

Financial Statements of

**MILTON HYDRO
DISTRIBUTION INC.**

And Independent Auditors' Report thereon

Year ended December 31, 2024



KPMG LLP

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Milton Hydro Distribution Inc.:

Opinion

We have audited the financial statements of Milton Hydro Distribution Inc. (the Corporation), which comprise:

- the statement of financial position as at December 31, 2024
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including material accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “**Auditors’ Responsibilities for the Audit of the Financial Statements**” section of our auditors’ report.

We are independent of the Corporation 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 as issued by the International Accounting Standards Board 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 Corporation's internal control.



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- 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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Corporation 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

March 21, 2025

MILTON HYDRO DISTRIBUTION INC.

Statement of Financial Position

Year ended December 31, 2024, with comparative information for 2023

	Note	2024	2023
Assets			
Current assets			
Accounts receivable	5 and 20(b)	15,631,904	13,547,638
Due from related parties	20	43,268	—
Unbilled revenue		12,061,719	10,770,986
Income tax receivable		885,511	2,084,342
Materials and supplies	6	3,746,359	4,206,627
Prepaid expenses		955,992	1,020,564
Total current assets		33,324,753	31,630,157
Non-current assets			
Property, plant and equipment	7	144,565,587	138,590,930
Intangible assets	8	2,379,784	2,076,120
Total non-current assets		146,945,371	140,667,050
Total assets		180,270,124	172,297,207
Regulatory debit balances	10	24,500,004	19,176,546
Total assets and regulatory debit balances		\$ 204,770,128	\$ 191,473,753

MILTON HYDRO DISTRIBUTION INC.

Statement of Financial Position

Year ended December 31, 2024, with comparative information for 2023

	Note	2024	2023
Liabilities			
Current liabilities			
Bank overdraft	4	\$ 469,822	\$ 466,596
Accounts payable and accrued liabilities	11	19,598,532	20,285,430
Long-term debt due within one year	12	—	1,885,618
Line of credit	4	2,770,000	—
Due to related parties	20	281,113	687,793
Customer deposits		3,339,368	3,446,106
Total current liabilities		26,458,835	26,771,543
Non-current liabilities			
Long-term debt	12	—	60,027,581
Post-employment benefits	13	464,796	468,898
Deferred revenue		34,671,275	29,885,516
Other liabilities		8,024,583	7,306,105
Long-term loan to parent	12	60,000,000	—
Deferred tax liabilities	9	7,305,103	7,372,590
Total non-current liabilities		110,465,757	105,060,690
Total liabilities		136,924,592	131,832,233
Equity			
Share capital	14	17,008,908	17,008,908
Retained earnings		37,073,721	35,635,561
Accumulated other comprehensive income (loss)		18,566	(4,569)
Total equity		54,101,195	52,639,900
Total liabilities and equity		191,025,787	184,472,133
Regulatory credit balances	10	13,744,341	7,001,620
Commitments and contingencies	18		
Total liabilities, equity and regulatory credit balances		\$ 204,770,128	\$ 191,473,753

See accompanying notes to the financial statements.

On behalf of the Board:

Director

Director

MILTON HYDRO DISTRIBUTION INC.

Statement of Comprehensive Income

Year ended December 31, 2024, with comparative information for 2023

	Note	2024	2023
Revenue			
Distribution revenue		\$ 24,895,366	\$ 21,811,464
Other operating revenue		2,240,055	1,889,450
		27,135,421	23,700,914
Sale of energy		128,160,186	113,098,610
Total revenue	15	155,295,607	136,799,524
Operating expenses			
Operating expenses	16	14,816,198	11,933,475
Depreciation and amortization		5,207,990	4,719,759
Loss on disposal of property, plant and equipment		308,344	334,607
		20,332,532	16,987,841
Cost of power purchased		124,386,648	113,381,670
		144,719,180	130,369,511
Income from operations		10,576,427	6,430,013
Finance income	17	837,451	226,567
Finance costs	17	(3,988,439)	(2,589,810)
Unrealized loss on fair value of derivatives	12	(1,254,210)	(629,143)
Income before income taxes		6,171,229	3,437,627
Income tax expense	9	(1,123,006)	(1,272,226)
		5,048,223	2,165,401
Net movement in regulatory balances net of tax			
Net movement in regulatory balances		(1,958,122)	1,369,938
Income tax		538,859	781,824
	10	(1,419,263)	2,151,762
Net income for the year and net movement in regulatory balances		3,628,960	4,317,163
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefits		31,463	(14,416)
Tax on remeasurements		(8,338)	3,820
Other comprehensive income (loss) for the year		23,135	(10,596)
Total comprehensive income for the year		\$ 3,652,095	\$ 4,306,567

See accompanying notes to the financial statements.

MILTON HYDRO DISTRIBUTION INC.

Statements of Changes in Equity

Year ended December 31, 2024, with comparative information for 2023

	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2024	\$ 17,008,908	\$ 35,635,561	\$ (4,569)	\$ 52,639,900
Net income and net movement in regulatory balances	—	3,628,960	—	3,628,960
Other comprehensive income	—	—	23,135	23,135
Dividends	—	(2,190,800)	—	(2,190,800)
Balance at December 31, 2024	\$ 17,008,908	\$ 37,073,721	\$ 18,566	\$ 54,101,195
Balance at January 1, 2023	\$ 17,008,908	\$ 33,096,764	\$ 6,027	\$ 50,111,699
Net income and net movement in regulatory balances	—	4,317,163	—	4,317,163
Other comprehensive loss	—	—	(10,596)	(10,596)
Dividends	—	(1,778,366)	—	(1,778,366)
Balance at December 31, 2023	\$ 17,008,908	\$ 35,635,561	\$ (4,569)	\$ 52,639,900

See accompanying notes to the financial statements.

MILTON HYDRO DISTRIBUTION INC.

Statement of Cash Flows

Year ended December 31, 2024, with comparative information for 2023

	2024	2023
Operating activities		
Net Income and net movement in regulatory balances		
Adjustments for:	\$	\$
Depreciation and amortization	3,628,960	4,317,163
Unrealized loss on fair value of derivative	5,645,115	5,210,614
Amortization of deferred revenue	1,254,210	629,143
Post-employment benefits	(919,579)	(759,513)
Remeasurements of post-employment benefits, net of tax	(4,102)	24,536
Losses on disposal of property, plant and equipment	23,135	(10,596)
Contributions received from customers	308,344	334,607
Net finance costs	6,423,817	8,200,945
Income tax expense	3,150,988	2,363,243
	(67,486)	1,272,226
	19,443,402	21,582,368
Change in non-cash operating working capital:		
Accounts receivable	(2,084,265)	(2,087,653)
Due to/ from related parties	(449,948)	573,914
Unbilled revenue	(1,290,733)	521,991
Materials and supplies	460,268	(777,266)
Prepaid expenses	64,572	373,794
Accounts payable and accrued liabilities	(625,394)	(57,167)
Income tax receivable/ (payable)	1,198,831	—
Net change in customer deposits	(106,738)	(226,631)
	16,609,995	19,903,350
Regulatory balances	1,419,263	(2,151,762)
Income tax paid	—	(446,213)
Interest paid	(3,988,439)	(2,589,810)
Interest received	837,451	226,567
Net cash from operating activities	14,878,270	14,942,132
Investing activities		
Purchase of property, plant and equipment	(11,821,430)	(18,517,950)
Proceeds on disposal of property, plant and equipment	96,450	10,410
Purchase of intangible assets	(568,307)	(72,365)
Net cash used in investing activities	(12,293,287)	(18,579,905)
Financing activities		
Dividends paid	(2,190,800)	(1,778,366)
Proceeds from long-term loan to parent	60,000,000	6,250,000
Increase in line of credit	2,770,000	—
Repayment of long-term debt	(63,167,409)	(1,187,433)
Net cash used in (from) financing activities	(2,588,209)	3,284,201
Change in cash and cash equivalents	(3,226)	(353,572)
Bank overdraft, beginning of year	(466,596)	(113,024)
Bank overdraft, end of year	\$ (469,822)	\$ (466,596)

See accompanying notes to the financial statements.

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

1. Reporting entity

Milton Hydro Distribution Inc. (the "Corporation") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the Town of Milton (the "Town"). The address of the Corporation's registered office is 200 Chisholm Drive, Milton, ON, L9T 3G9.

The Corporation delivers electricity and related energy services to residential and commercial customers in Milton. The Corporation is wholly owned by Milton Hydro Holdings Inc. and the ultimate parent company is the Town. The operations of the Corporation are regulated by the Ontario Energy Board ("OEB").

The financial statements are for the Corporation as at and for the year ended December 31, 2024.

2. Basis of presentation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors on March 20, 2025.

(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.

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 a material adjustment is included in the following notes:

- (i) Note 3(b) – measurement of unbilled revenue
- (ii) Notes 3(d), 3(e), 7 and 8 – estimation of useful lives of its property, plant and equipment and intangible assets
- (iii) Notes 3(i) and 10 – recognition and measurement of regulatory balances
- (iv) Notes 3(j) and 13 – measurement of defined benefit obligations: key actuarial assumptions
- (v) Note 3(h) and 18 – recognition and measurement of provisions and contingencies

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

2. Basis of presentation (continued)

(d) Use of estimates and judgments (continued)

(i) Assumptions and estimation uncertainty (continued)

(vi) Note 3(m) and 9 – classification of taxes between current and deferred

(ii) Judgments

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

(i) Note 3(b) – determination of the performance obligation for contributions from customers and the related amortization period.

(ii) Note 3(k) – leases; whether an arrangement contains a lease

(e) Rate regulation

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

Distribution revenue

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

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

As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

2. Basis of presentation (continued)

(e) Rate regulation (continued)

Distribution revenue (continued)

The Corporation filed a COS application in April 2022 which was approved for rates effective January 1, 2023.

Electricity rates

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

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. All remaining consumers pay the market price for electricity.

Distribution rate design for the Residential Class of customers is based on fully fixed rates, whereas distribution rate design for other classes of customers is based on a rate structure that is based on a monthly fixed service charge and a volumetric distribution charge based on either kWh's or kW's depending on the class the customer belongs to.

3. Material accounting policy information

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

The Corporation adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) effective January 1, 2023. These amendments require the 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 that users need to understand other information in the financial statements.

(a) Financial instruments

All financial assets and all financial liabilities are recognized initially at fair value plus any directly attributable 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(f). The Corporation does not enter into derivative instruments.

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

(b) Revenue recognition

Sale and distribution of electricity

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

3. Material accounting policy information (continued)

(b) Revenue recognition (continued)

Sale and distribution of electricity (continued)

electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount 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.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this billing stream.

Other revenue

Revenue earned from the provision of services is recognized as the service is rendered. Amounts received in advance are presented in deferred revenue.

Capital contributions

Developers are required to contribute toward 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.

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

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.

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

3. Material accounting policy information (continued)

(c) Materials and supplies

Materials and supplies, the majority of which are 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 a 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.

(d) 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 transition date less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

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

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

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:

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

3. Material accounting policy information (continued)

(d) Property, plant and equipment (continued)

Buildings	50 years
Distribution equipment	15-45 years
Other PP&E	5-20 years

(e) Intangible assets

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

Computer software that is acquired or developed by the Corporation after January 1, 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.

Payments for capital contributions under capital cost recovery agreements are classified as intangible assets. These include payments made for right of use for transformer stations for which the Corporation does not hold title. These rights are 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:

Computer software	5 - 10 years
Capital cost recovery agreement rights	25 years

(f) Impairment

(i) Financial assets measured at amortized cost

A loss provision for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss provision is measured at an amount equal to the lifetime expected credit losses for the asset. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(ii) Non-financial assets

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

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

3. Material accounting policy information (continued)

(f) Impairment (continued)

(ii) Non-financial assets (continued)

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

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

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.

(g) Customer deposits

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

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

(h) Provisions

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

(i) Regulatory balances

Regulatory debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

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

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

3. Material accounting policy information (continued)

(i) Regulatory balances (continued)

The probability of recovery of the regulatory 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.

When the Corporation is required to refund amounts to ratepayers in the future, the Corporation recognizes a regulatory credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

(j) Post-employment benefits

(i) Pension plan

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

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The Corporation is not responsible for any other contractual obligations other than the contributions. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when they are due.

(ii) Post-employment benefits, other than pension

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

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

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

3. Material accounting policy information (continued)

(j) Post-employment benefits (continued)

(ii) Post-employment benefits, other than pension (continued)

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.

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.

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

Finance costs comprise interest paid on borrowings and customer deposits. Finance costs are recognized in profit or loss unless they are capitalized as part of the cost of qualifying assets.

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

3. Material accounting policy information (continued)

(k) Income taxes

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and other relevant amounts contained in the Tax Acts as modified by the *Electricity Act*, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

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

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

4. Bank overdraft and line of credit

Cash and cash equivalents consist of bank balances in excess of outstanding cheques issued and not cashed. The Corporation has a bank overdraft limit of \$10,000,000, of which \$2,770,000 (2023 - nil) is drawn at year-end.

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

5. Accounts receivable

	2024	2023
Trade receivables	\$ 12,704,988	\$ 11,051,360
Less: allowance for impairment	(229,730)	(183,187)
	12,475,258	10,868,173
Provincial rebates and other receivables	542,877	1,140,126
Billable work	2,613,769	1,539,339
	\$ 15,631,904	\$ 13,547,638

6. Materials and supplies

No amounts were written down due to obsolescence in 2024 or 2023.

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

7. Property, plant and equipment

	Land and buildings	Distribution equipment	Other PP&E	Construction- in-progress	Total
<i>Cost or deemed cost</i>					
Balance at January 1, 2024	\$ 16,182,034	\$ 131,084,962	\$ 9,402,106	\$ 9,416,263	\$ 166,085,365
Additions	35,905	9,281,394	2,031,099	621,715	11,970,113
Disposals / Retirements	—	(1,243,941)	(341,866)	—	(1,585,807)
Transfers	\$ 238,744	\$ (358,525)	\$ —	\$ (28,902)	\$ (148,683)
Balance at December 31, 2024	\$ 16,456,683	\$ 138,763,890	\$ 11,091,339	\$ 10,009,076	\$ 176,320,988
Balance at January 1, 2023	\$ 14,877,767	\$ 120,382,929	\$ 8,859,687	\$ 5,252,690	\$ 149,373,073
Additions	1,304,267	12,427,405	622,705	4,163,573	18,517,950
Transfers	\$ —	\$ (1,725,372)	\$ (80,286)	\$ —	\$ (1,805,658)
Balance at December 31, 2023	\$ 16,182,034	\$ 131,084,962	\$ 9,402,106	\$ 9,416,263	\$ 166,085,365
<i>Accumulated depreciation</i>					
Balance at January 1, 2024	\$ 1,791,226	\$ 20,332,925	\$ 5,370,284	\$ —	\$ 27,494,435
Depreciation	251,771	4,166,770	961,931	—	5,380,472
Disposals/retirements	—	\$ (777,641)	\$ (341,865)	—	\$ (1,119,506)
Balance at December 31, 2024	\$ 2,042,997	\$ 23,722,054	\$ 5,990,350	\$ —	\$ 31,755,401
Balance at January 1, 2023	\$ 1,552,977	\$ 17,576,711	\$ 4,688,760	\$ —	\$ 23,818,448
Depreciation	238,249	3,909,124	752,305	—	4,899,678
Disposals/retirements	\$ —	\$ (1,152,910)	\$ (70,781)	\$ —	\$ (1,223,691)
Balance at December 31, 2023	\$ 1,791,226	\$ 20,332,925	\$ 5,370,284	\$ —	\$ 27,494,435
<i>Carrying amounts</i>					
At December 31, 2024	\$ 14,413,686	\$ 115,041,836	\$ 5,100,989	\$ 10,009,076	\$ 144,565,587
At December 31, 2023	\$ 14,390,808	\$ 110,752,037	\$ 4,031,822	\$ 9,416,263	\$ 138,590,930

Depreciation amounts totaling \$437,126 (2023 - \$335,072) for tools and transportation equipment are included in Operating expenses on the Statement of Comprehensive Income.

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

8. Intangible assets

	Computer software	Capital cost recovery agreement rights	Total
<i>Cost or deemed cost</i>			
Balance at January 1, 2024	\$ 2,741,782	\$ 2,001,889	\$ 4,743,671
Additions	568,307	—	568,307
Balance at December 31, 2024	\$ 3,310,089	\$ 2,001,889	\$ 5,311,978
Balance at January 1, 2023	\$ 2,669,416	\$ 2,001,889	\$ 4,671,305
Additions	72,366	—	72,366
Balance at December 31, 2023	\$ 2,741,782	\$ 2,001,889	\$ 4,743,671
<i>Accumulated depreciation</i>			
Balance at January 1, 2024	\$ 2,419,596	\$ 247,955	\$ 2,667,551
Depreciation	214,720	49,923	264,643
Balance at December 31, 2024	\$ 2,634,316	\$ 297,878	\$ 2,932,194
Balance at January 1, 2023	\$ 2,236,475	\$ 198,031	\$ 2,434,506
Depreciation	183,121	49,924	233,045
Balance at December 31, 2023	\$ 2,419,596	\$ 247,955	\$ 2,667,551
<i>Carrying amounts</i>			
At December 31, 2024	\$ 675,773	\$ 1,704,011	\$ 2,379,784
At December 31, 2023	\$ 322,186	\$ 1,753,934	\$ 2,076,120

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

9. Income tax expense

Current tax expense (recovery)

		2024		2023
Current year	\$	1,282,803	\$	257,437
Adjustment for prior years		(83,972)		(2,917)
	\$	1,198,831	\$	254,520

Deferred tax expense

		2024		2024
Origination and reversal of temporary differences	\$	(75,825)	\$	1,017,706
Tax adjustment included in other comprehensive income		8,338		(3,820)
	\$	(67,487)	\$	1,013,886

Reconciliation of effective tax rate

		2024		2024
Income before taxes	\$	4,244,580	\$	4,793,149
Canada and Ontario Statutory Income tax rate		26.5 %		26.5 %
Expected income tax recovery on income at statutory rates	\$	1,124,814	\$	1,270,184
Increase (decrease) in income taxes resulting from:				
Permanent differences		2,483		4,336
Other		7,047		(6,114)
Income tax expense	\$	1,134,344	\$	1,268,406

Significant components of the Corporation's deferred tax balance

		2024		2024
Deferred tax assets (liabilities):				
Property, plant and equipment	\$	(15,438,028)	\$	(13,632,029)
Post-employment benefits		123,171		124,258
Deferred revenue		9,187,888		7,919,662
Unrealized derivative		—		(332,366)
Other		(1,178,134)		(1,452,116)
	\$	(7,305,103)	\$	(7,372,591)

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

10. Regulatory balances

Reconciliation of the carrying amount for each class of regulatory balances

Regulatory asset balances	January 1, 2024	Additions	Recovery/ reversal	Transfers	December 31, 2024	Remaining recovery/ reversal years
Group 1 deferred accounts	\$ 5,462,060	\$ 3,993,446	\$ (4,390,337)	\$ (1,847,484)	\$ 3,217,685	2
Regulatory settlement account	7,651,068	5,159,536	(407,805)	(624)	12,402,175	1
Other regulatory accounts	582,556	2,277,866	—	—	2,860,422	5
Income tax	5,480,862	538,860	—	—	6,019,722	*
	\$19,176,546	\$11,969,708	\$ (4,798,142)	\$ (1,848,108)	\$ 24,500,004	

Regulatory asset balances	January 1, 2023	Additions	Recovery/ reversal	Transfers	December 31, 2023	Remaining recovery/ reversal years
Group 1 deferred accounts	\$ 6,590,440	\$ 1,515,753	\$ (2,644,133)	—	\$ 5,462,060	2
Regulatory settlement account	1,963,073	7,880,988	(2,192,993)	—	7,651,068	1
Regulatory transition to IFRS	281,432	—	(281,432)	—	—	2
Other regulatory accounts	1,735,130	(143,992)	(1,008,582)	—	582,556	5
Income tax	4,699,038	—	—	781,824	5,480,862	*
	\$15,269,113	\$ 9,252,749	\$ (6,127,140)	\$ 781,824	\$ 19,176,546	

Regulatory liability balances	January 1, 2024	Additions	Recovery/ reversal	Transfers	December 31, 2024	Remaining recovery/ reversal years
Group 1 deferred accounts	\$ (856,838)	\$ (3,279,892)	\$ 892,487	\$ 1,847,484	\$ (1,396,759)	2
Regulatory settlement account	(6,127,618)	(10,108,933)	3,905,655	623	(12,330,273)	2
Other regulatory accounts	(17,164)	(145)	—	—	(17,309)	1
	\$ (7,001,620)	\$ (13,388,970)	\$ 4,798,142	\$ 1,848,107	\$ (13,744,341)	

Regulatory liability balances	January 1, 2023	Additions	Recovery/ reversal	Transfers	December 31, 2023	Remaining recovery/ reversal years
Group 1 deferred accounts	\$ (1,470,755)	\$ (70,019)	\$ 683,936	—	\$ (856,838)	2
Regulatory settlement account	(2,127,922)	(7,799,560)	3,799,864	—	(6,127,618)	2
Other regulatory accounts	(1,644,633)	(15,872)	1,643,341	—	(17,164)	1
	\$ (5,243,310)	\$ (7,885,451)	\$ 6,127,141	—	\$ (7,001,620)	

* These balances will reverse as the related deferred tax balance reverses.

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

10. Regulatory balances (continued)

The regulatory balances are recovered or settled through rates approved by the OEB which are determined using estimates of future consumption of electricity by its customers. The Corporation has received approval from the OEB to for the disposition of its regulatory account balances. Recovery of the Group 1 deferral account balances is done on an annual basis through application to the OEB. Recovery of Group 2 deferral accounts is done at the time of filing a COS Rate Application to the OEB.

An application has been approved by the OEB for Milton Hydro to recover the Group 1 deferral accounts as at December 31, 2023 beginning Jan 1, 2024. The approved account balances will be moved to the recovery of regulatory account balances account on January 1, 2024. The OEB requires the Corporation to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory asset for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates.

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In 2024 the prescribed interest rate were as follows:

Q1 2024 - 5.49%

Q2 2024 - 5.49%

Q3 2024 - 5.20%

Q4 2024 - 4.40%

Milton Hydro's rate increase for 2024 was approved in the OEB's Decision and Rate Order dated December 14, 2024 based on Milton Hydro's 2025 Incentive Regulation Mechanism (IRM) rate application. The OEB approved a rate increase based on its Price Cap IR Adjustment formula for rates effective January 1, 2024 of 4.80%.

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

11. Accounts payable and accrued liabilities

	2024	2023
Accounts payable – energy purchases	\$ 9,606,945	\$ 8,346,705
Payroll payable	639,705	630,453
Interest payable	867,396	316,216
Other	8,484,486	10,992,056
	\$ 19,598,532	\$ 20,285,430

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

12. Long-term debt

	2024	2023
Interest bearing at 4.49%, payable in blended semi-annual payments of \$132,967, repaid.	— \$	381,638
Interest bearing at 4.84%, payable in blended semi-annual payments of \$138,786, repaid.	—	2,504,271
Interest bearing at 4.33%, payable in blended semi-annual payments of \$114,858, repaid.	—	2,265,395
Interest bearing at 3.92%, payable in blended semi-annual payments of \$80,468, repaid.	—	1,674,647
Interest bearing at 3.87%, payable in blended semi-annual payments of \$80,044, repaid.	—	1,717,877
Interest bearing at 3.74%, payable in blended semi-annual payments of \$94,242, repaid.	—	2,094,841
Interest bearing at 3.97%, payable in blended semi-annual payments of \$123,719, repaid.	—	2,909,830
Interest bearing at 3.04%, payable in blended semi-annual payments of \$223,845, repaid.	—	5,775,049
Interest bearing at 3.55%, payable in blended semi-annual payments of \$121,345, repaid.	—	3,077,791
Interest bearing at 3.31%, payable in blended semi-annual payments of \$38,427, repaid.	—	993,076
Interest bearing at 3.58%, payable in blended monthly payments of \$18,140, repaid.	—	3,016,484
Interest bearing at 3.74%, payable in blended monthly payments of \$13,876, repaid.	—	2,566,132
Interest bearing at 3.90%, payable in blended monthly payments of \$18,867, repaid.	—	3,351,091
Interest bearing at 3.15%, payable in blended monthly payments of \$12,886, repaid.	—	2,323,688
Interest bearing at 3.10%, payable in blended monthly payments of \$4,270, repaid.	—	913,911
Interest bearing at 2.35%, payable in blended monthly payments of \$15,495, repaid.	—	3,673,492
Interest only bearing committed revolving \$25M draw facility at Prime less 0.250% with Bankers Acceptance fee (Stamping fee 0.800% per annum, repaid.	—	22,673,986
	—	61,913,199
Less: current portion of long-term debt	—	(1,885,618)
	\$ —	\$ 60,027,581

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

12. Long-term debt (continued)

During 2022, the Corporation contracted and entered into a forward booked interest rate swap arrangement on \$23,000,000 of the draw facility at 3.983% that has an effective payment beginning on January 3rd, 2023. This new facility has a contractual four (4) year term from date of drawdown, with interest at Prime less 0.250% and a Bankers Acceptance stamping fee of 0.800% per annum. The Corporation has not applied hedge accounting and the associated unrealized losses are included in the statement of comprehensive income. During 2024, the interest rate swap agreement was settled as part of the facility debt repayment resulting in a gain of \$1,492.

In conjunction with the \$3,016,484, \$3,351,091, and \$2,323,688 facilities, the Corporation entered into interest rate swap arrangements in prior years. The interest rate on the three facilities is variable and its risk has been mitigated through the entering of swap agreements. The fair value of the interest rate swap agreements is based on amounts quoted by the Corporation's financial institution taking into account interest rates at December 31, 2023. During 2024, the interest rate swap agreements were settled as part of the facility debt repayment resulting in a gain of \$716,790.

At December 31, 2023, the interest rate swaps were in a net favourable position of \$1,883,354.

During the year, Milton Hydro Holdings Inc. ("MHHI") raised funds through a private placement of debentures and amounts were loaned to the Corporation and the proceeds from this loan were used to repay the debt owed by MHDI for all facilities. At December 31, 2024, MHDI owes MHHI \$60,000,000, bearing semi-annual interest of 4.544%. No principal payments are required during the duration of the term of the debt. The debt is due September 6, 2031.

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

13. Post-employment benefits

(a) OMERS pension plan

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2024, the Corporation made employer contributions of \$686,393 to OMERS (2023 - \$648,490), of which \$126,551 (2023 - \$207,517) has been capitalized as part of PP&E and the remaining amount of \$559,842 (2023 - \$440,973) has been recognized in profit or loss. The Corporation estimates that a contribution of \$812,663 to OMERS will be made during the next fiscal year.

As at December 31, 2024, OMERS had approximately 640,000 members, of whom 61 are current employees of the Corporation. The most recently available OMERS annual report is for the year ended December 31, 2024, which reported that the plan was 98% funded.

(b) Post-employment benefits other than pension

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

Reconciliation of the obligation	2024	2023
Defined benefit obligation, beginning of year	\$ 468,898	\$ 444,362
Included in profit or loss	9,814	8,319
Current service cost	—	(20,726)
Interest cost	21,301	22,527
	31,115	10,120
Included in other comprehensive income		
Actuarial (gain) losses	(31,473)	14,416
Benefits paid	(3,744)	—
	\$ 464,796	\$ 468,898

Actuarial assumptions	2024	2023
General inflation	2.40 %	3.30 %
Discount rate	4.80 %	4.65 %
Salary levels	3.30 %	3.30 %

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

13. Post-employment benefits (continued)

(b) Post-employment benefits other than pension (continued)

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing to \$76,700 (2023 - \$82,200). A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing to \$102,800 (2023 - \$110,800).

14. Share capital

	2024	2023
Authorized:		
Unlimited number of common shares		
Issued:		
2,000 common shares	\$ 17,008,908	\$ 17,008,908

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time. The Corporation declared and paid aggregate dividends in the year on common shares of \$1,095 per share (2023 - \$889), which amount to total dividends paid in the year of \$2,190,800 (2023 - \$1,778,366).

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

15. Revenue

	2024	2023
Distribution revenue	\$ 24,895,366	\$ 21,811,464
Sales of energy	128,160,186	113,098,610
Rendering services	453,308	452,833
Water and wastewater billing	738,390	844,558
Revenue from contracts with customers	154,247,250	136,207,465
Amortization of deferred revenue	919,579	759,513
Miscellaneous other revenue	128,778	(167,454)
Total revenue	155,295,607	136,799,524
Revenue from contracts with customers:		
Residential	72,443,915	60,150,030
General service	66,109,980	59,722,879
Commercial	738,390	—
Large User	13,777,711	14,082,129
Other	1,177,254	2,252,427
	\$ 154,247,250	\$ 136,207,465

16. Operating expenses

	2024	2023
Employee salaries and benefits	\$ 5,425,911	\$ 5,676,386
Contract/ consulting	5,324,471	3,477,572
Materials and supplies	170,936	406,024
Vehicles	381,559	251,005
Leases of equipment	19,715	16,993
Other	3,493,606	2,105,495
	\$ 14,816,198	\$ 11,933,475

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

17. Finance income and costs

	2024	2023
Finance income		
Interest income on bank deposits and gain on settlement of derivatives	\$ 837,451	\$ 226,567
Finance costs		
Interest expense on long-term debt	3,825,531	2,406,026
Interest expense on customer deposits	162,908	183,784
	3,988,439	2,589,810
Net finance costs recognized in profit or loss	\$ 3,150,988	\$ 2,363,243

18. Commitments and contingencies

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.

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, 2024, no assessments have been made.

19. Operating leases

The Corporation is committed to lease agreements for various equipment of low value. The Corporation is currently committed to a photocopier lease agreement.

The future minimum non-cancellable annual lease payments are due as follows:

	2024	2023
Between one and five years	\$ 45,507	\$ 63,310

During the year ended December 31, 2024, an expense of \$19,715 (2023 - \$16,993) was recognized in net income in respect of these low value operating leases.

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

20. Related party transactions

Transactions between related parties are recorded at the exchange amount agreed to by the related parties unless otherwise noted.

(a) Parent and ultimate controlling party

The sole shareholder of the Corporation is Milton Hydro Holdings Inc., which in turn is wholly-owned by the Town. The Town produces consolidated financial statements of Milton Hydro Holdings Inc. that are available to the public.

(b) Outstanding balances with related parties

	2024	2023
Due from (to) related parties, net		
Parent company	\$ (193,931)	\$ (543,749)
Affiliated companies	(43,914)	(144,044)
	(237,845)	(687,793)
 Town of Milton (in accounts receivable)	 350,374	 307,596

The amounts due from the Town are regular receivables and as such are included in accounts receivable and are non-interest bearing with no fixed terms of repayment.

(c) Transactions with parent

During the year, the Corporation paid management and business development fees to its parent in the amount of \$1,578,898 (2023 - \$1,015,913).

(d) Transactions with ultimate parent (the Town)

The Corporation had the following transactions with its ultimate parent, a government entity:

In the ordinary course of business, the Corporation delivers electricity to the Town. During the year, the Corporation earned gross revenue of \$1,983,793 (2023 - \$2,468,495) from the Town. Of this amount, \$277,162 (2023 - \$489,980) was net distribution revenue. Electricity delivery charges are at prices and under terms approved by the OEB.

(e) Key management personnel

The key management personnel of the Corporation have been defined as the executive management team members and board of directors. During 2023, certain executives were effectively transferred from the Corporation to the Parent Company's payroll. The compensation paid or payable is as follows:

	2024	2023
Total compensation	\$ 411,207	\$ 832,088

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

21. Financial instruments and risk management Fair value disclosure

The carrying values of cash and cash equivalents, accounts receivable, unbilled revenue, due from/to related parties and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

The fair value of the long-term debt at December 31, 2024 is \$60,400,000. The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2024 is 4.54%.

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 and liquidity risk, as well as related mitigation strategies are discussed below. The corporation is not significantly exposed to interest rate risk.

(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 Milton. No single customer account has a balance in excess of 3.5% of total accounts receivable. The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in profit or loss.

Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2024 is \$229,730 (2023 - \$183,187). An impairment loss of \$248,997 (2023 - \$221,135) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2024, approximately \$640,059 (2023 - \$473,188) is considered 45 days past due. The Corporation has over 40,000 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from general service customers in accordance with directions provided by the OEB and through credit insurance. As at December 31, 2024, the Corporation holds security deposits in the amount of \$3,339,368 (2023 - \$3,446,106).

(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.

MILTON HYDRO DISTRIBUTION INC.

Notes to Financial Statements

Year end December 31, 2024

21. Financial instruments and risk management Fair value disclosure (continued)

(c) Liquidity risk

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Corporation has access to a \$10 million credit facility. The Corporation monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they become due. As at December 31, 2024, \$2,770,000 had been drawn under the Corporation's credit facility.

Vendor payables due within 15 days equates to nil% of the accounts payable balance, as report on the statement of financial position.

(d) Capital disclosures

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

The Corporation's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2024, shareholder's equity amounts to \$54,101,195 (2023 - \$52,639,900) and long-term debt due beyond one year amounts to \$60,000,000 (2023 - \$60,027,581).

22. Comparative information

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year and have no changes on net income.