

Lakeland Power Distribution Ltd.
Financial Statements
For the Year Ended December 31, 2024
(Expressed in Canadian Dollars)

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For the Year Ended December 31, 2024
(Expressed in Canadian Dollars)

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Independent Auditor's Report

To the Shareholder of Lakeland Power Distribution Ltd.

Opinion

We have audited the financial statements of Lakeland Power Distribution Ltd. (the "Company"), which comprise the statement of financial position as at December 31, 2024, the statements of comprehensive income, changes in equity, 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, 2024, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and International Accounting Standards as issued by the International Accounting Standards Board (IASB) and Interpretations (collectively 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 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 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 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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Barrie, Ontario
April 29, 2025

Lakeland Power Distribution Ltd.

Statement of Financial Position

(Expressed in Canadian Dollars)

December 31	2024	2023
Assets		
Current		
Cash (Note 16)	\$ 2,213,184	\$ 3,698,026
Accounts receivable (Note 5 and 7)	4,911,332	4,352,546
Unbilled revenue (Note 5)	4,200,805	3,821,807
Recoverable payments in lieu of taxes	319,735	85,100
Inventories (Note 8)	784,279	585,954
Prepaid expenses	655,263	368,890
Total current assets	13,084,598	12,912,323
Non-current		
Property, plant and equipment (Note 9)	46,517,790	42,747,054
Intangible assets (Note 10)	618,831	668,174
Goodwill (Note 11)	1,150,014	1,150,014
Total non-current assets	48,286,635	44,565,242
Total assets	61,371,233	57,477,565
Regulatory deferral account debit balances (Note 12)	702,173	873,877
Total assets and regulatory deferral account debit balances	\$ 62,073,406	\$ 58,351,442

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

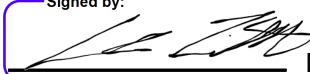
Lakeland Power Distribution Ltd.**Statement of Financial Position**

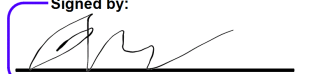
(Expressed in Canadian Dollars)

December 31	2024	2023
Liabilities		
Current		
Accounts payable and accrued liabilities (Notes 6 and 7)	\$ 8,889,180	\$ 7,150,270
Current portion of long-term debt (Note 20)	-	10,698,887
Current portion of contributions in aid of construction (Note 14)	432,064	375,608
Total current liabilities	9,321,244	18,224,765
Non current		
Contributions in aid of construction (Note 14)	14,316,699	12,377,605
Customer deposits (Note 15)	573,609	483,551
Deferred taxes (Note 18)	850,756	766,593
Employee future benefits (Note 19)	33,396	39,891
Long-term debt (Note 20)	21,186,387	10,487,500
Total non-current liabilities	36,960,847	24,155,140
Total liabilities	46,282,091	42,379,905
Shareholder's Equity		
Share capital (Note 21)	9,226,787	9,226,787
Contributed surplus	4,986,711	4,986,711
Retained earnings	1,503,978	1,684,200
Accumulated other comprehensive loss	73,839	73,839
Total shareholder's equity	15,791,315	15,971,537
Total liabilities and shareholder's equity	\$ 62,073,406	\$ 58,351,442

Contingencies (Note 16) and Commitments (Note 17)

On behalf of the Board:

Signed by:  Director
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Signed by:  Director
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Lakeland Power Distribution Ltd.

Statement of Comprehensive Income

(Expressed in Canadian Dollars)

For the year ended December 31	2024	2023
Revenue		
Electricity revenue	\$ 40,054,523	\$ 37,183,199
Distribution revenue	8,654,714	8,711,263
Other revenue	1,193,428	1,020,177
Gain on disposal of property, plant and equipment	45,101	35,000
	<u>49,947,766</u>	<u>46,949,639</u>
Expenses		
Purchased power	40,291,343	36,981,656
Operating expenses (Note 23)	6,553,635	5,806,416
Depreciation and amortization (Note 22)	1,948,486	1,853,806
Property taxes	64,506	62,817
	<u>48,857,970</u>	<u>44,704,695</u>
Income from operating activities	<u>1,089,796</u>	<u>2,244,944</u>
Other income (expense)		
Finance income	188,743	159,014
Finance costs	(1,156,328)	(951,779)
	<u>(967,585)</u>	<u>(792,765)</u>
Income before provision for payments in lieu of taxes	<u>122,211</u>	<u>1,452,179</u>
Provision for payments in lieu of taxes		
Current (Note 18)	-	2,487
Deferred (Note 18)	36,004	338,415
	<u>36,004</u>	<u>340,902</u>
Profit before net movements in regulatory deferral account balances	<u>86,207</u>	<u>1,111,277</u>
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement (Note 12)	<u>133,571</u>	<u>(168,161)</u>
Total comprehensive income	<u>\$ 219,778</u>	<u>\$ 943,116</u>

Lakeland Power Distribution Ltd.
Statement of Changes in Equity
(Expressed in Canadian Dollars)

For the year ended December 31, 2024

	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
Balance, January 1, 2023	\$ 9,226,787	\$ 4,986,711	\$ 1,541,084	\$ 73,839	\$ 15,828,421
Comprehensive income	-	-	943,116	-	943,116
Dividends paid	-	-	(800,000)	-	(800,000)
Balance, December 31, 2023	9,226,787	4,986,711	1,684,200	73,839	15,971,537
Comprehensive income	-	-	219,778	-	219,778
Dividends paid	-	-	(400,000)	-	(400,000)
Balance, December 31, 2024	\$ 9,226,787	\$ 4,986,711	\$ 1,503,978	\$ 73,839	\$ 15,791,315

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

Lakeland Power Distribution Ltd.

Statement of Cash Flows

(Expressed in Canadian Dollars)

For the year ended December 31	2024	2023
Cash flows from operating activities		
Comprehensive income	\$ 219,778	\$ 943,116
Adjustments for items not affecting cash:		
Depreciation of property, plant, equipment, and intangible assets (Note 22)	2,196,114	2,088,035
Employee future benefits (Note 19)	(6,495)	(9,601)
Finance costs paid	1,156,328	951,779
Finance income received	(188,743)	(159,014)
Provision for payments in lieu and deferred taxes (Note 18)	36,004	340,902
Tax on net movement in regulatory deferral balances	48,159	-
Gain on disposal of property, plant and equipment	(45,101)	-
	3,416,044	4,155,217
Adjustments for non-cash working capital items:		
Accounts receivable (Note 5 and 7)	(558,786)	(495,668)
Inventory (Note 8)	(198,325)	260,464
Prepaid expenses	(286,373)	(68,727)
Unbilled revenue	(378,998)	4,708
Accounts payable and accrued liabilities (Note 6)	1,738,910	(93,239)
Customer deposits (Note 15)	90,058	(48,354)
	3,822,530	3,714,401
Cash generated from operations	3,822,530	3,714,401
Payments in lieu of taxes recoveries/(payments)	(234,635)	179,878
Net cash provided by operating activities	3,587,895	3,894,279
Cash flows from investing activities		
Finance income received	188,743	159,014
Purchase of property, plant, and equipment (Note 9)	(5,950,193)	(4,914,991)
Proceeds on disposal of property, plant, and equipment	78,500	-
Purchase of intangible assets	(713)	(85,972)
Regulatory deferral account balances	171,704	(85,968)
	(5,511,959)	(4,927,917)
Net cash used in investing activities	(5,511,959)	(4,927,917)
Cash flows from financing activities		
Finance costs paid	(1,156,328)	(951,779)
Dividends paid	(400,000)	(800,000)
Contributions in aid of construction	1,995,550	1,626,325
Proceeds from issuance of long-term debt	-	3,000,000
	439,222	2,874,546
Net cash provided by financing activities	439,222	2,874,546
Net (decrease) increase in cash	(1,484,842)	1,840,908
Cash at beginning of year	3,698,026	1,857,118
Cash at end of year	\$ 2,213,184	\$ 3,698,026

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

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

1. Corporate Information

The Company was incorporated under the Canada Business Corporations Act in 2000 and subsequently continued under the Business Corporations Act (Ontario). The Company distributes electricity to residential and commercial customers within the municipalities of Bracebridge, Huntsville, Parry Sound, Sundridge, Burk's Falls, and Magnetawan, pursuant to a distribution license granted by the Ontario Energy Board ("OEB").

As a regulated entity, the Company requires approval from the OEB for adjustments to electricity distribution and power rates.

The Company's sole shareholder is Lakeland Holding Ltd.

2. Basis of Presentation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), including applicable interpretations issued by the IFRS Interpretations Committee (IFRIC).

The financial statements were authorized for issue by the Board of Directors on April 28, 2025.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis except for the following items:

1. Financial instruments - fair value through profit and loss
2. Financial instruments - fair value through other comprehensive income
3. Employee future benefits - fair value through other comprehensive income

The financial statements are presented in Canadian dollars (CDN\$), which is also the Company's functional currency.

c) Judgement and estimates

The preparation of these financial statements in accordance with International Financial Reporting Standards (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. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information

**a) Explanation
of Activities
Subject to
Rate Regulation**

Operating in a regulated environment exposes the Company to regulatory and recovery risk.

Regulatory Risk

Regulatory risk is the risk that the Province of Ontario or its regulator, the Ontario Energy Board ("OEB"), may introduce changes to the regulatory framework governing electricity distribution. Such regulatory changes could restrict the Company's ability to achieve an acceptable rate of return, ensure financial sustainability, or fully recover incurred expenses, including transition costs and regulatory assets. All changes to electricity distribution rates must receive prior approval from the OEB. The Company continuously monitors regulatory developments to manage and mitigate potential impacts on its financial performance.

Recovery Risk

Regulatory developments in Ontario's electricity industry, including ongoing and potential future consultations between the Ontario Energy Board (OEB) and stakeholders, may impact distribution rates and other approved recoveries.

The Company operates under a cost of service regulatory model, where the OEB determines the required revenues to (i) recover forecasted operating costs (including depreciation, amortization, and income taxes), and (ii) provide a fair and reasonable return on the utility's investment (rate base).

As actual operating conditions may differ from forecasts, the actual returns achieved may vary from those approved by the OEB.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

b) Regulatory Deferral Accounts

Regulatory deferral account debit balances represent future recoveries of certain costs incurred in the current or prior period(s) that are expected to be recovered from customers in future periods through the rate-setting process. Management regularly assesses the probability of recovery of these regulatory assets. If recovery through future rates is no longer considered probable, the associated amounts are recognized as an expense in the period in which the assessment is made.

Regulatory deferral account credit balances represent amounts collected in the current or prior periods that are expected to be returned to customers in future periods through the rate-setting process.

Regulatory deferral account balances can arise from timing differences between amounts collected from customers (based on OEB-approved regulated rates) and the corresponding cost of providing non-competitive electricity services. These differences include variances in amounts paid to the Independent Electricity System Operator (IESO) for electricity purchases in the wholesale market since May 1, 2002. Such amounts have been accumulated under regulations pursuant to the Electricity Act, 1998 (the "EA"), and deferred with the expectation of either future recovery from or future refund to customers through electricity distribution service charges.

Explanation of recognized amounts

Regulatory deferral account balances are initially recognized and subsequently measured at cost. These balances are assessed for impairment in the same manner as other non-financial assets, as described in the relevant accounting policies. Management regularly evaluates the probability of recovery of regulatory deferral account assets through future rates. If it is no longer considered probable that recovery will occur, the related amounts are recognized as an expense in profit or loss in the period the assessment is made.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

c) Revenue

Sale and distribution of energy

The Company is licensed by the Ontario Energy Board (OEB) to distribute electricity. As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties, as well as for related services such as transmission and other third-party charges. Pursuant to regulation, the Company is required to remit these amounts to the respective third parties, regardless of whether the related amounts are ultimately collected from customers. The Company has determined that it is acting as a principal in the electricity distribution process and, therefore, presents electricity revenues on a gross basis.

Revenues from the sale and distribution of electricity are recognized over time as electricity is delivered and related services are provided, reflecting the continuous transfer of control to the customer. Revenue is recognized when the performance obligations are satisfied and collection is reasonably assured. This includes unbilled revenue, which represents electricity and distribution services delivered but not yet invoiced as at the reporting date. Sale and distribution revenue is based on customer usage and is recorded using actual or estimated meter readings.

Other

Other revenues, which include revenues from pole rentals, collection charges, and other miscellaneous sources, are recognized when the related services are provided. Where the Company has an ongoing performance obligation, revenue is recognized over time as the service is performed. Any amounts billed in advance of service delivery are recorded as deferred revenue until the related performance obligation is satisfied.

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as contributions in aid of construction and are recorded as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

- d) Financial Instruments Financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, customer deposits, and long-term debt.

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Financial assets are initially measured at fair value adjusted for transaction costs where applicable.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss ("FVTPL"); and
- fair value through other comprehensive income ("FVOCI").

The classification is determined by both:

- the Company's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

In the periods presented, the Company does not have any financial assets measured at FVOCI.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash, accounts receivable, and unbilled revenue fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at fair value through profit and loss. Further, irrespective of the business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

In the periods presented, the Company does not have any financial assets measured at FVTPL.

Impairment of financial assets

The Company assesses impairment using forward-looking information to recognize expected credit losses - the "expected credit loss (ECL) model." The Company considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").
- ("Stage 3") would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

Accounts receivable

The Company makes use of a simplified approach in accounting for accounts receivable and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating the expected credit losses, the Company uses its historical experience and adjusts historical rates to reflect current and forward looking macroeconomic factors affecting the client's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of macroeconomic factors has not been considered significant within the reporting period.

The Company assesses impairment of accounts receivable on a collective basis as they possess shared credit risk characteristics.

Based on historical experience of low credit losses, management has determined that there are no impairments during the current and prior year.

Classification and measurement of financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities, customer deposits, and long-term debt.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs, unless the financial liability is classified at fair value through profit or loss (FVTPL).

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss.

All interest-related charges, and, if applicable, changes in fair value recognized in profit or loss, are presented within finance costs or finance income, as appropriate.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

e) Fair Value Measurements

The level within the fair value hierarchy in which a financial asset or financial liability is categorized is determined based on the lowest level input that is significant to the fair value measurement as a whole.

Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

The fair value hierarchy has the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

f) Property, Plant and Equipment

Recognition and measurement

Property, plant and equipment (PP&E) are recognized at cost or deemed cost, which includes the purchase price and any directly attributable costs necessary to bring the asset to the location and condition required for it to operate as intended by the Company. Eligible borrowing costs are also capitalized as part of the cost of qualifying assets.

Depreciation is charged on a straight-line basis over the estimated useful lives of the related assets and is recognized in the Statement of Comprehensive Income. Estimated useful lives, residual values, and depreciation methods are reviewed at the end of each annual reporting period. Any changes in estimates are accounted for on a prospective basis.

The estimated useful lives are as follows:

Distribution plant

Buildings and fixtures	50 years
Conductors and devices	60 years
Distribution station equipment	40 years
Line transformers	40 years
Meters	15 years
New services distribution	45 years
Poles, towers and fixtures	45 years
Underground conduits	40 to 45 years

General plant

Building and fixtures	50 years
Communication equipment	5 to 10 years
Computer hardware	5 years
Office furniture and equipment	10 years
Tools and garage equipment	10 years
Transportation equipment	5 to 8 years

Major spare parts

Major spare parts, such as spare transformers and other standby or backup equipment, are classified as property, plant and equipment when they are expected to be used in connection with the Company's distribution system and are not held for resale. These items are capitalized as they are necessary to ensure the reliability and continuity of service within the distribution system.

Contributions in aid of construction

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

Gains and losses on disposal

Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the net disposal proceeds with the carrying amount of the asset. The resulting gain or loss is recognized in the Statement of Comprehensive Income in the period in which the asset is derecognized.

g) Borrowing Costs

The Company capitalizes borrowing costs, including interest and other finance charges, that are directly attributable to the acquisition, construction, or production of qualifying assets — those that require a substantial period of time to prepare for their intended use or sale. Capitalization begins when expenditures for the asset are being incurred, borrowing costs are being incurred, and activities necessary to prepare the asset for its intended use or sale are in progress. Capitalization is suspended during extended periods of interruption in active development and ceases when substantially all activities necessary to prepare the asset for its intended use or sale are complete.

h) Intangible Assets

Computer software

Computer software that is acquired or developed by the Company, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

Land rights

Payments made to obtain rights to access land ("land rights") are classified as intangible assets when they relate to easements, rights of access, or rights of use over land for which the Company does not hold legal title. These land rights are considered to have indefinite useful lives, are not amortized, and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Amortization

Amortization is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, and those with indefinite lives, from the date that they are available for use. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date. The estimated useful lives for the current and comparative years are:

Land rights

Indefinite

Computer software

5 years

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

i) Impairment of Non-Financial Assets

Impairment tests on intangible assets with indefinite useful lives are conducted annually at the financial year-end. Other non-financial assets are assessed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. If the carrying amount of an asset exceeds its recoverable amount (the higher of its value in use and fair value less costs of disposal), the asset is impaired and written down accordingly.

When the recoverable amount of an individual asset cannot be estimated separately, impairment is assessed at the level of the smallest group of identifiable assets generating independent cash inflows (cash-generating units, CGUs).

Impairment losses are recognized in the Statement of Comprehensive Income, except to the extent they reverse prior revaluation gains previously recorded in Other Comprehensive Income. No impairment loss was recognized in 2024 (2023 - \$Nil).

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

j) Employee Future Benefits

Defined contribution plan

The employees of the Company participate in the Ontario Municipal Employees Retirement System (OMERS), a multi-employer pension plan. Although the plan provides defined benefits based on length of service and rates of pay, it is accounted for as a defined contribution plan due to insufficient information available to reliably measure the Company's proportionate share of the plan assets and liabilities. The Company is one of several employers participating in the plan, and detailed information is unavailable based on contractual agreements.

The Company also provides certain unfunded post-retirement health, dental, and life insurance benefits through a defined benefit arrangement. The obligation for these benefits is measured as the present value of expected future benefit payments, less any unrecognized past service costs. This calculation is performed by a qualified actuary using the projected unit credit method. The discount rate used is based on yields from high-quality corporate bonds with maturities approximating the plan's obligations. Actuarial valuations are conducted every three years or whenever significant changes to the workforce occur.

Due to the long-term nature and complexity of these valuations, the defined benefit obligations are sensitive to changes in assumptions, such as interest rates and inflation, reviewed at each reporting date. Recent volatility in interest rates and inflation increases uncertainty and may impact future assumptions and funding status.

Remeasurements, including actuarial gains and losses, are recognized immediately in other comprehensive income within equity.

Service costs, comprising current service costs, past service costs, and any curtailment gains or losses, are recognized in operating expenses in the Statement of Comprehensive Income.

Net interest expense is calculated by applying the discount rate at the beginning of the period to the net defined benefit obligation, adjusted for benefit payments during the period, and is recognized as a finance expense in the Statement of Comprehensive Income. Gains or losses from plan amendments or curtailments are recognized immediately in the Statement of Comprehensive Income.

Settlements of defined benefit obligations are recognized in the period in which they occur.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

k) Payment in Lieu of Taxes

Tax status:

The Company is classified as a Municipal Electricity Utility ("MEU") under the payments in lieu of taxes ("PILs") regime established by the Electricity Act, 1998. As an MEU, the Company is exempt from taxation under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

However, in accordance with the Electricity Act, 1998, the Company is required to remit PILs annually to the Ontario Electricity Financial Corporation ("OEFC"). These payments are determined based on taxable income, taxable capital, and other relevant amounts computed in accordance with the Income Tax Act (Canada) and the Corporations Tax Act (Ontario), as specifically modified by the Electricity Act, 1998, and its related regulations.

Provision for Payments in Lieu of Taxes (PILs):

The provision for PILs comprises both current and deferred tax components. Current and deferred taxes are recognized in net income, except to the extent that they relate to items recognized directly in equity, in which case the tax is also recognized in equity (refer to Note 18).

Current Tax:

Current tax expenses are recognized for the estimated taxes payable or receivable on taxable income or loss for the current year, including any adjustments to taxes payable from previous years. These are calculated using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred Tax:

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Measurement of deferred tax assets and liabilities reflects the tax rates and laws that are expected to apply when the temporary differences reverse, based on rates and laws enacted or substantively enacted by the reporting date.

Recognition of deferred tax assets for unused tax losses, tax credits, and deductible temporary differences is limited to instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. The existence of unused tax losses is considered strong evidence that future taxable profit may not be available. Therefore, in cases of recent losses, deferred tax assets are recognized only if there is convincing evidence that sufficient taxable profit will be available.

At the end of each reporting period, the Company reassesses both recognized and unrecognized deferred tax assets. A previously unrecognized deferred tax asset is recognized to the extent that it has become probable that future taxable profit will allow for its recovery.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

3. Material Accounting Policy Information (continued)

l) Inventories

The cost of inventories consists primarily of direct materials, including distribution assets, except when these materials are purchased specifically for capital projects in progress or as spare units. Inventory costs are determined using the weighted average cost method, net of rebates and discounts.

Decommissioned assets transferred to inventory are assessed for impairment when removed from service. Inventories are valued at the lower of cost and net realizable value (NRV). NRV represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

m) Standards, Amendments and Interpretations Not Yet Effective

Standards and amendments that are not yet effective and have not been adopted early by the Company and are expected to be relevant include:

- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 Financial Instruments)
- IFRS 18 Presentation and Disclosure in Financial Statements
- Contracts for Renewable Electricity (Amendments to IFRS 9)

At the date of authorization of these financial statements, all accounting pronouncements which became effective on January 1, 2024 and have therefore been adopted do not have a material impact on the Company's financial results or position.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

4. Use of Estimates and Judgements

The preparation of financial statements under IFRS requires management to make critical accounting estimates and judgments in applying the Company's accounting policies. Areas involving significant judgments and estimates with the greatest potential to materially impact the carrying amounts of assets and liabilities in the next financial year include:

- Useful Lives of Property, Plant and Equipment and Intangible Assets: Management estimates the useful lives of assets, impacting depreciation and amortization expense (Note 3 f), 3 h), 9 and 10);
- Impairment of Accounts Receivable: The calculation of expected credit losses (ECL) includes judgments about credit risk and forward-looking information (Note 3 d) and 5);
- Provision for Payments in Lieu of Taxes (PILs): Determining the provision involves uncertainty due to complexity and interpretations of tax regulations (Note 18); and
- Post-Employment Benefit Obligations: The valuation of the unfunded obligation for health, dental, and life insurance benefits provided to retired employees involves actuarial assumptions subject to estimation uncertainty (Note 19).

Additionally, management has applied judgment to determine the presentation order and materiality of disclosures within these financial statements. Information considered most relevant is presented earlier, while disclosures assessed as immaterial are excluded.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

5. Receivables and Unbilled Revenue

	2024	2023
Related party receivables (Note 7)	\$ 9,148	\$ 38,862
Accounts receivables	4,902,184	4,313,684
Unbilled revenue	4,200,805	3,821,807
	<u>\$ 9,112,137</u>	<u>\$ 8,174,353</u>

The related party receivables are unsecured, non-interest bearing and have no specific repayment terms.

Credit risk

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits, which are reported separately from the Company's own cash holdings (Note 15). Deposits to be refunded to customers within the next fiscal year are classified as a current liability. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2%.

Due to its short-term nature, the carrying amount of the receivables approximates its fair value. Unbilled revenue reflects the electricity delivered but not yet billed to customers. Customer billings generally occur within 30 days of delivery. The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company distributes electricity to over 14,000 customers within its licensed service territory in the Town of Bracebridge, Town of Huntsville, Town of Parry Sound, Town of Sundridge, Village of Burk's Falls and Municipality of Magnetawan which is comprised of 85% residential customers while approximately 12% are small business or industrial based. The Company considers an account receivable to be in default when the customer is unlikely to pay its credit obligations in full, without recourse by the Company, such as realizing security (if any is held). Accounts are past-due (in default) when the customers have failed to make the contractually required payments when due, which is generally within 30 days of the billing date.

The Company considers an account receivable to be credit-impaired when the customer has amounts more than 90 days past the billing date. The Company reviews commercial and industrial customer accounts on an individual basis and considers historical loss, payment experience, payment arrangements and economic conditions, as well as the aging and arrears status of the account in the determination of impairment.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

5. Receivables and Unbilled Revenue (continued)

	<u>December 31, 2024</u>			<u>December 31, 2023</u>		
	Gross	Loss Allowance	Net	Gross	Loss Allowance	Net
Less than 31 days past billing date	\$ 4,747,084	\$ -	\$ 4,747,084	\$ 3,915,379	\$ (1,520)	\$ 3,913,859
31-60 days past billing date	40,889	(620)	40,269	267,321	(2,615)	264,706
61-90 days past billing date	11,453	(2,347)	9,106	9,043	(1,355)	7,688
More than 90 days past billing date	154,612	(48,887)	105,725	151,090	(23,659)	127,431
	<u>\$ 4,954,038</u>	<u>\$ (51,854)</u>	<u>\$ 4,902,184</u>	<u>\$ 4,342,833</u>	<u>\$ (29,149)</u>	<u>\$ 4,313,684</u>

Lakeland Power Distribution Ltd.
Notes to the Financial Statements
(Expressed in Canadian Dollars)

December 31, 2024

6. Accounts Payable and Accrued Liabilities

Major components of accounts payable and accrued liabilities consist of the following:

	<u>2024</u>	<u>2023</u>
Accounts payable and accrued liabilities	\$ 5,150,861	\$ 4,186,479
Purchased power	2,227,665	1,710,823
Related party payables (Note 7)	1,510,654	1,252,968
	<u>\$ 8,889,180</u>	<u>\$ 7,150,270</u>

The related party payables are unsecured, non-interest bearing and have no specific repayment terms.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

7. Related Party Transactions

The following transactions with related parties occurred in the normal course of business and have been measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Management considers these amounts to approximate fair value and reflect terms equivalent to those that would prevail in arm's-length transactions.

The Company is related by common control to Bracebridge Generation Ltd. (BGL), and Lakeland Energy Ltd. (LEL), as all entities are wholly-owned subsidiaries of Lakeland Holding Ltd. (LHL).

The Town of Bracebridge, Town of Parry Sound, Town of Huntsville, Village of Burk's Falls, Village of Sundridge and Municipality of Magnetawan are shareholders of LHL. The municipalities that are shareholders of LHL are considered related parties, as they exercise significant influence over Lakeland Power Distribution Ltd. ("LPD") through their ownership in LHL.

The table below summarizes the Company's related party transactions for the year:

	2024	2023
Lakeland Energy Ltd.		
Information technology expenses, in administration and general	\$ 339,812	\$ 337,763
Communication expenses, in administration and general	\$ 82,200	\$ 74,265
Building rent revenue	\$ 42,000	\$ 42,000
Other operating revenue	\$ 5,014	\$ 8,378
Other operating and maintenance expenses	\$ 4,733	\$ 768
Bracebridge Generation Ltd.		
Building rent	\$ 6,000	\$ 6,000
Other operating revenue	\$ 159,347	\$ 5,934
Lakeland Holding Ltd.		
Management fee paid, in administration and general	\$ 1,187,426	\$ 949,333
Purchases		
Town of Bracebridge	\$ 28,601	\$ 31,492
Town of Parry Sound	\$ 21,723	\$ 23,502
Town of Huntsville	\$ 11,276	\$ 27,102
Sales		
Town of Bracebridge	\$ 901,297	\$ 719,519
Town of Parry Sound	\$ 866,900	\$ 765,742
Town of Huntsville	\$ 506,060	\$ 482,124
Village of Burk's Falls	\$ 150,061	\$ 140,960
Village of Sundridge	\$ 122,589	\$ 120,179
Municipality of Magnetawan	\$ 26,927	\$ 22,804
Accounts receivable		
Bracebridge Generation Ltd.	\$ 689	\$ 18,322
Lakeland Energy Ltd.	\$ 6,923	\$ 8,659
Lakeland Holding Ltd.	\$ 1,536	\$ 11,881
Accounts payable		
Bracebridge Generation Ltd.	\$ 1,113,073	\$ 1,087,497
Lakeland Energy Ltd.	\$ 35,693	\$ 16,388
Lakeland Holding Ltd.	\$ 361,888	\$ 149,085

Lakeland Power Distribution Ltd.
Notes to the Financial Statements
(Expressed in Canadian Dollars)

December 31, 2024

7. Related Party Transactions (continued)

Key management personnel compensation:

The management fee paid to Lakeland Holding Ltd. is comprised of reimbursements for management and administrative expenses incurred by Lakeland Holding Ltd. Key management compensation for the Lakeland group of companies is paid by Lakeland Holding Ltd. The total management fee paid from Lakeland Power Distribution Ltd. to Lakeland Holding Ltd. was \$1,187,426 (2023 - \$949,333).

8. Inventories

	<u>2024</u>	<u>2023</u>
Inventory expensed during the year	<u>\$ 22,060</u>	<u>\$ 58,665</u>

Inventory during the year was not impaired, and there were no reversals of impairment.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

9. Property, Plant and Equipment

	Land and building	Distribution equipment	Other fixed assets	Total
Cost				
At January 1, 2023	\$ 2,862,012	\$ 63,328,304	\$ 5,518,518	\$ 71,708,834
Additions	6,971	4,257,854	650,166	4,914,991
Disposals	-	-	(239,907)	(239,907)
At January 1, 2024	2,868,983	67,586,158	5,928,777	76,383,918
Additions	93,909	4,600,756	1,255,528	5,950,193
Disposals	-	-	(314,746)	(314,746)
At December 31, 2024	<u>\$ 2,962,892</u>	<u>\$ 72,186,914</u>	<u>\$ 6,869,559</u>	<u>\$ 82,019,365</u>
Accumulated depreciation				
At January 1, 2023	\$ 1,173,719	\$ 26,885,238	\$ 3,776,432	\$ 31,835,389
Depreciation for the year	77,778	1,630,406	333,198	2,041,382
Disposals	-	-	(239,907)	(239,907)
At January 1, 2024	1,251,497	28,515,644	3,869,723	33,636,864
Depreciation for the year	66,400	1,718,963	360,695	2,146,058
Disposals	-	-	(281,347)	(281,347)
At December 31, 2024	<u>\$ 1,317,897</u>	<u>\$ 30,234,607</u>	<u>\$ 3,949,071</u>	<u>\$ 35,501,575</u>
Carrying amount December 31, 2023	<u>\$ 1,617,486</u>	<u>\$ 39,070,514</u>	<u>\$ 2,059,054</u>	<u>\$ 42,747,054</u>
Carrying amount December 31, 2024	<u>\$ 1,644,995</u>	<u>\$ 41,952,307</u>	<u>\$ 2,920,488</u>	<u>\$ 46,517,790</u>

Lakeland Power Distribution Ltd.
Notes to the Financial Statements
(Expressed in Canadian Dollars)

December 31, 2024

10. Intangible Assets

	Computer Software	Land rights	Total
Cost			
Balance at January 1, 2023	\$ 1,167,522	\$ 567,931	\$ 1,735,453
Additions	<u>85,972</u>	<u>-</u>	<u>85,972</u>
Balance at January 1, 2024	1,253,494	567,931	1,821,425
Additions	<u>713</u>	<u>-</u>	<u>713</u>
Balance at December 31, 2024	<u>\$ 1,254,207</u>	<u>\$ 567,931</u>	<u>\$ 1,822,138</u>
Accumulated depreciation			
Balance at January 1, 2023	\$ 1,056,523	\$ 50,075	\$ 1,106,598
Depreciation for the year	<u>46,633</u>	<u>20</u>	<u>46,653</u>
Balance at January 1, 2024	1,103,156	50,095	1,153,251
Depreciation for the year	<u>50,036</u>	<u>20</u>	<u>50,056</u>
Balance at December 31, 2024	<u>\$ 1,153,192</u>	<u>\$ 50,115</u>	<u>\$ 1,203,307</u>
Carrying amount December 31, 2023	<u>\$ 150,338</u>	<u>\$ 517,836</u>	<u>\$ 668,174</u>
Carrying amount December 31, 2024	<u>\$ 101,015</u>	<u>\$ 517,816</u>	<u>\$ 618,831</u>

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

11. Goodwill

Goodwill is tested annually for impairment or more frequently if indicators of impairment exist. The impairment test compares the carrying amount of goodwill to its recoverable amount, which is determined based on a value-in-use calculation. Estimating value-in-use requires management to project future cash flows and apply an appropriate discount rate to calculate the present value of these cash flows.

	<u>2024</u>	<u>2023</u>
Carrying amount		
Balance at January 1, 2023	\$ 1,150,014	\$ 1,150,014
Impairment losses	<u>-</u>	<u>-</u>
Balance at December 31, 2024	\$ 1,150,014	\$ 1,150,014

On March 27, 2014 in proceeding EB-2013-0427/EB-2013-0428, the Ontario Energy Board granted leave to Parry Sound Power Corporation and Lakeland Power Distribution Ltd. to amalgamate. On July 3, 2014, the companies notified the Board that the transaction had been completed. Parry Sound Power Corporation's Electricity distribution licence ED-2003-0006 was cancelled effective July 3, 2014 and Lakeland Power Distribution Ltd.'s electricity distribution licence was amended to include the service areas formerly served by Parry Sound Power Corporation. Goodwill arose on this transaction.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

12. Regulatory Deferral Account Balances

The Company applies IFRS 14, Regulatory Deferral Accounts, to reflect the financial impact of rate regulation on its operations. In accordance with this standard, the Company continues to apply the accounting policies previously used under pre-changeover Canadian GAAP for the recognition, measurement, and impairment of assets and liabilities arising from rate regulation. These are collectively referred to as regulatory deferral account balances.

Regulatory deferral account balances are recognized initially and measured subsequently at cost. They are assessed for impairment using the same criteria applied to other non-financial assets.

Regulatory deferral account debit balances represent future recoveries of certain costs incurred in the current or prior period(s) that are expected to be recovered from customers in future periods through the rate-setting process.

Regulatory deferral account credit balances relate to revenues collected in the current or prior period(s) that are expected to be returned to customers in future periods through the rate-setting process.

Management regularly evaluates the probability of recovery of regulatory deferral account debit balances. If it is determined that recovery through future rates is no longer probable, the related amounts are recognized as an expense in profit or loss in the period the assessment is made.

All amounts deferred as regulatory deferral account debit balances are subject to approval by the Ontario Energy Board (OEB). As such, the amounts ultimately recovered or refunded, as well as the timing of recovery or refund, may differ based on regulatory decisions.

Due to previous, current, or expected future regulatory decisions or guidance, the Company has recognized the following amounts that are expected to be either recovered from or returned to customers in future periods, which together comprise the regulatory deferral account balances:

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

12. Regulatory Deferral Account Balances (continued)

	Note	Expected recovery /reversal period (years)	Balance January 1, 2024	Balances arising in the period	Recovery /Disposition	Balance December 31, 2024
<u>Regulatory deferral account debit/(credit)</u>						
Settlement variances	i)	1-4	\$ 315,736	\$ 51,003	\$ (42,620)	\$ 324,119
Retail cost variances	ii)	1-4	102,962	377,276	24,828	505,066
COVID-19 emergency costs	iii)	1-4	455,179	21,054	-	476,233
Accelerated investment incentive variance	iv)	1-4	-	(603,245)	-	(603,245)
			\$ 873,877	\$ (153,912)	\$ (17,792)	\$ 702,173

	Note	Expected recovery /reversal period (years)	Balance January 1, 2023	Balances arising in the period	Recovery /Disposition	Balance December 31, 2023
<u>Regulatory deferral account debit/(credit)</u>						
Settlement variances	i)	1-4	\$ 354,093	\$ (342,845)	\$ 304,488	\$ 315,736
Retail cost variances	ii)	1-4	(506)	93,701	9,767	102,962
COVID-19 emergency costs	iii)	1-4	434,322	20,857	-	455,179
			\$ 787,909	\$ (228,287)	\$ 314,255	\$ 873,877

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

12. Regulatory Deferral Account Balances (continued)

i) Settlement Variances

This account reflects differences between regulated rates charged to customers and actual non-competitive electricity costs incurred, primarily related to service charges, non-competitive electricity, imported power, and global adjustment charges.

The Company has recognized a settlement variance asset of \$324,119 (2023 - asset of \$315,736) arising from the recognition of regulatory deferral account balances. The settlement variance asset balance is presented within the total regulatory deferral account debit balance presented in the statement of financial position. The Company annually applies for OEB approval to recover these variances from customers.

ii) Retail Cost Variances

The Company has recognized a cost asset of \$505,066 (2023 - asset of \$102,962) primarily reflecting cost variances in excess of those approved in its most recent Cost of Service Application. Key drivers include Green Button implementation costs, differences in pole attachment revenues, and an extraordinary loss related to the Centennial Metering Station. This amount is reported within the regulatory deferral account balances on the statement of financial position.

iii) COVID-19 Emergency Costs

The Company has recognized a cost asset of \$476,233 (2023 - asset of \$455,179) representing foregone revenue and associated costs incurred from March to December 2020 as a result of legislative directives issued during the COVID-19 pandemic. This amount relates to the OEB's COVID-19 Emergency Deferral Account, which was established on March 25, 2020, to capture incremental costs and lost revenues incurred by distributors due to the pandemic.

iv) Accelerated Investment Incentive Variance

The Company has recognized a liability of \$603,245 (2023 - \$Nil) representing the impact of accelerated capital cost allowance (CCA) deductions claimed under the federal Accelerated Investment Incentive (AII) program. These deductions resulted in tax savings that were not reflected in approved distribution rates. In accordance with the Ontario Energy Board's (OEB) direction, the impact has been recorded in the Account 1592 - PILs and Tax Variance Sub-account for CCA changes, for disposition as part of the Company's next cost-based rate application.

v) Disposition/Recovery - 2024, 2023

Disposition/recovery - On October 18, 2022, the Company filed its Incentive Rate-Setting Mechanism (IRM) application for 2023 distribution rates (OEB File No. EB-2022-0047), which included a request for the disposition of Group 1 regulatory deferral account balances. On March 23, 2023, the OEB approved the disposition of net regulatory liabilities totaling \$307,860. These amounts represented the principal balances as at December 31, 2021, plus carrying charges projected to April 30, 2023. The approved disposition is being recovered over a 12-month period beginning May 1, 2023 and ending April 30, 2024 through rates charged to customers.

Subsequently, on October 10, 2023, the Company filed its 2024 IRM application (OEB File No. EB-2023-0036), which included a request for the disposition of Group 1 and select Group 2 regulatory deferral account balances. On March 21, 2024, the OEB issued its decision approving the disposition of Group 1 net regulatory assets of \$325,488 and a Group 2 net regulatory asset balance of \$621. These amounts comprised principal balances as at December 31, 2022, along with carrying charges projected to April 30, 2024. The OEB approved recovery over a one-year period from May 1, 2024 to April 30, 2025.

Lakeland Power Distribution Ltd.
Notes to the Financial Statements
(Expressed in Canadian Dollars)

December 31, 2024

13. Credit Facility Agreements

The Company maintains a credit facility with an authorized limit of \$5,500,000. As at year-end, no amounts were drawn under this facility (2023 - \$Nil).

14. Contributions in Aid of Construction

Contributions in aid of construction represent capital contributions received from customers to fund the construction or acquisition of property, plant and equipment, as well as revenue related to demand-billable activities not yet recognized. These contributions are deferred and amortized into revenue over the estimated useful life of the related assets, currently averaging 43 years.

	<u>2024</u>	<u>2023</u>
Deferred contributions, net, beginning of year	\$ 12,753,213	\$ 11,126,888
Contributions in aid of construction received	2,399,386	1,978,654
Contributions in aid of construction recognized as distribution revenue	<u>(403,836)</u>	<u>(352,329)</u>
Deferred contributions, net, end of year	<u>14,748,763</u>	<u>12,753,213</u>
Deferred contributions	14,748,763	12,753,213
Less current portion	<u>432,064</u>	<u>375,608</u>
	<u>\$ 14,316,699</u>	<u>\$ 12,377,605</u>

15. Customer Deposits

Customer deposits represent cash deposits received from electricity distribution customers and retailers. These deposits are refundable to customers who demonstrate an acceptable credit risk level, as assessed according to Ontario Energy Board (OEB) policies, or upon termination of their electricity distribution service.

	<u>2024</u>	<u>2023</u>
Customer deposits	<u>\$ 573,609</u>	<u>\$ 483,551</u>

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

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December 31, 2024

16. Contingencies

The Company has an outstanding bank letter of credit totaling \$452,305 (2023 - \$452,305), representing security held against its cash balance. This security is required by the Independent Electricity System Operator (IESO) to mitigate default risk related to electricity market activities. In the event of the Company's default on payments due to the IESO, the IESO could draw upon this letter of credit up to its full amount.

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE), a pooled self-insurance arrangement. MEARIE members collectively share risks and any resulting losses. As at December 31, 2024, the Company was not aware of any outstanding claims.

17. Commitments

The Company leases office printing equipment under a lease agreement expiring in 2029, with payments due quarterly. Future minimum annual lease payments required under this lease for the next five years are as follows:

2025	\$	7,167
2026		7,167
2027		7,167
2028		7,167
2029		3,584
		<hr/>
	\$	32,252

18. Payments in Lieu of Income Taxes and Deferred Taxes

The significant components of the provision for payments in lieu of taxes expense are as follows:

	2024	2023
Current tax		
Based on current year taxable income	\$ -	\$ 2,487
Deferred tax		
Origination and reversal of temporary differences	36,004	338,415
	<hr/>	<hr/>
	36,004	340,902

Payments in lieu of taxes (PILs) differ from amounts calculated by applying the combined statutory federal and provincial income tax rate to earnings. The reconciliation between PILs calculated at statutory rates and the actual PILs provision recognized is as follows:

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

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18. Payments in Lieu of Income Taxes and Deferred Taxes (continued)

a. Rate reconciliation before net movements in regulatory balances and OCI

	2024	2023
Statutory tax rate	26.50%	26.50%
Profit for the year before net movements in regulatory deferral account balances and OCI	\$ 122,211	\$ 1,452,179
Expected payments in lieu of taxes:	\$ 32,386	\$ 384,827
Increase (decrease) resulting from:		
Items not deductible for tax purposes	3,618	637
Other	-	(44,562)
Provision for payments in lieu of taxes	\$ 36,004	\$ 340,902

b. Rate reconciliation after net movements in regulatory balances and OCI

	2024	2023
Statutory tax rate	26.50%	26.50%
Profit for the year after net movements in regulatory deferral account balances and OCI	\$ 303,941	\$ 1,284,018
Expected payments in lieu of taxes	\$ 80,545	\$ 340,265
Increase resulting from:		
Items not deductible for tax purposes	3,618	637
Provision for payments in lieu of taxes	\$ 84,163	\$ 340,902

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

December 31, 2024

18. Payments in Lieu of Income Taxes and Deferred Taxes (continued)

c. Rate reconciliation for payments in lieu of taxes

	2024	2023
Provision for payments in lieu of taxes before net movements in regulatory deferral account balances and OCI	\$ 36,004	\$ 384,827
Provision for payments in lieu of taxes recorded in net movements in regulatory balances	48,159	(44,562)
Provision for payments in lieu of taxes after net movements in regulatory balances and before OCI	\$ 84,163	\$ 340,265
Provision for payments in lieu of taxes recorded in OCI	-	-
Provision for payments in lieu of taxes	\$ 84,163	\$ 340,265

d. Deferred taxes

	Balance January 1, 2024	Recognized in net income	Recognized in OCI	Balance December 31, 2024
Deferred tax assets (liabilities)				
Property, plant and equipment	\$ (777,189)	\$ (154,312)	\$ -	\$ (931,501)
Intangible assets	13,273	5	-	13,278
Employee future benefits	10,573	(1,721)	-	8,852
General reserves	7,724	-	-	7,724
Credits	(20,974)	-	-	(20,974)
Losses carried forward	-	71,865	-	71,865
	\$ (766,593)	\$ (84,163)	\$ -	\$ (850,756)

	Balance January 1, 2023	Recognized in net income	Recognized in OCI	Balance December 31, 2023
Deferred tax assets (liabilities)				
Property, plant and equipment	\$ (461,681)	\$ (315,508)	\$ -	\$ (777,189)
Intangible assets	13,268	5	-	13,273
Employee future benefits	13,117	(2,544)	-	10,573
General reserves	10,125	(2,401)	-	7,724
Credits	(3,007)	(17,967)	-	(20,974)
	\$ (428,178)	\$ (338,415)	\$ -	\$ (766,593)

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19. Employee Future Benefits

(a) Defined contribution plan

The contribution payable in exchange for services rendered during a period is recognized as an expense during that period. The employer portion of amounts paid to OMERS during the year was \$216,406 (2023 - \$211,904). The contributions were made for current service and these have been recognized in net income.

Expected contributions to the plan for the next annual reporting period amount to \$223,547, which is based on payments made to the multi-employer plan during the current fiscal year.

As at December 31, 2024, the OMERS plan was 98% funded on a smoothed basis (December 31, 2023 - 97%). OMERS has a strategy to return the plan to a fully funded position. The Company is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions.

(b) Defined benefit plan

The plan is exposed to a number of risks, including:

Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation.

Longevity risk: changes in the estimation of mortality rates of current and former employees.

Health care cost risk: increases in cost of providing health, dental and life insurance benefits.

Information regarding the unfunded defined benefit obligation and related accrued benefit liability is summarized as follows:

	2024	2023
Balance January 1	\$ 39,891	\$ 49,492
Current service costs	2,909	2,474
Interest cost	1,737	2,145
Included in profit or loss	4,646	4,619
Benefits paid during the year	(11,141)	(14,220)
Balance, end of year	\$ 33,396	\$ 39,891

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19. Employee Future Benefits (continued)

The main actuarial assumptions underlying the valuation are as follows:

	2024 Projected	2023	Reasonable possible change
Discount rate	5.05%	5.05%	+/- 1%
Health care and dental costs	5.10%-5.40%	4.90%-5.10%	+/- 1%
Retirement age - males	60	60	-
Retirement age - females	60	60	-

An actuarial valuation must be obtained at least every three years, although it may occur more frequently—for example, when a significant event takes place.

The Company has an actuarial valuation performed every three years. In the years between valuations, the actuarial estimates the defined benefit obligation by performing a roll-forward technique.

The most recent full valuation was prepared for December 31, 2022, with the final report dated January 18, 2023.

(i) Sensitivity analysis

The impact to the value of the defined benefit plan of a reasonably possible change to one actuarial assumption, holding all other assumption constant, is presented in the table below:

	Reasonable possible change	Increase	Decrease
Discount rate	+/- 1%	(3,340)	4,008
Health care and dental costs	+/- 1%	(2,004)	2,338

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20. Long-Term Debt

	2024	2023
TD bank debt, fixed interest rate 5%, maturing March 2033	\$ 1,162,500	\$ 1,162,500
TD bank debt, fixed interest rate 5.15%, maturing August 2034	2,698,887	-
TD bank debt, fixed interest rate 4.75%, maturing August 2039	8,000,000	-
TD bank debt, fixed interest rate 5.768%, maturing October 2026	2,325,000	2,325,000
TD bank debt, fixed interest rate 2.98% maturing February 2026	4,000,000	4,000,000
TD bank debt, fixed interest rate 5.95%, maturing July 2027	3,000,000	3,000,000
TD bank debt, TD prime rate + 0.75%, matured July 2024	-	2,698,887
TD bank debt, fixed interest rate, 6.57%, matured August 2024	-	8,000,000
	21,186,387	21,186,387
Less current portion	-	10,698,887
	<u>\$ 21,186,387</u>	<u>\$ 10,487,500</u>

The bank borrowings are secured by a general security agreement providing a first-ranking charge over all the Company's present and subsequently acquired personal property. Additionally, the agreement requires evidence of adequate liability insurance coverage for the Company, Lakeland Holding Ltd., Lakeland Energy Ltd., and Bracebridge Generation Ltd.

The Company is subject to financial covenants, specifically a Debt Service Coverage Ratio and a Debt-to-Capitalization Ratio. As of the reporting date, the Company is compliant with these covenants.

Management intends to renegotiate the terms of the borrowings upon maturity to extend principal repayments further.

Scheduled principal repayments over the next five years and thereafter are as follows:

2025	\$ -
2026	6,325,000
2027	3,000,000
2028	-
2029	-
Subsequent years	<u>11,861,387</u>
	<u>\$ 21,186,387</u>

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21. Share Capital

a) Ordinary shares

An unlimited number of common shares are authorized for issue.

As of December 31, 2024, the Company has issued and fully paid 7,428 (2023 - 7,428) common shares. The shares have no par value.

All shares are ranked equally with regards to the Company's residual assets.

b) Movement in ordinary share capital

No movement in ordinary share capital has occurred during 2024.

22. Amortization of Property, Plant and Equipment and Intangible Assets

Transportation amortization is not included in amortization expense reported in the Statement of Comprehensive Income, as it has either been expensed directly to operating expenses or capitalized as part of the cost of assets constructed using the related equipment. Refer to the reconciliation below:

	2024	2023
Amortization of property, plant and equipment and intangible assets	\$ 2,196,114	\$ 2,088,035
Amortization on the statement of comprehensive income	(1,948,486)	(1,853,806)
Transportation amortization	\$ 247,628	\$ 234,229
Transportation amortization - capitalized	126,290	126,483
Transportation amortization - expensed in operating expenses	121,338	107,746
	\$ 247,628	\$ 234,229

23. Operating Expenses by Nature

	2024	2023
Repairs and maintenance	\$ 1,628,161	\$ 1,369,496
Staff costs (including post-employment benefits)	1,897,167	1,805,048
General administration and overhead	2,955,124	2,604,232
Bad debts	73,183	27,640
	\$ 6,553,635	\$ 5,806,416

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(Expressed in Canadian Dollars)

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24. Staff Costs

	2024	2023
Wages, salaries and short-term employee benefits	\$ 2,821,876	\$ 2,775,743
Wages, salaries and short-term employee benefits in revenue	(29,707)	(67,387)
Wages, salaries and short-term employee benefits capitalized	(888,507)	(895,382)
Post-employment benefits	(6,495)	(7,926)
	<u>\$ 1,897,167</u>	<u>\$ 1,805,048</u>

25. Financial Instruments and Risk Management

Fair value disclosure

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate their respective fair values because of the short term maturity of these instruments.

The fair value of the term loans (Level 2) is \$16,441,997 (2023 - \$18,834,971). 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.

Risk management

The Company is exposed to various financial risks through its operations, including credit risk, interest rate risk, and liquidity risk.

(i) Credit risk:

Credit risk is the risk that a counterparty to a financial asset will fail to fulfill its obligations, resulting in a financial loss for the Company. The Company is exposed to credit risk primarily through financial assets such as cash and accounts receivable. Revenue is generated from a diverse customer base across six municipalities, reducing concentration risk. No single customer accounts for more than 10% of the Company's total revenue.

(ii) Interest rate risk:

The Company's policy is to minimize exposure to interest rate risk on cash flows arising from long-term financing. As a result, long-term borrowings are typically arranged at fixed interest rates. As of December 31, 2024, the Company does not have significant exposure to fluctuations in market interest rates on its long-term borrowings.

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective is to maintain adequate liquidity to fulfill operational and investment requirements while minimizing exposure to interest costs. The Company manages this risk by maintaining sufficient cash and credit facilities, actively monitoring cash flow forecasts, and aligning capital expenditures with available funding.

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25. Financial Instruments and Risk Management (continued)

The following table sets out the contractual maturities (representing undiscounted contractual cashflows) of financial liabilities:

	Due within 1 year	Due between 1-2 years	Due past 2 years
At December 31, 2024			
Accounts payable and accrued liabilities	\$ 7,378,526	\$ -	\$ -
Customer deposits	573,609	-	-
Related party payables	1,510,654	-	-
Long-term debt	-	6,325,000	14,861,387
At December 31, 2023			
Accounts payable and accrued liabilities	\$ 5,897,302	\$ -	\$ -
Customer deposits	483,551	-	-
Related party payables	1,252,968	-	-
Long-term debt	10,698,887	-	10,487,500

26. Capital Management

The Company's definition of capital is shareholder's equity and total debt. As at December 31, 2024, shareholder's equity and total debt amounts to \$36,977,702 (2023 - \$37,157,924).

The Company's primary objective in managing its capital is to ensure its ability to continue delivering a consistent return to its equity shareholder through capital appreciation and periodic dividend payments. The Company also aims to ensure sufficient access to funding to maintain and enhance operational equipment and to comply with financial ratios set by the Ontario Energy Board (OEB). To achieve these goals, the Company prepares detailed annual operating budgets, maintains appropriate distribution revenue levels, and manages costs to satisfy working capital and strategic investment requirements. Decisions regarding adjustments to the capital structure consider both short-term liquidity and long-term strategic and operational objectives.

The Company monitors its capital using the debt-to-equity ratio, calculated as total debt divided by the sum of total debt and shareholder's equity, as presented in the following table. For benchmarking purposes, the Company's capital structure is assessed by the Ontario Energy Board against an established 60% debt and 40% equity structure. A debt-to-equity ratio greater than 1.5 indicates higher leverage relative to this benchmark, potentially suggesting challenges in generating sufficient cash flows to service debt obligations. Conversely, a ratio below 1.5 indicates lower leverage relative to the benchmark.

	2024	2023
Current portion of long-term debt	\$ -	\$ 10,698,887
Long-term debt	21,186,387	10,487,500
Total debt	\$ 21,186,387	\$ 21,186,387
Total shareholder's equity	\$ 15,791,315	\$ 15,971,537
Debt-to-equity ratio	1.34	1.33