



Annual Report 2023

**Connecting people,
empowering community**



Our mission

To distribute electricity in a safe and reliable manner, while keeping rates affordable and providing long-term value to the community. The company does this by participating in Kingston's unique multi-utility model.

Our vision

A modern, responsive energy company, building a strong future for communities and customers through stewardship, partnership, innovation, and service excellence.



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Land acknowledgment

We have prepared this annual report in the ancestral and continuing unceded territory of the Huron-Wendat, Anishinaabe, and Haudenosaunee Peoples. We thank these Peoples for their stewardship of the land. As we preserve and protect the land and water, we commit to delivering our services with care for the Earth.

Corporate governance

About Kingston Hydro

Kingston Hydro Corporation is 100 per cent owned by the Corporation of the City of Kingston.

The Corporation is governed by a Board of Directors consisting of three independent directors and three directors appointed by position. Independent directors are appointed by the Shareholder, the Corporation of the City of Kingston, represented by the elected municipal councillors.

Kingston Hydro continues to benefit from a multi-utility services delivery model provided by Utilities Kingston to ensure cost savings and superior customer service. Its strategic planning process establishes strategic goals, approved by the Board of Directors, to guide the organization's overall business strategy in both the long and short term.

Corporate governance

Kingston Hydro is incorporated under the **Business Corporations Act** (Ontario) and as such is governed by the provisions of that Act as well as a Shareholders' Declaration approved by the Corporation of the City of Kingston. The Board of Directors are responsible for overseeing the management of the company, assessing the overall direction and strategy of the business, and ensuring enterprise risk management and regulatory compliance.

Board of directors

Directors



Bryan Paterson
Chair,
Mayor, City of Kingston



Lanie Hurdle
Chief Administrative
Officer, City of Kingston



David Fell
President and Chief
Executive Officer



Barbara Hanley
Independent Director

Officers



Anthony Martinello
Independent Director



Todd Williams
Independent Director



David Fell
President and Chief
Executive Officer



Randy Murphy
Chief Financial
Officer and Treasurer,
Corporate Secretary

Corporate governance

Governing committees

The Board of Directors has created two committees of the Board to assist with its work. The members of the committees are comprised of the three independent directors.

Governance, Nominations, and Compensation Committee

The Governance, Nominations, and Compensation Committee oversees succession planning for Board members and senior executives. It develops the Company's approach to corporate governance and to discharge the Board's responsibilities related to compensation and benefits of the President and Chief Executive Officer, including reviewing for approval to the Board the adoption of any material changes in the Company's executive and/or non-union compensation plans.

Audit and Risk Management Committee

The Audit and Risk Management Committee is responsible for assisting the board in fulfilling its oversight responsibilities about financial and non-financial risks to the Company. This includes the integrity of the Company's financial statements and the Enterprise Risk Management program.

Active participation

Active participation of board members is a critical component of good governance, with all Directors demonstrating commitment to the Corporation in their attendance at Board and Committee meetings in 2023.

Board member	Board meetings	Governance, Nominations and Compensation Committee meetings	Audit and Risk Management Committee meetings
Bryan Paterson, Chair	8/8	N/A	N/A
Lanie Hurdle, Vice-Chair	6/8	N/A	N/A
David Fell	8/8	N/A	N/A
Barbara Hanley	7/8	2/2	2/3
Arthur Jordan	3/3	1/1	1/1
Anthony Martinello	7/8	2/2	2/3
Todd Williams	5/5	1/1	2/2

Barbara Hanley is the Chair of the Audit and Risk Management Committee.

Arthur Jordan resigned from the Board effective May 29, 2023.

Anthony Martinello is the Chair of the Governance, Nominations, and Compensation Committee.

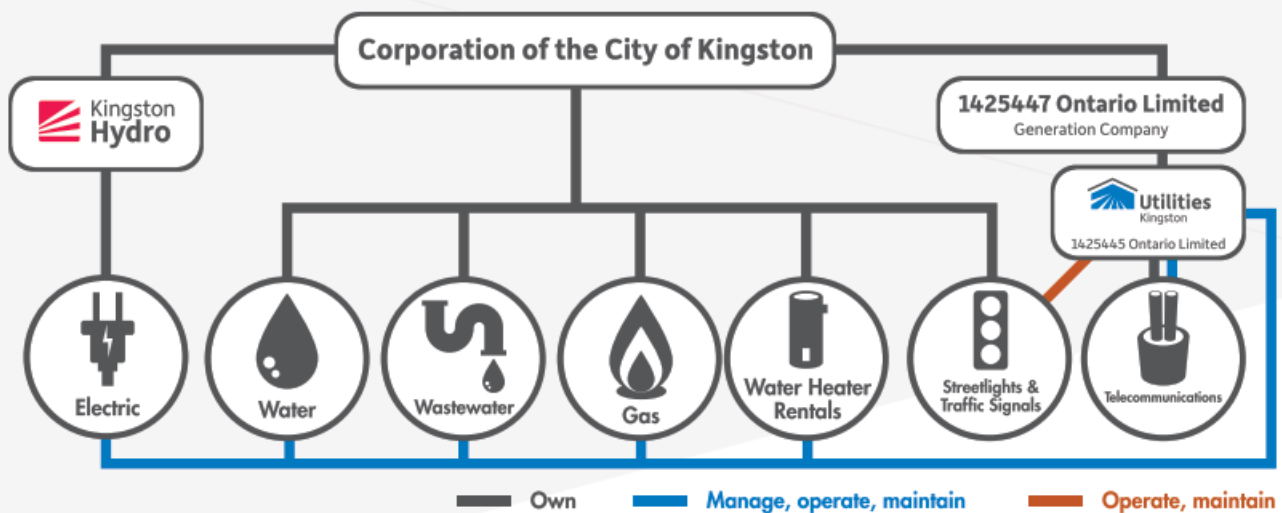
Todd Williams was elected to the Board on May 29, 2023.

Corporate relationships

Kingston Hydro is licensed by the Ontario Energy Board to provide electricity distribution services in central Kingston.

The assets of the corporation are managed, maintained, and operated by the employees of Utilities Kingston.

This unique multi-utility model provides distinct advantages in customer service and cost-savings through economies of scope of the organization while striving towards its vision.



Delivering on mission

Meeting regulatory requirements

In 2023, Kingston Hydro implemented its 2023 rate order which reflected a full cost-of-service review. Later in 2023, through the Ontario Energy Board's Incentive Regulation Mechanism, the Company applied for and received from the Ontario Energy Board, a 4.65 per cent increase to those rates for January 1, 2024, implementation.

Powering community

The employees of Utilities Kingston provide asset management, billing, and operational services for Kingston Hydro, the Ontario Energy Board licensed distributor of electricity for 28,506 customers in central Kingston. These systems include:



691 km of overhead wire and underground conductors



16 distribution substations



34 substation transformers



2,315 in-line transformers



5,184 poles



28,506
customers



6%
decrease
over 2022

663 million kWh
of electricity delivered

System reliability measures

Ensuring customers have reliable electricity service is essential. When the power goes out unexpectedly, Kingston Hydro works swiftly to restore power, prioritizing both safety and efficiency.

Average number of hours that power to a customer was interrupted:

1.17 better than distributor target of 1.33

Average number of times that power to a customer was interrupted:

0.74 better than distributor target of 0.85

100% compliance with Electrical Safety Authority audit



Awarded the 2023 Worker Safety Award by the Electrical Safety Authority in recognition of the annual Safety Days event



Delivering on mission

Planned events

Regular maintenance of electrical distribution systems is critical for upholding power reliability for customers. To ensure the safety of crews, certain sections may be de-energized for maintenance or work protection. As a result, some customers are affected by scheduled outages. In 2023, Kingston Hydro scheduled these planned outages, accounting for 2,847 total customer hours of interruption.

Unplanned events

In 2023, electricity crews responded to 502 after-hours calls, including for severe weather events. Causes of power outages include:



Loss of supply from Hydro One Network Inc. is the leading factor in forced outages. Three loss of supply outages occurred in 2023, causing a total of 55,613 customer hours of interruptions or 63 per cent of the total customer hours of interruptions. Loss of supply categorizes the power outages caused by upstream transmission systems that are out of the control of Kingston Hydro. These outages were excluded from Kingston Hydro's reliability calculations.

Kingston Hydro's unplanned or emergency outages caused 29,854 total customer hours of interruption.



Foreign interference caused seven outages and 23,678 total customer hours of interruptions. This refers to customer interruptions beyond the control of the distributor, such as those caused by animals, vehicles, dig-ins, vandalism, foreign objects, and failed customer equipment.



Failing equipment continues to be the leading factor in forced outages and emphasizes the importance of continued investments in infrastructure renewal and targeted preventive maintenance activities.



Meeting regulatory requirements and enhancing customer experience

Kingston Hydro implemented a Green Button solution, enabling customers to access their consumption and billing data in a consistent format. This empowers customers to better understand and manage their energy consumption. The Green Button solution also offers authorized third-party app developers access to standardized data automatically, facilitating the development of tools for customers to gain additional insights and recommendations for reducing consumption.

Kingston Hydro also implemented the Ultra-Low Overnight price plan for electricity customers to offer a low rate when there is traditionally an excess of electricity overnight. This new price plan meets the changing needs of customers, offering an additional choice for managing electricity costs in a way that is best for their own needs and uses.

Customer satisfaction

91%

of customers surveyed were satisfied with services provided by Utilities Kingston.

Kingston Hydro completed its bi-annual customer satisfaction survey in 2023, as required by the Ontario Energy Board. The results were that 91 per cent of customers surveyed were satisfied with the services provided.

Scorecard

Utility scorecards track and show comprehensive performance information for each electricity utility in Ontario, over a range of time and for a specific year. In 2023, Kingston Hydro's 2022 performance received solid scores via the Ontario Energy Board (OEB) Scorecard. The scorecard confirms that Kingston Hydro continues to perform strongly against provincial targets.

View the OEB Scorecard at [KingstonHydro.com](https://www.kingstonyhydro.com)

Delivering on mission

Investing in community infrastructure

Kingston Hydro is building capacity for electrical load growth, supporting new development and electrification. Significant achievements in 2023 included:



At Municipal Substation No. 7, replacing the existing legacy electro-mechanical protection relays with new digital relays. Upgrades were also completed to the feeder protection settings and schemes.



At Municipal Substation No. 5, replacement of the substation transformer, relay upgrades, reclosure, and cable feeder cable replacements, and reconfigured 44kV and 5kV tie points and switches were completed.



Completion of overhead line extension and transformer installation in support of the Ministry of Transportation (MTO)'s upgrades on Highway 401.

Another key focus continues to be supporting the City of Kingston in its growth and development goals. Through proactive asset renewal strategies, the company is supporting the intensification of Kingston's vibrant city centre. Progress in 2023 included pole replacement and overhead line construction in support of the City's Belle Park power restoration project.





Connecting new technologies

One way Kingston Hydro is helping to build clean energy infrastructure is by connecting new technologies that support locally owned facilities for electricity generation.

In 2023, the company connected 11 new Distributed Energy Resources. Most of the electricity generated in Ontario produces low levels of greenhouse gas emissions, and these locally owned facilities also generate clean energy.

Financial performance

Included in this annual report are the corporation's financial statements for the year ended December 31, 2023, which have been prepared in accordance with International Financial Reporting Standards.

Balance sheet

At December 31, 2023, Kingston Hydro has cash available, as represented by Cash and Due from City of Kingston, of \$6.3 million to fund current liabilities.

Kingston Hydro's gross capital assets increased \$3.8 million (2022 - \$3.6 million) to \$87.8 million.

The net book value of the capital assets amounted to \$66.1 million, compared to \$65.0 million in 2022.

Kingston Hydro decreased its third-party arm's length borrowing in 2023 by \$1,049,000, represented by principal repayments on long term borrowings.

As a result of the above repayments, total debt decreased to \$37 million from 2022 to 2023.

The net balance of the regulatory deferral account balances at the end of the year is a debit of \$3.7 million. This amount is the accumulated difference between costs incurred for energy and transmission, and amounts collected from customers. This difference is expected to be collected from customers in the future, after Ontario Energy Board (OEB) rate approval.

Statement of earnings

In 2023, total energy sales approximated the 2022 amount of \$78.2 million, and the cost of energy decreased by \$1.4 million to \$78.1 million. Any difference between energy sales and the cost of energy in the year forms part of the regulatory balances recorded on the balance sheet that is referred to above.

Distribution revenue increased by \$516,000 as a result of the implementation of new cost of service distribution rate increases approved by the OEB and implemented effective January 1, 2023.

Operating expenses increased \$565,000 from 2022. The increase is due to an increase in bad debt expenses and an increase in capacity resources to advance asset management and electrical system planning. Finance costs for 2023 were slightly higher than in 2022 and Finance income increased \$261,000 in 2023 over 2022. Both increases were attributable to increases in the prime lending rate by the Bank of Canada.

Net earnings and net movements in regulatory deferral account balances increased by \$450,000 in 2023 to \$2.6 million for the year.

Statement of cash flows

In 2023, Kingston Hydro recorded additions to capital assets of \$3.8 million and an increase in deferred revenue in the amount of \$200,000.

The company returned dividend payments of \$1,700,000 to its sole Shareholder, the Corporation of the City of Kingston. When combined with interest payments to the City, the total return to the Shareholder in 2023 was approximately \$2.3 million.

Financial performance

Management's responsibility for financial reporting

The accompanying financial statements and related financial information are the responsibility of the management of Kingston Hydro Corporation.

Fulfilling this responsibility requires the preparation and presentation of financial statements and other data using management's best judgement and estimates.

These financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board and set out in the CPA Canada Handbook.

In addition, management is responsible for establishing and maintaining an adequate system of internal control to ensure assets are safeguarded and the accounting systems provide relevant, accurate, timely and reliable information in all material respects.

The Board of Directors of Kingston Hydro Corporation is responsible for ensuring management has implemented the necessary systems, procedures and internal controls required to ensure the reliability and timeliness of the financial information. The Board is also responsible for reviewing the financial statements with management and approving the financial statements.

The Board of Directors exercises this responsibility through the Audit and Risk Committee. The Audit and Risk Committee consists primarily of independent directors and reviews audit, internal control and financial reporting matters with management and external auditors. The Audit and Risk Committee also considers the independence of the external auditor and reviews their fees. The external auditors have access to the Audit and Risk Committee without the presence of management. The Audit and Risk Committee reviews the financial statements and reports its findings to the Board for consideration when approving the financial statements for issuance to the Shareholders.

KPMG LLP, the independent auditors appointed by the Board of Directors, are responsible for providing an audit opinion on the financial statements based on the results of their audit tests and procedures.

On behalf of Management,

A handwritten signature in black ink, appearing to read "David Fell".

David Fell
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read "Randy Murphy".

Randy Murphy
Chief Financial Officer and Treasurer, Corporate Secretary

Financial Statements of

KINGSTON HYDRO CORPORATION

And Independent Auditor's Report thereon

Year ended December 31, 2023



KPMG LLP

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Kingston, ON K7L 5N4
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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Kingston Hydro Corporation

Opinion

We have audited the financial statements of Kingston Hydro Corporation (the Corporation), which comprise:

- the balance sheet as at December 31, 2023
- the statement of comprehensive income for the year then ended
- the statement of changes in shareholder's equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Corporation as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

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

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



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 Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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



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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

April 24, 2024

KINGSTON HYDRO CORPORATION

Financial Statements

Year ended December 31, 2023

Financial Statements

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KINGSTON HYDRO CORPORATION

Balance Sheet

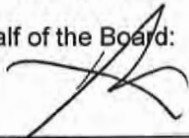
December 31, 2023, with comparative information for 2022

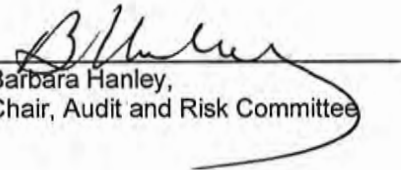
	2023	2022
Assets		
Current assets:		
Cash	\$ 48,054	\$ 7,117
Due from City of Kingston (note 10(b))	6,288,905	7,586,215
Miscellaneous accounts receivable	759,219	522,243
Billed revenue receivable	4,975,844	3,645,289
Unbilled revenue	9,413,191	9,783,075
Inventory	2,099,338	2,228,718
Prepaid expenses	84,059	254,849
Payments in lieu of taxes recoverable (note 15)	1,554	124,770
	23,670,164	24,152,276
Non-current assets:		
Property, plant and equipment (note 5)	66,093,780	64,961,988
Derivative asset	79,035	156,459
Total assets	89,842,979	89,270,723
Regulatory debit balances (note 9)	6,511,528	6,331,974
Total assets and regulatory debit balances	\$ 96,354,507	\$ 95,602,697

	2023	2022
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,302,112	\$ 9,093,293
Current portion of long-term debt (note 7(a))	3,679,214	3,974,706
Due to retailers	71,983	72,030
Deposits payable	740,907	839,150
	<u>13,794,216</u>	<u>13,979,179</u>
Non-current liabilities:		
Note payable to City of Kingston (note 6)	10,880,619	10,880,619
Employee future benefit liabilities (note 11(d))	892,142	925,162
Long-term debt (note 7(a))	22,312,939	23,066,577
Deferred revenue	5,809,495	5,607,246
Deferred tax liability (note 15)	2,921,392	2,559,446
Derivative liability (note 17(b))	—	—
Total liabilities	<u>56,610,803</u>	<u>57,018,229</u>
Shareholder's equity:		
Share capital (note 12)	12,380,617	12,380,617
Contributed surplus	3,893,103	3,893,103
Accumulated other comprehensive income (loss)	255,380	312,287
Retained earnings	20,435,586	19,494,432
	<u>36,964,686</u>	<u>36,080,439</u>
Commitments and contingencies (notes 13 and 14)		
Total liabilities and shareholder's equity	<u>93,575,489</u>	<u>93,098,668</u>
Regulatory credit balances (note 9)	1,627,547	1,487,298
Deferred tax associated with regulatory balances	1,151,471	1,016,731
Total equity, liabilities and regulatory credit balances	<u>\$ 96,354,507</u>	<u>\$ 95,602,697</u>

See accompanying notes to financial statements.

On behalf of the Board:


Bryan Paterson,
Chair, Board of Directors


Barbara Hanley,
Chair, Audit and Risk Committee

KINGSTON HYDRO CORPORATION

Statement of Comprehensive Income

Year ended December 31, 2023, with comparative information for 2022

	2023	2022
Energy sales	\$ 78,202,401	\$ 78,157,584
Cost of energy	78,149,833	79,527,595
	52,568	(1,370,011)
Other income	734,694	646,643
IESO Conservation Program revenue	7,097	49,087
Distribution revenue (notes 3(b) and 4)	14,274,136	13,757,818
Net operating revenue	15,068,495	13,083,537
Operating expenses:		
IESO Conservation Program expenses	7,097	49,087
Distribution expenses, operation	1,206,737	1,350,086
Distribution expenses, maintenance	1,932,504	1,936,377
Billing and collecting	1,134,808	983,900
Community relations	656,531	661,856
General and administrative	3,493,967	2,945,931
Depreciation and amortization	2,622,971	2,562,723
	11,054,615	10,489,960
Earnings before finance costs, taxation and net movement in regulatory account balances	4,013,880	2,593,577
Finance income	509,572	248,087
Finance costs	(1,587,808)	(1,453,259)
Earnings before taxation and movements in regulatory deferral account balances	2,935,644	1,388,405
Write-off of regulatory assets:		
OEB cost assessment	—	302,434
	2,935,644	1,085,971
Current tax expense (note 15)	233,173	113,980
Deferred tax expense (note 15)	382,464	669,314
	615,637	783,294
Net earnings before movements in regulatory deferral account balances	2,320,007	302,677
Movement due to differences between sales and cost	(52,567)	1,370,012
Tax effect of net movement in regulatory deferral account balances	(373,714)	518,850
Net movement in regulatory deferral account balances related to profit or loss	321,147	1,888,862
Net earnings and net movements in regulatory deferral account balances	2,641,154	2,191,539
Other comprehensive income (loss):		
Change in fair value of cash flow hedge	(56,907)	146,110
Actuarial gain on employee future benefits	—	197,291
Total comprehensive income	\$ 2,584,247	\$ 2,534,940

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Changes in Shareholder's Equity

Year ended December 31, 2023, with comparative information for 2022

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance, January 1, 2022	\$ 12,380,617	3,893,103	(31,114)	17,827,893	34,070,499
Net earnings	—	—	—	2,191,539	2,191,539
Other comprehensive loss	—	—	343,401	—	343,401
Dividends	—	—	—	(525,000)	(525,000)
Balance, December 31, 2022	12,380,617	3,893,103	312,287	19,494,432	36,080,439
Net earnings	—	—	—	2,641,154	2,641,154
Other comprehensive income	—	—	(56,907)	—	(56,907)
Dividends	—	—	—	(1,700,000)	(1,700,000)
Balance, December 31, 2023	\$ 12,380,617	\$ 3,893,103	\$ 255,380	\$ 20,435,586	\$ 36,964,686

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

Statement of Cash Flows

Year ended December 31, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used in):		
Operations:		
Net earnings	\$ 2,641,154	\$ 2,191,539
Items not involving cash:		
Depreciation and amortization	2,622,971	2,562,723
Tax expenses	615,637	783,294
Tax expenses included in net movement in regulatory deferral account balances	134,740	232,637
Change in employee future benefit liabilities	(33,021)	(99,872)
Income taxes paid	(109,957)	(219,505)
Change in non-cash operating balances (note 16)	471,057	(1,884,131)
	6,342,581	3,566,685
Financing:		
Increase (decrease) in deferred revenue	202,249	(35,290)
Dividends paid	(1,700,000)	(525,000)
Repayment of long-term debt payable	(3,974,562)	(3,325,123)
Proceeds of long-term debt	2,925,432	3,938,099
	(2,546,881)	52,686
Investments:		
Net purchase of property, plant and equipment	(3,754,763)	(3,645,198)
Increase (decrease) in cash	40,937	(25,827)
Cash, beginning of year	7,117	32,944
Cash, end of year	\$ 48,054	\$ 7,117

See accompanying notes to financial statements.

KINGSTON HYDRO CORPORATION

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KINGSTON HYDRO CORPORATION

Notes to Financial Statements

Year ended December 31, 2023

1. Reporting entity:

Kingston Hydro Corporation (the "Corporation") is a rate-regulated, municipally-owned hydro distribution company incorporated under the laws of Ontario Canada. The Corporation is located in Kingston. The address of the Corporation's registered office is 85 Lappans Lane, Kingston, Ontario. The Corporation delivers electricity and related energy services to residential and commercial customers in Kingston. The Corporation is wholly-owned by the Corporation of the City of Kingston.

The financial statements are for the Corporation as at and for the year ended December 31, 2023.

2. Basis of preparation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

The financial statements were approved by the Board of Directors on April 24, 2024.

(b) Basis of measurement:

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

- (i) Where held, financial instruments at fair value through profit or loss, including those held for trading, are measured at fair value; and
- (ii) Contributed assets are initially measured at fair value.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

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

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

2. Basis of preparation (continued):

(d) Use of estimates and judgments (continued):

Information about critical accounting judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

- (i) Note 3(j) - leases: whether an arrangement contains a lease
- (ii) Note 3(j) - leases: discount rate, lease term, underlying leased asset value
- (iii) Note 5 - Property, plant and equipment;
- (iv) Note 11 - Employee future benefits;
- (v) Note 14 - Contingent liabilities.

(e) Rate regulation:

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

Rate setting:

Distribution revenue:

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

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

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

2. Basis of preparation (continued):

(e) Rate regulation (continued):

Rate setting (continued):

Distribution revenue (continued):

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

The Corporation filed a COS application in 2022 for new distribution rates effective January 1, 2023. The OEB issued its Decision and Rate Order on December 13, 2022. The GDP IPI-FDD for 2024 is 4.80%, the Corporation's productivity factor is 0.00% and the stretch factor is 0.15%. The OEB issued its Decision and Rate Order on December 14, 2023 approving a net increase of 4.65% to the 2023 rates.

Electricity rates:

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

3. Significant accounting policies:

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

(a) Financial instruments:

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

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

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

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

Hedging items and hedged items are presented in the financial statements in the same manner as other assets and liabilities. For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated other comprehensive income. Any gains or losses that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations.

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

(b) Revenue recognition:

Sale and distribution of electricity

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

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

Capital contributions

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

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

3. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Capital contributions (continued)

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

Other revenue

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

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

(c) Inventory:

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

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

(d) Property, plant and equipment:

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation. Consistent with IFRS 1, the Corporation elected to use the carrying amount as previously determined under Canadian GAAP as the deemed cost at January 1, 2014, the transition date to IFRS.

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

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

3. Significant accounting policies (continued):

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

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on the disposal of an item of PP&E are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of PP&E and are recognized net within other income in profit or loss.

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

Depreciation is calculated over the depreciable amount and is recognized in profit or loss on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. The depreciable amount is cost. Land is not depreciated. Construction-in-progress assets are not amortized until the project is complete and in service.

Depreciation is provided on a straight-line basis using the following annual rates:

Asset	Rates
Buildings and fixtures	1.67% to 3.33%
Substation equipment	1.67% to 5.00%
Distribution system	1.67% to 2.86%
Meters	2.50% to 6.67%
Tools and equipment	10.00% to 20.00%
System supervisory equipment	5.00%
Vehicle	8.33% to 12.50%
Application software	20.00%
Miscellaneous intangible plant	2.50%
Leasehold improvements	Over the term of the lease

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

3. Significant accounting policies (continued):

(e) Impairment:

(i) Financial assets:

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

(ii) Non-financial assets:

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

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

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

An impairment loss in respect of goodwill is not reversed. For assets other than goodwill, impairment recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(f) Provisions:

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

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

3. Significant accounting policies (continued):

(g) Regulatory deferral accounts:

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The debit balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

Regulatory deferral account credit balances are recognized if it is probable that future billings in an amount at least equal to the credit balance will be reduced as a result of rate-making activities. The offsetting amount is recognized in profit and loss. The credit balance is reduced by the amounts returned to customers as electricity is delivered to the customer at rates approved by the OEB for the return of the regulatory account credit balance.

The probability of recovery or repayment of the regulatory account balances are assessed annually based upon the likelihood that the OEB will approve the change in rates to recover or repay the balance. Any resulting impairment loss is recognized in profit and loss in the year incurred.

Regulatory deferral accounts attract interest at OEB prescribed rates in 2023, the rates were 4.73% from January 1, 2023 to March 31, 2023, increasing to 4.98% from April 1, 2023 to September 30, 2023, increasing to 5.49% from October 1, 2023 to December 31, 2023. (2022 - 0.57% from January 1, 2022 to March 31, 2022, 1.02% from April 1, 2022 to June 30, 2022, 2.20% from July 1, 2022 to September 30, 2022, 3.87% from October 1, 2022 to December 31, 2022).

(h) Employee future benefit liabilities:

The Corporation's employee future benefit liabilities represent its accumulated obligation to Utilities Kingston under a service agreement.

The Corporation accrues its obligations to Utilities Kingston for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of salary escalation, retirement ages of Utilities Kingston's employees and expected health care costs.

Utilities Kingston's employees participate in the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer public sector pension fund, as a defined benefit plan.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

3. Significant accounting policies (continued):

(i) Deferred revenue and assets transferred from customers:

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as deferred revenue. Deferred revenue represents the Corporation's obligation to continue to provide customers access to the supply of electricity, and is amortized to income on a straight-line basis over the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

(j) Leased assets:

At inception of a contract, the Corporation assesses whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Corporation with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

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

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

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

3. Significant accounting policies (continued):

(j) Leased assets (continued):

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

(k) Finance income and finance costs:

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

Finance charges comprise interest expense on borrowings, finance lease obligations, regulatory liabilities and unwinding of the discount on provisions and impairment losses on financial assets. Finance costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

(l) Income taxes:

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

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

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

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

3. Significant accounting policies (continued):

(l) Income taxes (continued):

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

4. Electricity industry regulation:

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the Ontario Energy Board ("OEB") powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from IFRS for enterprises operating in a non-rate regulated environment.

On December 13, 2022, the OEB approved the tariff or rates and charges, effective January 1, 2023, for electricity consumed or estimated to be consumed on or after January 1, 2023. In addition, the OEB ordered the Corporation to establish certain deferral and variance accounts to track revenues and expenses for years 2023 and onward that may become subject to disposition in the future.

On December 14, 2023, the OEB approved new distribution rates, effective January 1, 2024.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

5. Property, plant and equipment:

(a) Cost or deemed cost:

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
Balance, January 1, 2023	\$ 2,170,092	\$ 80,017,894	\$ 1,827,649	\$ 60,213	\$ 84,075,848
Additions	87,159	3,209,941	323,009	134,654	3,754,763
Disposals/retirements	—	—	—	—	—
Balance, December 31, 2023	\$ 2,257,251	\$ 83,227,835	\$ 2,150,658	\$ 194,867	\$ 87,830,611

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
Balance, January 1, 2022	\$ 1,675,479	\$ 77,019,728	\$ 1,582,537	\$ 152,908	\$ 80,430,652
Additions	494,613	2,998,166	245,112	—	3,737,891
Disposals/retirements	—	—	—	(92,695)	(92,695)
Balance, December 31, 2022	\$ 2,170,092	\$ 80,017,894	\$ 1,827,649	\$ 60,213	\$ 84,075,848

(b) Accumulated depreciation:

	Land and buildings	Distribution equipment	Other fixed assets	Total
Balance, January 1, 2023	\$ 241,533	\$ 17,674,321	\$ 1,198,006	\$ 19,113,860
Depreciation charge	53,269	2,307,368	262,334	2,622,971
Disposals/retirements	—	—	—	—
Balance, December 31, 2023	\$ 294,802	\$ 19,981,689	\$ 1,460,340	\$ 21,736,831

	Land and buildings	Distribution equipment	Other fixed assets	Total
Balance, January 1, 2022	\$ 195,544	\$ 15,413,995	\$ 941,598	\$ 16,551,137
Depreciation charge	45,989	2,260,326	256,408	2,562,723
Disposals/retirements	—	—	—	—
Balance, December 31, 2022	\$ 241,533	\$ 17,674,321	\$ 1,198,006	\$ 19,113,860

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

5. Property, plant and equipment (continued):

(c) Carrying amounts:

	Land and buildings	Distribution equipment	Other fixed assets	Construction -in- Progress	Total
At December 31, 2023	\$ 1,962,449	\$ 63,246,146	\$ 690,318	\$ 194,867	\$ 66,093,780
At December 31, 2022	\$ 1,928,559	\$ 62,343,573	\$ 629,643	\$ 60,213	\$ 64,961,988

6. Note payable to City of Kingston:

In consideration for transfer of the City of Kingston's electricity distribution business, the City of Kingston took back a note payable on January 1, 2000, for an amount equivalent to 50% of the value of net assets transferred. The note payable amounts to \$10,880,619 (2022 - \$10,880,619). As part of the 2011 Kingston Hydro distribution rate rebasing application, the Ontario Energy Board ordered that Kingston Hydro use a deemed debt rate of 5.87% per annum. This rate became effective May 1, 2011. The note payable has no fixed terms of repayment and is unsecured. It is not the intent of the City of Kingston to demand repayment before January 1, 2025. Interest charges on the note payable for the 2023 fiscal year were \$638,692 (2022 - \$638,692).

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

7. Bank loans and long-term debt:

(a) Long-term debt:

	2023	2022
Committed reduced term facility (single draw), fixed rate of 2.12%, due December 2030 (facility 3)	\$ 1,696,959	\$ 1,847,710
Committed reduced term facility (single draw), fixed rate of 2.02%, due December 2027 (facility 3)	2,404,981	2,471,304
Committed reduced term facility (single draw), fixed rate of 3.93%, due February 2026 (facility 6)	1,111,597	1,224,854
Committed reduced term facility (single draw), fixed rate of 3.92%, due December 2042 (Infrastructure Ontario)	2,654,341	2,746,989
Committed reduced term facility (single draw), fixed rate of 3.27%, due December 2029 (facility 3)	2,748,354	2,814,379
Committed reduced term facility (single draw), fixed rate of 3.15%, due, December 2028 (facility 3)	1,815,956	1,872,310
Interest rate swap loan, fixed rate of 3.01%, due December 4, 2024 (facility 3)	1,832,206	1,890,087
Interest rate swap loan, fixed rate of 2.72%, due December 12, 2023 (facility 3)	—	3,007,927
Interest rate swap loan, fixed rate of 3.92%, due November 15, 2025 (facility 3)	2,253,797	2,306,175
Capital loan, fixed rate of 3.15%, due December 18, 2024 (facility 3)	867,657	891,485
Interest rate swap loan, fixed rate of 3.21%, due December 8, 2031 (facility 3)	959,025	979,841
Interest rate swap loan, fixed rate of 3.23%, due December 9, 2030 (facility 3)	1,193,587	1,232,695
Committed reduced term facility (single draw), fixed rate of 5.24%, due December 2025 (facility 3)	1,577,388	1,600,000
Committed reduced term facility (single draw), fixed rate of 2.842%, due April 2032 (facility 3)	1,950,873	2,155,528
Committed reduced term facility (single draw), fixed rate of 5.397%, due December 2026 (facility 3)	1,750,000	—
Committed reduced term facility (single draw), fixed rate of 5.273%, due December 2028 (facility 3)	1,175,432	—
	25,992,153	27,041,284
Less:		
Interest rate swap loan, fixed rate of 2.72%, due December 12, 2023 (facility 3)	—	3,007,928
Interest rate swap loan, fixed rate of 3.01%, due December 4, 2024 (facility 3)	1,832,206	—
Capital loan, fixed rate of 3.15%, due December 18, 2024 (facility 3)	867,657	—
Current portion of long-term debt	979,351	966,779
	3,679,214	3,974,707
	\$ 22,312,939	\$ 23,066,577

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

7. Bank loans and long-term debt (continued):

(a) Long-term debt (continued):

Principal payments on long-term debt based on scheduled repayments are as follows:

2024	\$ 3,679,214
2025	3,752,892
2026	2,704,291
2027	2,337,306
2028 and thereafter	13,518,450
	<hr/>
	\$ 25,992,153

- (b) To comply with requirements of the IESO, as a supplier of energy to the wholesale electricity market, the Corporation is required to post security determined in relation to the Corporation's credit rating. A letter of credit has been provided in the amount of \$5,301,839 as at December 31, 2023 (2022 - \$5,301,839).

Bank indebtedness is secured by a general security agreement representing a first charge on all the Corporation's assets.

8. Pension agreements:

On behalf of their employees who provide services to the Corporation, 1425445 Ontario Limited (operating as Utilities Kingston), a related corporation, makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Total contributions by that corporation to OMERS for 2023 were \$2,242,700 (2022 - \$2,025,785).

The OMERS plan has a deficit of \$4.2 billion as at December 31, 2023 (2022 - \$6.7 billion). If other entities cease to participate in the plan, the Corporation may have an obligation to fund their share of the shortfall.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

9. Regulatory deferral account balance:

The following is a reconciliation of the carrying amount for each class of regulatory deferral account balances:

	2022	Balances arising in the period	Recovery/ reversal	2023	Remaining recovery period (years)
Regulatory deferral account debit balances					
Group 1 deferred accounts	\$ 2,286,606	\$ 282,087	\$ (688,962)	\$ 1,879,731	–
Regulatory asset recovery account	141,351	(584,126)	641,319	198,544	–
Other regulatory accounts	69,462	(26,861)	47,643	90,244	–
Deferred income taxes	3,834,555	508,454	–	4,343,009	–
Total amount related to regulatory deferral account debit balances	\$ 6,331,974	\$ 179,554	\$ –	\$ 6,511,528	

	2022	Balances arising in the period	Recovery/ reversal	2023	Remaining recovery period (years)
Regulatory deferral account credit balances					
Group 1 deferred accounts	\$ (1,487,298)	\$ (140,249)	\$ –	\$ (1,627,547)	–

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

Settlement of the Group 1 deferral and variance accounts is done on an annual basis. Kingston Hydro Corporation's 2024 Price Cap Incentive Rate-setting rate application (EB-2023-0034) included a request to the OEB for disposition of the Corporation's deferral and variance account Group 1 balances. As part of the decision and rate order issued by the OEB on December 14, 2023, the OEB approved the disposition of a debit balance of \$1,404,381 as of December 31, 2022, including interest projected to December 31, 2023 for Group 1 accounts on a final basis. This approval is reflected in balances above.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

10. Related party transactions:

(a) 1425445 Ontario Limited (operating as Utilities Kingston):

During the year, the Corporation paid \$12,186,406 (2022 - \$11,874,868) to 1425445 Ontario Limited (operating as Utilities Kingston) ("Utilities Kingston") for support services and capital works. Utilities Kingston is a shared-services business incorporated to provide support services to both the Corporation and to various infrastructure businesses of the City of Kingston. There was no balance owing at December 31, 2023 with respect to these transactions.

(b) City of Kingston:

During the year, the Corporation contracted for certain financial services from the City of Kingston. As at December 31, 2023, the Corporation had an amount due from the City of Kingston representing the cumulative net balance of cash receipts and disbursements processed by the City of Kingston on behalf of the Corporation, in the amount of \$6,288,905 (2022 - \$7,586,215). The City of Kingston pays the Corporation interest on the balance at a rate of prime minus 1.65%.

11. Employee future benefit liabilities:

(a) Pension plan:

The former Hydro-Electric Commission of the Corporation of the City of Kingston entered into agreements in 1995 with a number of former employees on non-contributory defined benefit pension plans. An actuarial report of the accrued pension liability indicates that the present value of the accrued pension benefits as at December 31, 2023 is \$147,577 (2022 - \$156,352).

(b) Extended health care, dental and life insurance benefits:

The Corporation has an obligation with respect to post employment extended health care, dental and life insurance benefits that are provided to employees of Utilities Kingston through the service agreement with Utilities Kingston. An independent actuarial study of the post-retirement and post-employment benefits has been undertaken for Utilities Kingston. The most recent actuarial valuation of the future benefit liability for Utilities Kingston was completed as at December 31, 2023. The Corporation is responsible for approximately 25% of the post-employment benefit liability of Utilities Kingston.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

11. Employee future benefit liabilities (continued):

(b) Extended health care, dental and life insurance benefits (continued):

These accrued benefit liabilities at December 31 include the following components:

	2023	2022
Accrued benefit liabilities, January 1	\$ 576,638	\$ 786,271
Service cost	71,229	(122,876)
Payments	(109,124)	(86,757)
Accrued benefit liabilities, December 31	\$ 538,743	\$ 576,638

These benefits will be paid to Utilities Kingston as future benefit obligations are paid by Utilities Kingston to its employees as part of the support services contract with the Corporation.

(c) Accumulated sick leave:

Utilities Kingston provides accumulated sick leave benefits to all its employees. Under the plan, the sick leave days accumulate from year to year but are non-vested. The Corporation is responsible for approximately 25% of the accrued benefit liability of Utilities Kingston. The amount of the Corporation's accrued benefit liability for accumulated sick leave that does not vest has been actuarially determined as at December 31, 2023 and is \$205,822 (2022 - \$192,172).

(d) Future benefit liabilities:

	2023	2022
Future benefit liabilities are comprised of:		
Pension plan	\$ 147,577	\$ 156,352
Health, dental and life insurance	538,743	576,638
Accumulated sick leave	205,822	192,172
	2 \$ 925,162	

12. Share capital:

	2023	2022
Authorized:		
Unlimited Class A common shares		
Issued and outstanding:		
120 Class A common shares	\$ 12,380,617	\$ 12,380,617

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

13. General liability insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE") which is a pooling of general liability risks. Members of MEARIE would be assessed, on a pro-rata basis, based on the total of their respective deposit premiums should losses be experienced by MEARIE that are in excess of their reserves and supplemental insurance, for the years in which the Corporation, and the former Hydro-Electric Commission, has been a member. The Corporation has not been made aware of any additional assessments.

14. Contingent liabilities:

The nature of the Corporation's activities is such that there may be litigation pending at any time. With respect to claims at December 31, 2023 against the Corporation, management believes there are valid defenses and appropriate insurance coverage in place. In the event any claims specifically are successful, management believes that such claims are not expected to have a material effect on the financial position of the Corporation.

No provision has been made in these financial statements in respect of any of the above contingent liabilities as management has assessed the risk of loss to be remote.

15. Payments in lieu of corporate income taxes:

The provision for amounts in lieu of corporate income taxes ("PILs") differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

	2023	2022
Federal and Ontario statutory income tax rate	26.5%	26.5%
Earnings before provision for PILs	\$ 3,256,791	\$ 2,974,833
Provision for PILs at statutory rate	\$ 863,050	\$ 788,331
Change resulting from:		
Tax effect of regulatory assets and liabilities	(247,413)	(170,988)
Tax effect of other miscellaneous adjustments	—	165,951
Provision for PILs	\$ 615,637	\$ 783,294
Effective income tax rate	18.90%	26.33%

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

15. Payments in lieu of corporate income taxes (continued):

Tax effects of temporary difference that give rise to future tax assets are as follows:

	2023	2022
Shortfall of tax values over accounting values		
of fixed assets	\$ (3,136,867)	\$ (2,763,152)
Future benefit liabilities	236,418	245,167
Regulatory assets	(1,151,471)	(1,016,731)
Derivative asset	(20,944)	(41,461)
	<u>\$ (4,072,864)</u>	<u>\$ (3,576,177)</u>

16. Change in non-cash operating balances:

	2023	2022
Decrease (increase) in due from City of Kingston	\$ 1,297,310	\$ 1,190,613
Decrease in miscellaneous accounts receivable	(236,976)	1,513,117
Decrease (increase) in billed revenue receivable	(1,330,555)	(1,271,995)
Increase in unbilled revenue	369,884	(2,162,753)
Decrease (increase) in inventory	129,380	(526,062)
Increase in prepaid expenses	170,791	(58,761)
Increase in accounts payable and accrued liabilities	208,819	143,045
Decrease in due to retailers	(48)	(2,355)
Increase (decrease) in deposits payable	(98,243)	(488,556)
Decrease in deferred revenue	—	(424,318)
Change in regulatory deferral account debit balances	(179,554)	(573,150)
Change in regulatory deferral account credit balances	140,249	777,044
	<u>\$ 471,057</u>	<u>\$ (1,884,131)</u>

17. Financial instruments and risk management:

(a) Fair value disclosure:

Cash and cash equivalents are measured at fair value. The carrying values of receivables and accounts payable and accrued charges approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

17. Financial instruments and risk management (continued):

(b) Financial risks:

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

(i) Credit risks:

Financial instruments carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Kingston.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net earnings. Subsequent recoveries of receivables previously provisioned are credited to net earnings. The balance of the allowance for impairment at December 31, 2023 is \$4,340,661 (2022 - \$4,088,319).

(ii) Derivative instruments:

At December 31, 2023, the Corporation has a series of interest rate swap contracts totaling \$1,832,206 (2022 - \$4,898,014) that were used to convert floating rate debt to fixed rate debt. These swaps qualify as cash flow hedges. The Corporation's cash flow hedge exposure at December 31, 2023 equals about 7% (2022 - 18%) of total long-term debt.

The unrealized gain or loss on these contracts is included as a component of other comprehensive income (loss) for the period. As of December 31, 2023, an asset of \$79,035 (2022 – an asset of \$156,459) is included on the balance sheet related to these contracts.

18. Capital risk management:

The Corporation's objectives when managing capital are to safeguard its assets while at the same time maintain investor and creditor confidence, and to sustain future development of the business.

The Corporation includes shareholder's equity and long-term debt including the note payable to the City of Kingston in the definition of capital. To maintain or adjust the capital structure, the Corporation may issue new shares, issue new debt with different characteristics, acquire or dispose of assets, or adjust the amount of cash and short-term investment balances held.

KINGSTON HYDRO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2023

18. Capital risk management (continued):

There were no changes in the Corporation's approach to capital management during the period. As part of its lending arrangements, the Corporation is subject to various financial covenants, including debt service coverage ratio and debt to capitalization ratio.

In addition, the note payable to the City of Kingston is subordinated to the Corporation's bank in favour of the bank loan.



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