Financial statements of
Algoma Power Inc.

December 31, 2023

Deloitte.

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Independent Auditor's Report

To the Shareholder of
Algoma Power Inc.

Opinion

We have audited the financial statements of Algoma Power Inc. (the "Company"), which comprise the balance sheet as at December 31, 2023, and the statements of earnings and retained earnings, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises ("ASPE").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 ASPE, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 8, 2024

Algoma Power Inc.
Balance sheet
As at December 31, 2023
(In thousands of dollars, unless otherwise stated)

	Notes	2023 $	2022 $
Assets			
Current assets			
Cash		**122**	1,894
Restricted cash	11	**100**	100
Accounts receivable	12	**7,041**	6,039
Income taxes receivable		**410**	97
Materials and supplies		**80**	175
Regulatory assets	14	**897**	978
Prepaid expenses		**315**	200
		8,965	9,483
Utility capital assets, net	2	**134,574**	128,546
Intangible assets, net	3	**14,042**	14,170
Accrued pension benefit asset	4	**6,070**	9
Regulatory assets	14	**38,752**	27,281
Other assets		**384**	65
		202,787	179,554
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	**7,922**	6,668
Customer deposits	12	**332**	263
Loan payable	7, 12 and 13	**25,000**	20,000
Due to related parties	6 and 12	**8,768**	5,350
		42,022	32,281
Long-term customer deposits	12	**531**	667
Promissory note due to parent company	6, 12 and 13	**12,750**	12,750
Long-term debt	8, 12 and 13	**51,701**	51,683
Future tax liabilities	5	**11,292**	9,025
Accrued other retirement benefit liability	4	**7,171**	5,963
Regulatory liabilities	14	**6,697**	1,618
Contributions in aid of construction		**6,177**	6,633
		138,341	120,620
Shareholder's equity			
Capital stock	9	**44,008**	44,008
Retained earnings		**20,438**	14,926
		64,446	58,934
		202,787	179,554

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

Approved by the Board

Glen King ____________________, Director

Tim Lavoie ____________________ , Director

Algoma Power Inc.

Statement of earnings and retained earnings

Year ended December 31, 2023

(In thousands of dollars, unless otherwise stated)

	Notes	2023	2022
		$	$
Revenue			
Sale of energy		**28,239**	29,361
Distribution		**27,261**	26,500
Other		**1,856**	793
		57,356	56,654
Expenses			
Cost of power purchased		**28,239**	29,361
Operating		**14,259**	14,053
Amortization	10	**4,298**	4,188
		46,796	47,602
Operating earnings before the following		**10,560**	9,052
Other regulatory adjustments	14	**(312)**	(124)
Interest expense	6, 7, 8 and 12	**(4,963)**	(3,935)
Earnings before income taxes		**5,285**	4,993
Provision for income taxes	5	**(227)**	259
Net earnings for the year		**5,512**	4,734
Retained earnings, beginning of year		**14,926**	10,192
Retained earnings, end of year		**20,438**	14,926

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

Algoma Power Inc.
Statement of cash flows
Year ended December 31, 2023
(In thousands of dollars, unless otherwise stated)

	Notes	2023 $	2022 $
Operating activities			
Net earnings for the year		**5,512**	4,734
Add (deduct) items not involving cash			
Amortization of utility capital assets	10	**4,190**	3,991
Amortization of intangible assets	10	**649**	687
Amortization of contributions in aid of construction	10	**(42)**	(37)
Amortization of debt issuance costs		**18**	16
(Gain) Loss on disposal of utility capital assets		**(1)**	28
Future income taxes		**2,267**	1,402
Accrued pension benefit asset		**(6,061)**	7,557
Accrued other retirement benefit liability		**1,208**	(2,369)
Long-term customer deposits		**(136)**	79
Long-term regulatory assets and liabilities		**1,626**	(14,399)
Other assets		**(319)**	(65)
		8,911	1,624
Net change in non-cash working capital balances related to operations	11	**3,487**	(3,451)
		12,398	(1,827)
Investing activities			
Proceeds on sale of utility capital assets		**45**	63
Additions to utility capital assets		**(18,280)**	(15,301)
Additions to intangible assets		**(522)**	(196)
		(18,757)	(15,434)
Financing activities			
Increase in contributions in aid of construction		**(413)**	3,363
Increase in loan payable	7	**5,000**	13,000
		4,587	16,363
Net decrease in cash during the year		**(1,772)**	(898)
Cash, beginning of year		**1,894**	2,792
Cash, end of year		**122**	1,894

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

1. Basis of accounting and summary of significant accounting policies

Algoma Power Inc. (“API” or the "Company”) is engaged in the distribution of electricity to the area adjacent to Sault Ste. Marie, Ontario and is subject to the regulations of the Ontario Energy Board (“OEB”).

API operated as a division of Great Lakes Power Limited (“GLPL”) from January 1, 2009 to June 30, 2009. In order to comply with Section 71 of OEB regulatory requirements, GLPL split out its distribution division by creating a separate legal entity called Great Lakes Power Distribution Inc. (“GLPDI”). This entity began operating as a separate legal entity effective July 1, 2009. On October 8, 2009, there was a change of control as FortisOntario Inc. (the ”Parent”) acquired 100% of the shares of GLPDI and changed the name to Algoma Power Inc.

(a) Basis of accounting

These financial statements have been prepared in accordance with the accounting standards for private enterprises (“ASPE”), as per Part II of the CPA Handbook - Accounting, which constitutes generally accepted accounting principles for non-publicly accountable enterprises in Canada.

(b) Significant accounting policies

Regulation

The distribution rates of API are based upon cost-of-service (“CoS”) rate regulation by the OEB. Earnings are regulated on the basis of a rate of return on rate base plus a recovery of all allowable distribution costs.

API is subject to Ontario Regulation 335/07, which is the Rural and Remote Rate Protection subsidy program (“RRRP”). The RRRP is calculated as the deficiency between the approved revenue requirement from the OEB and current customer distribution rates adjusted for the average rate increase across the Province of Ontario. API qualifies for this subsidy because it has less than seven customers per kilometer and a service area that extends beyond 10,000 kilometers. All general service and large customer classes have been reclassified as residential class under Ontario Regulation 445/07.

Beginning with electricity distribution rates effective in 2016, decoupling of electricity distribution rates for the Residential customer class was being introduced; complete decoupling was achieved for rates effective January 1, 2023 for residential customers and is projected to be achieved for seasonal customers for rates effective in 2027.

On August 18, 2021, API filed an application with the OEB seeking approval to change electricity distribution rates, effective January 1, 2022, based on Fourth Generation Incentive Rate Mechanism (“4GIRM”). A Decision and Order was issued December 9, 2021 that approved the net price cap index adjustment for API of 2.70% (Inflation factor net of a productivity and stretch factor 3.30% – (0% + 0.60%)). The 2.70% adjustment was applied to distribution rates for the Seasonal and Street Lighting customer classes. A Rural and RRRP adjustment factor of 3.28% was applied to the distribution rates for the Residential R-1 and Residential R-2 classes.

(In thousands of dollars, unless otherwise stated)

1. Basis of accounting and summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

Regulation (continued)

On August 3, 2022, API filed an application with the OEB seeking approval to change electricity distribution rates, effective January 1, 2023, based on 4GIRM. A Decision and Order was issued December 8, 2022 that approved the net price cap index adjustment for API of 3.10% (Inflation factor net of a productivity and stretch factor 3.70% – (0% + 0.60%)). The 3.10% adjustment was applied to distribution rates for the Seasonal and Street Lighting customer classes. A Rural and RRRP adjustment factor of 3.11% was applied to the distribution rates for the Residential R-1 and Residential R-2 classes. The Decision and Order also approved API requests to recover $33 in 2018-2022 lost revenue from energy conservation programs (LRAMVA).

On August 17, 2023, API filed an application with the OEB seeking approval to change electricity distribution rates, effective January 1, 2024, based on 4GIRM. A Decision and Order was issued December 7, 2023 that approved the net price cap index adjustment for API of 4.20% (Inflation factor net of a productivity and stretch factor 4.80% – (0% + 0.60%)). The 4.20% adjustment was applied to distribution rates for the Seasonal and Street Lighting customer classes. A Rural and RRRP adjustment factor of 3.54% was applied to the distribution rates for the Residential R-1 and Residential R-2 classes.

Materials and supplies

Materials and supplies are recorded at average cost. Materials and supplies expensed to operating expense in 2023 were $34 ($92 in 2022).

Utility capital assets and capitalization policy

Distribution assets are those used to distribute electricity at lower voltages (generally below 50 kilovolts). These assets include poles, towers and fixtures, low-voltage wires, transformers, overhead and underground conductors, street lighting, meters, metering equipment and other related equipment.

The service life range and average remaining service life of the utility capital assets are as follows:

	Service life range (years)	Average remaining service life (years)
Distribution	10 to 50	38.1
Other	5 to 20	5.6

Utility capital assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the utility capital assets using the straight-line method at a composite rate 2.2% (2.2% in 2022).

Contributions in aid of construction represent funding of utility capital assets contributed by customers. These accounts are being reduced annually by an amount equal to the charge for amortization provided on the contributed portion of the assets involved.

1. Basis of accounting and summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

Utility capital assets and capitalization policy (continued)

Capitalization policy

The Company's capitalization policy is in accordance with the OEB's requirements to use a "modified IFRS" accounting basis to allow for more consistency amongst electricity distribution utilities in Ontario and this includes having asset useful lives that align with guidelines, and certain directly attributable costs that are capitalized while general overhead costs are not.

Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the intangible assets using the straight-line method.

The service life range and average remaining service life of the intangible assets are as follows:

	Service life range (years)	Average remaining service life (years)
Software costs	5	2.9
Land rights and other	10 to 45	24.8

Revenue recognition

Revenue from the distribution of electricity is recognized on the accrual basis. Electricity is metered upon delivery to customers and is recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of the year, a certain amount of consumed electricity will not have been billed. Electricity that is consumed but not yet billed to the customers is estimated and accrued as revenue in the current year. Other revenue is recognized when services are provided and the customer takes ownership and assumes risk of loss in accordance with customer contracts, collection of the related receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Amounts received for future services are deferred until the service is provided.

Unbilled revenue included in accounts receivable as at December 31, 2023 is $3,288 ($3,473 in 2022).

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the balance sheet date. Gains and losses on translation are included in the statement of earnings. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the transaction date.

1. Basis of accounting and summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

Employee benefit plans

The cost of the Company's defined benefit pension plans is determined periodically by independent actuaries. The Company has chosen an accounting policy to measure its defined benefit plan obligations using the funding valuation approach. This approach uses the most recent completed actuarial valuations prepared for funding purposes as the basis of measuring defined benefit plan obligations. As well, the Company is using a roll-forward technique in the years between valuations to estimate the defined benefit plan obligations. Pension plan assets are valued at fair value as at the balance sheet date.

In 2013, the Company made an application to the OEB to allow recognition of regulatory assets related to unamortized amounts, and restatement of prior years' pension and other retirement benefit expenses, that would otherwise be collected from customers through rates in subsequent years. In December 2013, the OEB issued a Decision and Order approving the establishment of specific deferral accounts to recognize these amounts as long-term regulatory assets, which will be disposed of in future CoS proceedings, subject to the OEB's prudence review at that time. As well, the Company reversed previously recognized future income tax liabilities related to the changes in the pension and other retirement benefit liabilities as of January 1, 2014. The Corporation recognized offsetting regulatory liabilities related to the future income taxes expected to be recovered from customers in future electricity rates as of January 1, 2014.

The Company made an application to the OEB to continue to account for pension and other retirement benefits under the former Section 3461.

In December 2013, the OEB issued a Decision and Order approving the establishment of specific variance accounts as of January 1, 2013, to recognize the difference in expense between Sections 3461 and 3462 as long-term regulatory assets or liabilities for 2013 and future years, which will be disposed of in future CoS proceedings, subject to the OEB's prudence review at that time.

Income taxes

The Company follows the future income taxes method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities. Future tax assets and liabilities are measured using the enacted and the substantively enacted tax rates expected to apply to taxable income in the period in which temporary differences are expected to be recovered or settled. The Company recognizes regulatory assets and liabilities related to future income tax liabilities and assets for the amount of future income taxes expected to be recovered from customers in future electricity rates.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Company becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost.

(In thousands of dollars, unless otherwise stated)

1. Basis of accounting and summary of significant accounting policies (continued)

(b) Significant accounting policies (continued)

Financial instruments (continued)

Transaction costs related to financial instruments measured subsequent to initial recognition at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the effective interest method and recognized in net earnings as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Company recognizes an impairment loss, if any, in net earnings when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to net earnings in the period the reversal occurs.

Use of estimates

The preparation of financial statements in conformity with ASPE requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Unbilled revenue, valuation of pension and post-retirement obligations, amortization, and income taxes are specific areas where the use of estimates and assumptions are significant. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

2. Utility capital assets

Utility capital assets consist of the following:

	Cost $	Accumulated amortization $	2023 Net book value $
Distribution	**202,491**	**70,519**	**131,972**
Other	**10,103**	**7,501**	**2,602**
	212,594	**78,020**	**134,574**

(In thousands of dollars, unless otherwise stated)

2. Utility capital assets (continued)

	Cost $	Accumulated amortization $	2022 Net book value $
Distribution	193,793	67,142	126,651
Other	9,012	7,117	1,895
	202,805	74,259	128,546

The amounts above include assets under construction, which are not subject to amortization, of $9,541 ($17,990 in 2022).

3. Intangible assets

Intangible assets consist of the following:

	Cost **$**	**Accumulated amortization** **$**	**2023** **Net book value** **$**
Land rights, right of ways, and other	**22,173**	**8,397**	**13,776**
Software costs	**3,074**	**2,808**	**266**
	25,247	**11,205**	**14,042**

	Cost $	Accumulated amortization $	2022 Net book value $
Land rights, right of ways, and other	21,664	7,841	13,823
Software costs	3,062	2,715	347
	24,726	10,556	14,170

(In thousands of dollars, unless otherwise stated)

4. Employee future benefits

The Company maintains a defined benefit pension plan and a defined contribution pension plan providing pension benefits, and defined benefit plans providing other retirement benefits.

Information about API's benefit plans is as follows:

	Pension benefit plans		Other retirement plans	
	2023	2022	**2023**	2022
	$	$	**$**	$
Accrued benefit obligation				
Balance, beginning of year	**29,920**	29,052	**5,963**	6,588
Current service costs	**587**	559	**184**	339
Finance costs	**1,452**	1,407	**316**	275
Employee contributions	**216**	246	**—**	—
Benefits paid	**(1,327)**	(1,242)	**(179)**	(140)
Actuarial gains	**(4,726)**	(102)	**887**	(1,099)
Balance, end of year	**26,122**	29,920	**7,171**	5,963
Plan assets				
Fair value, beginning of year	**29,929**	36,616	**—**	—
Interest income	**1,451**	1,776	**—**	—
Return on plan assets	**1,451**	(7,993)	**—**	—
Contributions	**688**	772	**179**	140
Benefits paid	**(1,327)**	(1,242)	**(179)**	(140)
Fair value, end of year	**32,192**	29,929	**—**	—
Funded status – plan surplus (deficit)	**6,070**	9	**(7,171)**	(5,963)

The measurement date for the plan assets and the accrued benefit obligation was as at December 31, 2023. The effective date of the most recent actuarial valuation was as at December 31, 2022 and the date of the next required valuation for funding purposes is as at December 31, 2025, and will be completed by September 2026. The measurement date for other retirement plans was as at December 31, 2023. The effective date of the most recent actuarial valuation was as at December 31, 2021.

The plan assets held at the measurement date are represented by the following categories:

	%
Canadian equity funds	**14**
Foreign equity funds	**31**
Canadian fixed income funds	**54**
Cash and short trem investments	**1**

As at December 31, 2023, one of the defined benefit pension plans had a net accrued benefit liability of $86 ($88 in 2022). This plan had no plan assets in 2023 or 2022.

(In thousands of dollars, unless otherwise stated)

4. Employee future benefits (continued)

	Pension benefit plans		Other retirement plans	
	2023	2022	**2023**	2022
	$	$	**$**	$
Significant assumptions used				
Discount rate, beginning of year	**4.85%**	4.85%	**3.30%**	4.85%
Discount rate, end of year	**5.85%**	4.85%	**5.30%**	3.30%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Initial health care trend rate	**—**	—	**4.98%**	4.98%
Average remaining service of active employees (years)	**18**	19	**18**	18
Net benefit expense for the year				
Current service costs	**587**	559	**184**	339
Finance costs	**—**	(369)	**316**	275
Remeasurement costs	**(6,176)**	7,891	**(887)**	(2,844)
Regulatory adjustments	**5,693**	(7,681)	**860**	2,849
Net benefit expense	**104**	400	**473**	619

The total expense for the Company’s defined contribution pension plan for the year amounted to $166 ($139 in 2022).

5. Income taxes

The following is a reconciliation of the combined statutory income tax rate to the effective income tax rate:

	2023	2022
	%	%
Statutory income tax rate	**26.50**	26.50
Future income taxes transferred to regulatory assets	**(41.34)**	(27.56)
Tax adjustments from prior years	**—**	(0.34)
Other	**10.55**	6.59
Effective income tax rate	**(4.29)**	5.19

The provision for income taxes consists of the following:

	2023	2022
	$	$
Current income taxes	**(309)**	234
Future income taxes	**2,267**	1,401
Future income taxes transferred to regulatory assets	**(2,185)**	(1,376)
	(227)	259

(In thousands of dollars, unless otherwise stated)

5. Income taxes (continued)

Future tax assets (liabilities) are comprised of the following:

	2023 $	2022 $
Future tax assets (liabilities)		
Utility capital assets	**(10,882)**	(9,096)
Employee future benefits	**1,656**	1,668
Rate mitigation accrual	**1,030**	1,110
Regulatory assets	**(3,340)**	(2,693)
Other assets	**244**	(14)
Net future tax liabilities	**(11,292)**	(9,025)

6. Related party transactions

During the year, the Company entered into transactions with related parties summarized as follows:

	2023 $	2022 $
Advances of funds to (from)		
FortisOntario Inc.	**1,355**	1,226
Canadian Niagara Power Inc.	**3,400**	(640)
Cornwall Street Railway, Light and Power Company Limited	**(2,600)**	7,300
Interest paid to FortisOntario Inc.	**644**	441
Management fees paid to FortisOntario Inc.	**558**	561
Administrative service fees from Canadian Niagara Power Inc.	**2,554**	2,312
Reimbursement for expenses paid on behalf of and services provided by Canadian Niagara Power Inc.	**1,183**	306
Reimbursement for expenses paid on behalf of and services provided by FortisOntario Inc.	**45**	345
Reimbursement for expenses paid on behalf of and services provided by Cornwall Street Railway, Light and Power Company Limited	**118**	320

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at December 31, the amounts due to related parties are summarized as follows:

	2023 $	2022 $
FortisOntario Inc.	**8,768**	5,350
Promissory note due to parent company	**12,750**	12,750
	21,518	18,100

(In thousands of dollars, unless otherwise stated)

6. Related party transactions (continued)

A promissory note of $12,750 due to the Parent company bears interest at 4.13% and is payable on demand. There are no specific terms of repayment for this note.

Details of relationships with related parties are as follows:

- The Company is owned 100% by FortisOntario Inc., which itself is a wholly owned subsidiary of Fortis Inc.
- Cornwall Street Railway, Light and Power Company Limited is a wholly owned subsidiary of FortisOntario Inc.
- Canadian Niagara Power Inc. is a wholly owned subsidiary of FortisOntario Inc.

7. Loans payable

Loans payable consists of the following:

	2023 **$**	2022 $
Non-Revolving Bankers' Acceptance, bearing interest at 5.395% plus stamping fee of 0.75% and matures January 5, 2024	**25,000**	—
Bankers' Acceptance, bearing interest at 4.468% plus stamping fee of 1.25% and matures January 6, 2023	**—**	20,000
	25,000	20,000

Interest expense on loan payable for the year was $1,239 ($440 in 2022). Loans payable authorized under the Company's credit facility agreements, which is shared among the subsidaries of FortisOntario Inc., have covenants that restrict the issuance of additional debt such that subsidiary debt cannot exceed 75% of their respective capital structures as defined in the agreements. As at December 31, 2023, the Company was in compliance with their debt covenants (in compliance in 2022).

8. Long-term debt

Long-term debt consists of the following:

	2023 **$**	2022 $
5.118% senior unsecured notes due on December 16, 2041	**52,000**	52,000
Unamortized debt issue costs	**(299)**	(317)
	51,701	51,683

The senior unsecured notes bear interest at 5.118% and are repayable at maturity on December 16, 2041. The senior unsecured notes were issued on December 16, 2011 and interest is payable semi-annually. Interest expense for the year amounted to $2,661 ($2,661 in 2022). The Company incurred debt issue costs in 2011 of $499 that are being amortized over the term of the loan. As at December 31, 2023, the accumulated amortization amounted to $200 ($182 in 2022).

(In thousands of dollars, unless otherwise stated)

8. Long-term debt (continued)

The Company's long-term debt obligations and credit facility agreements have covenants that restrict the issuance of additional debt such that debt cannot exceed 75% of their capital structures as defined in the agreements. As at December 31, 2023, the Company was in compliance with its debt covenants (in compliance in 2022).

9. Capital stock

The authorized and issued shares consist of 90,831,810 common shares without par value.

10. Amortization

Amortization consists of the following:

	2023	2022
	$	$
Amortization of utility capital assets	**4,190**	3,991
Amortization of intangible assets	**649**	687
Amortization of contributions in aid of construction	**(42)**	(37)
	4,797	4,641
Vehicle amortization allocated	**(499)**	(453)
	4,298	4,188

Vehicle amortizatiogn is allocated to utility capital assets and operating expenses on a labour distribution basis.

11. Statement of cash flows

The net change in non-cash working capital balances related to operations consists of the following:

	2023	2022
	$	$
Accounts receivable	**(1,002)**	594
Income taxes receivable/payable	**(313)**	(207)
Materials and supplies	**95**	(122)
Regulatory assets/liabilities	**81**	(113)
Prepaid expenses	**(115)**	30
Due to/from related parties	**3,418**	(3,406)
Customer deposits	**69**	36
Accounts payable and accrued liabilities	**1,254**	(263)
	3,487	(3,451)

(In thousands of dollars, unless otherwise stated)

11. Statement of cash flows (continued)

Supplemental cash flow information:

	2023 $	2022 $
Interest paid	**4,174**	3,494
Income taxes paid	**78**	348
	4,252	3,842

The restricted cash is a deposit held by the Ministry of Environment for a Certificate of Approval.

12. Financial risk management

The Company is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments in the normal course of business.

Credit risk – Risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument.

Liquidity risk – Risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Market risk – Risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices.

Credit risk

For cash and accounts receivable due from customers, API's credit risk is limited to the carrying value on the balance sheet.

API is exposed to credit risk from its distribution customers but has various policies to minimize this risk. These policies include requiring customer deposits, performing disconnections and using third-party collection agencies for overdue accounts. API has a large and diversified distribution customer base which minimizes the concentration of credit risk.

The aging of the Company's trade and other receivables due from customers is as follows:

	2023 $	2022 $
Not past due	**6,548**	5,620
Past due 0–30 days	**125**	128
Past due 31–60 days	**65**	56
Past due 61 days and over	**399**	293
	7,137	6,097
Less allowance for doubtful accounts	**96**	58
	7,041	6,039

Liquidity risk

Liquidity risk to API is minimized since the financing of regulated capital and other expenditures is done through internally generated funds. These funds are a result of allowable rate regulated returns and recoveries under the OEB rate regulations mechanism.

(In thousands of dollars, unless otherwise stated)

12. Financial risk management (continued)

Liquidity risk (continued)

API is a subsidiary of the Parent, which is a wholly owned by Fortis Inc., a large investor owned utility, which has had the ability to raise sufficient and cost-effective financing. However, the ability to arrange financing on a go-forward basis is subject to numerous factors, including the results of operations and financial position of Fortis Inc. and its subsidiaries, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions.

To mitigate any liquidity risk, the Company is a party to a committed revolving and non-revolving credit facilities and letters of credit facilities totaling $90,000 ($65,000 in 2022), of which $30,700 ($17,700 in 2022) was unused. The revolving credit facilities and letters of credit facilities are renewed on an annual basis. Loans payable (see Note 7) are renewed on a rolling 30-day period from time to time as needed by the Company. This credit agreement is shared among the subsidiaries of the Parent and is renewed on an annual basis.

The following summary outlines the credit facilities among the subsidiaries of FortisOntario Inc:

	2023 **$**	2022 $
Total credit facilities	**90,000**	65,000
Loans payable outstanding	**(45,000)**	(33,000)
Letters of credit outstanding	**(14,300)**	(14,300)
Credit facilities available	**30,700**	17,700

The facility is guaranteed by the Parent company and the revolving credit facilities bear interest at the bankers' acceptance rate plus 1.00% in the case of bankers' acceptances while the non-revolving credit facility bears interest at bankers' acceptance plus 0.75%, and at the bank's prime lending rate plus 0.20% in the case of bank loans.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at December 31:

	< 1 year **$**	**1-3 years** **$**	**4-5 years** **$**	**> 5 years** **$**	**2023 Total** **$**
Accounts payable and accrued liabilites	**7,922**	**—**	**—**	**—**	**7,922**
Customer deposits	**332**	**297**	**182**	**52**	**863**
Due to related parties	**8,768**	**—**	**—**	**—**	**8,768**
Loan payable	**25,000**	**—**	**—**	**—**	**25,000**
Promissory note due to parent company	**—**	**—**	**—**	**12,750**	**12,750**
Long-term debt	**—**	**—**	**—**	**52,000**	**52,000**
	42,022	**297**	**182**	**64,802**	**107,303**

(In thousands of dollars, unless otherwise stated)

12. Financial risk management (continued)

Liquidity risk (continued)

	< 1 year $	1-3 years $	4-5 years $	> 5 years $	2022 Total $
Accounts payable and accrued liabilites	6,668	—	—	—	6,668
Customer deposits	263	328	281	58	930
Due to related parties	5,350	—	—	—	5,350
Loan payable	20,000	—	—	—	20,000
Promissory note due to parent company	—	—	—	12,750	12,750
Long-term debt	—	—	—	52,000	52,000
	32,281	328	281	64,808	97,698

Market risk

Interest rate risk

Long-term debt is at fixed interest rates thereby minimizing cash flow and interest rate fluctuation exposure. The Company is primarily subject to risks associated with fluctuating interest rates on its short-term borrowings. Short-term borrowings for 2023 is $25,000 ($20,000 in 2022).

13. Capital management

API manages its capital to approximate the deemed capital structure reflected in the utility's customer rates or anticipated future rates. API's distribution rates effective on January 1, 2020 are based on a deemed capital structure of 60% debt and 40% equity. API's capital structure consists of third-party debt, affiliate debt and common equity, but excludes unamortized debt issue costs.

The managed capital is as follows:

	2023 $	**2023** %	2022 $	2022 %
Debt	**89,750**	**58**	84,750	59
Equity	**64,446**	**42**	58,934	41
	154,196	**100**	143,684	100

14. Regulatory assets and liabilities

Regulatory liabilities net of regulatory assets arise as a result of regulatory requirements.

The Company pays the cost of power on behalf of its customers and recovers these costs through retail billings to its customers. The cost of power includes charges for transmission, wholesale market operations and the power itself from Ontario's Independent Electricity System Operator. The balance of the retail settlement variance account represents the costs that have not been recovered from, or settled through, customers as of the balance sheet date.
The OEB's Distribution Rate Handbook and Accounting Procedures Handbook allow these costs to be deferred and recovered through future rate adjustments as discussed in Note 1. In the absence of rate regulation, these costs would be expensed in the period they are incurred.

(In thousands of dollars, unless otherwise stated)

14. Regulatory assets and liabilities (continued)

The OEB has the general power to include or exclude costs, revenues, gains or losses in the rates of a specific period, resulting in the timing of revenue and expense recognition that may differ in the Company's regulated operations from those otherwise expected in non-regulated businesses. This change in timing gives rise to the recognition of regulatory assets and liabilities. The Company continually assesses the likelihood of recovery of its regulatory assets and believes that its regulatory assets and liabilities will be factored into the setting of future rates as discussed in Note 1. If future recovery through rates is no longer considered probable, the appropriate carrying amount will be written off in the period that the assessment is made.

In 2019, the OEB directed all regulated utilities to recognize a regulatory liability for any cash tax savings related to the new accelerated capital cost allowance rules enacted by the federal government in late 2018. As at December 31, 2019, the Company is no longer required to track variances related to accelerated capital cost allowance as approved in the Decision and Order issued for the Company's 2020 CoS. API has recorded variances related to accelerated capital cost allowance for it's two ACM projects.

In the Decision and Order for API's 2020 CoS, the OEB approved the recovery over five years of certain costs associated with the interim operation of DLI's distribution system along with transaction costs totaling $618. API's revenue requirement was increased by $124 and entries are being recorded to "Other regulatory adjustments" for the amortization of the approved DLI costs.

The "Other regulatory adjustments" on the statement of earnings and retained earnings are summarized as follows:

	2023	2022
	$	$
Amortization of approved DLI costs	**124**	124
Tax savings related to capital cost allowances	**188**	—
	312	124

In API's 2020 CoS, 2 capital projects were identified that meet the criteria as being eligible for Advanced Capital Module ("ACM") treatment. In 2022, API completed construction on the first project, the new office building in Sault Ste Marie. The capital costs amounted to $15,814 with amortization of $28, while $1,082 was collected through a combination of RRRP funding and rate riders. In 2023, an additional $640 in capital costs was incurred, while amortization on the project was $346 and $1,077 was collected through a combination of RRRP funding and rate riders. In 2023, construction was completed on the second ACM project, the Echo River substation. The capital costs amounted to $10,852 with amortization of $100, while $554 was collected through a combination of RRRP funding and rate riders. In accordance with OEB accounting guidance, both the capitalized cost and accumulated amortization and amortization expense along with amounts collected to date have been recorded in long-term regulatory assets and will remain recorded there until the next CoS rebase in 2025 where final approval will be requested.

(In thousands of dollars, unless otherwise stated)

14. Regulatory assets and liabilities (continued)

API recorded the following regulatory assets and liabilities as at December 31:

	Remaining rebate period	**2023** **$**	2022 $
Current regulatory assets			
Amounts approved		**897**	978
Long-term regulatory assets			
Amounts approved	up to 2 years	**92**	261
Retail settlement and other variance accounts	2 plus years	**928**	2,039
Future income taxes to be recovered from customers	Life of assets	**12,363**	10,178
API ACM eligible projects	3 plus yrs	**25,284**	14,718
Transitional accounting change adjustments	2 plus years	**85**	85
		38,752	27,281
Long-term regulatory liabilities			
Retail settlement and other variance accounts	2 plus years	**1,068**	994
Pension and other retirement benefits	EARSL	**5,144**	342
Tax expense variances related to accelerated capital cost allowance	2 plus years	**485**	282
		6,697	1,618