

**CONSOLIDATED  
FINANCIAL STATEMENTS OF**

**TOWN OF COBOURG HOLDINGS  
INC.**

**December 31, 2022**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholder of  
Town of Cobourg Holdings Inc.

### *Report on the Audit of the Consolidated Financial Statements*

#### *Opinion*

We have audited the consolidated financial statements of Town of Cobourg Holdings Inc., which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated 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 consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting 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 Consolidated 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 consolidated 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 Consolidated Financial Statements*

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

In preparing the consolidated 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.

#### **ASSURANCE • TAX • ADVISORY**

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## INDEPENDENT AUDITOR'S REPORT, continued

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ◆ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT, continued**

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 11, 2023

**TOWN OF COBOURG HOLDINGS INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at December 31, 2022**

	2022	2021
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash (note 5)	2,995,815	2,302,434
Accounts receivable	3,001,699	2,907,688
Unbilled revenue	3,175,814	2,894,082
Inventories	534,060	456,497
Prepaid expenses	347,878	380,578
Government remittances receivable	200,754	143,481
Income taxes receivable	-	29,023
Current portion of due from shareholder (note 6)	56,592	66,870
Current portion of loan receivable (note 7)	2,670	2,521
	10,315,282	9,183,174
<b>Non current</b>		
Due from shareholder (note 6)	270,000	315,000
Loan receivable (note 7)	104,396	107,066
Property, plant and equipment (note 8)	27,532,323	25,195,983
Intangible asset (note 9)	198,562	229,110
Deferred tax asset (note 10)	110,120	178,428
	28,215,401	26,025,587
	38,530,683	35,208,761
<b>Regulatory deferral account debit balances and related deferred tax (note 11)</b>	2,393,232	4,056,580
	40,923,915	39,265,341

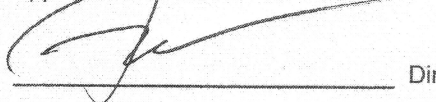
*The accompanying notes are an integral part of these consolidated financial statements*

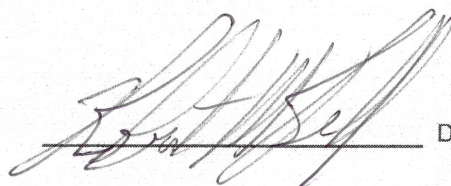


**TOWN OF COBOURG HOLDINGS INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION, continued**  
**As at December 31, 2022**

	2022	2021
	\$	\$
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 12)	4,298,570	3,846,742
Customer deposits refundable within one year (note 17)	46,647	96,256
Operating loan (note 13)	-	220,000
Income taxes payable	24,153	-
Due to related party (note 14)	4,507,405	2,145,709
Current portion of long-term debt (note 15)	378,438	365,364
	<u>9,255,213</u>	<u>6,674,071</u>
<b>Non current</b>		
Long-term debt (note 15)	11,088,975	11,467,421
Contributions in aid of construction (note 16)	4,049,705	3,802,973
Deferred tax liability (note 10)	766,271	599,194
Employee future benefits (note 18)	415,543	643,928
Customer deposits (note 17)	200,991	153,467
	<u>16,521,485</u>	<u>16,666,983</u>
	<u>25,776,698</u>	<u>23,341,054</u>
<b>Shareholder's equity</b>		
Share capital (note 19)	7,002,145	7,002,145
Retained earnings	7,235,101	6,345,311
Accumulated other comprehensive loss	(95,874)	(247,151)
	<u>14,141,372</u>	<u>13,100,305</u>
	<u>39,918,070</u>	<u>36,441,359</u>
<b>Regulatory deferral account credit balances and related deferred tax (note 11)</b>	<u>1,005,845</u>	<u>2,823,982</u>
	<u>40,923,915</u>	<u>39,265,341</u>

Approved on behalf of the Board

  
 \_\_\_\_\_ Director

  
 \_\_\_\_\_ Director

*The accompanying notes are an integral part of these consolidated financial statements*

**TOWN OF COBOURG HOLDINGS INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER**  
**COMPREHENSIVE LOSS**  
For the year ended December 31, 2022

	Share capital \$	Retained earnings \$	Accumulated other comprehensive loss \$	Total equity \$
<b>Balance, December 31, 2020</b>	7,002,145	5,980,092	(247,151)	12,735,086
Net income for the year	-	365,219	-	365,219
<b>Balance, December 31, 2021</b>	7,002,145	6,345,311	(247,151)	13,100,305
Net income for the year	-	889,790	-	889,790
Other comprehensive income	-	-	151,277	151,277
<b>Balance, December 31, 2022</b>	7,002,145	7,235,101	(95,874)	14,141,372

*The accompanying notes are an integral part of these consolidated financial statements*



**TOWN OF COBOURG HOLDINGS INC.**  
**CONSOLIDATED STATEMENT OF INCOME**  
For the year ended December 31, 2022

	2022	2021
	\$	\$
<b>Revenue</b>		
Revenue (note 21)	4,865,953	4,700,731
Cost of power revenue	28,857,936	28,239,916
Contribution in aid of construction (note 16)	131,474	114,688
	33,855,363	33,055,335
<b>Cost of power purchased</b>	27,991,893	28,800,698
<b>Gross profit</b>	5,863,470	4,254,637
<b>Other operating revenue (note 20)</b>	730,398	588,466
<b>Gross income from operations</b>	6,593,868	4,843,103
<b>Expenses</b>		
Amortization	1,130,697	1,221,644
Operating expenses (note 22)	3,095,782	3,188,633
Gain on sale of property, plant and equipment	(8,000)	-
	4,218,479	4,410,277
<b>Income before undernoted items and income taxes</b>	2,375,389	432,826
Finance income (note 24)	(141,000)	(64,322)
Finance costs (note 24)	507,885	558,349
	366,885	494,027
<b>Income (loss) before income taxes and net movement in regulatory deferral accounts</b>	2,008,504	(61,201)
<b>Provision for income taxes (note 10)</b>		
Current	71,828	37,542
Deferred	180,843	96,821
	252,671	134,363
<b>Income (loss) before net movement in regulatory deferral accounts</b>	1,755,833	(195,564)
<b>Net movement in regulatory deferral accounts</b>	(866,043)	560,783
<b>Net income for the year</b>	889,790	365,219

*The accompanying notes are an integral part of these consolidated financial statements*

**TOWN OF COBOURG HOLDINGS INC.**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended December 31, 2022

	2022	2021
	\$	\$
<b>Net income for the year</b>	889,790	365,219
<b>Other comprehensive income</b>		
Actuarial gain, net of deferred tax, not reclassified to net income	151,277	-
<b>Total comprehensive income for the year</b>	<b>1,041,067</b>	<b>365,219</b>

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*The accompanying notes are an integral part of these consolidated financial statements*

**TOWN OF COBOURG HOLDINGS INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2022

	2022	2021
	\$	\$
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>Operating activities</b>		
Net income for the year	889,790	365,219
Items not affecting cash		
Amortization of property, plant and equipment	1,100,149	1,191,096
Amortization of intangible asset	30,548	30,548
Change in deferred income taxes	180,843	96,821
Gain on sale of property, plant and equipment	(8,000)	-
Current income tax	71,828	37,542
Net financing costs	366,884	494,027
Change in employee future benefits	(22,566)	(1,601)
Recognition of contribution in aid of construction	(131,474)	(114,688)
Change in regulatory deferral accounts	(154,789)	(402,976)
	2,323,213	1,695,988
<u>Change in non-cash working capital items (note 23)</u>	<u>94,212</u>	<u>610,086</u>
	2,417,425	2,306,074
<b>Investing activities</b>		
Purchase of property, plant and equipment	(3,436,488)	(3,280,417)
Proceeds on disposal of property, plant and equipment	8,000	-
Contribution in aid of construction received	378,206	1,107,484
	(3,050,282)	(2,172,933)
<b>Financing activities</b>		
Proceeds from (repayment of) operating loan	(220,000)	(1,480,000)
Advances from related party	2,361,696	2,043,569
Repayments from shareholder	55,278	47,430
Repayment of long-term debt	(365,372)	(345,797)
Proceeds of long-term debt	-	1,500,000
Proceeds of loan receivable	2,521	2,382
Interest paid	(507,885)	(563,062)
	1,326,238	1,204,522
<b>Increase in cash</b>	<b>693,381</b>	<b>1,337,663</b>
<b>Cash - beginning of year</b>	<b>2,302,434</b>	<b>964,771</b>
<b>Cash - end of year</b>	<b>2,995,815</b>	<b>2,302,434</b>

*The accompanying notes are an integral part of these consolidated financial statements*

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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**1. NATURE OF OPERATIONS**

Town of Cobourg Holdings Inc. (the "Company") 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 Lakefront Utilities Inc. (LUI) 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). LUI is regulated by the OEB and adjustments to its distribution rates require OEB approval.

Lakefront Utility Services Inc. (LUSI) is a non-regulated services company which provides services to Municipalities related to the design, operation, and maintenance of electrical and water systems.

**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, 2022 were approved and authorized for issue by the board of directors on April 11, 2023.

**3. BASIS OF CONSOLIDATION**

The financial statements include the assets, liabilities and operations of the Company and its wholly owned subsidiaries: Lakefront Utilities Inc. and Lakefront Utilities Services Inc. All significant intercompany transactions and balances have been eliminated on consolidation.

**4. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards. The significant accounting policies are detailed as follows:

*(a) Basis of measurement*

The consolidated 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.

The consolidated financial statements are presented in Canadian dollars which is also the Company's functional currency.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(b) *Electricity regulation*

LUI 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.

*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, 2022 and December 31, 2021 are disclosed in note 11.

(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.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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4. **SIGNIFICANT 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 4(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.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(f) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation 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 depreciated using the straight-line or declining balance method over their estimated useful lives. Assets are depreciated from the date of acquisition. Internally constructed assets are depreciated from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, depreciation is taken at one-half of the above rates on furniture and fixtures, leasehold improvements, and mobile camp equipment.

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

The methods of depreciation and depreciation 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
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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.



**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

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4. **SIGNIFICANT 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%.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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**4. SIGNIFICANT 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, 2020, with an update for the year ended December 31, 2022 for changes in the discount rate. 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 18.

*(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 10.

*(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 14.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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**4. SIGNIFICANT 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.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

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4. **SIGNIFICANT 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.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

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4. **SIGNIFICANT 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, unbilled revenue, due from shareholder and loan receivable 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.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

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4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(q) *Financial instruments, continued*

(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 unrealized 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, 2022, the Company does not have any financial assets, classified at fair value through other comprehensive income.

(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*

There were no changes in accounting policies in 2022 that impacted the Company.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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4. **SIGNIFICANT ACCOUNTING POLICIES, continued**

(s) *Standards and interpretations not yet effective or adopted*

Effective for annual periods beginning on or after January 1, 2023.

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 12 Income Taxes were amended by the IASB in May 2021. The amendments clarify the accounting for deferred tax on transactions such as leases and decommissioning obligations. Earlier application is permitted.

IFRS 17 Insurance Contracts was issued by the IASB in May 2017. This new standard replaces IFRS 4 Insurance Contracts, which was an interim standard allowing companies to carry on accounting for insurance contracts using national accounting standards resulting in different approaches. IFRS 17 requires all insurance contracts to be accounted for in a consistent manner. Insurance obligations will be accounted for using current values – instead of historical cost. Earlier application is permitted for companies that also apply IFRS 9 Financial Instruments.

IFRS 17 Insurance Contracts was amended by the IASB in December 2021. The amendment adds a transition option relating to comparative information about financial assets presented on initial application of IFRS 17.

IAS 1 Presentation of Financial Statements was amended by the IASB in February 2021. The amendments require entities to disclose their material accounting policies rather than their significant accounting policies. Earlier application is permitted.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors has been revised to incorporate amendments issued by the IASB in February 2021. The amendments introduce a definition of accounting estimates and provide other clarifications to help entities distinguish accounting policies from accounting estimates. Earlier application is permitted.

The Company is currently assessing the impact, if any, that the standards will have on the financial statements.



**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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**5. CASH**

Cash consists of balances with financial institutions.

For additional details regarding credit facilities refer to note 13.

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	2022	2021
	\$	\$
Town of Cobourg Holdings. (non consolidated)	419,916	397,932
Lakefront Utilities Inc.	351,305	348,738
Lakefront Utilities Services Inc.	2,224,594	1,555,764
	<hr/> 2,995,815	<hr/> 2,302,434

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**6. DUE FROM SHAREHOLDER**

The amount due from shareholder of \$326,592 (2021 - \$381,870) relates to a project completed by the Company for the shareholder. The loan requires annual principal repayments of \$45,000, bears interest at a rate of 5.4% with interest receivable of \$11,592 (2021 - \$21,870) and matures December 2029.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

7. **LOAN RECEIVABLE**

The Company loaned money to a Joint Venture between Lakefront Utilities Services Inc., Elexicon Energy Inc. and Solera Sustainable Energies Company Limited. The Joint Venture will undertake a solar power generation project at the property located at 739 D'Arcy Street, Cobourg, Ontario (Building 13). The property is owned by The Corporation of the Town of Cobourg. The loan is repayable in monthly principal and interest payments of \$730, with an interest rate of 5.75% and matures in 2044.

	2022	2021
	\$	\$
Loan receivable	107,066	109,587
Less principal payments due within one year	2,670	2,521
Due beyond one year	104,396	107,066
<u>Estimated principal repayments are as follows:</u>		
		\$
2023		2,670
2024		2,828
2025		2,995
2026		3,171
2027		3,359
Subsequent years		92,043
		<u>107,066</u>

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

**8. PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings \$	Equipment and vehicles \$	Distribution equipment \$	Work in process \$	Total \$
<b>Cost</b>					
At January 1, 2022	1,365,903	2,904,282	28,650,491	963,027	33,883,703
Additions	12,110	6,102	2,485,745	1,554,462	4,058,419
Disposals	-	-	(97,292)	-	(97,292)
Transfers	-	-	-	(621,930)	(621,930)
<b>At December 31, 2022</b>	<b>1,378,013</b>	<b>2,910,384</b>	<b>31,038,945</b>	<b>1,895,559</b>	<b>37,222,901</b>
<b>Accumulated amortization</b>					
At January 1, 2022	264,554	2,137,775	6,285,391	-	8,687,720
Amortization	34,884	62,541	1,002,724	-	1,100,149
Disposals	-	-	(97,292)	-	(97,292)
<b>At December 31, 2022</b>	<b>299,438</b>	<b>2,200,316</b>	<b>7,190,824</b>	<b>-</b>	<b>9,690,578</b>
<b>Net book amount at December 31, 2022</b>	<b>1,078,575</b>	<b>710,068</b>	<b>23,848,121</b>	<b>1,895,559</b>	<b>27,532,323</b>

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

8. **PROPERTY, PLANT AND EQUIPMENT, continued**

	Land and buildings \$	Equipment and vehicles \$	Distribution equipment \$	Work in process \$	Total \$
<b>Cost</b>					
At January 1, 2021	1,363,999	2,925,434	25,496,973	816,879	30,603,285
Additions	1,904	-	3,153,518	768,078	3,923,500
Transfers	-	(21,152)	-	(621,930)	(643,082)
<b>At December 31, 2021</b>	<b>1,365,903</b>	<b>2,904,282</b>	<b>28,650,491</b>	<b>963,027</b>	<b>33,883,703</b>
<b>Accumulated amortization</b>					
At January 1, 2021	229,812	1,934,225	5,332,587	-	7,496,624
Amortization	34,742	203,550	952,804	-	1,191,096
<b>At December 31, 2021</b>	<b>264,554</b>	<b>2,137,775</b>	<b>6,285,391</b>	<b>-</b>	<b>8,687,720</b>
<b>Net book amount at December 31, 2021</b>	<b>1,101,349</b>	<b>766,507</b>	<b>22,365,100</b>	<b>963,027</b>	<b>25,195,983</b>

Included in land and building is land with a cost of \$219,284 (2021 - \$219,284).

9. **INTANGIBLE ASSET**

	Cost \$	Accumulated amortization \$	2022 Net book value \$	2021 Net book value \$
Intangible asset	421,575	223,013	198,562	229,110

During the year, there were no additions (2021 - \$nil) or disposals (2021 - \$nil).

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

10. **INCOME TAXES**

- (a) The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.5% (2021 - 39.5%) to the income (loss) for the years as follows:

	2022 \$	2021 \$
Income (loss) for the year	2,008,504	(61,201)
Net movement in regulatory deferral accounts	(866,043)	560,783
	<b>1,142,461</b>	<b>499,582</b>
Anticipated income tax	451,272	197,335
Tax effect of the following:		
Effect of items not deductible for tax	5,182	4,964
Timing income differences	(157,700)	(36,816)
General rate reduction	(35,236)	(18,417)
Capital costs allowance in excess of accounting amortization	(191,690)	(110,709)
Ontario Co-op tax credit	-	1,185
Future tax expense amounts	235,385	96,821
Income tax OCI adjustment	(54,542)	-
<b>Provision for income taxes</b>	<b>252,671</b>	<b>134,363</b>

- (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.

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

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

10. **INCOME TAXES, continued**

Deferred tax assets:

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

	Opening balance at January 1, 2021 \$	Recognize in net income \$	Recognize in OCI \$	Closing balance at December 31, 2021 \$
<b>Deferred tax assets</b>				
Employee future benefits	171,066	(424)	-	170,642
Non-capital loss carryforwards	-	7,786	-	7,786
	171,066	7,362	-	178,428

Deferred tax liabilities:

	Opening balance at January 1, 2022 \$	Recognize in net income \$	Closing balance at December 31, 2022 \$
<b>Deferred tax liabilities</b>			
Carrying amount of property, plant and equipment in excess of tax basis	599,194	167,077	766,271

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

10. **INCOME TAXES, continued**

	Opening balance at January 1, 2021 \$	Recognize in net income \$	Closing balance at December 31, 2021 \$
<b>Deferred tax liabilities</b>			
Carrying amount of property, plant and equipment in excess of tax basis	495,011	104,183	599,194



**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

11. **REGULATORY DEFERRAL ACCOUNTS**

	Note	Remaining recovery/ reversal period (years)	December 31, 2021 \$	Balances arising in the period \$	Recovery/ reversal \$	December 31, 2022 \$
<b>Regulatory deferral account debit</b>						
Low voltage	i	2	3,303,064	(288,030)	(2,734,929)	280,105
Retail settlement	iv	2	650,816	485,691	(540,847)	595,660
Recovery account	v	1-5	102,701	(659,319)	2,074,084	1,517,466
			4,056,580	(461,658)	(1,201,692)	2,393,232

	Note	Remaining recovery/ reversal period (years)	December 31, 2021 \$	Balances arising in the period \$	Recovery/ reversal \$	December 31, 2022 \$
<b>Regulatory deferral account credit</b>						
Cost of power	iii	2	1,761,198	(154,000)	-	1,607,198
Retail settlement	iv	2	728,815	(545,184)	(918,909)	(735,278)
Recovery account	v	1	146,093	(4,101)	(141,990)	2
Other DVA	ii	2	187,876	86,840	(140,793)	133,923
			2,823,982	(616,445)	(1,201,692)	1,005,845

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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**11. 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 balances of payable or receivable from the IESO, as well as change the balances in Accounts 1588 and 1589. 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.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

11. **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.

12. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2022	2021
	\$	\$
Accounts payable - energy purchased	2,765,238	2,481,276
Other trade accounts payable and accrued liabilities	2,016,393	1,375,493
Deferred revenue (receivable) - CDM Program	(483,061)	(10,027)
	<b>4,298,570</b>	<b>3,846,742</b>

13. **CREDIT FACILITIES**

The Company has a \$8,500,000 (2021 - \$8,500,000) credit facility consisting of \$2,500,000 (2021 - \$2,500,000) operating line, \$1,500,000 (2021 - \$1,500,000) stand-by letters of guarantee and \$4,500,000 (2021 - \$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 \$1,421,419 from this line (2021 - \$1,464,771). The Company has entered into a swap agreement with TD bank for the draw on the committed reducing term facility. As at December 31, 2022 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 \$0 from this line (2021 - \$220,000). The bank agreements require the Company to maintain certain financial covenants. At December 31, 2022, the Company was in compliance with the financial covenants.

The Company has posted \$1,500,000 (2021 - \$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.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

**14. DUE TO RELATED PARTY AND RELATED PARTY TRANSACTIONS**

- (a) The Corporation of the Town of Cobourg is the majority shareholder of the Company with the Township of Cramahe, Town of Colborne owning one share. 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.

The Company provides water and sewage billing and collection services to the customers of the Corporation of the Town of Cobourg, and the Hamlet of Grafton. During the year, the Company collected revenues of \$30,000 (2021 - \$30,000) from the Town of Cobourg and paid expenses of \$49,584 (2021 - \$48,745) and interest of \$244,300 (2021 - \$260,400) as detailed in Note 15.

The Company also has a promissory note receivable in the amount of \$315,000 (2021 - \$360,000) with interest receivable of \$11,592 (2021 - \$24,300) from the shareholder as described in note 7.

At year-end, included in accounts payable was \$10,727 (2021 - \$6,900) due to the Town of Cobourg.

The Company is also engaged in transactions in the normal course of operations with the Waterworks of the Town of Cobourg (Waterworks). The parties are related due to common control. During the year, the Company collected rent recoveries of \$56,249 (2021 - \$55,146) from Waterworks.

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 \$537,475 (2021 - \$593,973).

- (b) Due to related party

	2022	2021
	\$	\$
Waterworks of the Town of Cobourg	4,507,405	2,145,709

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

15. **LONG-TERM DEBT**

	2022 \$	2021 \$
Bank loan, 3.22% per annum blended repayments of \$5,574 monthly, due February 29, 2030.	427,417	479,626
Infrastructure Ontario Loan, 3.90% fixed rate per annum, blended repayments of \$5,520 monthly, due December 3, 2048	1,081,322	1,104,890
Infrastructure Ontario Loan, 4.03% fixed rate per annum, blended repayments of \$82,668 semi-annually, due September 3, 2028	873,430	999,744
Infrastructure Ontario Loan, 3.38% fixed rate per annum, blended repayments of \$72,708 semi-annually, due October 1, 2027	663,825	783,755
Demand note payable, Corporation of Town of Cobourg, 3.49% per annum	7,000,000	7,000,000
Bank loan payable, 2.74% fixed rate, payable in blended monthly payments of \$6,912	1,421,419	1,464,770
	11,467,413	11,832,785
Less principal payments due within one year	378,438	365,364
Due beyond one year	11,088,975	11,467,421

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, 2024. During the year the Company paid \$244,300 (2021 - \$260,400) in interest on the note.

Effective January 1, 2022 the interest rate with the Town of Cobourg was updated from 3.72% per annum to 3.49% based on the OEB's deemed long-term debt rate.

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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

The estimated principal repayments for 2023-2027 and subsequent years are related to the Company's bank loan and loans with Infrastructure Ontario. Also included in subsequent years is the \$7,000,000 demand note payable with the Town of Cobourg. Estimated principal repayments are as follows:

	\$
2023	378,438
2024	391,986
2025	406,028
2026	1,656,229
2027	385,998
Subsequent years	8,248,734
	<hr/> 11,467,413 <hr/>

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

16. **CONTRIBUTION IN AID OF CONSTRUCTION**

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

	2022	2021
	\$	\$
Deferred contributions, net, beginning of year	3,802,973	2,810,177
Contributions in aid of construction received	378,206	1,107,484
Contributions in aid of construction recognized as revenue	(131,474)	(114,688)
	<b>4,049,705</b>	<b>3,802,973</b>

17. **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.

18. **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, 2020, with an update for the year ended December 31, 2022 for changes in the discount rate.

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

	2022	2021
	\$	\$
Accrued benefit obligation, beginning of period	643,928	645,529
Current service cost	25,940	23,615
Interest on accrued benefit obligation	16,508	16,861
Benefits paid	(65,014)	(42,077)
Actuarial gain	(205,819)	-
	<b>415,543</b>	<b>643,928</b>



**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2022

18. **EMPLOYEE FUTURE BENEFITS, continued**

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 \$65,014 (2021 - \$42,077).

The actuarial assumptions used in the valuation are the discount rate of 5.05% (2021 - 2.7%), salary increase rate of 2% (rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion and for Company specific information) (2021 - 2%), health benefits include both health benefits 4.9% (2021 - 4.4%), and dental benefits 5.10% (2021 - 4.70%) and retirement age of 60 (2021 - 60).

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

	Reasonable possible change \$	Defined benefit obligation change \$	Difference \$	Difference \$
Discount rate	1	363,100	(52,400)	(13)
Discount rate	(1)	481,400	65,900	16
Cost trend	1	442,900	27,400	7
Cost trend	(1)	392,100	(23,400)	(6)

19. **SHARE CAPITAL**

Authorized

Unlimited number of common shares  
number of common shares

Issued

	2022 \$	2021 \$
Common shares	7,002,145	7,002,145

**TOWN OF COBOURG HOLDINGS INC.**  
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20. **OTHER OPERATING REVENUE**

	2022	2021
	\$	\$
Rentals	165,796	93,877
Miscellaneous	54,736	59,992
External services	348,154	451,889
Feed-in-tariff invoicing	7,211	6,204
Net recoverable work	124,501	36,857
Sewer billing	30,000	30,000
AFT, net	-	(90,353)
	<b>730,398</b>	<b>588,466</b>

21. **REVENUE**

	\$	\$
Commercial revenue	59,113	85,418
Distribution revenue	4,806,840	4,615,313
	<b>4,865,953</b>	<b>4,700,731</b>

22. **OPERATING EXPENSES**

	2022	2021
	\$	\$
Customer billing and collecting	526,832	514,200
Distribution	874,138	949,924
General and administration	1,694,812	1,724,509
	<b>3,095,782</b>	<b>3,188,633</b>

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

	2022	2021
	\$	\$
Increase in accounts receivable	(94,011)	(49,670)
Decrease (increase) in unbilled revenue	(281,732)	707,876
Decrease (increase) in inventories	(77,563)	7,658
Decrease (increase) in prepaid expenses	32,700	(285,722)
Increase in government remittances receivable	(57,273)	(135,113)
Increase in accounts payable and accrued liabilities	451,828	347,211
Increase (decrease) in deposits held	(2,085)	8,665
Income taxes paid	(18,653)	(59,854)
Interest received	141,001	69,035
	94,212	610,086

24. **FINANCE INCOME COSTS**

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

	2022	2021
	\$	\$
Interest income on accounts receivable	25,209	21,245
Interest income on bank deposits	62,955	30,921
Interest income on regulatory deferral accounts	46,600	5,780
Interest on loans receivable	6,236	6,376
	141,000	64,322

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

	2022	2021
	\$	\$
Interest on long term debt	408,671	442,459
Interest cost on regulatory deferral accounts	41,091	78,710
Other interest	41,615	20,319
Interest on employee future benefits	16,508	16,861
	507,885	558,349

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25. **PENSION AGREEMENT**

The Company makes contributions to the Ontario Municipal Employees' Retirement System (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The Actuarial Opinion contained in the 2022 Annual Report disclosed actuarial liabilities of \$130,306 million in respect of benefits accrued for service with actuarial assets of \$123,628 million indicating an actuarial deficit of \$6,678 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 organization 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 \$141,778 (2021 - \$156,933).

26. **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:

	2022 \$	2021 \$
Infrastructure Ontario and bank loans	4,467,413	4,832,785
Operating loans	-	220,000
<b>Net debt</b>	<b>4,467,413</b>	<b>5,052,785</b>
Retained earnings and OCI	7,139,227	6,098,160
Share capital	7,002,145	7,002,145
<b>Adjusted capital</b>	<b>14,141,372</b>	<b>13,100,305</b>
<b>Debt-to-adjusted capital ratio</b>	<b>0.32</b>	<b>0.39</b>

**TOWN OF COBOURG HOLDINGS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2022**

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**27. FINANCIAL INSTRUMENTS**

Financial instruments consist of recorded amounts of cash, accounts receivable, unbilled revenue, due from related party, due from shareholder and loan receivable which will result in future cash receipts, as well as accounts payable and accrued liabilities, operating loan, due to related party, customer deposits and long term debt which will result in future cash outflows.

The Company does not believe that it is exposed to significant foreign exchange risk or market risk.

The Company is exposed to the following risks in respect of certain financial instruments held:

*(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 31, 2022 the carrying value of the swap is not significantly different from its fair market value.

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27. **FINANCIAL INSTRUMENTS, continued**

(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.

(c) *Credit risk*

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the service area. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2022 is \$20,000 (2021 - \$20,000). The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has over 10,500 customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2022, the Company holds security deposits in the amount of \$247,637 (2021 - \$249,723).

The following table sets out the maturities of accounts receivable:

	Trade accounts receivable \$	Accounts receivable - recoverable work \$	Allowance for doubtful accounts \$	Note receivable \$	Total \$
0-30 days	2,578,948	154,368	-	17,389	2,750,705
31-60 days	28,877	-	-	17,440	46,317
61-90 days	13,606	-	-	17,490	31,096
90+ days	33,860	-	(20,000)	159,721	173,581
	2,655,291	154,368	(20,000)	212,040	3,001,699

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27. **FINANCIAL INSTRUMENTS, continued**

(d) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investment requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company has access to a \$2,500,000 line of credit and a \$4,500,000 committed reducing term facility, and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

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

	Accounts payable and accrued liabilities \$	Customer deposits \$	Long term debt \$	Employee future benefits \$	Between 0-3 months \$
0-3 Months	4,017,423	32,578	95,382	-	4,145,383
4-6 Months	281,147	4,251	92,156	-	377,554
7-9 Months	-	6,477	97,286	-	103,763
10-12 Months	-	3,341	93,614	-	96,955
12+ Months	-	200,991	11,088,975	415,543	11,705,509
	4,298,570	247,638	11,467,413	415,543	16,429,164

28. **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.