Consolidated Financial Statements of

NIAGARA POWER INCORPORATED

And Independent Auditor's Report thereon

Year ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Niagara Power Incorporated

Opinion

We have audited the consolidated financial statements of Niagara Power Incorporated ("the Entity"), which comprise:

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

(Hereinafter referred to as the "financial statements")

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards ("IFRS") 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 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.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

July 22, 2024

NIAGARA POWER INCORPORATED

Consolidated Statement of Financial Position

As at December 31, 2023, with comparative information for 2022

	Notes	2023	2022
Assets			
Current assets			
Cash and cash equivalents		$ 308,290	$ 300,628
Accounts receivable	4	1,921,308	1,896,498
Unbilled revenue		2,744,233	2,629,326
Inventory	5	1,573,398	1,050,912
Prepaid expenses		467,417	478,829
Total current assets		7,014,646	6,356,193
Non-current assets			
Property, plant and equipment	6	33,084,999	31,602,416
Intangible assets	7	101,351	79,675
Deferred tax assets	9	1,383,366	1,624,549
Other capital assets	6	712,453	567,629
Total non-current assets		35,282,169	33,874,269
Total assets		42,296,815	40,230,462
Regulatory balances	10	1,372,104	2,256,297
Regulatory balances – income tax	10	1,943,115	1,213,695
Total regulatory balances		3,315,219	3,469,992
Total assets and regulatory balances		$ 45,612,034	$ 43,700,454

NIAGARA POWER INCORPORATED

Consolidated Statement of Financial Position (continued)

As at December 31, 2023, with comparative information for 2022

	Notes	2023	2022
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities	11	$ 4,991,250	$ 4,339,664
Line of credit	12	1,500,000	2,070,000
Due to related parties	18	41,417	139,085
Customer deposits		74,567	149,897
Long-term debt due within one year	12	723,751	678,720
Total current liabilities		7,330,985	7,377,366
Non-current liabilities			
Developers' deposits		1,110,313	1,105,794
Deferred tax liabilities	9	3,035,013	3,072,873
Deferred revenue	8	5,130,117	4,842,089
Other long-term liabilities		157,834	100,747
Long-term debt	12	13,311,103	13,097,421
Total non-current liabilities		22,744,380	22,218,924
Total liabilities		30,075,365	29,596,290
Equity			
Share capital	13	8,362,570	8,362,570
Contributed capital		70,721	70,721
Retained earnings		6,059,584	5,192,034
Total equity		14,492,875	13,625,325
Total liabilities and shareholders' equity		44,568,240	43,221,615
Regulatory balances	10	528,870	157,212
Regulatory balances – income tax	10	514,924	321,627
Total regulatory balances		1,043,794	478,839
Commitments and contingencies	16		
Total liabilities, equity and regulatory balances		**$** 45,612,034	$ 43,700,454

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

____________________________ Director ____________________________ Director

NIAGARA POWER INCORPORATED

Consolidated Statement of Comprehensive Income

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

	Notes	2023	2022
Revenue:			
Sale of energy		$ 32,267,565	$ 31,880,148
Distribution revenue		6,410,429	6,103,557
Other		496,259	395,234
	14	39,174,253	38,378,939
Operating expenses:			
Distribution - operations		1,123,101	979,662
Distribution - maintenance		491,500	596,917
Billing and collecting		810,548	652,755
Administration and general		1,767,341	1,750,987
Property taxes		41,246	40,456
Depreciation and amortization	6, 7	1,397,944	1,321,904
Other deductions		11,777	11,487
		5,643,457	5,354,168
Cost of power purchased		30,912,452	32,226,732
Total expenses		36,555,909	37,580,900
Income from operating activities		2,618,344	798,039
Net finance costs	15	(626,739)	(441,937)
Income before income taxes		1,991,605	356,102
Income tax expense	9	204,327	217,578
Net income for the year		1,787,278	138,524
Net movement in regulatory balances	10	(1,255,851)	585,272
Tax recovery on net movement	10	536,123	76,118
		(719,728)	661,390
Net income and net movement in regulatory balances, being total comprehensive income		$ 1,067,550	$ 799,914

See accompanying notes to the consolidated financial statements.

NIAGARA POWER INCORPORATED

Consolidated Statement of Changes in Equity

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

	Share Capital	Contributed surplus	Retained earnings	Total
Balance at January 1, 2022	$ 8,362,570	$ 70,721	$ 4,592,120	$13,025,411
Net income and net movement in regulatory balance	–	–	799,914	799,914
Dividends	–	–	(200,000)	(200,000)
Balance at December 31, 2022	$ 8,362,570	$ 70,721	$ 5,192,034	$13,625,325
Balance at January 1, 2023	$ 8,362,570	$ 70,721	$ 5,192,034	$13,625,325
Net income and net movement in regulatory balance	–	–	1,067,550	1,067,550
Dividends	–	–	(200,000)	(200,000)
Balance at December 31, 2023	$ 8,362,570	$ 70,721	$ 6,059,584	$14,492,875

See accompanying notes to the consolidated financial statements.

NIAGARA POWER INCORPORATED

Consolidated Statement of Cash Flows

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

	Notes	2023	2022
Operating activities:			
Net income and net movement in regulatory balances		$ 1,067,550	$ 799,914
Adjustments for:			
Depreciation and amortization		1,397,944	1,321,904
Amortization of deferred revenue		(172,468)	(164,804)
Deferred taxes		203,323	217,578
Finance costs		626,739	441,937
		3,123,088	2,616,529
Changes in non-cash operating working capital:			
Accounts receivable		(24,810)	(30,457)
Unbilled revenue		(114,907)	(25,308)
Inventory		(522,486)	(175,592)
Prepaid expenses		11,412	(34,363)
Accounts payable and accrued liabilities		651,586	(379,743)
Due to related parties		(97,668)	90,251
Customer and developer deposits		(70,811)	(33,263)
Other long-term liabilities		57,087	20,115
		(110,597)	(568,360)
Regulatory balances		719,728	(661,390)
Contributions received from customers		460,496	94,502
Interest paid		(626,739)	(448,917)
Interest received		–	6,980
Net cash from operating activities		3,565,976	1,039,344
Investing activities:			
Purchase of property, plant and equipment		(2,990,715)	(2,148,606)
Purchase of intangibles		(56,312)	(31,502)
Net cash used by investing activities		(3,047,027)	(2,180,108)
Financing activities:			
(Repayment) advance of line of credit		(570,000)	1,950,000
Repayment of long-term debt		(741,287)	(660,790)
Proceeds from long-term debt		1,000,000	–
Dividends paid		(200,000)	(200,000)
Net cash from financing activities		(511,287)	1,089,210
Change in cash and cash equivalents		7,662	(51,554)
Cash and cash equivalents, beginning of year		300,628	352,182
Cash and cash equivalents, end of year		$ 308,290	$ 300,628

See accompanying notes to the consolidated financial statements.

1. Reporting entity:

Niagara Power Incorporated (the “Corporation"), is incorporated under the laws of Ontario and is owned 90% by The Corporation of the Town of Grimsby and 10% by FortisOntario Inc. The Corporation is an investment holding company with 100% common share interest in Grimsby Power Incorporated. The Corporation’s head office is located at 231 Roberts Road, Grimsby, Ontario, L3M 5N2.

The Corporation, through its wholly owned subsidiary, Grimsby Power Incorporated, delivers electricity within the Town of Grimsby and provides energy and infrastructure services to residential and commercial customers primarily within Ontario. The distribution of electricity within the Town of Grimsby is under license and regulations issued by the Ontario Energy Board (OEB). Changes to rates and terms of operations require OEB approval.

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

2. Basis of presentation:

(a) Statement of compliance:

The Corporation's consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") adopted by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were approved by the Board of Directors on July 22, 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:

(i) Assumptions and estimation uncertainty:

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.

2. Basis of presentation (continued):

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

(i) Assumptions and estimation uncertainty (continued):

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.

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

- Notes 3 (e), (f), (g), 6 and 7 - estimation of useful lives of its property, plant and equipment and intangible assets and impairment tests on related long-lived assets;
- Notes 3 (j) and 10 - recognition and measurement of regulatory balances;
- Note 3 (i), 16 - recognition and measurement of provisions and contingencies.

(ii) Judgments:

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

- Note 3 (k) - leases: whether an arrangement contains a lease;
- Note 3 (c) - determination of the performance obligation for contributions from customers and the related amortization period; and
- Notes 3 (j) and 10 - recognition of regulatory balances.

(e) Rate regulation:

The Corporation’s subsidiary 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.

The OEB has a decision and order in place banning LDCs in Ontario from disconnecting homes for non-payment during the winter. This ban is in place from November 15 to April 30 each year.

2. Basis of presentation (continued):

(e) Rate regulation (continued):

(i) Distribution rates:

The Corporation is required to file a "Cost of Service" ("COS") rate application every five years, unless approved for a deferral, under which the OEB establishes the revenues required to recover the forecasted operating costs, including amortization and income taxes, of providing the regulated electricity distribution service and providing a fair return on the Corporation's rate base. The Corporation estimates electricity usage and the costs to service each customer class in order to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and any registered interveners. Rates are approved based upon the review of evidence and information, including any revisions resulting from that review.

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

On July 30, 2021, the Corporation submitted a COS rate application to the OEB seeking approval to change distribution rates effective January 1, 2022. On January 13, 2022 the OEB issued its Decision and Order approving electricity distribution rates and other charges effective January 1, 2022.

The Corporation filed an application with the OEB on August 3, 2022 for rates pursuant to the OEB's Price CAP IR framework for electricity rates effective January 1, 2023. On December 8, 2022, the OEB issued its Decision and Order approving electricity distribution rates and other charges effective January 1, 2023.

The Corporation filed an application with the OEB on August 17, 2023 for rates pursuant to the OEB's Price CAP IR framework for electricity rates effective January 1, 2024. On December 14, 2023, the OEB issued its Decision and Order approving electricity distribution rates and other charges effective January 1, 2024.

2. Basis of presentation (continued):

(e) Rate regulation (continued):

(ii) Electricity rates:

The OEB sets Ontario electricity prices for low-volume consumers twice each year (May and November) based on an estimate of how much it will cost to supply the province with electricity for the next year. In 2017, the OEB set new lower Regulated Price Plan (RPP) prices established under the *Ontario Fair Hydro Act, 2017*.

On May 9, 2019, the Government of Ontario enacted Bill 87, the *Fixing the Hydro Mess Act, 2019*. The legislation amended the *Ontario Rebate for Electricity Consumers Act, 2016*, and *the Ontario Fair Hydro Plan Act, 2017*.

Effective November 1, 2019, the OEB set electricity prices under the RPP based on the estimated cost to supply the province with electricity. The Ministry of Energy, Northern Development and Mines set the amount of the rebate under the *Ontario Rebate for Electricity Consumers Act, 2016* such that the monthly bill for a typical customer increased by the rate of inflation.

In 2020, the OEB also adjusted the Regulated Price Plan (RPP) prices in March and June in response to the Government issued Emergency Orders under the *Emergency Management and Civil Protection Act* to assist Ontarians who were forced to stay home due to the COVID-19 pandemic. Throughout 2021 and into January 2022, the OEB continued to amend RPP prices as necessary due to the ongoing COVID-19 pandemic, including foregoing the RPP semi-annual price increase for November 1, 2021. Effective January 1, 2022, the OEB implemented an annual RPP price increase effective November 1st of each year. This directive replaced the previous semi-annual price increase structure of May 1st and November 1st. RPP prices were amended for all customers under RPP pricing effective November 1, 2023.

All remaining consumers pay the market price for electricity.

The Corporation is billed for the cost of the electricity that its customers use by the Independent Electricity System Operator (IESO) and passes this cost on to the customer at cost without a mark-up.

2. Basis of presentation (continued):

(e) Rate regulation (continued):

(iii) Retail transmission rates:

These are the costs of delivering electricity from generating stations across the Province to local distribution networks. These charges include the costs to build and maintain the transmission lines, towers and poles and operate provincial transmission systems. Retail transmission rates are passed through to the operators of transmission networks and facilities.

(iv) Wholesale market service rates:

These are the costs of administering the wholesale electricity system and maintaining the reliability of the provincial grid and include the costs associated with funding Ministry of Energy conservation and renewable energy programs. The Corporation is billed for the cost of the wholesale electricity system by the Independent Electricity System Operator and passes this cost on to the customer at cost without a mark-up.

3. Material accounting policies:

These consolidated financial statements have been prepared on a going concern basis. The material accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all of the years presented.

The Corporation adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) effective January 1, 2023. These amendments require disclosure of material rather than significant accounting policies. The amendments provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information. The amendments did not have a material impact on the Corporation’s consolidated financial statements.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Corporation’s wholly owned subsidiary, Grimsby Power Incorporated.

Subsidiaries are entities controlled by the Corporation. The financial statements of the subsidiary are included in these consolidated financial statements from the date on which control commences until the date on which control ceases. All inter-company accounts and transactions have been eliminated.

(b) Financial instruments:

All financial assets and all financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(g).

The Corporation does not enter into derivative instruments. Hedge accounting has not been used in the preparation of these financial statements.

3. Material accounting policies (continued):

(c) 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 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.

3. Material accounting policies (continued):

(c) Revenue recognition (continued):

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 Conservation and Demand Management ("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.

(d) 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 weighted 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.

(e) Property, plant and equipment:

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the date of transition to IFRS, 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, 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 actual cost of debt incurred on the Corporation's borrowings. Qualifying assets are considered to be those that take in excess of six months to construct.

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.

3. Material accounting policies (continued):

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

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:

	Years
General plant	3 to 50
Distribution plant	10 to 60

(f) Intangible assets:

Intangible assets used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the date of transition to IFRS, less accumulated amortization. All other intangible assets are measured at cost.

Computer software that is acquired or developed by the Corporation after January 1, 2014, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

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:

	Years
Computer software	5

3. Material accounting policies (continued):

(g) 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 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.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

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. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a prorated basis, if applicable.

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

For the regulated business, the carrying costs of most of the Corporation's non-financial assets are included in rate base (the aggregate of approved investment in PP&E and intangible assets, excluding construction in progress, less accumulated depreciation and amortization and unamortized capital contributions from customers, plus an allowance for working capital) where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable.

3. Material accounting policies (continued):

(h) Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills and deposits. Interest is paid on customer deposits. Developer deposits are also received for planned chargeable work. No interest is paid on these 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.

(i) 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.

(j) Regulatory balances:

The Corporation elected to apply the requirements of IFRS 14, effective December 31, 2015.

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 other comprehensive income ("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.

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. When the amounts are returned to the customer at rates approved by the OEB the amounts are recognized as a reduction of revenue.

3. Material accounting policies (continued):

(j) Regulatory balances (continued):

The probability of recovery of the regulatory deferral account debit 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.

(k) Leased assets:

At inception of a contract, the Corporation assess whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Corporation with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. 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 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.

3. Material accounting policies (continued):

(k) Leased assets (continued):

The Corporation has elected not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less or for 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 bank charges. Finance costs are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

(m) Post-employment benefits:

The Corporation provides a pension plan for some of its full-time employees through Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan that provides pensions for employees of Ontario municipalities, local boards and public utilities. OMERS is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by investment earnings. To the extent that the plan 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.

(n) 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 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. Payments in lieu of taxes and payments under the Tax Acts are collectively referred to as income taxes.

3. Material accounting policies (continued):

(n) Income taxes (continued):

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.

4. Accounts receivable:

	2023	2022
Customer accounts receivable	$ 1,709,303	$ 1,800,350
Other receivables	218,505	102,648
	1,927,808	1,902,998
Less: loss allowance	(6,500)	(6,500)
	$ 1,921,308	$ 1,896,498

5. Inventory:

The amount of inventory consumed by the Corporation and recognized as an expense during the year was $66,650 (2022 - $63,958). Inventory consumed consists primarily of parts used for repairs in the field.

6. Property, plant and equipment:

	General Plant	Distribution Plant	Total
Cost or deemed cost			
Balance, January 1, 2023	$ 5,240,623	$ 39,811,623	$ 45,052,246
Additions	227,293	2,717,302	2,944,595
Disposals	–	–	–
Balance, December 31, 2023	$ 5,467,916	$ 42,528,925	$ 47,996,841
Balance, January 1, 2022	$ 5,139,116	$ 37,960,046	$ 43,099,162
Additions	101,507	1,851,577	1,953,084
Disposals	–	–	–
Balance, December 31, 2022	$ 5,240,623	$ 39,811,623	$ 45,052,246
Accumulated Depreciation			
Balance, January 1, 2023	$ 2,145,075	$ 11,304,755	$ 13,449,830
Depreciation	260,493	1,201,519	1,462,012
Disposals/retirements	–	–	–
Balance, December 31, 2023	$ 2,405,568	$ 12,506,274	$ 14,911,842
Balance, January 1, 2022	$ 1,888,430	$ 10,163,823	$ 12,052,253
Depreciation	256,645	1,140,932	1,397,577
Disposals/retirements	–	–	–
Balance, December 31, 2022	$ 2,145,075	$ 11,304,755	$ 13,449,830
Carrying amounts			
December 31, 2023	$ 3,062,348	$ 30,022,651	$ 33,084,999
December 31, 2022	$ 3,095,548	$ 28,506,868	$ 31,602,416

At December 31, 2023, property plant and equipment with a carrying amount of $33,084,999 (2022 - $31,602,416) are subject to a general security agreement.

There were borrowing costs of $55,338 (2021 - $50,700) capitalized as part of the cost of property, plant and equipment in 2023. During the year, $98,704 (2022 - $96,575) of depreciation was capitalized during the year. As at December 31, 2023, $712,453 (2022 - $567,629) has been recognized as construction-in-progress and not yet placed into service. During the year, $nil (2022 - $nil) was disposed of from construction-in-progress and recognized in profit or loss.

7. Intangible assets:

		Computer software
Cost or deemed cost		
Balance, January 1, 2023	$	943,049
Additions		56,312
Disposals		–
Balance, December 31, 2023	$	999,361
Balance, January 1, 2022	$	911,547
Additions		31,502
Disposals		–
Balance, December 31, 2022	$	943,049
Accumulated amortization		
Balance, January 1, 2023	$	863,374
Amortization		34,636
Disposals		–
Balance, December 31, 2023	$	898,010
Balance, January 1, 2022	$	842,472
Amortization		20,902
Disposals		–
Balance, December 31, 2022	$	863,374
Carrying amounts		
December 31, 2023	$	101,351
December 31, 2022	$	79,675

8. Deferred revenue:

	2023	2022
Balance, beginning of year	$ 4,842,089	$ 4,912,391
Additions	460,496	94,502
Amortization	(172,468)	(164,804)
Balance, end of year	$ 5,130,117	$ 4,842,089

Deferred revenue relates to capital contributions received from developers and customers and others. The amount of deferred revenue received from customers is $5,130,117 (2022 - $4,842,089). Deferred revenue is recognized as revenue on a straight-line basis over the life of the related asset for which the contribution was received.

9. Income tax expense:

Current tax expense

	2023	2022
Current year	$ 1,005	$ –

Deferred tax expense

	2023	2022
Origination and reversal of temporary differences	$ 203,322	$ 217,578

9. Income tax expense (continued):

Reconciliation of effective tax rate

	2023	2022
Income before taxes	$ 1,991,605	$ 356,102
Canada and Ontario statutory Income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	$ 527,775	$ 94,367
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	492	675
Adjustment for prior years	(2,930)	(43,924)
Regulatory movement	(332,800)	155,097
Other	11,790	11,363
Income tax expense	$ 204,327	$ 217,578

Components of the Corporation’s deferred tax balances:

	2023	2022
Deferred tax assets:		
Non-capital losses	$ –	$ 296,390
Deferred revenue	1,359,481	1,283,154
Other tax reserves	23,885	45,005
	$ 1,383,366	$ 1,624,549

	2023	2022
Deferred tax liabilities:		
Property, plant, equipment and intangibles	$ (2,811,556)	$ (2,516,616)
Regulatory liabilities	(223,457)	(556,257)
	$ (3,035,013)	$ (3,072,873)

10. Regulatory balances:

The Corporation has determined that certain debit and credit balances arising from rate–regulated activities qualify for regulatory accounting treatment in accordance with IFRS 14 and the OEB’s prescribed accounting procedures for electricity distributors. The regulatory balances are comprised of regulatory debit variances of $2,585,799 (2022 - $3,469,992) and regulatory credit balances for $850,497 (2022 - $478,839) for a net regulatory asset of $1,735,302 (2022 - $2,991,153).

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers’ Acceptances three-month rate plus a spread of 25 basis points, with the exception of the tax balances. In 2023, the rate ranged from 4.73% to 5.49%.

The regulatory balances for the Corporation consist of the following:

(a) Settlement variance:

This account includes the variances between amounts charged by the Corporation, based on regulated rates, and the corresponding cost of electricity and non–competitive electricity service costs incurred by the Corporation such as commodity charges, retail transmission rates and wholesale market services charges. The Corporation has deferred the variances and related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. This account also includes variances between the amounts approved for disposition by the OEB and the amounts collected or paid through OEB approved rate riders.

Settlement variances are reviewed annually as part of a COS or IRM application submitted to the OEB and a request for disposition is made if the aggregate of the settlement accounts exceeds the OEB’s prescribed materiality level.

In the Corporation's 2023 IRM application, submitted in 2022, Grimsby Power obtained approval for the disposition of the 2020 audited balances as they met the OEB's prescribed materiality level. The OEB authorized the Corporation to dispose of a net debit balance of $1,053,283 through rate riders over a one-year period that took effect January 1, 2023.

(b) Income taxes:

The customer asset/liability for deferred taxes variance account relates to the expected regulatory asset or liability relating to deferred taxes arising from timing differences in the determination of income taxes as well as CCA acceleration.

(c) Lost revenue adjustment mechanism:

This deferral account includes the lost revenue adjustment variances in relation to the conservation and demand management (“CDM”) programs or activities undertaken by the Corporation in accordance with OEB prescribed requirements (e.g. licence, codes and guidelines).

10. Regulatory balances (continued):

(d) Other:

This deferral account includes the allowable costs associated with cost assessments, retail charges and other miscellaneous regulatory accounts.

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

Regulatory deferral account debit balances	January 1, 2023	Additions/ transfers	Recovery/ reversal	December 31, 2023	Remaining years
Settlement variances	$ 2,197,130	$ 2,023,892	$(2,924,328)	$ 1,296,694	1
Lost revenue adjustment mechanism	22,646	720	(23,366)	–	1
Other regulatory accounts	36,521	38,889	–	75,410	1
Income tax	1,213,695	729,420	–	1,943,115	Note 1
	$ 3,469,992	$ 2,792,921	$(2,947,694)	$ 3,315,219	

Regulatory deferral account debit balances	January 1, 2022	Additions/ transfers	Recovery/ reversal	December 31, 2022	Remaining years
Settlement variances	$ 1,777,873	$ 1,987,572	$(1,568,315)	$ 2,197,130	1
Lost revenue adjustment mechanism	106,221	22,212	(105,787)	22,646	1
Other regulatory accounts	33,707	36,521	(33,707)	36,521	1
Income tax	1,110,134	103,561	–	1,213,695	Note 1
	$ 3,027,935	$ 2,149,866	$(1,707,809)	$ 3,469,992	

10. Regulatory balances (continued):

(d) Other (continued):

Regulatory deferral account credit balances	January 1, 2023	Additions/ transfers	Recovery/ reversal	December 31, 2023	Remaining years
Settlement variances	$ 157,212	$ 518,471	$ (146,813)	$ 528,870	1
Other regulatory accounts	–	–	–	–	1
Income tax	321,627	193,297	–	514,924	Note 1
	$ 478,839	$ 711,768	$ (146,813)	$ 1,043,794	

Regulatory deferral account credit balances	January 1, 2022	Additions/ transfers	Recovery/ reversal	December 31, 2022	Remaining years
Settlement variances	$ 294,590	$ 35,289	$ (172,667)	$ 157,212	1
Other regulatory accounts	109,398	178,801	(288,199)	–	1
Income tax	294,184	27,443	–	321,627	Note 1
	$ 698,172	$ 241,533	$ (460,866)	$ 478,839	

Note 1 – these balances will be recovered over the life of the related capital assets.

The “Additions/transfers” column consists of new additions to regulatory balances (for both debits and credits). The “Recovery/reversal” column consists of amounts collected or paid through rate riders or transactions reversing an existing regulatory balance to recover. Recoveries and reversals occur as a result of the approval of an application.

11. Accounts payable and accrued liabilities:

	2023	2022
Accounts payable – energy purchases	$ 2,655,370	$ 2,535,108
Payroll payable	243,759	186,792
Interest payable	101,738	–
Trade payables	1,990,383	1,617,764
	$ 4,991,250	$ 4,339,664

12. Long-term debt:

Long term liabilities comprise promissory notes and term loans.

	2023	2022
Promissory note payable to the Town of Grimsby bearing interest at a rate of 3.49% per annum due February, 2027	$ 5,782,746	$ 5,782,746
TD term loan (for Smart Meters) with blended monthly instalments of $10,739, at a fixed rate of 2.68%, due February 2025	291,338	410,655
TD term loan (economic evaluation and term loan) with interest only instalments at a fixed rate of 6.31%, due June 2025, renewable	3,209,816	3,270,000
TD term loan (for bucket truck, and breakage fee) with blended monthly instalments of $40,539 at a fixed rate of 2.68%, due February 2025	1,476,335	1,916,823
TD term loan (for bucket truck and SCADA) with blended monthly instalments of $4,366 at a fixed rate of 2.68%, due February 2025	432,322	472,537
TD term loan (third feeder) with blended monthly instalments of $10,776 at a fixed rate of 2.68%, due December 2026	1,844,556	1,923,380
TD term loan (fourth feeder) with blended monthly instalments of $7,101 at a fixed rate of 5.89%, due November 2026	997,741	–
	14,034,854	13,776,141
Less: current portion of long–term debt	(723,751)	(678,720)
	$ 13,311,103	$ 13,097,421

All TD loans are secured by a General Security Agreement over the assets of the Corporation, as well as an assignment of fire insurance on inventory and equipment, assignment of liability insurance, and Postponement Agreement executed by the bank, the Corporation and the Town of Grimsby.

The Corporation holds a line of credit bearing interest at prime, which at December 31, 2023 was 7.20% (2022 - 2.58%). As at December 31, 2023, $1,500,000 (2022 - $2,070,000) was owing.

Based upon current repayment terms, the estimated annual principal repayments are as follows:

2024	$ 723,751
2025	4,905,469
2026	2,622,888
2027	5,782,746
	$ 14,034,854

13. Share capital:

		2023		2022
Authorized:				
90 Class A cumulative, non-voting, redeemable, preferred shares				
10 Class B cumulative, non-voting, redeemable, preferred shares				
Unlimited number of common shares				
Issued:				
90 Class A shares	$	90	$	90
10 Class B shares		1,400,000		1,400,000
23 Common shares		6,962,480		6,962,480
	$	8,362,570	$	8,362,570

Dividends:

The holders of the common shares are entitled to receive dividends from time to time. The preferred shareholders are entitled to receive dividends when the Corporation receives dividends from its subsidiary equal to the amount of that dividend. The Class B preferred shareholders will receive 10% of the dividend with the remaining 90% paid to the Class A preferred shareholders, subject to the requirement that the Corporation retain the greater of sufficient cash reserves to enable it to meets its projected operating expenses or $200,000.

For the year ended December 31, 2023, the Board of Directors of the Corporation declared and paid dividends to the preferred shareholders in the amount of $2,000 ($2022 - $2,000) per share totaling $200,000 (2022 - $200,000) on the outstanding preferred shares.

For the year ended December 31, 2023, the Board of Directors of the Corporation declared and paid dividends to the common shareholders in the amount of $nil (2022 - $nil) per share totaling $nil (2022 - $nil) on the outstanding common shares.

14. Revenue from contracts with customers and other sources:

	2023	2022
Revenue from contracts with customers:		
Energy sales	$ 32,267,565	$ 31,880,148
Distribution revenue	6,410,429	6,103,557
Ancillary services	20,808	83,907
Rental	170,161	129,169
	38,868,963	38,196,781
Revenue from other sources:		
Amortization of deferred revenue	172,468	164,804
Other	132,822	17,354
	$ 39,174,253	$ 38,378,939

The following table disaggregates revenues from contracts with customers by type of customer for energy sales and distribution revenue:

	2023	2022
Revenue from contracts with customers:		
Residential	$ 18,235,595	$ 17,669,257
Commercial	2,838,198	2,722,264
Large Users	16,832,080	16,197,324
Other	772,121	1,394,860
	$ 38,677,994	$ 37,983,705

15. Finance income and costs:

	2023	2022
Finance income:		
Interest income on cash	$ 14,708	$ 6,980
Finance costs:		
Interest expense on long-term debt	(606,026)	(439,116)
Interest expense on customer deposits	(9,761)	(4,911)
Other	(25,660)	(4,890)
	(641,447)	(448,917)
Net finance costs recognized in profit or loss	$ (626,739)	$ (441,937)

16. Commitments and contingencies:

(a) General:

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

(b) 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.

(c) Letters of credit:

During 2023, the Corporation had an irrevocable commercial letter of credit for contracted services with a third party service provider, of which $nil (2022 - $nil) has posted with the third party service provider. The letter of credit has been released in 2023.

The Corporation also has a facility for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $1,414,919 has posted with the IESO (2022 - $1,414,919).

17. Post-employment benefits:

OMERS pension plan:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined benefit pension plan with equal contributions by the employer and its employees. The latest actuarial valuation as at December 31, 2023 reported a funding deficit of $4.2 billion (2022 - $6.7 billion). OMERS expects the contributions and policy changes made in response to the deficit to return the plan to a fully funded position by 2025. Contributions were made in the 2023 calendar year at rates ranging from 9.0% to 14.6% depending on the level of earnings. In 2023, the Corporation made employer contributions of $154,632 to OMERS (2022 - $155,781) of which $21,999 (2022 - $21,230) has been capitalized as part of property, plant and equipment and $132,633 (2022 - $134,551) has been recognized in profit or loss. The Corporation estimates that a contribution of $158,498 to OMERS will be made during the next fiscal year.

18. Related party transactions:

(a) Parent and ultimate controlling party:

The common shareholder of the Corporation is the Town of Grimsby. The Town of Grimsby produces consolidated financial statements that are available for public use.

The following summarizes the Corporation's transactions recorded at the exchange amount and balances with the Town of Grimsby for the year ended December 31:

	2023	2022
Revenue:		
Energy sales and distribution	$ 695,854	$ 578,241
Expenses:		
Interest charges	201,818	206,975
Other	79,421	85,577

These transactions have taken place in the ordinary course of business and are recorded at a fair market exchange amount. The Corporation delivers electricity to the Town of Grimsby throughout the year for the electricity needs of the Town and its related organizations. Electricity deliver charges are at prices and terms approved by the OEB.

(b) Outstanding balances with related parties:

	2023	2022
Amounts due to related parties:		
Long-term debt	$ 5,782,747	$ 5,782,746
Due to related parties	41,417	139,085

Amounts due to related parties consist of amounts owing to preferred and common shareholders of the Corporation, with the exception of long-term debt, are non-interest bearing with no fixed terms of repayment. Long-term debt is payable to the common shareholder of the Corporation and bears interest at 3.49% per annum (see note 12), subordinated to the Corporation's term loans.

In 2009, the Corporation migrated its billing system to a SAP platform. The Corporation has a contractual commitment to pay $6,396 per month for system administration and non-system related support to a wholly owned subsidiary of FortisOntario Inc., the Class A preferred shareholder of the Corporation.

18. Related party transactions (continued):

(c) Transaction with other related parties:

In the ordinary course of business, the corporation incurred the following transactions with other related parties under common control:

		2023		2022
Expenses:				
IT services	$	90,452	$	83,615

(d) Key management personnel:

Key management personnel are comprised of the Corporation's senior executive officers and members of the Board of Directors. The compensation costs associated with key management personnel are as follows:

		2023		2022
Directors' fees	$	60,436	$	61,883
Salaries, bonuses and other short-term benefits		661,213		654,964
	$	721,649	$	716,847

19. Financial instruments and financial risk management:

Fair value disclosure:

The carrying values of cash and cash equivalents, bank indebtedness, line of credit 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 TD term loans of $8,252,232 has a fair value estimated at $11,707,000 using a discount rate of 5.89%. This discount rate is determined using indicative quoted rates for instruments with approximately the same terms and credit risk.

The fair value of the notes payable to The Corporation of the Town of Grimsby is estimated at $5,461,088 using a discount rate of 5.89%. This discount rate is determined using indicative quoted rates for instruments with approximately the same terms and credit risk.

19. Financial instruments and financial risk management (continued):

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, market risk and liquidity risk as well as related mitigation strategies are discussed below. However, the risks described below are not exhaustive of all the risks nor will the mitigation strategies eliminate the Corporation's exposure to all risks listed.

(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 Grimsby. No single customer accounts for a balance in excess of 10% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for estimated credit losses 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 $6,500 (2022 - $6,500). A loss allowance of $115,920 (2022 - $60,238) was recognized during the year in profit or loss.

The Corporation’s credit risk associated with accounts receivable is primarily related to payments from its electricity distribution customers. As a result of the COVID-19 pandemic, certain of the Corporation’s customers have experienced loss of employment, business shutdowns and other disruptions. The extension of the OEB’s winter disconnection ban negatively impacted the Corporation’s ability to exercise the full extent of its collection tools to manage the credit risk. In response to the collection risk, the Corporation adjusts its loss allowance for expected credit losses to adjust for expected customer defaults on accounts receivable. The Corporation has estimated the expected credit losses using its historical loss rates and recent trends for customer collections along with current and forecasted economic conditions and data.

19. Financial instruments and financial risk management (continued):

Financial risks (continued):

(a) Credit risk (continued):

At December 31, 2023, approximately $68,887 (2022 - $111,343) is considered 60 days past due. The Corporation has over 12,000 (2022 - 11,900) 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. At December 31, 2023, the Corporation holds security deposits in the amount of $170,547 (2022 - $216,717).

(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.

(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 $5,000,000 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, $1,500,000 (2022 - $2,070,000) had been drawn under the Corporation's credit facility.

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

(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, to comply with covenants related to its credit facilities, to prudently manage 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 shareholder's equity, line of credit and long–term debt. As at December 31, 2023, shareholder's equity amounts to $14,492,875 (2022 - $13,625,325) and long-term debt amounts to $15,534,854 (2022 - $15,846,141).