accounts 1588 and 1589 which could result in an increase or decrease to current accounts payable or receivable, with a corresponding increase or decrease in regulatory deferral accounts. The impact, if any, is not expected to impact the company's net income, comprehensive income or retained earnings.

Additional details are disclosed in note 11

30. COMPARATIVE AMOUNTS

The consolidated financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.