Lakefront
Utilities
Inc.

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June 26, 2026

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 26th Floor
Toronto ON M4P 1E4

Attention: Registrar

Dear Registrar,

Re: Lakefront Utilities Inc. – 2027 Cost of Service Application
Ontario Energy Board File Number: EB-2026-0054

Lakefront Utilities Inc. ("LUI") is pleased to submit its 2027 Cost of Service Application (the "Application") for the Ontario Energy Board's review and approval of its proposed distribution rates effective January 1, 2027.

The Application has been filed electronically through the OEB's RESS/Pivotal system and includes the required models and supporting evidence in accordance with the OEB's filing requirements.

Should any further information or clarification be required, please do not hesitate to contact the undersigned.

Yours very truly,

Dereck C. Paul

President & CEO
Lakefront Utilities Inc.

EXHIBIT 1 – ADMINISTRATIVE DOCUMENTS

2027 Cost of Service

Lakefront Utilities Inc.
EB-2026-0054

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1.1 LEGAL APPLICATION & ADMINISTRATIVE MATTERS

In the matter of; the Ontario Energy Board Act, 1998; S.O. 1998, c.15, Schedule B, as amended; and in the matter of; an Application by Lakefront Utilities for an Order or Orders approving or fixing just and reasonable distribution rates effective Jan 1st, 2027.

Lakefront Utilities Inc. ("LUI," "the utility," "the applicant") is a licensed distributor of electricity under distribution license ED-2002-0545 issued by the Ontario Energy Board (the "OEB" or the "Board") under the Ontario Energy Board Act, 1998 (the "Act").

LUI hereby applies to the Board pursuant to section 78 of the Act for an Order or Orders approving or fixing just and reasonable distribution rates effective January 1st, 2027.

The evidence contained in this application follows the Filing Requirements for Electricity Distribution Rate Applications (Filing Requirements) for electricity distributors issued on December 15th, 2025. LUI is not requesting for this application to be reviewed under the small electricity distribution requirements and process as it does not meet the requirements.

LUI accordingly applies to the Board for the following Order or Orders: (List of Approvals):

1. Approval to charge distribution rates, effective January 1st, 2027, to recover a base revenue requirement of $7,151,812 which includes a revenue deficiency of $987,025 using the Base Revenue Requirement as detailed in Exhibit 6. The schedule of proposed rates is set out in Exhibit 8.
2. Approval of the 2027 capital expenditures of $2,273,129 including $984,808 in capital contributions as supported by the Distribution System Plan outlined in Exhibit 2.
3. Approval to adjust the Retail Transmission Rates – Network and Connection previously approved and detailed in Exhibit 8.
4. Approval of the proposed Loss Factors of 4.35 as detailed in Exhibit 8.
5. Approval to continue to charge Wholesale Market Services, Capacity Based Recovery, and Rural Rate Protection Charges.
6. Approval of Low Voltage charges as detailed in Exhibit 8.
7. Approval to continue the specific Service Charges (except for the MicroFIT Monthly Service charge) and Transformer Allowance as previously approved by the OEB and detailed in Exhibit 8.
8. Approval of the Rate Riders for a one-year disposition of the Group 1 and Group 2 and Other Deferral and Variance Accounts as detailed in Exhibit 9.
9. Disposal/recovery of 1588 & 1589 commodity account balances as of December 31st, 2025, on a final basis with Rate Riders for a one-year disposition.
10. Disposal of the balance in the wireline pole attachment variance account as of December 31st, 2025, as recorded in account 1508 with account disposition requested on a final balance.
11. Approval of the disposition of the deferred Incremental Capital Module ("ICM") funding associated with the MS28-3 Distribution Station project, representing the remaining 50% of

the approved ICM revenue requirement deferred to Account 1508 pursuant to the OEB's Decision and Order in EB-2024-0038, with a proposed disposition balance of approximately $124,559, as detailed in Exhibit 2 and 9.

12. Approval of the establishment of a Management Fee Refund Variance Account, including the proposed accounting order and account description set out in Exhibit 9, to record differences between forecast and actual amounts refunded to customers through the Management Fee Refund Rate Rider.
13. Approval of the disposition of the Management Fee Refund Variance Account, including the refund of $1,151,724, comprised of principal and carrying charges associated with amounts previously collected from customers in respect of the historical management fee charged through affiliate services arrangements, as detailed in Exhibit 4 and 9.
14. Approval of the establishment of a temporary, declining Management Fee Refund Rate Rider to refund the balance in the Management Fee Refund Variance Account to customers over a four-year period, as detailed in Exhibit 9.
15. Approval to discontinue the existing General Service 50-2,999 kW and General Service 3,000-4,999 kW customer classes and establish a single General Service 50-4,999 kW customer class, effective January 1, 2027, as detailed in Exhibit 3 and reflected in Exhibit 8.

This application consists of the following Exhibits and Excel live models supporting the evidence presented in this application.

- ✓ Exhibit 1: Administrative Documents
- ✓ Exhibit 2: Rate Base and DSP
- ✓ Exhibit 3: Revenues
- ✓ Exhibit 4: Operation, Maintenance, and Administrative Costs
- ✓ Exhibit 5: Cost of Capital
- ✓ Exhibit 6: Revenue Requirement
- ✓ Exhibit 7: Cost Allocation
- ✓ Exhibit 8: Rate Design
- ✓ Exhibit 9: Deferral and Variance Accounts

- ✓ EB-2026-0054 LUI 2027 Benchmarking Forecast Model
- ✓ EB-2026-0054 LUI 2027 Cost Allocation
- ✓ EB-2026-0054 LUI 2027 PILs Workform
- ✓ EB-2026-0054 LUI 2027 Rev Req Workform
- ✓ EB-2026-0054 LUI 2027 RTSR Workform
- ✓ EB-2026-0054 LUI 2027 Update Demand Data
- ✓ EB-2026-0054 LUI 2027 COS Checklist
- ✓ EB-2026-0054 LUI 2027 DVA Continuity Schedule
- ✓ EB-2026-0054 LUI 2027 Chapter 2 Appendices
- ✓ EB-2026-0054 LUI 2027 Commodity Workform
- ✓ EB-2026-0054 LUI 1508 Pole Attachement

LUI confirms that it has used the same methodology to determine its rates as it did in its previous applications, subject to an update to the corporate cost allocation methodology as detailed in Exhibit 4.

1.2. HOW TO READ THIS EXHIBIT

What filing components formed the foundation of this Exhibit? (Section 1.2):

Section 1.2 summarizes the key administrative elements required for a complete filing, including notices, certifications, issues lists, model amendments, and statements of compliance. These items establish the formal framework for the application.

What we are asking for (Section 1.3):

Section 1.3 outlines the approvals LUI is seeking, including proposed rates, the revenue requirement, load forecast, capital plan, OM&A needs, and associated bill impacts. These are supported by evidence in Exhibits 3 to 8.

What rules guide this application (Section 1.4):

Section 1.4 sets out the regulatory context, highlighting relevant OEB directives and policy initiatives such as reliability benchmarking, CCIM requirements, DER and electrification planning, and benefit–cost expectations for non-wires alternatives.

Who we are (Section 1.5):

Section 1.5 provides an overview of LUI’s system, service area, and planning environment, including key system characteristics and external factors shaping investment decisions.

Who we serve (Section 1.6):

Section 1.6 summarizes LUI’s customer engagement activities, including ongoing communication practices, recent survey results, and application-specific outreach used to inform rates and service planning.

How we are performing operationally (Section 1.7):

Section 1.7 presents LUI’s performance results, including scorecard metrics, benchmarking outcomes, and long-term reliability trends, with links to the Distribution System Plan.

How we are performing financially (Section 1.8):

Section 1.8 summarizes LUI’s financial performance and outlook, including historical results, the revenue requirement forecast, and the treatment of OM&A, capital, and cost of capital. Supporting details are provided in Exhibits 4 and 5.

LDC consolidation and collaboration (Section 1.9):

Section 1.9 outlines LUI’s position on sector consolidation. It references the Ministry’s 2021 direction and confirms that while no further updates have been issued, LUI continues to explore cost-sharing and service partnerships with neighbouring utilities and sector groups, consistent with its strong performance as a small distributor.

1.2.1 Contact Information.

The key contacts for this application are as follow:

Applicants Name:	Lakefront Utilities Inc.
Applicant Address:	207 Division Street, Cobourg, ON K9A 4L3
Internet Address:	https://www.lakefrontutilities.com
Social Media Address:	https://x.com/LUSINews
LUI's Contact Info.	Dereck Paul President and CEO Office: 905-373-3250 DPaul@lusi.on.ca
LUI's Contact Info.	Laurie Ann Cooledge, CPA CMA Acting CFO Cell: 905-373-8097 LCooledge@lusi.on.ca
LUI's Regulatory Consultant	Manuela Ris Consultant manuela@tandemenergyservices.ca 416-562-9295
LUI's Counsel:	Michael Buonaguro Email: mikebuonaguro@me.com Phone: 416-767-1666

LUI confirms the following administrative information:

- All documents have been submitted to the OEB via RESS.
- LUI confirms that the application contains no confidential information and complies with the direction of practice regarding the handling of such information.
- This application is supported by written evidence. LUI requests that under Section 34.01 of the Board's Rules of Practice and Procedure, this proceeding be conducted by way of written hearing but understands that if specific issues remain unsettled post-settlement, the utility may be asked to participate in an oral hearing. LUI notes that it has no special conditions in its license.

1.2.2 Notice of Application.

Upon receiving the Letter of Direction and the Notice of Application and Hearing from the Board, the OEB will arrange to have the Notice of Application and Hearing for this proceeding published in the following local community not-paid-for newspaper with the highest circulation in its service area. Northumberland News IS the highest unpaid local publications in the area.

Once the Notice of Application and Hearing has been published in the above-listed newspapers, LUI will file an Affidavit of Publication.

The application, along with all supporting evidence, will also be posted on the utility's website. Customers will be informed of the filing via traditional media, social media, and the utility's website once the application is accepted by the Ontario Energy Board (OEB).

1.2.3 Certification of Accuracy of Evidence

I, Dereck Paul, Chief Executive Officer of Lakefront Utilities Inc. ("LUI"), certify the following:

That, to the best of my knowledge, the evidence filed, including the models and appendices, is accurate, consistent, complete, and complies with the Ontario Energy Board's Filing Requirements for Electricity Distribution Rate Applications, Chapter 2 Cost of Service Filing Requirements, 2026 Edition for 2027 Rate Applications, dated December 16, 2025.

That, to the best of my knowledge, the evidence filed in support of this Application does not include any personal information unless it is filed in accordance with Rule 9A of the OEB's Rules of Practice and Procedure (and the Practice Direction on Confidential Filings, as applicable).

That, to the best of my knowledge, LUI has robust processes and internal controls in place for the preparation, review, verification, and oversight of the account balances proposed for disposition.

That the Board of Directors of LUI is aware of and approves the submission of LUI's 2027 Cost of Service Application to the Ontario Energy Board. The Board resolution is included in the appendices to this Exhibit.

Artificial Intelligence Disclosure

Lakefront Utilities Inc. used artificial intelligence on a limited basis during the preparation of this Application. Its use was restricted to editorial assistance, including improving clarity, readability, grammar, and the organization of existing narrative. Artificial intelligence was not relied upon to develop evidence, perform analyses, reach conclusions, or create information that did not already exist and had not been reviewed by management.

This Application has undergone a comprehensive review process. The evidence, models, appendices, and supporting schedules have been thoroughly reviewed and vetted by Lakefront Utilities' executive management team, regulatory consultants, and legal counsel. In addition, technical sections of the Application, including those relating to operations, asset management, and the Distribution System Plan, were reviewed by the independent engineering consultant responsible for preparing the Distribution System Plan.

Accordingly, I, Dereck Paul, confirm, to the best of my knowledge and belief, that Lakefront Utilities Inc. has established and maintains appropriate processes and internal controls for the preparation, review, verification, and oversight of all regulatory evidence filed with this Application, including all deferral and variance accounts, regardless of whether they are proposed for disposition. Based on the comprehensive review process described above, I am satisfied that the information filed is accurate, complete, consistent, and suitable for consideration by the Ontario Energy Board.

Dereck Paul
Chief Executive Officer
Lakefront Utilities Inc.

1.2.4 Standard Proposed Issues List

1. Capital Spending and Rate Base

1.1 Are the proposed capital expenditures and in-service additions appropriate?
1.2 Are the proposed rate base and depreciation amounts appropriate?

2. OM&A

2.1 Are the proposed OM&A expenditures appropriate?
2.2 Is the proposed shared services cost allocation methodology and the quantum appropriate?

3. Cost of Capital, PILs, and Revenue Requirement

3.1 Is the proposed cost of capital (interest on debt, return on equity) and capital. structure appropriate?
3.2 Is the proposed PILs (or Tax) amount appropriate?
3.3 Is the proposed Other Revenue forecast appropriate?
3.4 Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the rate-making treatment of each of these impacts?

appropriate?
3.5 Is the proposed calculation of the Revenue Requirement appropriate?

4. Load Forecast

4.1 Is the proposed load forecast methodologies and the resulting load forecasts. appropriate?

5. Cost Allocation, Rate Design, and Other Charges

5.1 Are the proposed cost allocation methodology, allocations, and revenue-to cost ratios appropriate?
5.2 Is the proposed rate design, including fixed/variable splits, appropriate?
5.3 Are the proposed Retail Transmission Service Rates and Low Voltage rates? appropriate?
5.4 Are the proposed loss factors appropriate?
5.5 Are the Specific Service Charges and Retail Service Charges appropriate?
5.6 Are rate mitigation proposals required and appropriate?

6. Deferral and Variance Accounts

6.1 Are the proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, requests for new accounts, requests for discontinuation of accounts, and the continuation of existing accounts, appropriate?

7. Other

7.1 Is the proposed effective date appropriate?
7.2 Has the applicant responded appropriately to all relevant OEB directions. from previous proceedings?

1.2.5 Confirmation of Privacy Protection

Lakefront Utilities Inc. ("LUI") confirms that the documents filed in support of LUI's referenced application do not include any personal information (as that phrase is defined in the Freedom of Information and Protection of Privacy Act), that is not otherwise redacted in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

1.2.6 Financial and Load Information filed in this application

LUI's application reflects a projected bridge (2026) and Test (2027) year. LUI notes that its 2022 to 2025 financial and load information have been audited.

LUI has not changed any of its proposed methodologies from its last cost of service unless dictated explicitly by the regulator through a policy change.

Capital Spending

- 2022-2025: Audited balances
- 2026-2027: Budgeted balances.

Operating Expenses

- 2022-2025: Audited balances
- 2026-2027: Budgeted balances.

Other Revenues

- 2022-2025: Audited balances
- 2026-2027: Budgeted balances.

Load Forecast

- 2015-2025 Wholesale: Actuals.
- 2026-2027 Wholesale: forecasted using 10-year regression analysis.

RTSR

- 2025: Actuals consumption at most recent published rates.

LV Charges

- 2025: Actuals consumption at most recent published rates.

Cost of Power

- Most current RPP/non-RPP split: 2025 Actuals applied to 2027 Load Forecast.

Cost of Capital

- Per Cost of Capital Parameters for 2025 Cost-Based Rates Issued by the OEB in a letter dated October 31st, 2025.

Deferral and Variance Accounts

- 2025 Audited Actuals
- Commodity Work form: 2025 Actuals

1.2.7 Statement of Deviation of Filing Requirements

Except where specifically identified in the Application, LUI followed Chapter 2 of the OEB's "Filing Requirements for Electricity Transmission and Distribution Applications", dated December 15, 2025. The excel version of the completed 2027 Cost of Service checklist is being filed in conjunction with this application. LUI has, as applicable, utilized the OEB's models as updated for 2027 Cost of Service applications in accordance with the OEB's letter dated April 11, 2025.

1.2.8 Amendments to OEB models

No changes were made to the OEB models unless specifically instructed by the OEB.

1.2.9 Materiality Threshold.

The Minimum Filing Requirements state that a distributor with a distribution revenue requirement less than $10 million must use a materiality threshold for year over year variances of $50,000 when comparing the board approved test year to the proposed test year.

LUI has also used its best judgment to provide justification and analysis for variances that are below the established threshold. At times, LUI discusses even minor variances to ensure a comprehensive understanding of all factors influencing its financial and operational performance, recognizing the significance of transparency and accountability.

1.3. SUMMARY OF APPLICATION

Lakefront Utilities Inc. is seeking approval of rates effective January 1, 2027, to support the continued safe, reliable, and efficient operation of its electricity distribution system.

This application reflects LUI's transition from the lean operating structure established during its 2022 rebasing proceeding to a more sustainable operating model capable of supporting regulatory compliance, workforce stability, customer service, system reliability, and prudent modernization. The application also reflects significant governance and operational improvements, including enhanced affiliate cost allocation practices, a formalized shared-services framework, improved financial controls, and a proposed refund to customers associated with historical management fee amounts.

LUI remains among the most efficient distributors in Ontario. The proposed revenue requirement supports targeted investments in distribution infrastructure, workforce development, system modernization, reliability improvements, voltage conversion initiatives, and customer growth while maintaining a strong focus on affordability.

1.3.1 Distribution Rates

The table below shows LUI's yearly OEB-approved fixed and variable rate from the last cost of Service in 2022 to the proposed 2027 rates. Rates in between the Cost-of-Service applications were adjusted through IRM applications to reflect the Price Cap in effect at that time. LUI is seeking an increase in its distribution rates from its current 2026 rates in all of its customer classes.

Table 1 – Rates Since last Cost of Service (2026-2027)

Customer Class	2026	2027 CoS	Variance	% Change
Residential	$28.79	$33.13	$4.34	15.1%
General Service < 50 kW	$29.77	$29.77	$0.00	0.0%
General Service ≥ 50 to 4,999 kW	$108.33	$108.33	$0.00	0.0%
Unmetered Scattered Load	$11.56	$11.42	($0.14)	(1.2%)
Sentinel	$6.97	$6.97	$0.00	0.0%
Street Lighting	$2.19	$2.19	$0.00	0.0%

Customer Class	2026	2027 CoS	Variance	% Change
Residential	$0.0000	$0.0000	$0.0000	0.0%
General Service < 50 kW	$0.0110	$0.0145	$0.0035	31.8%
General Service ≥ 50 to 4,999 kW	$4.3243	$6.0219	$1.6976	39.3%
Unmetered Scattered Load	$0.0172	$0.0170	($0.0002)	(1.2%)
Sentinel	$15.8805	$116.6038	$100.7233	634.3%
Street Lighting	$5.7488	$20.0859	$14.3371	249.4%

Proposed Customer Class Consolidation

As part of this Application, Lakefront Utilities Inc. is proposing to consolidate the existing General Service 50-2,999 kW and General Service 3,000-4,999 kW customer classes into a single General Service 50-4,999 kW customer class, effective January 1, 2027. Details of the proposed customer class composition and supporting rationale are provided in Exhibit 3. LUI has reached out the sole customer of the General Service 3,000-4,999 kW customer classes to discuss the impact on its rates.

1.3.2 Revenue Requirement

The table below shows the change in LUI's revenue requirement from the last Cost of Service in 2022 compared to the proposed 2027 Test Year.

The proposed Revenue Requirement for the 2027 test year of $7,151,812 reflects an increase of $2,449,834 from the 2022 Board Approved Revenue Requirement. The increase is primarily attributable to higher OM&A requirements, depreciation expense, PILs, and return on rate base associated with investments necessary to maintain reliable service, support regulatory compliance, strengthen operational capacity, and address asset renewal requirements. These increases are partially offset by growth in revenues and other operating efficiencies.

Table 2 – Revenue Requirement

Item	2022 Amount	Change	2027 Amount	Notes / Drivers
Opening Revenue Requirement (2022 Board Approved)	$4,701,978			As per last CoS decision
OM&A Increase	$2,822,241	$1,323,981	$4,146,221	Inflation, customer growth, cybersecurity, vegetation management, engineering support, compensation increases
Depreciation Expense Increase	$1,001,950	$614,333	$1,616,283	Larger asset base resulting from capital investments placed in service
PILs Variance	$0.00	$175,565	$175,565	PILs expense applicable in the 2027 Test Year
Net Power Supply & Controllable Expenses Increase	$33,304,341	$1,939,433	$35,243,774	Increased purchased power and controllable costs; primarily pass-through in nature
Rate Base Increase	$22,918,831	$9,683,621	$32,602,45	Growth in net fixed assets and working capital allowance
Deemed Interest Expense	$455,093	$274,490	$729,584	Higher rate base and updated deemed debt rates
Deemed Return on Equity	$793,908	$394,125	$1,188,033	Increased rate base and higher approved ROE
Working Capital Allowance Change	$2,497,826	$145,457	$2,643,283	Increase in power supply costs at 7.5% allowance
Revenue Offset / Other	($429,272)	($334,767)	($764,039)	Higher revenues from specific service charges, late payment charges and other revenue offsets
Total Revenue Requirement Variance		$2,449,834		Net change from 2022 Board-approved to 2027 Test Year revenue requirement
Closing Revenue Requirement (2027 Test Year)			$7,151,812	Reconciles to RRWF

1.3.3 Load Forecast

LUI used the same load forecasting methodology employed in its previous applications. The 2027 load forecast is based on a standard multiple regression analysis that relates historical monthly wholesale kWh consumption to key explanatory variables, including weather, the number of days in each month, and seasonal (spring and fall) effects. Weather is the most significant driver of electricity consumption across the service territory.

Weather-normalized values were determined by applying the regression equation using 10-year average monthly degree days for the period 2015 to 2025.

Forecast wholesale kWh was allocated to the weather-sensitive rate classes (Residential, GS < 50 kW and GS > 50 kW) based on each class's average share of actual retail kWh sales, excluding distribution losses, relative to actual wholesale kWh over the 2015 to 2025 period.

The resulting 2027 load forecast is presented in Table 3 below. Additional details regarding the load forecast methodology and assumptions are provided in Exhibit 3.

Table 3 – Load Forecast

Rate Class	Board Approved	2027 Test Year	Change	% Change
Customer Count				
Residential	9,611	10,465	854	8.9%
General Service < 50 kW	1,148	1,131	(17)	(1.5%)
General Service > 50 to 4,999 kW	106	108	2	1.9%
Unmetered Scattered Load	80	99	19	23.8%
Sentinel	49	49	0	0.0%
Streetlights	3,159	3,117	(42)	(1.3%)
Total Customers	14,153	14,969	816	5.8%
Energy (kWh)				
Residential	75,290,019	87,951,385	12,661,366	16.8%
General Service < 50 kW	34,580,902	37,827,326	3,246,424	9.4%
General Service > 50 to 4,999 kW	126,669,984	118,852,354	(7,817,630)	(6.2%)
Unmetered Scattered Load	617,799	649,183	31,384	5.1%
Sentinel	44,683	44,093	(590)	(1.3%)
Streetlights	1,091,871	1,165,955	74,084	6.8%
Total kWh	238,295,258	246,490,296	8,195,038	3.4%
Demand (kW)				
General Service > 50 to 4,999 kW	329,698	306,600	(23,098)	(7.0%)
Sentinel	134	113	(21)	(15.7%)
Streetlights	2,919	3,006	87	3.0%
Total kW	332,751	309,719	(23,032)	(6.9%)

1.3.4 Rate Base and Distribution System Planning

The proposed 2027 Rate Base of $32.6 million represents an increase of $9.7 million (42.3%) from the 2022 Board Approved Rate Base of $22.9 million. The increase is primarily attributable to capital investments placed into service during the rebasing period, which have increased average net fixed assets by $9.5 million.

As discussed in Exhibit 2, LUI's capital program is driven by customer growth, distribution system renewal, system modernization, and operational support requirements. Significant investments completed or planned during the rebasing period include the MS28-3 Victoria Distribution Station, subdivision-related infrastructure associated with the Rondeau and Densmore Meadows developments, distribution automation initiatives, outage management system investments, feeder and line renewal programs, fleet replacements, and information technology upgrades.

These investments support LUI's obligations to connect new customers, maintain electrical safety and reliability, replace aging infrastructure, and improve operational efficiency. The resulting increase in rate base reflects prudent capital investments required to maintain and expand the distribution system while continuing to provide safe and reliable service to customers.

The historical and forecast capital expenditures underlying the proposed Rate Base are discussed in detail in Exhibit 2, including project needs assessments, alternatives evaluations, prioritization methodologies, and the Distribution System Plan. LUI submits that the proposed 2027 Rate Base appropriately reflects the utility's investment in distribution assets used and useful in providing service to customers.

Table 4 – Rate Base

Particulars	2022 Board Approved	2027 Test Year	Variance ($)
Gross Fixed Assets (average)	$37,943,278	$44,434,112	$6,490,834
Accumulated Depreciation (average)	($17,522,273)	($14,474,943)	$3,047,330
Net Fixed Assets (average)	$20,421,005	$29,959,168	$9,538,163
Allowance for Working Capital	$2,497,826	$2,643,283	$145,457
Total Rate Base	$22,918,831	$32,602,451	$9,683,620

1.3.5 Operating Expenses (OM&A)

The table below summarizes LUI's recoverable OM&A expenses for the 2022 Board Approved year and the 2027 Test Year. Recoverable OM&A is proposed to increase by approximately $1.3 million, or 46.9%, over the rebasing period.

The increase reflects a combination of workforce investments, compensation adjustments, system modernization initiatives, increased regulatory and compliance requirements, customer growth, inflationary pressures, and the transition from consultant-supported activities to internal resources. The Test Year OM&A also reflects updates to the utility's shared service and corporate cost allocation methodology. Detailed explanations of the OM&A cost drivers, staffing additions, shared service allocations, and year-over-year variances are provided throughout Exhibit 4.

Table 5 – Summary of Recoverable OM&A Expenses (Appendix 2-JA)

	Board Approved	2027 Test Year	Variance $	Variance %
Operations	$707,393	$1,019,234	$311,841	44.1%
Maintenance	$312,541	$382,921	$70,380	22.5%
Billing and Collecting	$580,283	$756,131	$175,848	30.3%
Community Relations	$19,757	$14,456	($5,301)	(26.8%)
Administrative and General + LEAP	$1,202,267	$1,973,479	$771,212	64.1%
Total	$2,822,241	$4,146,221	$1,323,980	46.9%

1.3.6 Cost of Capital

LUI seeks to recover a weighted average cost of capital of 5.88% through rates in the 2027 Test Year. As per the OEB's prescribed Cost of Capital Parameters published for 2027 Cost of Service applications, LUI has used the OEB's deemed capital structure of 56% long-term debt, 4% short-term debt, and 40% equity, as well as the most recent, published allowed return on equity (ROE) rate of 9.11%. LUI commits to updating its proposed cost of capital parameters to reflect the OEB's prescribed Cost of Capital Parameters for 2027 Cost of Service Applications once available.

LUI's cost of capital and return on rate base for 2027 Test Year is shown in table 6 below.

Table 6 – Cost of Capital Parameters

Particulars	**Cap Ratio %**	**Cap Ratio $**	**Cost Rate %**	**Return $**
Debt	(%)	($)	(%)	($)
Long-term Debt (Notional)	1.00%	$327,133	3.80%	$12,437
Long-term Debt (Actual)	55.00%	$17,930,240	3.80%	$681,675
Short-term Debt	4.00%	$1,304,098	2.72%	$35,471
Total Debt	60.00%	$19,561,471	3.73%	$729,584
Equity				
Common Equity	40.00%	$13,040,981	9.11%	$1,188,033
Preferred Shares		$0		$0
Total Equity	40.00%	$13,040,981	9.11%	$1,188,033
Total	100.00%	$32,602,451	5.88%	$1,917,617

1.3.7 Cost Allocation

The main objectives of a Cost Allocation study are to provide information on any apparent cross-subsidization among a distributor's rate. LUI has prepared a Cost Allocation Study based on an allocation of the 2027 test year costs (i.e., the 2027 forecast revenue requirement) to the various customer classes using allocators based on the forecast class loads (kW and kWh) by class, customer counts, etc. Further details on Cost Allocation can be found in Exhibit 7.

Table 7 – Cost Allocation

Customer Class Name	Calculated R/C Ratio	Proposed R/C Ratio	Variance	Shortfall Allocation
Residential	1.0233	1.0161	-0.0072	$33,465
General Service < 50 kW	0.8019	0.8021	0.0002	-$228
General Service > 50 to 4999 kW	1.1318	1.1317	-0.0001	$169
Unmetered Scattered Load	1.3780	1.2006	-0.1775	$4,286
Sentinel	0.3774	0.7997	0.4223	-$10,483
Streetlights	0.6614	0.8000	0.1386	-$27,209

1.3.8 Deferral and Variance Account Disposition

Exhibit 9 presents Lakefront Utilities Inc.'s ("LUI") request for disposition of Group 1 and Group 2 deferral and variance account balances, including the calculation of carrying charges, allocation of balances to customer classes, proposed disposition methodology, and associated rate riders.

In addition to the routine disposition of deferral and variance account balances, exhibit 9 addresses the disposition of the deferred portion of the MS28-3 Distribution Station Incremental Capital Module ("ICM") funding request approved in EB-2024-0038 and presents a proposed customer refund associated with historical affiliate management fee charges discussed in Exhibit 4.

The principal amounts requested for disposition are summarized below:

Table 8 – Deferral and Variance Accounts (TBD)

Account Category	Amount
Group 1 Accounts (excluding Account 1589)	($918,510)
RSVA Global Adjustment (Account 1589)	($186,926)
Group 2 Accounts	$94,456
Account 1509	$33,423
Deferred ICM Funding Request	$124,559*
Management Fee Refund Amount	($1,151,724) **

* Deferred ICM Funding Request: $124,559, subject to the OEB's prudence determination. The request relates to the MS28-3 Distribution Station project approved under the ICM framework and is discussed further in Exhibit 2.

**As discussed in Exhibit 4, LUI completed a review of historical affiliate management fee charges and determined that a portion of those charges were embedded in distribution rates approved by the OEB between 2017 and 2026 without proper review. As a result, LUI is proposing to voluntarily refund $1.15 million, including carrying charges, to customers through a temporary rate rider beginning January 1, 2027. Details regarding the calculation of the refund amount, the proposed disposition period, customer class allocations, and the resulting rate riders are provided in Exhibits 4 and 9.

1.3.9 Bill Impacts

The bill impacts presented in Table 9 reflect the combined effect of the proposed distribution rates, the disposition of deferral and variance account balances, updated Retail Transmission Service Rates ("RTSRs"), and the proposed Management Fee Refund Rate Rider.

Subtotal A reflects the impact of the proposed distribution rates and distribution-related riders, including the proposed Management Fee Refund Rate Rider. Subtotal B incorporates the impact of Group 1 and Group 2 deferral and variance account dispositions, including the proposed disposition of the deferred Incremental Capital Module ("ICM") funding associated with the MS28-3 Distribution Station project. Subtotal C reflects the further impact of updated RTSR rates.

The proposed Management Fee Refund Rate Rider and lower RTSR rates offset a significant portion of the distribution rate increases, resulting in modest overall bill impacts for most customer classes. Total bill impacts range from a decrease of 6.1% for the GS 50 to 2,999 kW class to an increase of 5.1% for the Sentinel Lighting class. No customer class experiences a total bill impact exceeding ±10%.

Detailed bill impact calculations are provided in Exhibit 8.

Table 9 – Bill Impacts (TBD)

Rate Class	Representative Consumption / Demand	Subtotal A ($)	Subtotal A (%)	Subtotal B ($)	Subtotal B (%)	Subtotal C ($)	Subtotal C (%)	Total Bill Impact ($)	Total Bill Impact (%)
Residential RPP	750 kWh/month	$2.92	10.0%	$2.32	6.7%	($0.12)	(0.2%)	($0.09)	(0.1%)
Residential non-RPP	750 kWh/month	$2.92	10.0%	($4.10)	(10.7%)	($6.54)	(12.3%)	($5.84)	(4.6%)
GS < 50 kW	2,500 kWh/month	$5.13	8.9%	$3.63	5.0%	($3.99)	(3.4%)	($3.52)	(0.9%)
GS 50 to 2,999 kW	91,707 kWh/month / 237 kW	$290.42	25.4%	($630.53)	(34.9%)	($963.45)	(25.9%)	($1,030.83)	(6.1%)
USL	546 kWh/month	($14.84)	(1.3%)	($15.33)	(1.3%)	($17.28)	(1.5%)	($15.45)	(1.4%)
Sentinel Lighting	75 kWh/month / 0.19 kW	$18.53	5.4%	$18.48	5.4%	$18.30	5.3%	$16.38	5.1%
Street Lighting	31 kWh/month / 0.08 kW	$1.05	0.0%	$0.76	0.0%	$0.69	0.0%	$0.78	0.0%

1.4. REGULATORY CONTEXT AND RECENT INITIATIVES

1.4.1 Directives from Previous Decisions

2022 Rates (EB-2021-0039)

The OEB approved Lakefront Utilities Inc.'s 2022 Cost of Service application effective January 1, 2022. A typical residential customer consuming 750 kWh per month experienced a total bill increase of $4.96 dollars, or 4.43 percent. The OEB approved a gross capital budget of $1.96 million dollars and OM and A of $2.83 million dollars. The approved base revenue requirement was $4.73 million dollars.

The OEB approved disposition of Group 1 and Group 2 deferral and variance account balances as of December 31, 2020, with certain accounts deferred for future review, including Accounts 1509, 1588 and 1589. Account 1550 was addressed separately, with recovery approved over multiple periods. All approved balances were transferred to Account 1595 in accordance with the Accounting Procedures Handbook.

The OEB also provided direction regarding future disposition of deferred accounts, which were subsequently addressed in later IRM proceedings.

2023 Rates (EB-2022-0046)

The OEB approved Lakefront Utilities' 2023 IRM application under the Price Cap Incentive Rate-setting mechanism, effective January 1, 2023. The approved adjustment was 3.70 percent. A typical residential customer consuming 750 kWh per month experienced a monthly total bill increase of approximately $5.02 dollars.

The OEB approved disposition of a total debit balance of $867,182 dollars in Group 1 deferral and variance accounts, excluding Accounts 1588 and 1589, to be recovered over a one-year period. The OEB directed that Accounts 1588 and 1589 be addressed in a subsequent application following completion of the audit process. Approved balances were transferred to Account 1595.

2024 Rates (EB-2023-0035)

The OEB approved Lakefront Utilities' 2024 IRM application under the Price Cap Incentive Rate-setting mechanism, effective January 1, 2024. The approved adjustment was 4.80 percent. A typical residential customer consuming 750 kWh per month experienced a monthly total bill increase of approximately $5.16 dollars.

The OEB approved disposition of a total debit balance of $1,655,620 dollars in Group 1 deferral and variance accounts, excluding Accounts 1588 and 1589, to be recovered over a one-year period. The OEB reiterated its expectation that Accounts 1588 and 1589 be brought forward for disposition in a subsequent proceeding. All approved balances were transferred to Account 1595.

2025 Rates – Phase 1 (EB-2024-0038, March 27, 2025)

The March 27, 2025, Decision addressed Lakefront Utilities' request for Incremental Capital Module funding for the MS28-3 27.6 kV distribution substation project, which was constructed in 2022 and 2023 and placed in service in December 2023.

The OEB determined that the project satisfied the materiality and need tests under the ICM policy and passed the means test. However, the OEB found that Lakefront Utilities had not fully demonstrated prudence with respect to the timing of the ICM application and the evaluation of alternatives, including the consideration of capital contributions in aid of construction from developers.

As a result, the OEB approved recovery of 50 percent of the maximum eligible incremental capital at that time. The remaining portion was directed to be recorded in a new sub-account under Account 1508 for future review. The OEB required Lakefront Utilities to provide, at its next rebasing application, a comprehensive analysis of project alternatives, reliability outcomes, and the calculation of any capital contributions in aid of construction that should offset project costs. Final disposition of the deferred portion will be subject to that prudence review.

2025 Rates – Phase 2 (EB-2024-0038, July 31, 2025)

In its subsequent Decision and Rate Order, the OEB approved the 2025 Price Cap IR adjustment of 3.60 percent, implemented August 1, 2025. A typical residential customer consuming 750 kWh per month experienced a modest monthly total bill impact.

The OEB also approved final disposition of 2016 to 2023 Group 1 deferral and variance account balances, including Accounts 1588 and 1589, following completion of the OEB's inspection and review process. Recovery was approved over the August 1 to December 31, 2025, period. The disposition resolved the previously deferred balances and concluded the review of those accounts.

2026 Rates (EB-2025-0025)

The OEB approved Lakefront Utilities' 2026 IRM application under the Price Cap Incentive Rate-setting mechanism, effective January 1, 2026. The approved annual adjustment was 3.70 percent. A typical residential customer consuming 750 kWh per month experienced a monthly total bill decrease of approximately $5.70 dollars.

The OEB approved disposition of a total credit balance of $722,756 dollars in Group 1 deferral and variance accounts as of December 31, 2024, including Accounts 1588 and 1589, to be refunded over a one-year period. All approved balances were transferred to Account 1595 in accordance with the Accounting Procedures Handbook.

1.4.2 Reliability Benchmarking Directive

LUI supports the OEB's reliability benchmarking initiative and understands that distributors are expected to improve reporting consistency and establish performance targets. LUI will continue to provide annual reliability results through its scorecard and will use benchmarking information to identify potential areas of improvement. Further detail on reliability performance, trends, and system priorities is provided in Exhibit 2 and Exhibit 5.

1.4.3 CCIM Capacity Mapping Requirements

LUI participates in the provincial Capacity and Connections Assessment mapping initiative administered through the Planview platform. The utility continues to upload system information, capacity indicators, and connection data in the required formats to support provincial visibility and DER hosting information. Where the information submitted differs from historical submissions, LUI tracks supporting data changes in accordance with OEB guidance. Additional detail on mapping data sources and system characteristics is provided in Exhibit 2.

1.4.4 DER and Electrification Planning Expectations

LUI acknowledges the OEB's direction to consider electrification and distributed energy resources in system planning. Currently, LUI does not have a material capacity-driven project requiring DER integration analysis but remains aware of increasing customer interest in EV charging and rooftop generation. LUI will continue to monitor load patterns, customer connection activity, and feeder capacity to identify potential DER opportunities in future planning cycles. Related planning information is referenced in Exhibit 2.

1.4.5 IESO Energy Efficiency and eDSM Participation

LUI supports the ongoing provincial energy efficiency initiatives offered through the IESO. The utility participates in the Stream 1 local demand management program administered through the EDA and continues to promote eligible conservation programs to customers. **LUI** tracks related revenues, and bill impacts in accordance with OEB requirements, with additional detail provided in Exhibit 4 and Exhibit 8.

1.4.6 LEAP Low-Income Support and Affordability Programs

LUI supports the OEB's updated approach to the Low-Income Energy Assistance Program. Eligible customers will not be denied emergency financial assistance based solely on annual funding limits. Any variance between the funding collected through rates and program amounts provided is recorded in a deferral and variance account in accordance with OEB policy.

1.4.7 Benefit-Cost Analysis Framework and Non-Wires Solutions Screening

LUI acknowledges the OEB's Benefit-Cost Analysis Framework and the Non-Wires Solutions Guidelines for Electricity Distributors. LUI considered the applicability of non-wires alternatives as part of its planning process. However, the majority of projects included in the 2027 capital plan are primarily driven by asset condition replacement, safety, reliability, compliance, customer connection, and asset replacement requirements rather than incremental system capacity constraints. As a result, non-wires alternatives would not reasonably defer or avoid the proposed investments and therefore were not determined to be practical alternatives for the projects included in this application.

1.5. ABOUT THE UTILITY

1.5.1 Distribution System Overview and Service Area

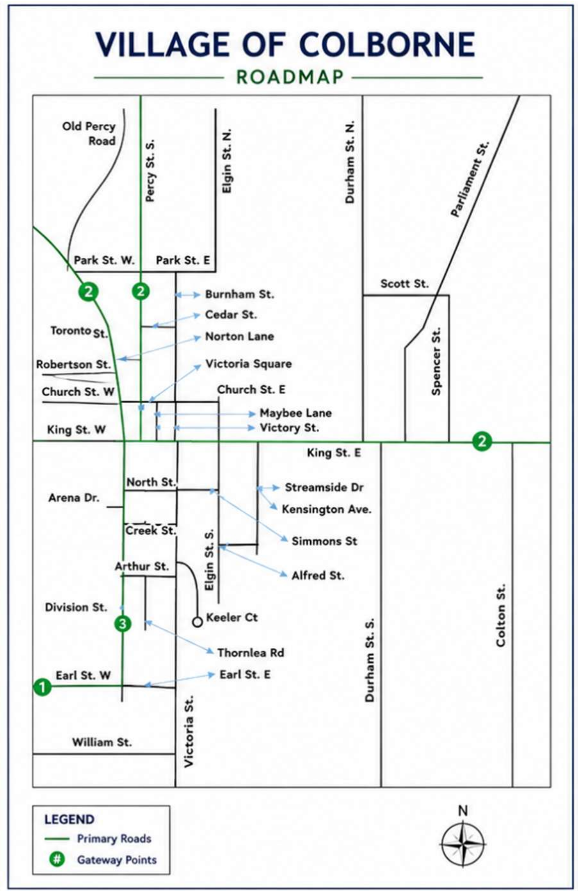
Lakefront Utilities Inc. ("LUI" or "Lakefront") is a municipally owned electricity distributor serving approximately 11,800 customers within the Town of Cobourg and the Village of Colborne (part of the Township of Cramahe) in eastern Ontario. The utility operates within a service territory of approximately 28 square kilometres and provides electricity distribution service to a mix of residential, commercial, institutional, and light industrial customers.

LUI is a fully embedded distributor supplied by Hydro One Networks Inc. ("Hydro One"). The utility owns and operates the downstream distribution infrastructure required to deliver electricity safely and reliably to customers within its licensed service territory.

The distribution system consists of overhead and underground distribution assets, including poles, conductors, transformers, switches, metering infrastructure, and related equipment. The system primarily operates at 27.6 kV, reflecting LUI's long-term strategy of converting legacy 4.16 kV infrastructure to a standardized higher-voltage system to improve reliability, increase capacity, and reduce system losses.

As shown in Figure 10, LUI's service territory includes the Town of Cobourg and the Village of Colborne. The boundaries of the service territory have remained unchanged since the utility's previous rebasing application.

Table 10 Maps of Service Area



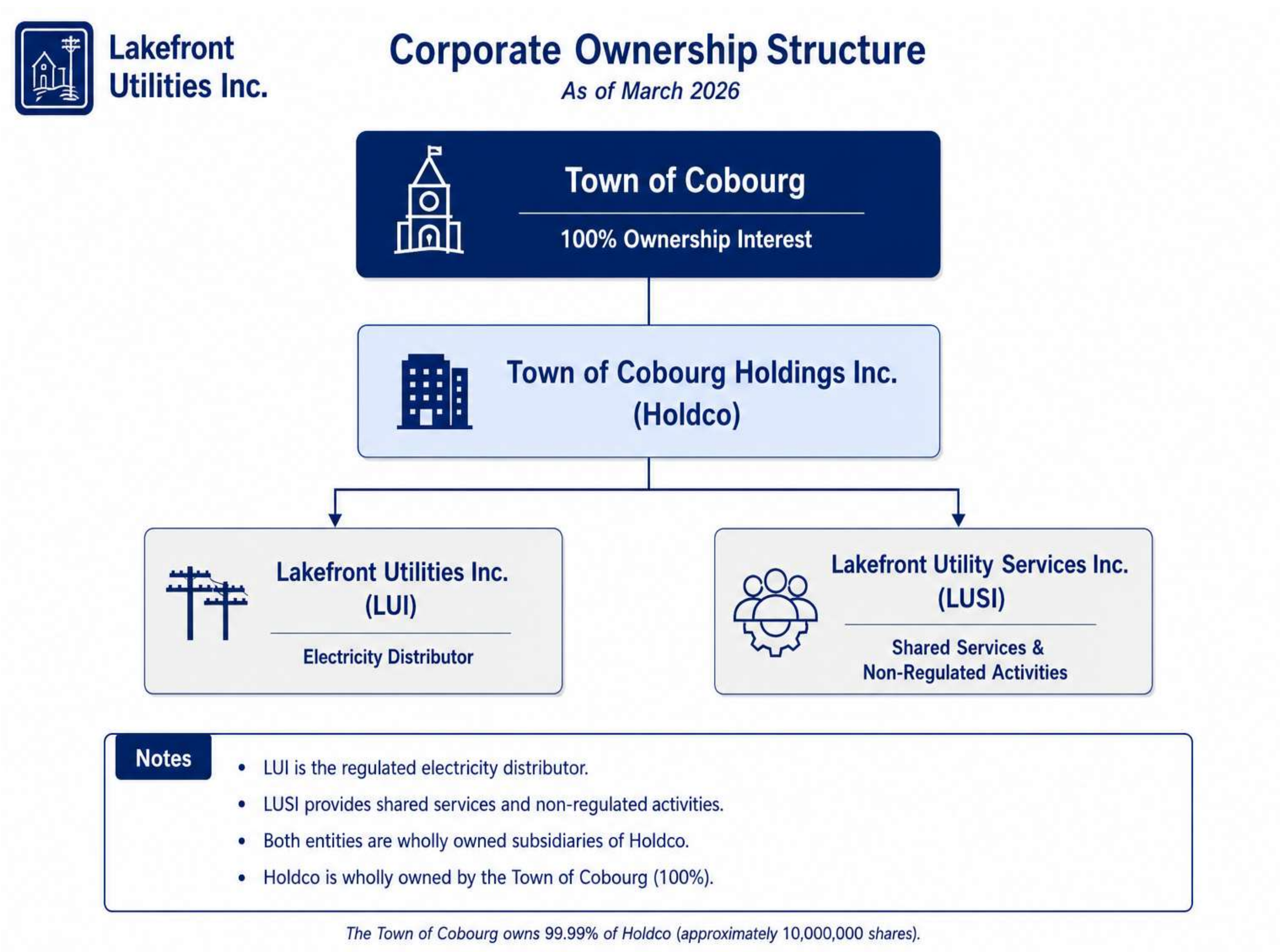
LUI continues to maintain and operate its distribution system in accordance with applicable regulatory, safety, and reliability requirements while supporting customer growth and ongoing asset renewal within its service territory.

1.5.2 Operating Environment

Lakefront Utilities Inc. is a municipally owned electricity distributor operating under a corporate structure that separates governance, regulated utility operations, and shared service activities. The Town of Cobourg Holdings Inc. ("Holdco") serves as the parent corporation and is jointly owned by the Town of Cobourg and the Township of Cramahe.

Holdco wholly owns both Lakefront Utilities Inc. ("LUI"), the regulated electricity distributor, and Lakefront Utility Services Inc. ("LUSI"), which provides shared services and undertakes non-regulated activities. This structure allows LUI to access shared resources while maintaining separate accounting and regulatory oversight of the regulated distribution business.

Table 11 Corporate Ownership Structure



Small Utility Operating Environment

Lakefront Utilities Inc. ("LUI") operates as a small, fully embedded electricity distributor serving the communities of Cobourg and Colborne. Like many small Ontario distributors, LUI operates with a lean organizational structure and limited staffing depth, requiring the utility to carefully balance customer affordability, regulatory compliance, infrastructure investment, and operational sustainability.

Workforce Capacity and Organizational Stability

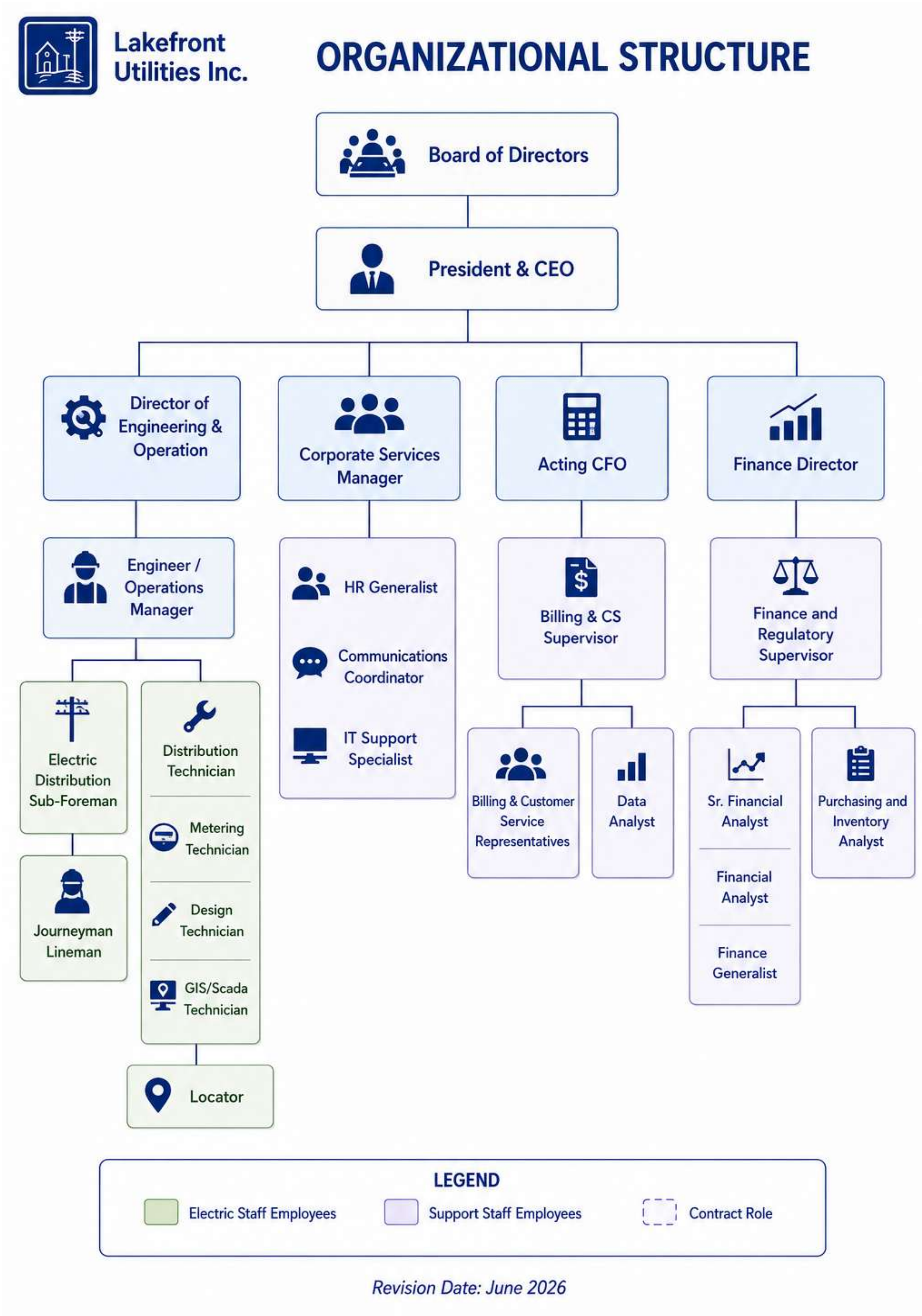
Over the rebasing period, LUI has experienced several significant organizational challenges. The utility faced elevated turnover within its finance and regulatory functions, including departures in key leadership and specialized positions. These changes resulted in the loss of institutional knowledge and required the utility to rely on external consultants and temporary resources to maintain regulatory compliance, financial reporting, and operational continuity while recruitment efforts were underway.

As a small distributor, vacancies can have a disproportionate impact on operations. Unlike larger utilities that may have greater staffing redundancy and internal resources, LUI's ability to absorb turnover is limited. Recruitment and retention have become increasingly challenging as utilities compete for experienced finance, regulatory, engineering, and technical personnel within a constrained labour market.

Despite these challenges, management has focused on stabilizing the organization through targeted recruitment, succession planning, cross-training initiatives, and the rebuilding of internal capabilities. These efforts are intended to strengthen organizational resiliency, reduce reliance on external resources over the long term, and support the utility's ability to meet its operational and regulatory obligations.

The organizational challenges experienced during the rebasing period extended beyond individual vacancies. LUI experienced turnover across several key finance and regulatory positions, including leadership roles, resulting in repeated transitions, increased onboarding requirements, and a loss of institutional knowledge. As a small distributor with limited staffing redundancy, maintaining continuity required significant management attention and increased reliance on external consultants and temporary resources while permanent staffing solutions were implemented.

Table 12 Organizational Capacity and Organizational



Infrastructure Renewal and Growth

LUI's operating environment is also influenced by the condition and age profile of its distribution assets. The utility continues to manage aging infrastructure while balancing reliability, safety, customer growth, and affordability considerations. A significant component of LUI's long-term strategy is the continued transition of legacy 4.16 kV infrastructure to a standardized 27.6 kV distribution system. This multi-year initiative is intended to improve reliability, increase system capacity, reduce losses, and support future growth within the service territory.

In addition to organizational challenges, LUI has been responsible for executing a significant capital investment program intended to address aging infrastructure, support customer growth, and modernize the distribution system. The scale and complexity of these investments place additional demands on management, operational resources, and planning processes. For a utility of LUI's size, capital planning and project execution require careful prioritization to balance reliability objectives, customer affordability, and available organizational capacity.

Financial and Regulatory Environment

LUI operates within an increasingly complex regulatory and financial environment. Inflationary pressures, increasing contractor and material costs, evolving cybersecurity expectations, and growing regulatory reporting requirements have increased both the complexity and cost of utility operations. These pressures can be particularly significant for smaller distributors that have fewer opportunities to achieve economies of scale.

During the rebasing period, LUI also undertook initiatives to strengthen financial oversight, improve governance practices, and enhance the transparency of cost allocation methodologies. These efforts support the utility's objective of maintaining strong financial stewardship while ensuring that costs recovered through rates are appropriate, well-documented, and aligned with customer interests.

Looking Forward

The challenges and initiatives described above have shaped LUI's planning priorities throughout the rebasing period. Management's focus has been on stabilizing the organization, strengthening internal capabilities, renewing critical infrastructure, and positioning the utility to continue delivering safe, reliable, and cost-effective electricity distribution service to customers over the long term.

1.5.3 Corporate Governance

Ownership and Governance Structure

Lakefront Utilities Inc. ("LUI") is a municipally owned electricity distributor jointly owned by the Town of Cobourg and the Township of Cramahe. The utility operates within a governance framework intended to support prudent oversight, accountability, and the long-term sustainability of the organization.

LUI is governed by an independent Board of Directors whose members are selected through a skills-based process designed to ensure an appropriate mix of expertise in areas including utility operations, finance, governance, risk management, and regulatory affairs. The Board provides strategic direction and oversight of the utility's operations while management is responsible for the day-to-day administration of the business.

Board Oversight

The Board is responsible for overseeing the utility's strategic direction, financial performance, capital planning, risk management, regulatory compliance, and corporate governance practices. Regular reporting is provided to the Board on operational performance, capital program execution, financial results, key risks, and regulatory matters.

As part of its oversight responsibilities, the Board reviews and approves annual budgets, business plans, major capital investments, and strategic initiatives. The Board also monitors organizational performance against established objectives and key performance indicators.

Board Committees

To support effective governance, the Board has established two standing committees:

Audit and Risk Committee

The Audit and Risk Committee oversee financial reporting, internal controls, audit activities, and enterprise risk management. The committee reviews financial statements, monitors compliance with regulatory and statutory obligations, and oversees the relationship with the utility's external auditors.

Governance and Nominating Committee

The Governance and Nominating Committee oversees corporate governance practices, Board effectiveness, director recruitment, succession planning, and governance policy development. The committee supports the Board in maintaining governance practices that align with industry standards and evolving regulatory expectations.

Governance Evolution

During the rebasing period, LUI undertook a comprehensive review of governance, financial oversight, and shared service practices. This review resulted in enhancements to internal controls, financial reporting processes, cost allocation methodologies, documentation standards, and Board oversight practices.

These efforts support LUI's objective of maintaining sound governance practices while ensuring the utility remains focused on delivering safe, reliable, and cost-effective electricity distribution service to its customers.

1.5.4 Strategic Priorities

LUI's strategic priorities for the rebasing period have been shaped by a combination of organizational challenges, infrastructure investment requirements, governance improvements, and the need to maintain customer affordability while ensuring the long-term sustainability of the utility.

As discussed in Section 1.5.2, the utility has experienced significant turnover in key finance, regulatory, and operational positions during the rebasing period. At the same time, LUI has continued to manage an aging distribution system, advance major capital investments, respond to customer growth, and operate within an increasingly complex regulatory environment. These factors have influenced the utility's planning priorities and investment decisions.

Organizational Stability, Workforce Development and Succession Planning

A primary focus for LUI during the rebasing period has been the stabilization of the organization and the strengthening of internal capabilities. Recent turnover in finance, regulatory, engineer and operational roles highlighted the challenges faced by smaller distributors in attracting and retaining experienced personnel, as well as the risks associated with limited staffing redundancy and key-person dependency.

In response, management has placed increased emphasis on recruitment, succession planning, retention, cross-training, documentation, and knowledge transfer initiatives. These efforts are intended to preserve institutional knowledge, improve organizational resiliency, and reduce reliance on consultants and temporary resources over the long term while maintaining an efficient staffing model appropriate for a utility of LUI's size.

Strengthening Governance, Financial Oversight and Shared Service Accountability

LUI has undertaken a number of initiatives during the rebasing period to strengthen governance practices, improve financial oversight, improving documentation and enhance accountability associated with shared services and cost allocation methodologies.

Management and the Board have reviewed existing processes and implemented improvements intended to strengthen internal controls, documentation practices, financial reporting, and oversight of costs allocated to the regulated utility. Particular focus has been placed on ensuring that shared service arrangements and allocated corporate costs are appropriately supported, reviewed, and documented.

These initiatives support greater transparency and accountability while providing additional assurance that costs recovered through distribution rates are appropriate, reasonable, and aligned with customer interests.

Infrastructure Renewal and System Modernization

A significant priority for LUI continues to be the renewal and modernization of its distribution system. The utility's capital program is driven primarily by asset condition, reliability requirements, customer growth, and long-term system planning considerations.

A key component of this strategy is the continued transition from legacy 4.16 kV infrastructure to a standardized 27.6 kV distribution system. This long-term initiative is intended to improve reliability, increase system capacity, reduce losses, and support future growth within the service territory.

LUI also continues to invest in technologies and systems that improve reliability, operational effectiveness, asset management, data quality, and decision-making capabilities. These investments support the utility's objective of maintaining a modern, reliable, and efficient distribution system while managing costs responsibly.

Balancing Reliability, Growth and Customer Affordability

LUI recognizes the importance of balancing infrastructure investment requirements with customer affordability considerations. The utility continues to experience customer growth and development activity that requires ongoing investment in system capacity and distribution infrastructure, while also addressing aging assets and maintaining system reliability.

Capital and operating expenditures are prioritized using a risk-based approach that considers asset condition, customer needs, reliability impacts, safety considerations, regulatory obligations, and long-term value to customers. This approach supports prudent investment decisions while recognizing the importance of maintaining affordable rates for customers.

Looking Forward

The priorities outlined above form the foundation of LUI's planning framework for the Test Year and beyond. Management's focus remains on strengthening organizational stability, enhancing governance and financial oversight, renewing critical infrastructure, and maintaining a safe, reliable, and financially sustainable distribution system that continues to meet the needs of customers and the communities served by LUI.

1.5.4 Strategic Priorities

LUI utilizes an integrated planning process that aligns strategic objectives, operational requirements, capital investment needs, financial planning, and regulatory obligations. This process supports informed decision-making and helps ensure that investments are prioritized in a manner that balances reliability, safety, customer affordability, and long-term sustainability.

The utility's planning framework incorporates a number of key inputs, including:

- Asset Condition Assessments;
- Distribution System Planning activities;
- Customer growth forecasts;
- Reliability and operational performance indicators;
- Regulatory requirements;
- Financial forecasts and budget planning;
- Risk assessments; and
- Workforce and resource considerations.

LUI's annual budgeting and business planning process is designed to ensure that operating and capital expenditures are aligned with identified system needs and organizational priorities. Proposed investments are evaluated based on factors such as asset condition, reliability impacts, customer requirements, safety considerations, regulatory compliance obligations, and long-term value to customers.

Given the utility's size and limited resources, management places particular emphasis on prioritization and capital pacing. Not all identified needs can be addressed simultaneously, requiring investment decisions to be sequenced and balanced against customer affordability and financial sustainability considerations.

The Distribution System Plan ("DSP"), Asset Condition Assessment ("ACA"), annual budgets, and long-term financial forecasts collectively provide the foundation for the utility's capital and operational planning activities. These planning tools support a disciplined, risk-based approach to decision-making and help ensure that resources are directed toward the areas of greatest need and customer benefit.

The investments proposed in this application are the result of this integrated planning process and reflect management's assessment of the resources required to maintain safe, reliable, and sustainable electricity distribution service throughout the Test Year and beyond.

1.5.4 Sector Changes:

Digital Modernization and Grid Transformation Initiatives

The electricity distribution sector continues to evolve through increased digitalization, data-driven decision making, cybersecurity requirements, and the gradual modernization of grid infrastructure. LUI's planning and investment decisions reflect these broader industry trends while recognizing the practical realities and resource constraints of a small local distribution company.

LUI has continued to invest in digital modernization initiatives that improve operational effectiveness, asset management, and regulatory compliance. Ongoing Geographic Information System ("GIS") enhancements improve asset records, support engineering and operations planning, strengthen outage response capabilities, and facilitate compliance with emerging Ontario Energy Board ("OEB") requirements, including the Centralized Capacity Information Map ("CCIM"). GIS information is increasingly utilized across multiple functional areas of the utility, including engineering, operations, customer service, planning, and regulatory reporting.

Recognizing the growing importance of cybersecurity across the electricity sector, LUI has undertaken cybersecurity assessments and related improvement initiatives to strengthen cyber resilience and support the protection of critical utility infrastructure. LUI also continues to invest in modern distribution equipment, including SCADA-capable reclosers, switching devices, and communications infrastructure that support automation, improve operational visibility, and enhance system reliability. These investments position the utility to respond to future grid modernization opportunities while maintaining a prudent approach to capital spending.

Sector Changes, Electrification, and Growth Considerations

LUI's planning framework incorporates ongoing industry trends related to electrification, changing customer expectations, and community growth. Continued residential, commercial, and industrial development within Cobourg and Colborne has resulted in increased customer connection requirements and the need for targeted system investments to maintain reliability and service quality.

Electrification initiatives, including increasing adoption of electric vehicles, electrified heating technologies, and broader decarbonization efforts, have the potential to alter future electricity demand patterns. While the pace and magnitude of these changes remain uncertain, LUI has incorporated electrification considerations into its long-term planning through capacity-supporting infrastructure investments, system renewal activities, and voltage conversion initiatives designed to improve system flexibility and accommodate future load growth.

The MS28-3 Distribution Station, ongoing voltage conversion program, distribution automation initiatives, and customer-driven infrastructure investments collectively support LUI's ability to respond to evolving customer requirements while maintaining safe and reliable service.

Participation in Sector Working Groups

As a participant in Ontario's electricity distribution sector, LUI remains actively engaged in industry initiatives that support regulatory compliance, operational excellence, and continuous improvement. LUI participates in energy efficiency and demand-side management programs, customer engagement initiatives, Electrical Safety Authority compliance activities, and cybersecurity assessments that support alignment with evolving regulatory and industry expectations.

LUI also utilizes customer satisfaction and engagement tools, including OraclePoll survey programs, to better understand customer priorities and identify opportunities for service improvement. In addition, LUI maintains ongoing coordination with external stakeholders and service providers regarding system automation, communications infrastructure, and fibre deployment opportunities that may influence future utility operations.

Participation in these initiatives helps ensure that LUI remains informed of emerging practices, technological developments, and regulatory expectations affecting Ontario distributors.

Climate, Weather, and System Resiliency Considerations

Electricity distributors across Ontario are increasingly focused on climate resilience, asset health, and reliability performance as severe weather events become more frequent and customer expectations continue to evolve. LUI's capital and operational planning reflects these considerations through investments in asset renewal, distribution system reliability, contingency capability, and operational flexibility.

The utility continues to monitor emerging OEB initiatives related to feeder-level reliability indicators, asset condition assessment, and advanced performance benchmarking. In particular, LUI is tracking developments associated with measures such as the Feeder Average Interruption Frequency Index ("FAIFI"), Feeder Average Interruption Duration Index ("FAIDI"), and Value-Based Asset Health ("VASH") methodologies.

As a smaller distributor, LUI intends to adopt these tools through a phased and practical implementation approach that reflects available data, organizational capacity, and cost-effectiveness considerations. Investments in GIS, outage management, asset records, SCADA-capable equipment, and system modernization initiatives provide an important foundation for future reliability analytics and asset health monitoring.

LUI's planning philosophy remains focused on delivering long-term customer value through prudent investment, operational reliability, transparency, and continuous improvement. The utility's recent investments in system modernization, workforce sustainability, governance enhancements, affiliate cost allocation improvements, and infrastructure renewal are intended to position LUI to meet future sector expectations while maintaining affordable and reliable service for customers.

1.6. CUSTOMER ENGAGEMENT

1.6.1 Application Specific Outreach to Customers

As part of the application-specific engagement process, LUI prepared and published a plain-language Notice of Application summarizing the proposed revenue requirement, bill impacts, capital investments, operating cost pressures, and the reasons for the requested rate changes. The notice was distributed through LUI's website, social media platforms, and local newspaper publications to ensure customers had an opportunity to understand the application before providing feedback. The customer engagement process remains ongoing. LUI will continue to receive and consider customer comments throughout the OEB review process. Any additional feedback received following publication of the application will be summarized and provided to the OEB in advance of the interrogatory process.

Lakefront Utilities Inc.

Lakefront Utilities Inc.
2027 Electricity Distribution Rate Application

Dear Customers,

Lakefront Utilities Inc. has applied to the Ontario Energy Board ("OEB") for approval of new electricity distribution rates effective January 1, 2027.

Lakefront Utilities is seeking approval of a revenue requirement of approximately $7.15 million, an increase of approximately $2.45 million from its last Cost of Service application in 2022.

While the revenue requirement is increasing, the impact on individual customer bills is significantly lower. Based on the proposal filed with the OEB:

A typical residential customer using 750 kWh per month is expected to see a total bill decrease of approximately **0.1%**, depending on rate structure and supply arrangements.

A typical General Service customer using 2,500 kWh per month is expected to see a total bill decrease of approximately **0.9%**.

ESTIMATED BILL IMPACTS*

Customer Class	Typical Monthly Usage	Total Bill Impact
Residential (RPP)	750 kWh/month	0.1%
General Service (< 50 kW)	2,500 kWh/month	0.9%

* Subject to OEB approval.
Detailed bill impacts by rate class are included in the application filed with the OEB.

Why Rates Are Changing

Since its last Cost of Service application in 2022, Lakefront Utilities Inc. has invested approximately $17.1 million in capital projects to maintain, replace, modernize, and expand the electricity distribution system serving Cobourg and Colborne.

As a result of these investments:

- Lakefront Utilities Inc.'s rate base has increased from approximately $22.9 million to $32.6 million
- The value of utility assets used to provide service to customers has increased from approximately $20.4 million to $30.0 million
- Approximately 800 new customer connections have been added to the system

Major investments completed during the rebasing period include:

- Construction of the MS28-3 Victoria Street Distribution Station
- Infrastructure required to support new residential and commercial development
- Replacement of aging poles, transformers, and other distribution equipment
- Distribution system automation and outage management improvements
- Information technology and cybersecurity enhancements

These investments are intended to maintain reliability, support growth, replace aging infrastructure, and improve the utility's ability to respond to outages and customer needs.

Delivering Results

While investing more than $17 million in its distribution system and supporting customer growth, Lakefront Utilities Inc. has continued to maintain strong reliability performance and customer service outcomes.

The utility continues to perform favourably relative to its peers and has consistently been recognized as a top-performing Ontario distributor through industry benchmarking initiatives.

Operating Cost Pressures

In addition to capital investments, Lakefront Utilities Inc. has experienced significant increases in operating costs since 2022.

Operating, maintenance, and administrative expenses have increased from approximately $2.8 million in 2022 to $4.1 million in the 2027 Test Year. The increase is primarily driven by inflation affecting labour, materials, and contracted services, increased cybersecurity and technology requirements, regulatory compliance obligations, customer growth, and the resources required to operate and maintain a larger and more complex distribution system.

Questions?

Customers who wish to learn more about the application or participate in the OEB's review process can visit Lakefront Utilities Inc.'s website or the Ontario Energy Board's website for additional information.

Lakefront Utilities Inc. welcomes customer feedback and remains committed to providing safe, reliable, and cost-effective electricity service.

Learn more at www.lakefrontutilities.com | Contact Us 905-372-2193 | Serving the communities of Cobourg and Colborne

1.6.2 Ongoing Outreach to Customers

Customer engagement at Lakefront Utilities Inc. extends beyond the bi-annual Customer Satisfaction Survey and includes ongoing operational interactions, community participation, and targeted stakeholder discussions. These activities provide both quantitative and qualitative insight into customer priorities, service expectations, affordability pressures, and emerging system needs.

The 2025 Customer Satisfaction Survey confirmed strong overall satisfaction and reinforced that reliability remains one of the highest customer priorities. It also identified areas requiring continued attention, including customer understanding of rate structure and bill composition.

Table 12 below summarizes Lakefront's customer engagement activities, the needs and preferences identified through those activities, and the actions taken in response.

Table 13- Appendix 2-AC: Customer Engagement Activities and Outcomes

Customer Engagement Activity	Customer Needs and Preferences Identified	Actions Taken / Rationale for No Action
Website and Online Information	Customers expect clear and timely information regarding outages, rate changes, assistance programs, and service updates.	Website content updated regularly to reflect program changes, outage updates, and regulatory information. Continued emphasis on improving clarity around rate design and distribution charges.
Silverblaze Customer Portal	Customers value access to account information, including consumption, billing, and usage trends. Feedback indicated a need for improved visibility of usage patterns under evolving rate structures (e.g., ULO).	Customer portal upgraded in 2025 to a newer version of Silverblaze with enhanced capabilities, including improved usage data presentation and functionality aligned with updated rate structures.
Front Desk Walk-In Service	Customers value direct access to knowledgeable staff for billing inquiries, payment arrangements, and outage concerns.	Front counter and customer service staff remain available during business hours. Staff provide real-time support, including referrals to assistance programs (OESP, LEAP) where appropriate.
Telephone and Email Communication	Customers expect timely and reliable responses, particularly during outages and billing inquiries.	Customer service team provides phone and email support during business hours. After-hours support enhanced through a utility-trained call centre to ensure continuity of service.
Municipal Coordination Meetings	Municipal partners identify needs related to infrastructure planning, economic development, outage communication, and system capacity (e.g., three-phase power availability).	Ongoing coordination with municipal partners to support infrastructure planning, emergency communication pathways, and alignment on growth-related system needs, including evaluation of enhanced notification tools.
Outage Notification Tools (Alertable and Outage Map)	Customers expect timely, multi-channel communication during outage events, including proactive notifications and real-time updates.	Implementation of Alertable in 2025 enables communication via text, email, phone, and app notifications. Continued use of outage maps and real-time updates to improve customer awareness and responsiveness.

Meetings and Discussions with Community Organizations	Community organizations identified increasing affordability pressures, particularly among seniors and vulnerable customers, as well as underutilization of OESP and LEAP programs	Ongoing engagement with organizations such as Salvation Army, Habitat for Humanity, and The Help Center to support coordinated outreach. Continued promotion of assistance programs and development of targeted educational materials.
Electrification and Stakeholder Discussions	Electrification stakeholders identified interest in EV infrastructure, demand-side management, and understanding rate impacts on charging behaviour.	Ongoing engagement with stakeholders such as the EV Society of Northumberland to inform planning related to electrification, grid readiness, and customer education initiatives.
Meetings and Discussions with Large Customers	Low-income and vulnerable customer representatives identified increasing affordability pressures, underutilization of OESP and LEAP, and the need for improved outreach and coordination. Electrification stakeholders identified interest in EV charging infrastructure, demand-side management, and clarity regarding rate impacts.	Meetings conducted with United Way, Salvation Army, Habitat for Humanity, and EV Society of Northumberland. Continued promotion of assistance programs. Exploration of enhanced customer education, electrification planning, and potential financing models for non-wires solutions.
Bill Inserts, Envelope Messages, and On-Bill Notices	Customers require clear and consistent communication regarding assistance programs, rate changes, conservation opportunities, and safety information.	Regular bill inserts and on-bill messaging used to communicate program updates, conservation information, and regulatory changes.
Live Chat	Customers value real-time digital communication options as an alternative to phone or in-person service.	LiveChat maintained as a core communication channel. Expanded in 2026 to include outage-specific support to improve accessibility and response times. investigation.
Screaming Power Utility App	Customers value the ability to conveniently access account information, make payments, and report outages through mobile platforms.	Continued use and refinement of the mobile app to improve customer interaction, including outage reporting and service request tracking.
Customer Satisfaction Survey (2025)	Customers prioritized reliability and infrastructure investment. Affordability pressures identified, particularly among seniors. Significant unfamiliarity with rate structure and bill composition.	Survey results incorporated into planning considerations, with continued emphasis on reliability investment, affordability program promotion, and enhanced customer education initiatives.
Community School Initiatives	Lakefront identified that students and teachers enjoyed learning and being reminded of safety in the neighbourhood. This creates a positive association between students and the staff that they may see outside of the school.	Our school safety program continues to grow, driven by strong community support and high levels of student engagement. The program’s success reinforces our commitment to meeting customer needs through proactive, hands-on education.
Financial Information Requests	Stakeholders and customers expressed interest in transparency regarding rate setting and cost drivers.	Rate information and financial materials made available upon request and through regulatory filings. Education efforts to improve clarity around bill components ongoing.
Low-Income and Assistance Programs (LEAP, OESP)	Underutilization of assistance programs and barriers to awareness among vulnerable customers.	Direct referrals provided by customer service staff. Coordination with community organizations to promote OESP and LEAP. Continued outreach planned.

1.6.3 Customer Satisfaction Survey

Lakefront conducts a Customer Satisfaction Survey every two years to monitor trends in customer experience, reliability perceptions, affordability concerns, and communication preferences. The most recent survey was conducted in March 2025 by Oraclepoll Research Limited using live telephone interviews with a representative sample of 400 residential and business customers.

Overall satisfaction remains strong.

- 86% of respondents indicated they were very or somewhat satisfied with Lakefront's overall service.
- 85% reported satisfaction with the reliability of their electricity service.
- 88% expressed satisfaction with power quality.
- 92% indicated satisfaction with customer service interactions.

When asked about key aspects of service delivery, customers continued to place the highest importance on reliability and affordability. The following three were the top items:

- Keeping electricity bills manageable is an important priority.
- Reducing outage duration is important.
- Reducing the number of outages is important.

Customers also demonstrated an understanding of the need to balance cost and investment in the system. There was strong support for continued infrastructure investment and modernization, alongside sensitivity to rate impacts and overall affordability.

At the same time, the survey identified areas for improvement.

- 69% of respondents indicated they are not familiar with the portion of their bill attributable to Lakefront's distribution services.
- Only 59% of customers indicated that the portion of the bill retained by Lakefront is reasonable once explained.
- 25% of customers identified lower electricity rates as a key area for improvement.

Taken together, the survey results demonstrate strong alignment between customer priorities and Lakefront's continued focus on maintaining a reliable distribution system, managing affordability impacts, and enhancing customer understanding of rate structures and cost drivers.

1.6.3 Stakeholder and Targeted Engagement

In addition to ongoing customer engagement and the bi-annual Customer Satisfaction Survey, Lakefront undertook targeted discussions with stakeholder groups and community partners in 2025 to better understand segment-specific concerns and emerging trends within its service territory.

Low-Income and Vulnerable Customer Organizations

Lakefront met with representatives from United Way Northumberland, the Salvation Army, and Habitat for Humanity to discuss affordability pressures and barriers facing vulnerable customers. Across these discussions, several consistent themes emerged:

- Increasing financial pressure on seniors and fixed-income households, including those who may not proactively seek assistance.
- Rising food insecurity and competing essential expenses contributing to difficulty paying utility bills.
- Limited awareness and underutilization of assistance programs such as OESP and LEAP.
- Interest in improving coordination between community agencies and the utility to streamline referrals and outreach.

Habitat for Humanity also provided insight into the practical challenges associated with energy retrofits and solar installations, including insurance considerations and upfront capital barriers. Discussions included potential collaboration on financing or support mechanisms for non-wires solutions.

These engagements reinforced the importance of continued promotion of assistance programs, targeted education efforts, and consideration of affordability impacts in future planning.

Municipal Engagement

Lakefront met with representatives of the Town of Cobourg and the Township of Cramahe to discuss infrastructure coordination, growth planning, and community priorities.

Municipal discussions focused on:

- Economic development impacts of infrastructure capacity, including three-phase power availability in downtown areas.
- Coordination of underground work and infrastructure planning to improve efficiency and reduce disruption.
- Affordability impacts of rate changes on residential and commercial customers.
- Enhancements to outage communication pathways, including coordination with emergency services and municipal alert systems.

These discussions provided context for balancing reliability investment, growth readiness, and affordability considerations within this application.

Electrification and Emerging Technologies

Lakefront met with representatives of the EV Society of Northumberland to discuss electrification trends and distributed energy resources.

Key themes included:

- Growing interest in EV charging infrastructure and public charging availability.
- Questions regarding rate design impacts on EV charging behaviour.
- Interest in demand-side management initiatives to support peak shifting.
- Considerations related to vehicle-to-grid technology and bidirectional metering safety requirements.

These discussions highlighted the need for proactive planning to support electrification while managing system impacts and maintaining cost-effectiveness.

Summary of Stakeholder Insights

Across stakeholder groups, engagement consistently reinforced three broader themes:

- Reliability and infrastructure readiness remain foundational expectations.
- Affordability pressures are increasing, particularly among seniors and vulnerable customers.
- There is a need for clearer communication regarding rate structure, investment drivers, and available support programs.

These qualitative insights complement the findings of the Customer Satisfaction Survey and provide additional context for Lakefront's planning priorities.

1.7. PERFORMANCE MEASUREMENT, BENCHMARKING

1.7.1 Benchmarking and Scorecard Analysis

LUI has been in Group 1 of the PEG efficiency assessment report and one of the most efficient utilities in the province since its inception. Despite having achieved the highest efficiency grouping, the utility continues to seek ways of reducing costs, finding efficiencies through collaboration and cost-sharing ideas.

The table below shows the forecasted benchmarking calculations from the OEB model, which is being filed along with this application.

Table 14 – Summary of Benchmarking Results.

	2024 (History)	2025 (History)	2026 (Bridge)	2027 (Test Year)
Cost Benchmarking Summary				
Actual Total Cost	7,651,017	8,100,842	8,708,579	8,770,523
Predicted Total Cost	9,958,985	10,622,397	11,262,272	11,586,129
Difference	(2,307,968)	(2,521,554)	(2,553,693)	(2,815,607)
Percentage Difference (Cost Performance)	**-26.4%**	**-27.1%**	**-25.7%**	**-27.84%**
Three-Year Average Performance	-26.4%	-26.7%	-26.4%	-26.89%
Stretch Factor Cohort				
Annual Result	1	1	1	1
Three Year Average	1	1	1	1

Table 15 – 2024 Scorecard

Performance Outcomes	Performance Categories	Measures		2020	2021	2022	2023	2024	Trend	Target: Industry	Target: Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time		91.17%	92.89%	94.80%	92.66%	91.30%		90.00%	
		Scheduled Appointments Met On Time		100.00%	93.62%	98.89%	96.30%	94.62%		90.00%	
		Telephone Calls Answered On Time		82.27%	95.62%	90.27%	98.76%	98.23%		65.00%	
	Customer Satisfaction	First Contact Resolution		99.77%	99.46%	99.88%	99.94%	99.96%			
		Billing Accuracy		99.79%	99.95%	99.97%	99.98%	99.93%		98.00%	
		Customer Satisfaction Survey Results		77.70%	77.70%	77.00%	77.00%	81.17%			
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public Awareness		83.00%	82.60%	82.60%	83.90%	83.90%			
		Level of Compliance with Ontario Regulation 22/04 [1]		NC	C	C	C	C			C
		Serious Electrical Incident Index	Number of General Public Incidents	0	0	0	0	0			0
			Rate per 10, 100, 1000 km of line	0.000	0.000	0.000	0.000	0.000			0.000
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted [2]		4.67	0.99	0.63	2.80	3.22			1.41
		Average Number of Times that Power to a Customer is Interrupted [2]		1.53	0.60	0.36	2.02	1.33			0.62
	Asset Management	Distribution System Plan Implementation Progress		Completed	Completed	81%	81.25%	81.25%			
	Cost Control	Efficiency Assessment		2	1	1	1	1			
		Total Cost per Customer [3]		$500	$518	$545	$650	$673			
		Total Cost per Km of Line [3]		$24,061	$24,743	$26,234	$29,514	$31,102			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Connection of Renewable Generation	New Micro-embedded Generation Facilities Connected On Time			100.00%	100.00%	100.00%	100.00%		90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)		0.97	0.95	0.78	0.72	1.05			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		1.15	1.09	0.96	1.01	1.40			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	8.78%	8.78%	8.66%	8.66%	8.66%			
			Achieved	5.49%	5.93%	10.87%	4.27%	6.60%			

1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).
2. An upward arrow indicates decreasing reliability while downward indicates improving reliability.
3. A benchmarking analysis determines the total cost figures from the distributor 's reported information.

Legend:
5-year trend: up, down, flat
Current year: target met, target not met

2024 Scorecard – Management Discussion Highlights
(LUI notes that the 2025 Scorecard had not been published at the time of the filing)

In 2024, Lakefront Utilities Inc. delivered strong, balanced performance across all Ontario Energy Board scorecard categories, demonstrating continued excellence in customer service, safety, operational efficiency, and financial stability.

Customer Performance

LUI exceeded OEB targets in all core service metrics, including:

- 91.30% on time service connections
- 94.62% on time scheduled appointments
- 98.23% call response within 30 seconds
- 99.96% first contact resolution
- 99.93% billing accuracy

Customer satisfaction remained stable at 81.17%, with results informing ongoing engagement improvements.

Safety and Reliability

LUI maintained full compliance with Ontario Regulation 22/04 and reported zero serious electrical incidents for the fifth consecutive year. Public electrical safety awareness increased to 83.90%.

System reliability remained a priority, with average outage duration of 3.22 hours and outage frequency improving to 1.33 interruptions per customer.

Operational and Financial Performance

LUI achieved Group 1 ranking in the most recent PEG efficiency assessment, reflecting industry leading cost performance.

Financial metrics remained within regulatory expectations:

- Debt to equity ratio of 1.40
- Return on equity of 6.6%, within the OEB's allowable range

Overall, 2024 results reflect disciplined execution, effective asset management, and continued investment in infrastructure and customer experience.

For a detailed breakdown of performance measures and analysis, please refer to the full 2024 Scorecard MD&A at the following link: LUI 2024 Scorecard and Management Discussion Full Version

1.7.2 Activity & Performance-Based Benchmarking

The four selected LDCs, Niagara-on-the-Lake Hydro Inc., Grimsby Power Incorporated, Orangeville Hydro Limited, and Wasaga Distribution Inc., were chosen to provide a focused and structurally comparable peer group for benchmarking purposes. The objective was to identify small to mid-sized Ontario distributors operating in similar service environments and subject to comparable regulatory and economic conditions.

The selected utilities share key characteristics with Lakefront Utilities, including urban or small-town service territories, moderate customer density, and similar asset scale. In addition, Niagara-on-the-Lake and Wasaga Distribution reflect seasonal and tourism-driven load patterns, which align with Lakefront's operating environment and support more meaningful comparison of cost pressures and system utilization.

The comparator group was selected based on the following considerations:

- Similar overall system scale, including poles, transformers, and distribution infrastructure
- Urban or semi-urban service territories rather than highly rural or remote systems
- Comparable customer mix, primarily residential and small commercial
- Operation within Southern Ontario under similar labour and contractor markets
- Avoidance of extreme outliers that could distort unit cost analysis

Together, these four utilities provide a balanced and defensible benchmarking envelope that supports a fair assessment of Lakefront Utilities' relative performance without introducing structural bias from significantly larger urban distributors or geographically expansive rural systems.

Table 16 – 2024 APB Benchmarking Results — O&M Unit Costs

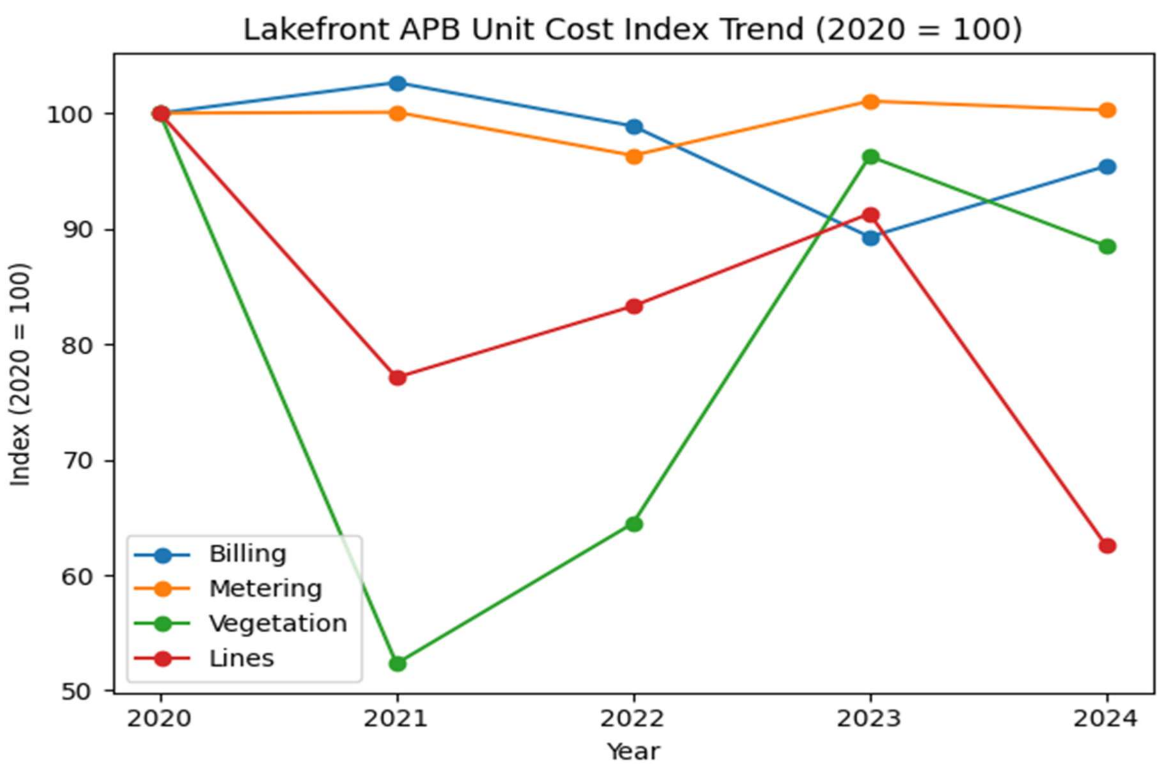
LDC	Billing	Metering	Vegetation	Lines	Stations	Poles
Lakefront Utilities Inc.	20.05 (1)	26.55 (5)	18.56 (2)	1,409.55 (2)	699.84 (1)	N/A
Niagara-on-the-Lake Hydro Inc.	60.09 (5)	23.70 (3)	14.51 (1)	1,633.95 (5)	N/A	16.61 (4)
Grimsby Power Incorporated	45.11 (4)	25.94 (4)	19.80 (3)	1,410.01 (3)	N/A	1.11 (1)
Orangeville Hydro Limited	37.34 (3)	19.85 (2)	56.58 (5)	804.84 (1)	3,125.54 (3)	2.62 (2)
Wasaga Distribution Inc.	34.53 (2)	14.56 (1)	31.01 (4)	1,575.54 (4)	814.01 (2)	15.50 (3)

Table 17 – 2024 APB Benchmarking Results — CAPEX Unit Costs

LDC	Stations CAPEX ($/MVA)	Poles, Towers CAPEX ($/Pole)	Line Transformers CAPEX ($/Transformer)	Meters CAPEX ($/Customer)
Lakefront Utilities Inc.	191 (1)	5,951 (3)	16,455 (5)	27.62 (5)
Niagara-on-the-Lake Hydro Inc.	N/A	8,406 (4)	5,353 (1)	6.97 (2)
Grimsby Power Incorporated	N/A	4,219 (1)	6,326 (2)	16.80 (4)
Orangeville Hydro Limited	N/A	9,306 (5)	15,426 (4)	9.36 (3)
Wasaga Distribution Inc.	1,932 (2)	5,231 (2)	13,714 (3)	1.75 (1)

Table 18 – LUI APB Unit Cost Trend 2020-2024

Year	Billing	Metering	Vegetation	Lines
2020	100	100	100	100
2021	102.7	100.1	52.3	77.1
2022	98.9	96.3	64.5	83.3
2023	89.3	101.0	96.3	91.3
2024	95.4	100.3	88.5	62.6



O&M Unit Cost Trends (2020–2024)

Table 14 presents LUI's APB unit cost results for Billing, Metering, Vegetation, Lines, and Poles O&M for the period 2020 to 2024. Billing and Metering O&M unit costs have remained relatively stable over the five-year period, with only modest year-over-year movement. Billing costs declined in 2023 and partially rebounded in 2024, while Metering costs have remained consistently within a narrow band. These results suggest that customer-related operating programs are being managed in a steady and predictable manner.

Vegetation and Lines O&M unit costs show greater year-to-year variability, which is consistent with the cyclical and program-driven nature of these activities. Vegetation spending reflects normal maintenance cycles and prioritization of trimming programs, while Lines O&M decreased materially in 2024 relative to earlier years. Importantly, the indexed trend does not indicate sustained upward cost pressure across categories. Overall, LUI's O&M results demonstrate stable operating cost management without evidence of structural cost escalation.

2024 CAPEX Benchmarking Results

Table 15 also presents LUI's 2024 CAPEX unit cost benchmarking results for Stations, Poles and Towers, Line Transformers, and Meters.

LUI performs strongly in Stations CAPEX, reporting the lowest unit cost among reporting comparators in 2024. Poles and Towers CAPEX is mid-range relative to peers, indicating competitive construction costs. Line Transformer and Meter CAPEX unit costs rank higher relative to the selected peer group in 2024; however, CAPEX unit costs can fluctuate significantly year to year depending on project mix, asset condition, procurement timing, and scale efficiencies.

Taken together, the results suggest that while certain capital categories reflect variability in 2024, there is no consistent pattern of cost outperformance or underperformance across all categories. LUI's capital program appears consistent with a small-to-mid-sized LDC managing discrete annual project scopes rather than large, scale-driven system expansions.

1.7.3 Reliability Benchmarking Methodology

1.7.4 SAIFI and SAIDI Five-Year Trend Summary

Over the five-year period from 2020 to 2025, Lakefront Utilities experienced a clear shift in both the causes of interruptions and overall reliability performance. In 2021 to 2023, interruption volumes were lower and the system more stable, largely driven by defective equipment replacement and scheduled work. Reliability peaked in 2022, with SAIDI at 0.63 hours and SAIFI at 0.36, reflecting both fewer and shorter outages.

In 2023 and 2024, total interruptions increased significantly, driven primarily by foreign interference, wildlife related events and ongoing equipment issues. Correspondingly, SAIFI rose to 2.02 in 2023 and remained elevated at 1.33 in 2024, while SAIDI increased to 2.80 and 3.22 hours respectively. This indicates customers experienced more frequent and longer outages in the most recent years. Overall, the data suggests that while earlier years reflected relatively strong system performance, recent trends point to growing pressure from external interference and asset condition, highlighting the importance of continued vegetation management and targeted infrastructure renewal to improve reliability outcomes.

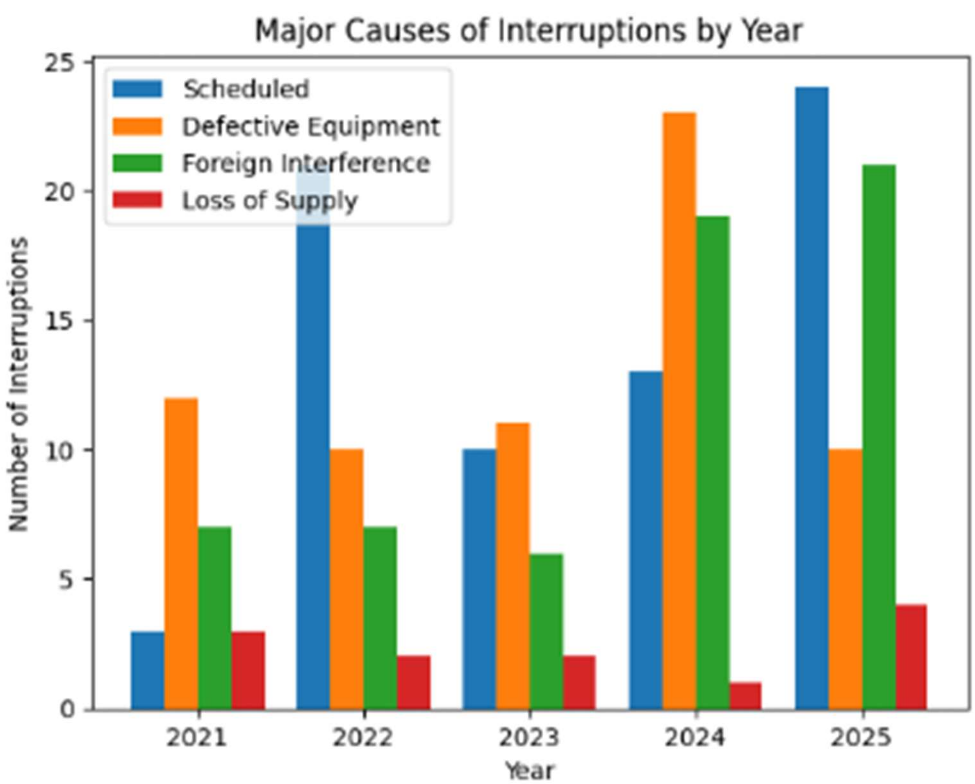


Table 19 – Year-by-year SAIFI and SAIDI table (2015–2023)

Year	SAIDI – Avg Hours Interrupted	SAIFI – Avg Times Interrupted
2020	4.67	1.53
2021	0.99	0.60
2022	0.63	0.36
2023	2.80	2.02
2024	3.22	1.33

Cause 2025	Interruptions	% of Total
Scheduled – Distributor Activities	24	~36%
Foreign Interference – Wildlife	21	~31%
Equipment Failure	10	~15%
Loss of Supply – Transmission	4	~6%
All others combined	8	~12%

Cause 2024	Interruptions	% of Total
Defective Equipment	23	~35%
Foreign Interference	19	~29%
Scheduled Outage	13	~20%
All others combined	10	~16%

Cause 2023	Interruptions	% of Total
Adverse Weather	10	~23%
Defective Equipment	11	~26%
Scheduled Outage	10	~23%
Foreign Interference	6	~14%
Tree Contacts	4	~9%
Loss of Supply	2	~5%
All others combined	0	0%

Cause 2022	Interruptions	% of Total
Scheduled Outage	21	~48%
Defective Equipment	10	~23%
Foreign Interference	7	~16%
Loss of Supply	2	~5%
Tree Contacts	2	~5%
Human Element	2	~5%
All others combined	0	0%

Cause 2021	Interruptions	% of Total
Defective Equipment	12	~36%
Foreign Interference	7	~21%
Scheduled Outage	3	~9%
Loss of Supply	3	~9%
Tree Contacts	3	~9%
Unknown / Other	3	~9%
Human Element	1	~3%
Lightning	0	0%
Adverse Weather	0	0%
Adverse Environment	0	0%

1.7.5 Relationship to Distribution System Plan Priorities

Over the five-year period, Lakefront Utilities' reliability performance trends closely mirror the priorities identified in the Distribution System Plan and 2026–2031 Business Plan and DSP.

Reliability outcomes were stronger in 2021 and 2022, when SAIDI and SAIFI were at their lowest levels during the historical period. These results were supported by stable asset performance and manageable outages. However, in the outage data observed from 2023 to 2024, foreign interference, adverse weather, and equipment-related failures collectively represented more than half of our reliability concerns, forming the primary focus of the proposed capital program.

The proposed investments are targeted at addressing both asset conditions and external outage pressures. Starting with the highest risk pole and equipment renewals, our program is intended to mitigate asset-related failure risk, while automation and protection system enhancements are designed to reduce the number of customers impacted per event and improve restoration times. These measures directly address both outage frequency and duration.

Investments in SCADA, GIS, and automated fault isolation further support reliability improvement by enhancing outage visibility, system monitoring, and operational response. These capabilities enable faster fault identification, reduce the customers impacted, more efficient dispatching, and improved coordination of restoration activities.

The Vegetation Management Plan and related reliability improvement programs also support the utility's response to recurring external and infrastructure-related outage drivers. These programs are intended to reduce preventable interruptions, improve field response, and support more consistent reliability outcomes over the forecast period.

Overall, the recent reliability performance supports the need for the structured, risk-based renewal approach outlined in the 2026–2031 DSP and near-term capital plan. Absent these investments, Lakefront Utilities would expect continued pressure on reliability performance as assets age and exposure to external outage drivers persist. The increase in outage frequency and duration reinforces the importance of continued asset renewal, grid modernization, and disciplined capital pacing to sustain safe and reliable service while managing customer rate impacts over the long term.

1.8. FINANCIAL INFORMATION

1.8.1 Regulatory Return on Equity Analysis

The financial results show that the utility materially under-earned in 2023 and 2024 relative to the approved 8.66% ROE, indicating a period of revenue deficiency. Earnings are forecast to stabilize in 2025 and 2026 and return close to the approved level. This suggests that rates may not have been fully aligned with underlying cost pressures during the mid-years.

Table 20 – Return on Equity Summary (2022–2026)

Year	Deemed ROE	Achieved ROE	Variance (Achieved – Deemed)
2022	8.66	10.87	+2.21%
2023	8.66	4.27	-4.39%
2024	8.66	6.60	-2.06%
2025	8.66	8.24	+0.42%
		Projected	
2026	8.66	3.26	-5.40%

1.8.2 Liquidity and Capital Structure Indicators

Liquidity weakened from 2020 to 2023, with the current ratio falling below 1.0, which indicates tighter cash flow during those years. It improved briefly in 2024, suggesting better short-term financial stability.

Debt levels were steady until 2024, when the debt-to-equity ratio increased noticeably, pointing to greater reliance on borrowing.

Profitability has been inconsistent. Although the OEB approved ROE was at 8.66 percent, LUI’s actual results were below target in most years except 2022. The significant drop in 2023 highlights a period of revenue shortfall and earnings volatility.

Table 21 – Return on Equity Summary (2025–2026)

Ratio	2020	2021	2022	2023	2024	2025
Current Ratio	0.97	0.95	0.78	0.72	1.05	Not yet available
Debt to Equity	1.15	1.09	0.96	1.01	1.40	Not yet available

1.8.2 Historical Financial Results and Pro Formas

LUI's recent and forecast financial results show a utility that remains stable but increasingly constrained by rising operating and capital costs. Liquidity has held steady, and the debt-to-equity position has gradually aligned with the OEB's deemed capital structure. However, achieved ROE has remained below the approved level, with 2024 earnings reaching only 8.24% against an 8.66% target.

The 2026 forecast underscores the need to rebase rates. Projected income declines materially that year as depreciation and financing costs increase faster than revenues under the current IRM framework. This widening gap between achieved and deemed ROE indicates that existing rates can no longer support the level of investment required to maintain safe and reliable service.

Overall, the financial outlook demonstrates prudent management and continued viability, but also clear pressure on earnings. Rebasing in 2027 is necessary to restore financial balance and ensure LUI can continue meeting customer and regulatory expectations.

Table 22 – Financial Results and Pro Formas Balance Sheet

	REGULATORY BALANCE SHET						
	BOARD APPR.	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Utility Income	$793,908	$927,596	$191,454	$493,421	$1,157,710	$467,233	$1,188,033
Average Net Fixed Assets	$20,421,005	$29,529,229	$33,127,506	$36,794,327	$39,287,713	$41,983,772	$44,434,112
Non-distribution assets (NBV)							
Utility Rate Base	$22,918,831	$23,435,263	$26,133,326	$28,697,686	$30,148,874	$31,647,823	$32,602,451
Deemed Equity Portion of Rate Base	$9,167,532	$9,374,105	$10,453,330	$11,479,074	$12,059,550	$12,659,129	$13,040,981
Income/ (Equity Portion of Rate Base)	8.66%	9.90%	1.83%	4.30%	9.60%	3.69%	9.11%
Indicated Rate of Return	5.45%	6.50%	3.58%	5.20%	5.60%	3.77%	5.88%
Approved Rate of Return	5.45%	5.45%	5.45%	5.45%	5.45%	5.45%	5.88%
Sufficiency / (Deficiency) in Return	0.00%	1.05%	-1.87%	-0.25%	0.15%	-1.68%	0.00%
Equity	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%
Short Term Debt	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Long Term Debt	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%
Equity Return	8.66%	8.66%	8.66%	8.66%	8.66%	8.66%	9.11%
Short Debt Return	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%	2.72%
Long Debt Return	3.46%	3.46%	3.46%	3.46%	3.46%	3.46%	3.80%
Tax Rate	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%
Net Revenue Shortfall	$0.00	$245,912.33	-$489,718.29	-$72,864.44	$44,119.41	-$531,336.38	$0.00

	REGULATORY INCOME STATEMENT						
	BOARD APPR.	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
WCA							
Cost of Power	30,424,042	28,857,936	29,909,027	30,121,402	31,969,464	32,854,310	31,037,388
WCA Rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Operating Revenues							
Distribution Revenues	$4,701,978	$4,806,840	$5,002,095	$5,339,224	$5,968,229	$5,997,195	$7,151,812
Other Revenue	$429,272	$660,522	$508,920	$898,145	$892,793	$662,247	$764,039
Total Operating Revenues	$5,131,250	$5,467,362	$5,511,015	$6,237,368	$6,861,022	$6,659,442	$7,915,851
OM&A Expenses	$2,822,241	$2,578,145	$3,132,855	$3,241,023	$3,645,385	$3,928,768	$4,146,221
Depreciation & Amortization	$1,001,950	$1,113,426	$1,225,447	$1,328,789	$1,409,004	$1,455,773	$1,616,283
Property and Taxes	$58,058	$49,584	$53,901	$40,124	$56,272	$58,411	$60,165
Total Costs & Expenses	$3,882,249	$3,741,156	$4,412,203	$4,609,936	$5,110,661	$5,442,953	$5,822,669
Deemed Interest Expenses	$455,093	$595,462	$743,009	$997,645	$529,425	$726,134	$729,584
Total Expenses	$4,337,342	$4,336,618	$5,155,212	$5,607,581	$5,640,086	$6,169,087	$6,552,253
Utility Income before Income Taxes / PILs	$793,908	$1,130,745	$355,804	$629,787	$1,220,936	$490,355	$1,363,598
PILs / Income Taxes	$0	$203,149	$164,349	$136,366	$60,811	$23,122	$175,565
Adjustments for FS purposes (donations, dividends)					-$2,415		
Utility Income	$793,908	$927,596	$191,454	$493,421	$1,157,710	$467,233	$1,188,033
		$909,469	$163,254	$493,421	$1,290,379	$0	$0
RRR Check		*out*	*out*	*out*	*out*	*out*	
		$18,126.88	$28,200.03	$0.05	-$132,669.32		

*2025 out of balance due to the removal of the 12% management fee

1.8.3 Accounting Information

Changes in Tax Status:
LUI is a corporation incorporated pursuant to the Ontario Business Corporations Act and has not had a change in tax status since its last Cost of Service Application, nor is it seeking a change in its tax status.

Existing/Proposed Accounting Order:
LUI does not have nor is proposing any new accounting orders in this proceeding.
Accounting Standard used in Application:

LUI confirms it implemented the regulatory accounting changes for depreciation and overhead capitalization in 2015. The 2027 Cost of Service Application has been filed on an MIFRS accounting basis.

Compliance with the Uniform System of Accounts
LUI has followed the accounting principles and main categories of accounts as stated in the OEB's Accounting Procedures Handbook (the "APH") and the Uniform System of Accounts ("USoA") in the preparation of this Application. LUI is not aware of any departures from the USoA or to any OEB accounting orders.

Accounting Treatment of Non-Utility Related Business.
LUI conducts certain activities through affiliated companies; however, all non-utility business is fully segregated in accordance with the OEB's Affiliate Relationships Code (ARC). LUI maintains separate books of account for utility and non-utility operations, and no costs associated with affiliate activities are recorded in the utility's revenue requirement. All shared services, if any, follow documented cost-allocation methodologies based on causality and supported by written service agreements, ensuring that utility customers do not subsidize affiliate operations. Any transactions with affiliates are priced at market value or fully allocated cost, consistent with ARC requirements.

Through this structure, LUI ensures transparency, proper cost attribution, and full protection of ratepayers while maintaining compliance with the ARC's requirements for accounting separation, transfer pricing, and affiliate conduct.

Annual Report and MD&A.
LUI does not have an annual report. The MD&A Report filed with the OEB is presented at Appendix B of this Exhibit.

Reconciliation Between Financial Statements and Results Field.
LUI has reconciled its historical balances with its RRR filings. When discrepancies arise, LUI investigated and updated its RRR accordingly.

1.9. LDC CONSOLIDATION AND PARTNERSHIPS

LUI acknowledges the Ministry of Energy's November 2021 direction that distributors with fewer than 30,000 customers demonstrate the extent to which consolidation and partnership opportunities have been considered.

LUI periodically evaluates consolidation, partnership, and shared-service opportunities as part of its strategic and business planning activities. Discussions with other Ontario electricity distributors have occurred from time to time, and LUI continues to assess opportunities as they arise. While these evaluations have not resulted in a proposed consolidation transaction, they have informed the utility's ongoing approach to improving operational efficiency and long-term sustainability.

As part of this approach, LUI has implemented and continues to enhance its shared services model through Lakefront Utility Services Inc. The updated shared services agreement, effective in 2026, reflects LUI's continued commitment to achieving operational efficiencies through collaboration while maintaining local governance and accountability.

LUI also participates in a number of industry collaborations through organizations such as the CHEC Group, the Electricity Distributors Association (EDA), and other utility working groups. These initiatives provide access to technical expertise, procurement opportunities, training, and industry best practices, allowing LUI to leverage shared resources without the costs and risks associated with formal consolidation.

LUI's 2026 OEB benchmarking results place the utility in Efficiency Cohort Group 1. While benchmarking results are not determinative of whether consolidation should occur, they indicate that LUI is currently operating efficiently relative to its peers. Based on its investigations to date, LUI has concluded that no consolidation opportunity currently provides a demonstrable benefit to customers sufficient to warrant pursuing a transaction.

LUI will continue to evaluate consolidation, partnership, and shared-service opportunities as part of its ongoing strategic planning. At the time of filing, no consolidation transaction or formal partnership proposal requiring OEB approval is under consideration by LUI or its shareholders.

APPENDICES

List of Appendices

Appendix A	3 years of Financial Statement
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APPENDICES A

APPENDICES B

FINANCIAL STATEMENTS OF

LAKEFRONT UTILITIES INC.

December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of
Lakefront Utilities Inc.

Report on the Audit of the Financial Statements

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

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 its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of 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 generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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.

Baker Tilly KDN LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
April 22, 2024

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LAKEFRONT UTILITIES INC.
STATEMENT OF FINANCIAL POSITION
As at December 31, 2023

	2023 $	2022 $
ASSETS		
Current assets		
Cash (note 4)	246,164	351,305
Accounts receivable	3,134,389	3,153,588
Inventories	601,902	521,647
Prepaid expenses	283,801	342,623
Unbilled revenue	3,460,916	3,175,814
	7,727,172	7,544,977
Non current		
Property, plant and equipment (note 5)	31,428,800	27,385,641
Intangible asset (note 6)	168,014	198,562
Deferred tax asset (note 7)	172,572	110,120
	31,769,386	27,694,323
	39,496,558	35,239,300
Regulatory deferral account debit balances and related deferred tax (note 8)	2,086,859	2,848,402
	41,583,417	38,087,702

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
STATEMENT OF FINANCIAL POSITION, continued
As at December 31, 2023

	2023 $	2022 $
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	2,908,084	4,070,702
Customer deposits refundable within one year (note 13)	46,647	46,647
Operating loan (note 10)	10,000	-
Income taxes payable	-	15,514
Due to related party (note 15)	6,666,072	4,546,907
Current portion of long-term debt (note 11)	363,482	324,524
	9,994,285	9,004,294
Non current		
Long-term debt (note 11)	11,423,341	10,715,472
Contributions in aid of construction (note 12)	4,656,891	4,030,274
Deferred tax liability (note 7)	966,520	757,871
Employee future benefits (note 14)	467,343	415,543
Customer deposits (note 13)	217,334	200,991
	17,731,429	16,120,151
	27,725,714	25,124,445
Shareholder's equity		
Share capital (note 16)	5,293,376	5,293,376
Retained earnings	6,518,342	6,304,740
Accumulated other comprehensive loss	(146,222)	(95,874)
	11,665,496	11,502,242
	39,391,210	36,626,687
Regulatory deferral account credit balances and related deferred tax (note 8)	2,192,207	1,461,015
	41,583,417	38,087,702

LAKEFRONT UTILITIES INC.
STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE LOSS
For the year ended December 31, 2023

	Share capital $	Retained earnings $	Accumulated other comprehensive income $	Total equity $
Balance, December 31, 2021	5,293,376	5,546,548	(247,151)	10,592,773
Net income for the year	-	758,192	-	758,192
Other comprehensive income	-	-	151,277	151,277
Balance, December 31, 2022	5,293,376	6,304,740	(95,874)	11,502,242
Net income for the year	-	213,602	-	213,602
Other comprehensive loss	-	-	(50,348)	(50,348)
Balance, December 31, 2023	5,293,376	6,518,342	(146,222)	11,665,496

The accompanying notes are an integral part of these financial statements

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LAKEFRONT UTILITIES INC.
STATEMENT OF INCOME
For the year ended December 31, 2023

	2023 $	2022 $
Revenue		
Distribution revenue	5,002,095	4,806,840
Cost of power revenue	29,909,027	28,857,936
Contribution in aid of construction (note 12)	138,189	121,753
	35,049,311	33,786,529
Cost of power purchased	30,002,975	27,991,893
Gross profit	5,046,336	5,794,636
Other operating revenue (note 17)	370,449	382,244
Gross income from operations	5,416,785	6,176,880
Expenses		
Amortization	1,225,447	1,115,841
Operating expenses (note 19)	3,318,576	2,722,041
Gain on sale of property, plant and equipment	-	(8,000)
	4,544,023	3,829,882
Income before undernoted items and income taxes	872,762	2,346,998
Finance income (note 18)	(151,836)	(92,356)
Gain on derivatives (note 11)	(22,114)	-
Finance costs (note 18)	762,709	611,970
	588,759	519,614
Income before income taxes and net movement in regulatory deferral accounts	284,003	1,827,384
Provision for income taxes (note 7)		
Current	-	26,106
Deferred	164,349	177,043
	164,349	203,149
Income before net movement in regulatory deferral accounts	119,654	1,624,235
Net movement in regulatory deferral accounts	93,948	(866,043)
Net income for the year	213,602	758,192

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2023

	2023 $	2022 $
Net income for the year	213,602	758,192
Other comprehensive income (loss)		
Actuarial gain (loss), net of deferred tax, not reclassified to net income	(50,348)	151,277
Total comprehensive income for the year	163,254	909,469

The accompanying notes are an integral part of these financial statements

LAKEFRONT UTILITIES INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2023

	2023 $	2022 $
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	213,602	758,192
Items not affecting cash		
Amortization of property, plant and equipment	1,194,899	1,085,293
Amortization of intangible asset	30,548	30,548
Change in deferred income taxes	164,349	177,043
Gain on sale of property, plant and equipment	-	(8,000)
Gain on swap	(22,114)	-
Net financing costs	591,172	519,614
Change in employee future benefits	(16,700)	(22,566)
Recognition of contribution in aid of construction	(138,189)	(121,753)
Change in regulatory deferral accounts	1,492,735	(154,789)
	3,510,302	2,263,582
Change in non-cash working capital items (note 20)	(1,304,323)	42,269
	2,205,979	2,305,851
Investing activities		
Purchase of property, plant and equipment	(5,238,058)	(3,430,426)
Proceeds on disposal of property, plant and equipment	-	8,000
Contribution in aid of construction received	764,806	378,206
	(4,473,252)	(3,044,220)
Financing activities		
Operating loan received (paid)	10,000	(220,000)
Advances from parent company	2,119,165	1,886,070
Repayment of long-term debt	(731,059)	(313,164)
Proceeds of long-term debt	1,500,000	-
Interest paid	(735,974)	(611,970)
	2,162,132	740,936
Increase (decrease) in cash	(105,141)	2,567
Cash - beginning of year	351,305	348,738
Cash - end of year	246,164	351,305

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS

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

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

2. STATEMENT OF COMPLIANCE

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

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

3. MATERIAL ACCOUNTING POLICIES

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

(a) Basis of measurement

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

(b) Electricity regulation

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

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

3. **MATERIAL ACCOUNTING POLICIES, continued**

(b) Electricity regulation, continued

Regulatory accounts

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

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

Regulatory accounts recognized at December 31, 2023 and December 31, 2022 are disclosed in note 8.

(c) Revenue recognition

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

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

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

3. **MATERIAL ACCOUNTING POLICIES, continued**

(c) *Revenue recognition, continued*

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

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

Contributions from developers are not within the scope of IFRS 15 as they do not give rise to a contract with a customer. Currently, there is no specific IFRS guidance on accounting for contributions received from developers. The Company has an accounting policy for the initial recognition of such contributions and subsequent recognition of the related revenue, as described in note 3(h).

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

(d) *Cash*

Cash consists of balances with financial institutions.

(e) *Inventories*

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

3. **MATERIAL ACCOUNTING POLICIES, continued**

(f) Property, plant and equipment

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

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

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

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

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

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

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

(g) Intangible assets

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

Computer software	5 - 15 years straight-line

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

3. **MATERIAL ACCOUNTING POLICIES, continued**

(h) Contributions in aid of construction

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

(i) Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

(j) Customer deposits

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

3. **MATERIAL ACCOUNTING POLICIES, continued**

(k) Employee future benefits

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

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

Details related to the post-employment benefits are detailed in note 14.

(l) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 7.

(m) Related parties

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 15.

3. **MATERIAL ACCOUNTING POLICIES, continued**

(n) Provisions

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

(o) Finance income and finance costs

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

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

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

3. **MATERIAL ACCOUNTING POLICIES, continued**

(p) *Significant accounting estimates and judgments*

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

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

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

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

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

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

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

Regulatory deferral and variance accounts - In determining the balances in the cost of power regulatory deferral and variance accounts, the Company has estimated a receivable from the IESO, impacting the balances in Accounts 1588 and 1589. Additional information is disclosed in notes 8 and 25.

3. **MATERIAL ACCOUNTING POLICIES, continued**

(q) Financial instruments

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

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

(i) *At amortized cost*

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

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

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

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

3. **MATERIAL ACCOUNTING POLICIES, continued**

(q) Financial instruments, continued

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

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

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

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

(r) Change in accounting policies

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

3. **MATERIAL ACCOUNTING POLICIES, continued**

(s) Standards and interpretations not yet effective or adopted

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

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

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

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

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

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

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

The Company is currently assessing the impact, if any, that the standards will have on the financial statements. No standards were selected for early adoption.

4. CASH

Cash consists of balances with financial institutions.

For additional details regarding credit facilities refer to note 10.

5. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $	Equipment and vehicles $	Distribution equipment $	Work in process $	Total $
Cost					
At January 1, 2023	1,378,013	2,680,923	31,038,945	1,895,559	36,993,440
Additions	11,105	546,929	5,318,213	5,380,816	11,257,063
Transfers	-	-	-	(6,019,005)	(6,019,005)
At December 31, 2023	1,389,118	3,227,852	36,357,158	1,257,370	42,231,498
Accumulated amortization					
At January 1, 2023	299,438	2,117,537	7,190,824	-	9,607,799
Amortization	35,115	146,883	1,012,901	-	1,194,899
At December 31, 2023	334,553	2,264,420	8,203,725	-	10,802,698
Net book amount at December 31, 2023	1,054,565	963,432	28,153,433	1,257,370	31,428,800

5. PROPERTY, PLANT AND EQUIPMENT, continued

	Land and buildings $	Equipment and vehicles $	Distribution equipment $	Work in process $	Total $
Cost					
At January 1, 2022	1,365,903	2,618,163	28,650,491	963,027	33,597,584
Additions	12,110	97,330	2,388,454	1,554,462	4,052,356
Transfers	-	-	-	(621,930)	(621,930)
Disposals	-	(34,570)	-	-	(34,570)
At December 31, 2022	1,378,013	2,680,923	31,038,945	1,895,559	36,993,440
Accumulated amortization					
At January 1, 2022	264,554	2,007,131	6,285,391	-	8,557,076
Amortization	34,884	144,976	905,433	-	1,085,293
Disposals	-	(34,570)	-	-	(34,570)
At December 31, 2022	299,438	2,117,537	7,190,824	-	9,607,799
Net book amount at December 31, 2022	1,078,575	563,386	23,848,121	1,895,559	27,385,641

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

6. INTANGIBLE ASSET

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

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

7. **INCOME TAXES**

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

	2023 $	2022 $
Income for the year	284,003	1,827,384
Net movement in regulatory deferral accounts	93,948	(866,043)
	377,951	961,341
Anticipated income tax	149,291	379,730
Tax effect of the following:		
Effect of items not deductible for tax	6,425	5,166
Timing income differences	100,704	(169,827)
CCA in excess of amortization	(256,420)	(188,963)
Future tax expense amounts	146,196	231,585
Income tax OCI adjustment	18,153	(54,542)
Income tax expense	164,349	203,149
Deferred tax	164,349	177,043
Current income tax	-	26,106

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

7. **INCOME TAXES, continued**

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

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

	Opening balance at January 1, 2023 $	Recognize in net income $	Closing balance at December 31, 2023 $
Deferred tax liabilities			
Carrying amount of property, plant and equipment in excess of tax basis	757,871	208,649	966,520

7. INCOME TAXES, continued

	Opening balance at January 1, 2022 $	Recognize in net income $	Closing balance at December 31, 2022 $
Deferred tax liabilities			
Carrying amount of property, plant and equipment in excess of tax basis	594,594	163,277	757,871

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

8. REGULATORY DEFERRAL ACCOUNTS

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

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

8. REGULATORY DEFERRAL ACCOUNTS, continued

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

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

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

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

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

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

The OEB provided an inspection report in December 2022 concerning the company's Deferral and Variance Accounts in Group 1, which includes Accounts 1588 and 1589. The report indicated that certain items might impact the Company's payable or receivable from the IESO, and balances in Accounts 1588 and 1589. The Company is currently investigating the findings of this report. Despite these potential changes, the report's effect is expected to be immaterial to the financial statements as a whole, and does not impact the company's net income or retained earnings.
Additional details are disclosed in note 25.

8. REGULATORY DEFERRAL ACCOUNTS, continued

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

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2023 $	2022 $
Accounts payable - energy purchased	2,120,595	2,765,238
Other trade accounts payable and accrued liabilities	765,153	1,788,525
Deferred receivable - CDM Program	(26,200)	(483,061)
HST payable	48,536	-
	2,908,084	4,070,702

10. CREDIT FACILITIES

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

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

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

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

11. LONG-TERM DEBT

	2023 $	2022 $
Demand note payable, Corporation of the Town of Cobourg, 3.49% per annum	6,600,000	7,000,000
Infrastructure Ontario Loan, 3.90% fixed rate per annum, blended repayments of $5,520 monthly, due December 3, 2048	1,056,817	1,081,322
Infrastructure Ontario Loan, 4.03% fixed rate per annum, blended repayments of $82,668 semi-annually, due September 5, 2028	741,990	873,430
Infrastructure Ontario Loan, 3.38% fixed rate per annum, blended repayments of $72,708 semi-annually, due October 1, 2027	539,808	663,825
Bank loan payable, 2.74% fixed rate, payable in blended monthly payments of $6,912	1,442,510	1,421,419
Carried forward	10,381,125	11,039,996

11. **LONG-TERM DEBT, continued**

	2023 $	2022 $
Carried forward	10,381,125	11,039,996
Bank loan payable, 5.98% fixed rate, payable in blended monthly payments of $9,649	1,405,698	-
	11,786,823	11,039,996
Less principal payments due within one year	363,482	324,524
Due beyond one year	11,423,341	10,715,472

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

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

	$
2024	363,482
2025	377,374
2026	1,693,114
2027	357,136
2028	1,476,823
Subsequent years	7,518,894
	11,786,823

12. **CONTRIBUTION IN AID OF CONSTRUCTION**

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

	2023 $	2022 $
Deferred contributions, net, beginning of year	4,030,274	3,773,821
Contributions in aid of construction received	764,806	378,206
Contributions in aid of construction recognized as revenue	(138,189)	(121,753)
	4,656,891	4,030,274

13. CUSTOMER DEPOSITS

Customer deposits represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

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

14. EMPLOYEE FUTURE BENEFITS

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

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

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

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

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

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

14. EMPLOYEE FUTURE BENEFITS, continued

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

15. DUE TO RELATED PARTY AND RELATED PARTY TRANSACTIONS

During the year, the Company collected rent recoveries of $28,687 (2022- $56,249) from related parties.

Related party transactions are in the normal course of operations and are measured at the exchange value being the amount of consideration established and agreed to by both parties.

In addition, the Company receives hydro and service revenue from related companies and the Corporation of the Town of Cobourg, the ultimate shareholder. During the year, the Company collected revenues of $30,000 (2022 - $30,000) from the Town of Cobourg and paid expenses of $100,255 (2022 - $49,584) and interest of $244,296 (2022 - $244,300) as detailed in Note 11.

The Company is also engaged in transactions in the normal course of operations with affiliated companies and the Waterworks of the Town of Cobourg. The parties are related due to common control.

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

At year-end, included in accounts receivable is $19,647 (2022 - $243) due from Lakefront Utility Services Inc. Included in accounts payable is nil (2022 - $10,727) due to the Town of Cobourg.

The amount due to related party consists of $6,563,097 (2022 - $4,546,907) owing to Lakefront Utility Services Inc, and $102,975 (2022 - nil) owing to the Town of Cobourg Holdings Inc. This balance represents payments made on behalf of the Company. The amount is unsecured, bearing interest at the OEB approved rate and has no terms of repayment.

16. SHARE CAPITAL

Authorized

Unlimited number of common shares
number of common shares

Issued

	2023 $	2022 $
Common shares	5,293,376	5,293,376

17. OTHER OPERATING REVENUE

	2023 $	2022 $
Rentals	165,623	165,796
Miscellaneous	32,006	59,818
Feed-in-tariff invoicing	2,129	2,129
Net recoverable work	140,691	124,501
Sewer billing	30,000	30,000
	370,449	382,244

18. FINANCE INCOME COSTS

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

	2023 $	2022 $
Interest income on accounts receivable	26,106	25,209
Interest income on bank deposits	118,696	20,547
Interest income on regulatory deferral accounts	7,034	46,600
	151,836	92,356

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

18. **FINANCE INCOME COSTS, continued**

	2023 $	2022 $
Interest on long term debt	394,642	391,073
Interest cost on regulatory deferral accounts	134,283	41,091
Interest on due to related party balance	131,065	118,763
Other interest costs	83,019	44,535
Interest on employee future benefits	19,700	16,508
	762,709	611,970

19. **OPERATING EXPENSES**

	2023 $	2022 $
Customer billing and collecting	547,929	526,832
Distribution	1,042,450	874,138
General and administration	1,728,197	1,321,071
	3,318,576	2,722,041

20. **CHANGE IN NON-CASH WORKING CAPITAL ITEMS**

	2023 $	2022 $
Decrease (increase) in accounts receivable	19,199	(142,657)
Increase in inventories	(80,255)	(65,150)
Decrease in prepaid expenses	58,822	27,090
Decrease in income taxes receivable	-	10,592
Increase in unbilled revenue	(285,102)	(281,732)
Increase (decrease) in accounts payable and accrued liabilities	(1,162,618)	388,341
Increase (decrease) in income taxes payable	(15,514)	15,514
Increase (decrease) in deposits held	16,343	(2,085)
Interest received	144,802	92,356
	(1,304,323)	42,269

21. PENSION AGREEMENT

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

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

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

22. CAPITAL DISCLOSURES

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

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

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

	2023 $	2022 $
Infrastructure Ontario and bank loans	5,186,823	4,039,996
Operating loans	10,000	-
Net debt	5,196,823	4,039,996
Retained earnings and OCI	6,372,120	6,208,866
Share capital	5,293,376	5,293,376
Adjusted capital	11,665,496	11,502,242
Debt-to-adjusted capital ratio	0.45	0.35

23. FINANCIAL INSTRUMENTS

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

(a) Fair value

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

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

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

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

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

(b) Interest rate risk

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

23. **FINANCIAL INSTRUMENTS, continued**

(c) Credit risk

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

	Trade accounts receivable (allowance for doubtful accounts) $	Accounts receivable - recoverable work $	Accounts receivable - miscellaneous $	Unbilled Revenue $
0-3 Months	2,748,735	202,540	140,670	3,460,916
4-6 Months	72,551	9,709	-	-
7-12 Months	(39,816)	-	-	-
	2,781,470	212,249	140,670	3,460,916

(d) Liquidity risk

The Company does have a liquidity risk in the financial liabilities detailed in the following chat. Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company is low and is not material.

	Accounts payable and accrued liabilities $	Customer deposits $	Long term debt and bank indebtedness $	Related party payable balance $
0-3 Months	2,726,156	3,744	101,965	-
4-6 Months	128,205	2,324	88,074	-
7-9 Months	53,723	5,353	93,810	-
10-12 Months	-	35,226	89,633	-
12+ Months	-	217,334	11,423,341	6,666,072
	2,908,084	263,981	11,796,823	6,666,072

24. CONTINGENCIES

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

25. MEASUREMENT UNCERTAINTY

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

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

Additional details are disclosed in note 8.

26. COMPARATIVE AMOUNTS

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

Financial Statements of

LAKEFRONT UTILITIES INC.

And Independent Auditor's Report thereon

Year ended December 31, 2024

KPMG LLP
120 Victoria Street South
Suite 600
Kitchener, ON N2G 0E1
Canada
Telephone 519 747 8800
Fax 519 747 8811

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Lakefront Utilities Inc.

Opinion

We have audited the financial statements of Lakefront Utilities Inc. (the Entity), 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 a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter - Comparative Information

The financial statements for the year ended end of December 31, 2023 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 22, 2024.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada

April 30, 2025

LAKEFRONT UTILITIES INC.

Statement of Financial Position

December 31, 2024, with comparative information for 2023

	2024	2023
Assets		
Current assets:		
Cash	$ 251,021	$ 246,164
Trade receivable (note 3)	3,112,907	3,134,389
Unbilled revenue	2,819,148	3,460,916
Inventory	773,432	601,902
Prepaid expenses	142,602	283,801
Total current assets	7,099,110	7,727,172
Non-current assets:		
Property, plant and equipment (note 5)	34,229,086	31,428,800
Intangible assets (note 6)	147,187	168,014
Total non-current assets	34,376,273	31,596,814
Total assets	41,475,383	39,323,986
Regulatory debit balances (note 7)	3,350,346	2,086,858
Total assets and regulatory balances	$ 44,825,729	$ 41,410,844

See accompanying notes to financial statements.

LAKEFRONT UTILITIES INC.

Statement of Financial Position (continued)

December 31, 2024, with comparative information for 2023

	2024	2023
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	$ 4,741,686	$ 2,908,083
Deposits payable	89,758	46,647
Note payable	-	10,000
Due to related party	422,593	6,666,072
Long-term debt due within one year (note 9)	405,577	363,482
Total current liabilities	5,659,614	9,994,284
Non-current liabilities:		
Long-term debt (note 9)	16,581,260	11,423,341
Contributions in aid of construction (note 10)	6,724,704	4,656,891
Customer deposits	189,873	217,334
Employee future benefits (note 4)	448,267	467,343
Deferred tax liability (note 12)	930,314	793,948
Total non current liabilities	24,874,418	17,558,857
Total liabilities	30,534,032	27,553,141
Equity:		
Share capital (note 11)	5,293,376	5,293,376
Accumulated other comprehensive loss	(146,222)	(146,222)
Retained earnings	7,011,763	6,518,342
	12,158,917	11,665,496
Regulatory credit balances (note 7)	2,132,780	2,192,207
Total liabilities, equity and regulatory balances	$ 44,825,729	$ 41,410,844

See accompanying notes to financial statements.

LAKEFRONT UTILITIES INC.

Statement of Comprehensive Income

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

	2024	2023
Revenue:		
Power revenue (note 13)	$ 30,121,402	$ 29,909,027
Distribution revenue	5,339,224	5,002,095
Contribution in aid of construction	172,388	138,189
Other (note 13)	609,895	370,449
	6,121,507	5,510,733
	36,242,909	35,419,760
Operating expenses:		
Cost of power	31,570,788	30,002,975
Distribution	846,796	1,042,450
Customer billing and collection	526,934	547,929
General and administration	1,941,658	1,728,197
Depreciation and amortization	1,328,789	1,225,447
	4,644,177	4,544,023
	36,214,965	34,546,998
Income from operating activities	27,944	872,762
Finance cost (note 15)	(1,018,240)	(762,709)
Gain on derivatives	(85,794)	22,114
Finance income (note 15)	256,492	151,836
Income before income taxes and undernoted items	(819,598)	284,003
Income tax expense (note 12)	247,720	(164,349)
(Loss) earnings before the undernoted items	(571,878)	119,654
Other income (expenses):		
Net movement in regulatory deferral accounts	1,449,386	93,948
Tax on net movement in regulatory deferral accounts	(384,087)	-
	1,065,299	93,948
Net income for the year and net movement in regulatory balances	493,421	213,602
Other comprehensive loss		
Remeasurement of post-employment benefits, net of tax	-	(50,348)
Other comprehensive loss for the year	-	(50,348)
Total comprehensive income for the year	$ 493,421	$ 163,254

See accompanying notes to financial statements.

LAKEFRONT UTILITIES INC.

Statement of Changes in Equity

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

	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance at January 1, 2023	$ 5,293,376	$ 6,304,740	$ (95,874)	$ 11,502,242
Net income and net movement in regulatory balances	-	213,602	-	213,602
Other comprehensive loss	-	-	(50,348)	(50,348)
Balance at December 31, 2023	$ 5,293,376	$ 6,518,342	$ (146,222)	$ 11,665,496

	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance at January 1, 2024	$ -	$ 6,518,342	$ (146,222)	$ 6,372,120
Net income and net movement in regulatory balances	-	493,421	-	493,421
Balance at December 31, 2024	$ -	$ 7,011,763	$ (146,222)	$ 6,865,541

See accompanying notes to financial statements.

LAKEFRONT UTILITIES INC.

Statement of Cash Flows

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

	2024	2023
Cash provided by (used in):		
Operating activities:		
Net Income and net movement in regulatory balances	$ 493,421	$ 213,602
Items not involving cash:		
Depreciation and amortization	1,340,896	1,225,447
Contributions received from customers revenue recognized	(172,388)	(138,189)
Employee future benefits	(19,076)	(16,700)
Net finance costs	643,072	591,172
Income tax expense	136,366	164,349
Loss (gain) on interest rate swap	85,795	(22,114)
	2,508,086	2,017,567
Changes in non-cash operating working capital:		
Accounts receivable	21,482	19,199
Unbilled revenue	641,768	(285,102)
Inventory	(171,530)	(80,255)
Prepaid expenses	141,199	58,822
Accounts payable and accrued liabilities	1,833,608	(1,162,618)
Deposits payable	15,645	16,343
Note payable	(10,000)	-
Due to related entity	(6,243,479)	-
	(3,771,307)	(1,433,611)
Interest paid	(897,315)	(735,974)
Interest received	254,243	144,802
Income tax recovered (paid)	-	(15,514)
Regulatory balances	(1,322,915)	1,492,735
	(3,229,208)	1,470,005
Financing activities:		
Repayment of long-term debt	(385,781)	(731,059)
Proceeds of long-term debt	5,500,000	1,500,000
Operating loan received (paid)	-	10,000
Advances from parent entity	-	2,119,165
	5,114,219	2,898,106
Investing activities:		
Purchase of property, plant and equipment	(4,109,554)	(5,238,058)
Purchase of intangible assets	(10,801)	-
Contribution in aid of construction received	2,240,201	764,806
	(1,880,154)	(4,473,252)
Increase (decrease) in cash	4,857	(105,141)
Cash, beginning of year	246,164	351,305
Cash, end of year	$ 251,021	$ 246,164

See accompanying notes to financial statements.

Reporting entity:

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

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

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

1. Basis of presentation:

(a) Statement of compliance:

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

The financial statements were approved by the Board of Directors on April 21, 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:

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.

1. Basis of presentation (continued):

(d) Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

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

(i) Note 2(b) - measurement of unbilled revenue
(ii) Notes 5, 6 - estimation of useful lives of its property, plant and equipment and intangible assets
(iii) Note 7 - recognition and measurement of regulatory balances
(iv) Note 4 - measurement of defined benefit obligations: key actuarial assumptions
(v) Note 16 - recognition and measurement of provisions and contingencies

(e) Rate regulation:

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

Rate setting

Distribution revenue

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

The application is based on the Annual IR Index option to set rates for 2024.

1. Basis of presentation (continued):

(e) Rate regulation (continued):

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

The Corporation last filed a COS application in October 2021 for rates effective January 1, 2022 to December 31, 2022. The GDP IPI-FDD for 2021 is 4.80%, the Corporation's productivity factor is nil% and the stretch factor is nil%, resulting in a net adjustment of nil% to the previous year's rates.

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

2. Significant accounting policies:

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

(a) Financial instruments:

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

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

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

Financial liabilities are initially measured at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost using the effective interest rate method; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as an adjustment to interest expense over the period of the borrowings.

The Corporation has not entered into derivative instruments.

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

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

(b) Revenue recognition:

Sale and distribution of electricity

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

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Capital contributions

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions are scoped out of IFRS 15 Revenue from Contracts with Customers. Cash contributions, received from developers are recorded as deferred revenue. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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

Other revenue

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

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

(c) Inventory:

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

(d) Property, plant and equipment:

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

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

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

2. Significant accounting policies (continued):

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

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

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

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

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

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

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

The estimated useful lives are as follows:

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

2. Significant accounting policies (continued):

(e) Intangible assets:

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

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

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Corporation does not hold title. Land rights are measured at cost. Management has determined that land rights have an indefinite life. Land rights are tested for impairment when events or circumstances indicate their carrying amount exceeds their fair value. As at December 31, 2024, management has not identified any events or circumstances indicating that land rights are impaired.

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

Asset	Rate
Computer software	5-15years

2. Significant accounting policies (continued):

(f) Impairment:

(i) Financial assets measured at amortized cost:

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

(ii) Non-financial assets:

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

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

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Customer deposits:

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

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

2. Significant accounting policies (continued):

(h) Provisions:

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

(i) Regulatory balances:

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

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

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

2. Significant accounting policies (continued):

(j) Post-employment benefits:

(i) Pension plan

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

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

(ii) Post-employment benefits, other than pension

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

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

2. Significant accounting policies (continued):

(k) Leased assets:

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

For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

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

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

Short-term leases and low value assets

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

2. Significant accounting policies (continued):

(l) Finance income and finance costs:

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

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

(m) Income taxes:

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

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

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

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

3. Trade receivable:

	2024	2023
Trade customer accounts receivable	$ 3,016,090	$ 2,802,902
Other receivables	96,817	331,487
	$ 3,112,907	$ 3,134,389

4. 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 $121,383 to OMERS (2023 - $112,864), of which has been recognized in profit or loss. The Corporation estimates that a contribution of $125,375 to OMERS will be made during the next fiscal year.

As at December 31, 2024, OMERS had approximately 600,000 members, of whom 31 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 97% funded, with an unfunded liability of $4.2 billion. This unfunded liability is likely to result in future payments by participating employers and members.

4. Post-employment benefits (continued):

(b) Post-employment benefits other than pension:

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

Reconciliation of the obligation	2024	2023
Defined benefit obligation, beginning of year	$ 467,343	$ 415,543
Included in profit or loss:		
Current service cost	8,830	14,600
Interest cost	20,595	19,700
	29,425	34,300
Included in OCI		
Actuarial losses arising from:		
Changes in financial assumptions	-	68,500
	496,768	518,343
Benefits paid	(48,501)	(51,000)
	$ 448,267	$ 467,343

Actuarial assumptions	2024	2023
Discount (interest) rate	4.65 %	5.65 %
Medical costs	4.20 %	4.20 %
Dental costs	4.20 %	4.20 %

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $42,900. A 1% decrease in the assumed discount rate would result in the defined benefit obligation increasing by $53,600.

5. Property, plant and equipment:

		Land and buildings		Equipment and vehicles		Distribution equipment		Construction-in-progress		Total
Cost of deemed cost										
Balance at January 1, 2024	$	1,389,118	$	3,227,852	$	36,357,158	$	1,257,370	$	42,231,498
Additions		71		35,615		4,415,916		-		4,451,602
Transfers		-		-		-		(342,048)		(342,048)
Balance at December 31, 2024	$	1,389,189	$	3,263,467	$	40,773,074	$	915,322	$	46,341,052
Balance at January 1, 2023	$	1,378,013	$	2,680,923	$	31,038,945	$	1,895,559	$	36,993,440
Additions		11,105		546,929		5,318,213		5,380,816		11,257,063
Transfers		-		-		-		(6,019,005)		(6,019,005)
Balance at December 31, 2023	$	1,389,118	$	3,227,852	$	36,357,158	$	1,257,370	$	42,231,498
Accumulated depreciation										
Balance at January 1, 2024	$	334,553	$	2,264,420	$	8,203,725	$	-	$	10,802,698
Depreciation		35,533		131,159		1,142,576		-		1,309,268
Balance at December 31, 2024	$	370,086	$	2,395,579	$	9,346,301	$	-	$	12,111,966
Balance at January 1, 2023	$	299,438	$	2,117,537	$	7,190,824	$	-	$	9,607,799
Depreciation		35,115		146,883		1,012,901		-		1,194,899
Balance at December 31, 2023	$	334,553	$	2,264,420	$	8,203,725	$	-	$	10,802,698
Carrying amounts										
At December 31, 2024	$	1,019,103	$	867,888	$	31,426,773	$	915,322	$	34,229,086
At December 31, 2023		1,054,565		963,432		28,153,433		1,257,370		31,428,800

6. Intangible assets:

		Computer software		Land rights		Total
Cost of deemed cost						
Balance at January 1, 2024	$	452,123	$	-	$	452,123
Additions		10,801		-		10,801
Balance at December 31, 2024	$	462,924	$	-	$	462,924
Balance at January 1, 2023	$	452,123	$	-	$	452,123
Accumulated amortization						
Balance at January 1, 2024	$	284,109	$	-	$	284,109
Amortization		31,628		-		31,628
Balance at December 31, 2024	$	315,737	$	-	$	315,737
Balance at January 1, 2023	$	253,561	$	-	$	253,561
Amortization		30,548		-		30,548
Balance at December 31, 2023	$	284,109	$	-	$	284,109
Carrying amounts						
At December 31, 2024	$	147,187	$	-	$	147,187
At December 31, 2023		168,014		-		168,014

7. Regulatory account balances:

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

Regulatory deferral account debit balances	January 1, 2024	Additions	Recovery/ reversal	December 31, 2024	Remaining recovery/ reversal years
Retail settlement variances	$ 1,205,388	$ -	$ (1,205,388)	$ -	-
Cost of power	-	1,907,149	-	1,907,149	-
Regulatory variances disposition	881,471	561,726	-	1,443,197	-
	$ 2,086,859	$ 2,468,875	$ (1,205,388)	$ 3,350,346	

Regulatory deferral account debit balances	January 1, 2023	Additions	Recovery/ reversal	December 31, 2023	Remaining recovery/ reversal years
Retail settlement variances	$ 1,330,938	$ 176,217	$ (301,767)	$ 1,205,388	-
Regulatory variances disposition	1,517,464	(1,503,175)	867,182	881,471	-
	$ 2,848,402	$ (1,326,958)	$ 565,415	$ 2,086,859	

7. Regulatory account balances (continued):

Regulatory deferral account credit balances		January 1, 2024		Additions		Recovery/ reversal		December 31, 2024	Remaining recovery/ reversal years
Cost of power	$	1,212,176	$	-	$	(1,212,176)	$	-	-
Retail settlement variances		-		247,346		126,471		373,817	-
Other DVA		194,041		74,013		-		268,054	-
Low voltage		785,990		704,919		-		1,490,909	-
	$	2,192,207	$	1,026,278	$	(1,085,705)	$	2,132,780	

Regulatory deferral account credit balances		January 1, 2023		Additions		Recovery/ reversal		December 31, 2023	Remaining recovery/ reversal years
Cost of power	$	1,607,198	$	(395,022)	$	-	$	1,212,176	-
Retail settlement variances		-		-		-		-	-
Other DVA		133,923		66,015		(5,897)		194,041	-
Low voltage		(280,106)		494,784		571,312		785,990	-
	$	1,461,015	$	165,777	$	565,415	$	2,192,207	

The regulatory balances are recovered or settled through rates approved by the OEB which are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Corporation has received approval from the OEB to establish its regulatory balances.

Settlement of the Group 1 deferral accounts is done on an annual basis through application to the OEB. An application has been approved on an interim basis by the OEB to recover $543,065 for the Group 1 deferral accounts for the 2025 rate application. The OEB requires the Corporation to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Corporation's deferred tax balance fluctuates.

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In 2024, the rate ranged from 4.40% to 5.49% (2023 - 4.73% to 5.39%).

8. Accounts payable and accrued liabilities:

	2024	2023
Accounts payable – energy purchases	$ 4,344,122	$ 2,120,594
Other trade accounts payable and accrued liabilities	664,059	765,153
Deferred receivable - CDM Program	-	(26,200)
HST payable (recoverable)	(266,495)	48,536
	$ 4,741,686	$ 2,908,083

9. Long-term debt:

	2024	2023
Demand note payable, Corporation of the Town of Cobourg, 3.49% per annum	$ 6,600,000	$ 6,600,000
Infrastructure Ontario Loan, 3.90% fixed rate per annum, blended repayments of $5,520 monthly, due December 3, 2048	1,031,340	1,078,931
Infrastructure Ontario Loan, 4.03% fixed rate per annum, blended repayments of $82,668 semi-annually, due September 5, 2028	605,192	741,990
Infrastructure Ontario Loan, 3.38% fixed rate per annum, blended repayments of $72,708 semi-annually, due October 1, 2027	411,563	539,808
Bank loan payable, 2.74% fixed rate, payable in blended monthly payments of $6,912	1,331,075	1,442,510
Bank loan payable, 5.98% fixed rate, payable in blended monthly payments of $9,649	1,466,286	1,405,698
Bank term loan payable, interest at 5.96%, payable in monthly instalments of $9,626, due 2029	1,477,701	-
Bank term loan payable, interest at 4.92%, payable in monthly instalments of $13,200, due 2029	4,000,000	-
	16,923,157	11,808,937
Less:		
Less current portion of long-term debt	405,577	363,482
Fair value of interest rate swap	(63,680)	22,114
	341,897	385,596
	$ 16,581,260	$ 11,423,341

9. Long-term debt (continued):

The note payable is unsecured and payable on demand. The note has been classified as a long-term liability as the Town has confirmed that they will not demand repayment prior to January 1, 2026. During the year the Corporation paid $230,340 (2023 - $244,296) in interest on the note.
The interest rate with the Town of Cobourg is 3.49% per annum based on the OEB's deemed long-term debt rate.

Principal repayments are due as follows:

2025	$	405,577
2026		2,857,400
2027		1,588,900
2028		2,798,046
2029		1,266,714
Thereafter		8,006,520
	$	16,923,157

10. Contributions in aid of construction:

		2024		2023
Contributions in aid of construction, beginning of year	$	4,656,891	$	4,030,274
Contributions in aid of construction received		2,240,201		764,806
Contributions in aid of construction recognized as other revenue		(172,388)		(138,189)
	$	6,724,704	$	4,656,891

11. Share capital:

	2024	2023
Authorized:		
Unlimited number of common shares		
Issued:		
11,300,000 common shares	$ 5,293,376	$ 5,293,376

12. Income tax expense:

Current tax expense (recovery):

	2025	2024
Deferred tax expense	$ (247,720)	$ 164,349

Reconciliation of effective tax rate:

	2024	2023
Income before taxes	$ (819,598)	$ 284,003
Statutory income tax rates	26.5 %	26.5 %
Expected tax expense (recovery) on income at statutory rates	$ (217,193)	$ 75,261
Increase (decrease) in income taxes resulting from:		
Permanent differences	598	6,425
Other	(31,125)	100,704
CCA in excess of amortization	-	(256,420)
Future tax amounts	-	220,226
Income tax OCI adjustment	-	18,153
Income tax expense	$ (247,720)	$ 164,349

Significant components of the Corporation’s deferred tax balances:

12. Income tax expense (continued):

	2024	2023
Deferred tax assets (liabilities):		
Property, plant and equipment	$ (1,120,019)	$ (966,520)
Post-employment benefits	118,791	123,846
Fair value of derivatives	16,875	5,595
Non-capital loss carryforwards and other	54,039	43,131
	$ (930,314)	$ (793,948)

13. Revenues:

	2024	2023
Rentals	$ 133,568	$ 165,623
Miscellaneous	361,413	32,006
Feed-in-tariff invoicing	2,135	2,129
Net recoverable work	90,278	140,691
Sewer billing	22,500	30,000
Total other revenue	$ 609,894	$ 370,449

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

	2024	2023
Residential	$ 14,101,946	$ 13,150,164
Commercial	21,011,477	21,429,574
Other	347,203	331,384
	$ 35,460,626	$ 34,911,122

14. Employee salaries and benefits:

		2024		2023
Salaries, wages and benefits	$	1,370,454	$	1,297,451
CPP and EI remittances		64,991		60,425
Contributions to OMERS		121,583		112,864
	$	1,557,028	$	1,470,740

15. Finance income and costs:

		2024		2023
Finance income:				
Interest income on bank deposits	$	213,227	$	118,696
Finance income:				
Interest on accounts receivable		41,016		26,106
Finance income:				
Interest on regulatory deferral accounts		-		7,034
		254,243		151,836
Finance costs:				
Interest expense on long-term debt		(789,919)		(394,642)
Interest cost on regulatory deferral accounts		(91,821)		(134,283)
Interest on related party balance		(112,919)		(131,065)
Other interest costs		(2,986)		(83,019)
Interest on employee future benefits		-		(19,700)
		(997,645)		(762,709)
Net finance costs recognized in profit or loss	$	(743,402)	$	(610,873)

16. Commitments and contingencies:

Cornerstone Hydro Electric Concepts ("CHEC"):

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

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

(a) giving written notice 60 days in advance of termination; and

(b) by making a prepayment in full of the balance of its contract service costs to CHEC. The amount of prepayment cost shall be the total cost which the Corporation would have paid over the three year term of the agreement less amounts already paid by it to the date of the termination. The current three year term for CHEC commitment goes to December 31, 2026. The prepayment cost of termination is a settlement of the Corporation's obligation under the agreement by reason of termination of its membership before the expiry of the term. The amount is liquidated damages and not a penalty for early termination and is intended to leave the remaining members in the same position as if the Corporation had not terminated the agreement. As at December 31, 2024, the obligation to CHEC includes the 2025 to 2026 membership dues of approximately $40,000 per year, $120,000 total.

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.

17. Related party transactions:

(a) Parents and ultimate controlling party:

The common shares of Lakefront Utilities Inc. are owned by the Town of Cobourg Holdings Inc., which is 100% owned by the Town of Cobourg, the ultimate parent.

(b) Outstanding balances with related parties, including Lakefront Utility Services Inc., an entity related by common control:

		2024		2023
Lakefront Utility Services Inc. - payable	$	(319,618)	$	(6,563,097)
Town of Cobourg Holdings - payable		(102,975)		(102,975)
	$	(422,593)	$	(6,666,072)

(c) Transactions with ultimate parents:

The Corporation provides water and sewer billing and collection services to the customers of the Town of Cobourg. Revenue includes $22,500 (2023 - $30,000) from the Town of Cobourg for these services.

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

(d) Transactions with related parties:

The Corporation paid $40,650 (2023 - $38,670) in membership fees and shared GIS services to Cornerstone Hydro Electric Concepts Association Inc. (CHEC). CHEC is an association of fifteen electricity distribution utilities modeled after a cooperative to share resources and proficiencies.

(e) Key management personnel:

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members. The compensation paid during the year is $307,783 (2023 - $464,706).

18. Financial instruments and risk management:

Fair value disclosure:

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

The fair value of the long-term debt to third parties at December 31, 2024 is $16,888,717. 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 was 3.84%.

Financial risks:

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

(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 Cobourg.

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 $49,267 (2023 - $39,816). An impairment loss of $38,423 (2023 - $40,769) 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 $147,177 (2023 - $125,615) is considered 60 days past due. The Corporation has over 12,000 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB and through credit insurance. As at December 31, 2024, the Corporation holds security deposits in the amount of $279,625 (2023 - $263,981) which also includes deposits received from developers.

18. Financial instruments and risk management (continued):

(b) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

A 1% increase in the interest rate at December 31, 2024 would have increased interest expense on the long-term debt by $160,000 (2023 - $110,000), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

(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 $8,831,336 credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they become due. As at December 31, 2024, the Corporation has $500,000 available on this credit facility.

The Corporation also has a facility for $1,500,000 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $nil has been drawn and posted with the IESO (2023 - $nil).

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

18. Financial instruments and risk management (continued):

(d) Capital disclosures:

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

The Corporation's definition of capital includes equity and long-term debt. As at December 31, 2024, equity amounts to $12,158,917 (2023 - $11,665,496) and long-term debt amounts to $16,986,837 (2023 - $11,786,823).

Financial Statements of

LAKEFRONT UTILITIES INC.

And Independent Auditor's Report thereon

Year ended December 31, 2025

KPMG LLP
120 Victoria Street South
Suite 600
Kitchener, ON N2G 0E1
Canada
Telephone 519 747 8800
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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Lakefront Utilities Inc.

Opinion

We have audited the financial statements of Lakefront Utilities Inc. (the Entity), which comprise:

- the statement of financial position as at December 31, 2025
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2025 and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter - Comparative Information

As part of our audit of the financial statements for the year ended December 31, 2025 we also audited the adjustments that were applied to restate certain comparative information presented:

- for the year ended December 31, 2024
- as at January 1, 2024

In our opinion, such adjustments are appropriate and have been properly applied.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada

April 27, 2026

LAKEFRONT UTILITIES INC.

Statement of Financial Position

December 31, 2025, with comparative information for December 31, 2024 and January 1, 2024

	December 31, 2025	December 31, 2024 (restated - note 21)	January 1, 2024 (restated - note 21)
Assets			
Current assets:			
Cash	$ 142,253	$ 251,021	$ 246,164
Trade receivable (note 3)	4,585,402	3,112,907	3,134,389
Unbilled revenue	3,824,115	2,819,148	3,460,916
Inventory	723,617	773,432	601,902
Prepaid expenses	247,221	142,602	283,801
Total current assets	9,522,608	7,099,110	7,727,172
Non-current assets:			
Property, plant and equipment (note 5)	36,690,087	34,229,086	31,428,800
Intangible assets (note 6)	132,722	147,187	168,014
Total non-current assets	36,822,809	34,376,273	31,596,814
Total assets	46,345,417	41,475,383	39,323,986
Regulatory debit balances (note 7)	1,624,862	4,335,987	2,852,888
Total assets and regulatory balances	$ 47,970,279	$ 45,811,370	$ 42,176,874

See accompanying notes to financial statements.

LAKEFRONT UTILITIES INC.

Statement of Financial Position (continued)

December 31, 2025, with comparative information for December 31, 2024 and January 1, 2024

	December 31, 2025	December 31, 2024 (restated - note 21)	January 1, 2024 (restated - note 21)
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities (note 8)	$ 3,689,160	$ 4,741,686	$ 2,908,083
Income taxes payable	207,295	-	-
Deposits payable	73,997	89,758	46,647
Note payable	-	-	10,000
Due to related parties	3,076,779	422,593	6,666,072
Long-term debt due within one year (note 9)	419,834	405,577	363,482
Total current liabilities	7,467,065	5,659,614	9,994,284
Non-current liabilities:			
Long-term debt (note 9)	16,150,085	16,581,260	11,423,341
Contributions in aid of construction (note 10)	7,165,951	6,724,704	4,656,891
Provisions (note 11)	1,006,126	864,730	719,415
Customer deposits	165,587	189,873	217,334
Employee future benefits (note 4)	427,088	448,267	467,343
Deferred tax liability (note 13)	806,729	701,161	603,303
Total non current liabilities	25,721,566	25,509,995	18,087,627
Total liabilities	33,188,631	31,169,609	28,081,911
Equity:			
Share capital (note 12)	5,293,376	5,293,376	5,293,376
Accumulated other comprehensive loss	(146,222)	(146,222)	(146,222)
Retained earnings	8,652,206	7,361,827	6,755,602
	13,799,360	12,508,981	11,902,756
Regulatory credit balances (note 7)	982,288	2,132,780	2,192,207
Total liabilities, equity and regulatory balances	$ 47,970,279	$ 45,811,370	$ 42,176,874

See accompanying notes to financial statements.

LAKEFRONT UTILITIES INC.

Statement of Comprehensive Income

Year ended December 31, 2025, with comparative information for 2024

	2025	2024 (restated - note 21)
Revenue:		
Power revenue (note 14)	$ 31,969,467	$ 30,121,402
Distribution revenue	5,968,230	5,339,224
Contribution in aid of construction (note 10)	208,513	172,388
Other (note 14)	463,887	538,398
	6,640,630	6,050,010
	38,610,097	36,171,412
Operating expenses:		
Cost of power	33,982,014	31,570,788
Distribution	873,584	776,435
Customer billing and collection	797,823	560,229
General and administration	1,756,188	1,925,406
Depreciation and amortization	1,411,419	1,331,203
	4,839,014	4,593,273
	38,821,028	36,164,061
Loss from operating activities	(210,931)	7,351
Provision for distribution revenue refund	(141,396)	(145,314)
Gain on disposal of property, plant and equipment	6,681	-
Finance cost (note 16)	(529,425)	(997,645)
Gain on derivatives	15,188	(85,794)
Finance income (note 16)	198,525	256,492
Loss before income taxes and undernoted items	(661,358)	(964,910)
Income tax recovery (note 13)	229,487	286,226
Loss before the undernoted items	(431,871)	(678,684)
Other income (expenses):		
Net movement in regulatory deferral accounts	2,255,575	1,668,996
Tax on net movement in regulatory deferral accounts	(533,325)	(384,087)
	1,722,250	1,284,909
Total comprehensive income for the year	$ 1,290,379	$ 606,225

See accompanying notes to financial statements.

LAKEFRONT UTILITIES INC.
Statement of Changes in Equity

Year ended December 31, 2025, with comparative information for 2024

	Share capital	Retained earnings (restated note - 21)	Accumulated other comprehensive loss	Total (restated note - 21)
Balance at January 1, 2024	$ 5,293,376	$ 6,755,602	$ (146,222)	$ 11,902,756
Net income and net movement in regulatory balances	-	606,225	-	606,225
Balance at December 31, 2024	$ 5,293,376	$ 7,361,827	$ (146,222)	$ 12,508,981
Balance at January 1, 2025	$ 5,293,376	$ 7,361,827	$ (146,222)	$ 12,508,981
Net income and net movement in regulatory balances	-	1,290,379	-	1,290,379
Balance at December 31, 2025	$ 5,293,376	$ 8,652,206	$ (146,222)	$ 13,799,360

See accompanying notes to financial statements.

LAKEFRONT UTILITIES INC.

Statement of Cash Flows

Year ended December 31, 2025, with comparative information for 2024

	2025	2024 (restated - note 21)
Cash provided by (used in):		
Operating activities:		
Net income and net movement in regulatory balances	$ 1,290,379	$ 606,225
Items not involving cash:		
Depreciation and amortization	1,469,514	1,340,896
Contributions received from customers revenue recognized	(208,513)	(172,388)
Employee future benefits	(21,179)	(19,076)
Net finance costs	360,578	643,072
Income tax expense	(229,487)	(286,226)
Tax on net movement in regulatory	542,350	384,084
Loss on interest rate swap	15,188	85,795
Change in provisions	141,396	145,314
	3,360,226	2,727,696
Changes in non-cash operating working capital:		
Accounts receivable	(1,472,495)	20,724
Unbilled revenue	(1,004,967)	641,768
Inventory	49,815	(171,530)
Prepaid expenses	(104,619)	141,199
Accounts payable and accrued liabilities	(1,052,526)	1,834,366
Deposits payable	(40,047)	15,645
Due to related entity	2,654,186	(6,253,479)
	(970,653)	(3,771,307)
Interest paid	(559,103)	(897,315)
Interest received	198,525	254,243
Regulatory balances	1,560,633	(1,542,525)
	3,589,628	(3,229,208)
Financing activities:		
Repayment of long-term debt	(432,106)	(385,781)
Proceeds of long-term debt	-	5,500,000
	(432,106)	5,114,219
Investing activities:		
Purchase of property, plant and equipment	(3,895,780)	(4,109,554)
Purchase of intangible assets	(20,270)	(10,801)
Contribution in aid of construction received	649,760	2,240,201
	(3,266,290)	(1,880,154)
(Decrease) increase in cash	(108,768)	4,857
Cash, beginning of year	251,021	246,164
Cash, end of year	$ 142,253	$ 251,021

See accompanying notes to financial statements.

Reporting entity:

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

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

The financial statements are for the Corporation as at and for the year ended December 31, 2025.

1. Basis of presentation:

(a) Statement of compliance:

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

The financial statements were approved by the Board of Directors on April 23, 2026.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

1. **Basis of presentation (continued):**

(d) Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

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

(i) Note 2(b) - measurement of unbilled revenue
(ii) Notes 5, 6 - estimation of useful lives of its property, plant and equipment and intangible assets
(iii) Note 7 - recognition and measurement of regulatory balances
(iv) Note 4 - measurement of defined benefit obligations: key actuarial assumptions
(v) Note 17 - recognition and measurement of provisions and contingencies

(e) Rate regulation:

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

Rate setting

Distribution revenue

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

The application is based on the Annual IR Index option to set rates for 2025.

1. Basis of presentation (continued):

(e) Rate regulation (continued):

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

The Corporation last filed a COS application in October 2021 for rates effective January 1, 2022 to December 31, 2022. The GDP IPI-FDD for 2025 is 3.60%, the Corporation's productivity factor is 0.00% and the stretch factor is 0.00%, resulting in a net adjustment of 3.60% to the previous year's rates.

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

2. Significant accounting policies:

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

(a) Financial instruments:

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

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

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

Financial liabilities are initially measured at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost using the effective interest rate method; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as an adjustment to interest expense over the period of the borrowings.

The Corporation has not entered into derivative instruments.

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

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

(b) Revenue recognition:

Sale and distribution of electricity

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

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Capital contributions

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions are scoped out of IFRS 15 Revenue from Contracts with Customers. Cash contributions, received from developers are recorded as deferred revenue. When an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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

Other revenue

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

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

(c) Inventory:

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

(d) Property, plant and equipment:

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

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

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

2. Significant accounting policies (continued):

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

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

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

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

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

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

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

The estimated useful lives are as follows:

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

2. Significant accounting policies (continued):

(e) Intangible assets:

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

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

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Corporation does not hold title. Land rights are measured at cost. Management has determined that land rights have an indefinite life. Land rights are tested for impairment when events or circumstances indicate their carrying amount exceeds their fair value. As at December 31, 2025, management has not identified any events or circumstances indicating that land rights are impaired.

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

Asset	Rate
Computer software	5-15 years

2. Significant accounting policies (continued):

(f) Impairment:

(i) Financial assets measured at amortized cost:

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

(ii) Non-financial assets:

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

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

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Customer deposits:

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

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

2. Significant accounting policies (continued):

(h) Provisions:

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

(i) Regulatory balances:

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

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

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

2. Significant accounting policies (continued):

(j) Post-employment benefits:

(i) Pension plan

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

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

(ii) Post-employment benefits, other than pension

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

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

2. Significant accounting policies (continued):

(k) Leased assets:

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

For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

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

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

Short-term leases and low value assets

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

2. Significant accounting policies (continued):

(l) Finance income and finance costs:

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

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

(m) Income taxes:

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

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

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

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

3. Trade receivable:

	2025	2024
Trade customer accounts receivable	$ 3,121,179	$ 3,016,090
Other receivables	404,342	96,817
HST recoverable	1,059,881	-
	$ 4,585,402	$ 3,112,907

4. 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 2025, the Corporation made employer contributions of $115,169 to OMERS (2024 - $121,383), of which has been recognized in profit or loss. The Corporation estimates that a contribution of $139,015 to OMERS will be made during the next fiscal year.

As at December 31, 2025, OMERS had approximately 600,000 members, of whom 31 are current employees of the Corporation. The most recently available OMERS annual report is for the year ended December 31, 2025, which reported that the plan was 99% funded, with an unfunded liability of $1.3 billion. This unfunded liability is likely to result in future payments by participating employers and members.

4. Post-employment benefits (continued):

(b) Post-employment benefits other than pension:

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

Reconciliation of the obligation	2025	2024
Defined benefit obligation, beginning of year	$ 448,267	$ 467,343
Included in profit or loss:		
Current service cost	9,241	8,830
Interest cost	19,670	20,595
	28,911	29,425
	477,178	496,768
Benefits paid	(50,090)	(48,501)
	$ 427,088	$ 448,267

Actuarial assumptions	2025	2024
Discount (interest) rate	4.65 %	4.65 %
Medical costs	4.40 %	4.20 %
Dental costs	4.40 %	4.20 %

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $42,900. A 1% decrease in the assumed discount rate would result in the defined benefit obligation increasing by $53,600.

5. Property, plant and equipment:

	Land and buildings	Equipment and vehicles	Distribution equipment	Construction-in-progress	Total
Cost of deemed cost					
Balance at January 1, 2025	$ 1,389,189	$ 3,263,467	$ 40,773,074	$ 915,322	$ 46,341,052
Additions	7,286	542,679	2,844,093	501,722	3,895,780
Balance at December 31, 2025	$ 1,396,475	$ 3,806,146	$ 43,617,167	$ 1,417,044	$ 50,236,832
Balance at January 1, 2024	$ 1,389,118	$ 3,227,852	$ 36,357,158	$ 1,257,370	$ 42,231,498
Additions	71	35,615	4,415,916	-	4,451,602
Transfers	-	-	-	(342,048)	(342,048)
Balance at December 31, 2024	$ 1,389,189	$ 3,263,467	$ 40,773,074	$ 915,322	$ 46,341,052
Accumulated depreciation					
Balance at January 1, 2025	$ 370,086	$ 2,395,579	$ 9,346,301	$ -	$ 12,111,966
Depreciation	35,606	162,308	1,236,865	-	1,434,779
Balance at December 31, 2025	$ 405,692	$ 2,557,887	$ 10,583,166	$ -	$ 13,546,745
Balance at January 1, 2024	$ 334,553	$ 2,264,420	$ 8,203,725	$ -	$ 10,802,698
Depreciation	35,533	131,159	1,142,576	-	1,309,268
Balance at December 31, 2024	$ 370,086	$ 2,395,579	$ 9,346,301	$ -	$ 12,111,966
Carrying amounts					
At December 31, 2025	$ 990,783	$ 1,248,259	$ 33,034,001	$ 1,417,044	$ 36,690,087
At December 31, 2024	1,019,103	867,888	31,426,773	915,322	34,229,086

6. Intangible assets:

		Computer software		Land rights		Total
Cost of deemed cost						
Balance at January 1, 2025	$	462,924	$	-	$	462,924
Additions		20,270		-		20,270
Balance at December 31, 2025	$	483,194	$	-	$	483,194
Balance at January 1, 2024	$	452,123	$	-	$	452,123
Additions		10,801		-		10,801
Balance at December 31, 2024	$	462,924	$	-	$	462,924
Accumulated amortization						
Balance at January 1, 2025	$	315,737	$	-	$	315,737
Amortization		34,735		-		34,735
Balance at December 31, 2025	$	350,472	$	-	$	350,472
Balance at January 1, 2024	$	284,109	$	-	$	284,109
Amortization		31,628		-		31,628
Balance at December 31, 2024	$	315,737	$	-	$	315,737
Carrying amounts						
At December 31, 2025	$	132,722	$	-	$	132,722
At December 31, 2024		147,187		-		147,187

7. Regulatory account balances:

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

Regulatory deferral account debit balances		January 1, 2025		Additions		Recovery/ reversal		December 31, 2025	Remaining recovery/ reversal years
Cost of power		1,907,149		(1,907,149)		-		-	-
Regulatory variances disposition		1,443,197		(747,489)		(299,512)		396,196	-
Deferred income tax		985,641		243,025		-		1,228,666	-
	$	4,335,987	$	(2,411,613)	$	(299,512)	$	1,624,862	

Regulatory deferral account debit balances		January 1, 2024		Additions		Recovery/ reversal		December 31, 2024	Remaining recovery/ reversal years
Retail settlement variances	$	1,205,386	$	-	$	(1,205,386)	$	-	-
Cost of power		-		1,907,149		-		1,907,149	-
Regulatory variances disposition		881,471		561,726		-		1,443,197	-
Deferred income tax (restated - note 21)		766,031		219,610		-		985,641	-
	$	2,852,888	$	2,688,485	$	(1,205,386)	$	4,335,987	

7. Regulatory account balances (continued):

Regulatory deferral account credit balances	January 1, 2025	Additions	Recovery/ reversal	December 31, 2025	Remaining recovery/ reversal years
Cost of power	$ -	$ 156,922	$ -	$ 156,922	-
Retail settlement variances	373,817	(1,032,511)	867,038	208,344	-
Other DVA	268,054	(264,711)	-	3,343	-
Low voltage	1,490,909	(374,276)	(502,954)	613,679	-
	$ 2,132,780	$ (1,514,576)	$ 364,084	$ 982,288	

Regulatory deferral account credit balances	January 1, 2024	Additions	Recovery/ reversal	December 31, 2024	Remaining recovery/ reversal years
Cost of power	$ 1,212,176	$ -	$ (1,212,176)	$ -	-
Retail settlement variances	-	247,346	126,471	373,817	-
Other DVA	194,041	74,013	-	268,054	-
Low voltage	785,990	704,919	-	1,490,909	-
	$ 2,192,207	$ 1,026,278	$ (1,085,705)	$ 2,132,780	

The regulatory balances are recovered or settled through rates approved by the OEB which are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Corporation has received approval from the OEB to establish its regulatory balances.

Settlement of the Group 1 deferral accounts is done on an annual basis through application to the OEB. An application has been approved by the OEB to recover $364,083 for the Group 1 deferral accounts for the 2025 rate application. The OEB requires the Corporation to estimate its income taxes when it files a COS application to set its rates. As a result, the Corporation has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Corporation’s deferred tax balance fluctuates.

Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In 2025, the rate ranged from 2.91% to 3.64% (2024 - 4.73% to 5.39%).

8. Accounts payable and accrued liabilities:

	2025	2024
Accounts payable – energy purchases	$ 2,458,400	$ 4,370,322
Other trade accounts payable and accrued liabilities	1,230,760	664,059
Deferred receivable - CDM Program	-	(26,200)
HST payable (recoverable)	-	(266,495)
	$ 3,689,160	$ 4,741,686

9. Long-term debt:

	2025	2024
Demand note payable, Corporation of the Town of Cobourg, 3.49% per annum	$ 6,600,000	$ 6,600,000
Infrastructure Ontario Loan, 3.90% fixed rate per annum, blended repayments of $5,520 monthly, due December 3, 2048	1,004,851	1,031,340
Infrastructure Ontario Loan, 4.03% fixed rate per annum, blended repayments of $82,668 semi-annually, due September 5, 2028	462,825	605,192
Infrastructure Ontario Loan, 3.38% fixed rate per annum, blended repayments of $72,708 semi-annually, due October 1, 2027	278,947	411,563
Bank loan payable, 2.74% fixed rate, payable in blended monthly payments of $6,912, refinanced in 2025	-	1,331,075
Bank loan payable, 5.98% fixed rate, payable in blended monthly payments of $9,649, refinanced in 2025	-	1,466,286
Bank term loan payable, interest at 5.96%, payable in monthly instalments of $9,626, due 2029, refinanced in 2025	-	1,477,701
Bank term loan payable, interest at 4.92%, payable in monthly instalments of $13,200, due 2029	4,000,000	4,000,000
Carried forward	12,346,623	16,923,157

9. Long-term debt (continued):

	2025	2024
Carried forward	12,346,623	16,923,157
Bank term loan payable, floating interest rate fixed by a swap contract at 4.325%, payable in monthly instalments of $23,788, due 2030	4,174,804	-
	16,521,427	16,923,157
Less:		
Current portion of long-term debt	419,834	405,577
Fair value of interest rate swap	(48,492)	(63,680)
	371,342	341,897
	$ 16,150,085	$ 16,581,260

The note payable is unsecured and payable on demand. The note has been classified as a long-term liability as the Town has confirmed that they will not demand repayment prior to January 1, 2026. During the year the Corporation paid $230,340 (2024 - $230,340) in interest on the note.

The interest rate with the Town of Cobourg is 3.49% per annum based on the OEB's deemed long-term debt rate.

Principal repayments are due as follows:

2026	$ 419,834
2027	836,353
2028	706,885
2029	552,743
2030	4,149,842
Thereafter	9,855,770
	$ 16,521,427

10. Contributions in aid of construction:

	2025	2024
Contributions in aid of construction, beginning of year	$ 6,724,704	$ 4,656,891
Contributions in aid of construction received	649,760	2,240,201
Contributions in aid of construction recognized as other revenue	(208,513)	(172,388)
	$ 7,165,951	$ 6,724,704

11. Provisions:

The Company has recorded a provision for potential distribution revenue to be returned to customers due from previous rate filings with the Ontario Energy Board. If and when a rate order from the Ontario Energy Board is received, the amount will be recorded as a regulatory liability. The outflows of economic benefits is expected to commence in the 2027 fiscal year for an undetermined period of time. The amount and timing is ultimately determined through the Company’s Cost of Service application with the Ontario Energy Board.

An analysis of the provision is as follows:

	2025	2024 (Restated - note 21)
Opening balance	$ 864,730	$ 719,415
Provisions added during the year	141,396	145,315
Closing balance	$ 1,006,126	$ 864,730

12. Share capital:

	2025	2024
Authorized:		
Unlimited number of common shares		
Issued:		
11,300,000 common shares	$ 5,293,376	$ 5,293,376

12. Share capital (continued):

13. Income tax expense:

Current tax expense (recovery):

	2025	2024 (restated - note 21)
Current tax expense (recovery)	$ (372,525)	$ -
Deferred tax expense (recovery)	143,038	(286,226)
Income tax expense (recovery)	$ (229,487)	$ (286,226)

Reconciliation of effective tax rate:

	2025	2024 (restated - note 21)
Income before taxes	$ (661,358)	$ (964,910)
Statutory income tax rates	26.5 %	26.5 %
Expected tax expense (recovery) on income at statutory rates	$ (175,260)	$ (255,701)
Increase (decrease) in income taxes resulting from:		
Permanent differences	1,565	598
Other	(55,792)	(31,123)
Income tax expense	$ (229,487)	$ (286,226)

13. Income tax expense (continued):

Significant components of the Corporation's deferred tax balances:

	2025	2024 (restated - note 21)
Deferred tax assets (liabilities):		
Property, plant and equipment	$ (1,354,801)	$ (1,120,019)
Post-employment benefits	113,178	118,791
Fair value of derivatives	12,850	16,875
Regulatory accounts	155,315	(322,655)
Non-capital loss carryforwards	-	376,694
Provisions	266,729	229,153
	$ (806,729)	$ (701,161)

14. Revenues:

	2025	2024
Rentals	$ 299,694	$ 133,568
Miscellaneous	93,609	363,829
Feed-in-tariff invoicing	2,334	2,135
Net recoverable work	68,250	16,366
Sewer billing	-	22,500
Total other revenue	$ 463,887	$ 538,398

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

	2025	2024
Residential	$ 14,786,816	$ 14,101,946
Commercial	22,800,943	21,011,477
Other	349,938	347,203
	$ 37,937,697	$ 35,460,626

15. Employee salaries and benefits:

	2025	2024
Salaries, wages and benefits	$ 1,061,731	$ 1,066,825
CPP and EI remittances	45,075	50,561
Contributions to OMERS	79,163	87,978
	$ 1,185,969	$ 1,205,364

16. Finance income and costs:

	2025	2024
Finance income:		
Interest income on bank deposits	$ 141,348	$ 215,476
Finance income:		
Interest on accounts receivable	57,177	41,016
	198,525	256,492
Finance costs:		
Interest expense on long-term debt	(435,359)	(789,919)
Interest cost on regulatory deferral accounts	(81,555)	(91,821)
Interest on related party balance	(12,511)	(112,919)
Other interest costs	-	(2,986)
	(529,425)	(997,645)
Net finance costs recognized in profit or loss	$ (330,900)	$ (741,153)

17. Commitments and contingencies:

Cornerstone Hydro Electric Concepts ("CHEC"):

CHEC is an association of fifteen LDCs modelled after a co-operative to share resources and proficiencies (note 18).

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

(a) giving written notice 60 days in advance of termination; and

(b) by making a prepayment in full of the balance of its contract service costs to CHEC. The amount of prepayment cost shall be the total cost which the Corporation would have paid over the three year term of the agreement less amounts already paid by it to the date of the termination. The current three year term for CHEC commitment goes to December 31, 2026. The prepayment cost of termination is a settlement of the Corporation's obligation under the agreement by reason of termination of its membership before the expiry of the term. The amount is liquidated damages and not a penalty for early termination and is intended to leave the remaining members in the same position as if the Corporation had not terminated the agreement. As at December 31, 2025, the obligation to CHEC includes the 2026 membership dues of approximately $36,735 per year.

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.

18. Related party transactions:

(a) Parents and ultimate controlling party:

The common shares of Lakefront Utilities Inc. are owned by the Town of Cobourg Holdings Inc., which is 100% owned by the Town of Cobourg, the ultimate parent.

(b) Outstanding balances with related parties, including Lakefront Utility Services Inc., an entity related by common control:

	2025	2024
Lakefront Utility Services Inc. - payable	$ (3,076,779)	$ (204,448)
Town of Cobourg Holdings - payable	-	(218,145)
	$ (3,076,779)	$ (422,593)

(c) Transactions with ultimate parents:

The Corporation had previously provided water and sewer billing and collection services to the customers of the Town of Cobourg. Revenue includes $nil (2024 - $22,500) from the Town of Cobourg for these services.

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

(d) Transactions with related parties:

The Corporation paid $36,031 (2024 - $40,650) in membership fees and shared GIS services to Cornerstone Hydro Electric Concepts Association Inc. ("CHEC"). CHEC is an association of fifteen electricity distribution utilities modeled after a cooperative to share resources and proficiencies.

(e) Key management personnel:

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members. The compensation paid during the year is $391,842 (2024 - $307,783).

19. Financial instruments and risk management:

Fair value disclosure:

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

The fair value of the long-term debt to third parties at December 31, 2025 is $16,567,061. 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 rates used to calculate fair value at December 31, 2025 were in the range of 3.72% to 4.95%.

Financial risks:

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

(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 Cobourg.

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, 2025 is $202,273 (2024 - $49,267). An impairment loss of $210,278 (2024 - $38,423) 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, 2025, approximately $281,196 (2024 - $147,177) is considered 60 days past due. The Corporation has over 12,000 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB and through credit insurance. As at December 31, 2025, the Corporation holds security deposits in the amount of $239,584 (2024 - $279,631) which also includes deposits received from developers.

19. Financial instruments and risk management (continued):

(b) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the regulated rate of return for the Corporation's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

A 1% increase in the interest rate at December 31, 2025 would have increased interest expense on the long-term debt by $160,000 (2024 - $160,000), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

(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 $8,831,336 credit facility and monitors cash balances daily to ensure that a sufficient level of liquidity is on hand to meet financial commitments as they become due. As at December 31, 2025, the Corporation has $500,000 available on this credit facility.

The Corporation also has a facility for $1,500,000 (the "LC" facility) for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $nil has been drawn and posted with the IESO (2024 - $nil).

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

19. Financial instruments and risk management (continued):

(d) Capital disclosures:

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

The Corporation's definition of capital includes equity and long-term debt. As at December 31, 2025, equity amounts to $13,799,360 (2024 - $12,508,981) and long-term debt amounts to $16,569,919 (2024 - $16,986,837).

20. Comparative information:

Certain comparative information have been reclassified from those previously presented to conform to the presentation of the 2025 financial statements.

21. Correction of a prior period error:

During the year ended December 31, 2025, management identified an error in the financial statements for the year ended December 31, 2024 and prior years. Management identified unrecorded provisions related to previous rate filings with the Ontario Energy Board. The Company has also made a correction to its regulatory debit balances to account for regulatory assets resulting from deferred tax liabilities.

In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the error has been corrected retrospectively by restating the comparative information for December 31, 2024 and the statement of financial position at January 1, 2024.

Impact of the correction on the statement of financial position:

As at January 1, 2024	Previously reported	Adjustment	Restated
Regulatory debit balances	$ 2,086,858	$ 766,030	$ 2,852,888
Total assets and regulatory balances	41,410,844	766,030	42,176,874
Provisions	-	(719,415)	(719,415)
Deferred tax liability	(793,948)	190,645	(603,303)
Retained earnings	(6,518,342)	(237,260)	(6,755,602)

21. Correction of a prior period error (continued):

As at December 31, 2024	Previously reported	Adjustment	Restated
Regulatory debit balances	$ 3,350,346	$ 985,641	$ 4,335,987
Total assets and regulatory balances	44,825,729	985,641	45,811,370
Provisions	-	864,730	864,730
Deferred tax liability	930,314	(229,153)	701,161
Total liabilities	30,534,032	635,577	31,169,609
Retained earnings	(7,011,763)	(350,064)	(7,361,827)

Impact of the correction on the statement of comprehensive income:

Year ended December 31, 2024	Previously reported	Adjustment	Restated
Provision for distribution revenue refund	$ -	$ (145,314)	$ (145,314)
Income tax recovery	247,718	38,508	286,226
Net movement in regulatory deferral accounts	1,065,299	219,610	1,284,909
Total comprehensive income	493,421	112,804	606,225

Impact of the correction on the statement of equity:

	Previously reported	Adjustment	Restated
Retained earnings:			
January 1, 2024	$ 6,518,342	$ 237,260	$ 6,755,602
Net income and movement in regulatory balances	493,421	112,804	606,225
December 31, 2024	7,011,763	350,064	7,361,827

21. Correction of a prior period error (continued):

	Previously reported	Adjustment	Restated
Total equity:			
January 1, 2024	$ 11,665,496	$ 237,260	$ 11,902,756
Net income and movement in regulatory balances	493,421	112,804	606,225
December 31, 2024	12,158,917	350,064	12,508,981

Impact of the correction on the statement of cash flows:

Year ended December 31, 2024	Previously reported	Adjustment	Restated
Net income and movement in regulatory balances	$ 493,421	$ 112,804	$ 606,225
Income tax expense	247,718	38,508	286,226
Change in provisions	-	145,314	145,314
Regulatory balances	(1,322,915)	(219,610)	(1,542,525)

Impact of the correction on Note 7. Regulatory account balances

	Previously reported	Adjustment	Restated
Deferred income tax:			
January 1, 2024	$ -	$ 766,031	$ 766,031
Additions in 2024	-	219,610	219,610
December 31, 2024	-	985,641	985,641

21. Correction of a prior period error (continued):

Impact of the correction on Note 11. Provisions:

Year ended December 31, 2024	Previously reported	Adjustment	Restated
January 1, 2024	$ -	$ 719,415	$ 719,415
Additions in 2024	-	145,315	145,315
December 31, 2024	-	864,730	864,730

Impact of the correction on Note 13. Income tax expense

Year ended December 31, 2024	Previously reported	Adjustment	Restated
Deferred tax recovery	$ 247,718	$ 38,508	$ 286,226

Year ended December 31, 2024	Previously reported	Adjustment	Restated
Deferred tax assets (liabilities):			
Provisions	$ -	$ 229,153	$ 229,153

APPENDICES B

Lakefront Utilities Inc.

207 Division St., P.O. Box 577, Cobourg, ON. K9A 4L3 •www.lakefrontutilities.com • Tel: 905-372-2193 • Fax: 905-372-2581

LUI Resolution #2026-33
Moved by Lindsey Arseneault MacKinnon
Seconded by Guru Kalyanraman
BE IT RESOLVED THAT the Board of Directors of Lakefront Utilities Inc. acknowledges receipt and review of management's summary of the proposed 2027 Cost of Service Application to be filed with the Ontario Energy Board and supports management proceeding with the filing of the application, including any final non-material revisions required prior to submission. **CARRIED**

June 26th, 2026

Signed by:
Susan Spicer
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Susan Spicer
Corporate Secretary