ENTEGRUS INC.
2024 Annual General Meeting

This report provides a 2023 operational review of Entegrus Inc. Entegrus Powerlines Inc. (EPI) and St Thomas Energy Inc. (STEI) merged on April 1, 2018. As a result of the merger the shareholder structure of Entegrus Inc. is as follows: The Municipality of Chatham-Kent 71.5% of shares, The City of St Thomas 20.6% of shares and Corix Infrastructure Inc. has 7.9% of shares.

The Evolution of Entegrus

As a result of Bill 35, the Energy Competition Act, 1998 enacted by the Province of Ontario to introduce competition in the electricity market, it was necessary to incorporate and reorganize the former Public Utilities Commissions.

Entegrus Inc. (EI), originally Chatham-Kent Energy Inc., and its wholly owned subsidiaries Entegrus Powerlines Inc. (EPI) and Entegrus Services Inc. (ESI) were incorporated on September 22, 2000 under the Business Corporations Act – Ontario (OBCA).

Since the original incorporation Entegrus has two additional shareholders; in 2008, EI issued shares representing 10% of the total outstanding shares of EI to Corix Energy Inc. (Corix); and in 2018 St Thomas Energy Inc. merged with Entegrus Powerlines Inc. which resulted in the City of St Thomas becoming a shareholder of EI. The current shareholdings are:

The Municipality of Chatham-Kent	71.5%
Corix Infrastructure (formerly Corix Energy)	7.9%
City of St Thomas	20.6%

Since 2000 EI has grown through purchases and mergers as follows:

2005 Purchase Middlesex Power
2009 Purchase Dutton Hydro and Newbury Power
2018 Merger with St Thomas Energy

The current service territory for EI is 17 communities in SW Ontario and over 63,000 customers.

EPI is the core and largest business for EI. ESI has built a data center in Chatham-Kent with strong anchor customers which has delivered a steady stream of returns. EI also incorporated two other subsidiaries; Entegrus Transmission Inc. (ETI) which owned a utility corridor and business purpose was to provide services to wind developers in Chatham-Kent; and the other subsidiary is Entegrus Renewable Energy Inc. (EREI) which has a partnership interest in a wind development in Chatham-Kent. The utility corridor has since been transferred to ESI in 2022.

More information regarding the evolution of EI is provided in Appendix A.

Vision, Mission and Core Values
Entegrus' Vision, Mission and Core Values are important guiding principles for the corporation and all of our employees in doing what is right and is best for all stakeholders. The Entegrus Vision, Mission and Core Values are:

<u>Vision:</u>
To be an industry leader in all we do.

<u>Mission:</u>
To provide safe, reliable delivery of electricity and related services, in an environmentally and fiscally responsible manner. To provide exceptional service to our customers, support the communities we serve and rewarding growth opportunities for our employees.

<u>Core Values:</u>
Safety: Safety first in everything we do.

Inspired & Empowered People: Having a workforce of inspired and empowered people who are passionate about their jobs.

Customer and Community Focus: Exceeding the needs of our customers and the communities we serve, by having a customer and community focus.

Operational Excellence: Achieving operational excellence by always striving for continuous improvement.

Sustainable Growth: Delivering sustainable growth for our stakeholders through wise investments.

Health and Safety
EI believes that the safety culture starts from the top and we practice this through the Board Environmental, Health and Safety (H&S) Committee, crew site visits by a Board committee member, H&S is the first item on Board meeting agenda, and regular crew site visits by the executives and management team.

EI stresses with our employees to be proactive when it comes to H&S rather than reactive. Therefore, we have several programs that strive to provide information and implement change before an issue becomes harmful. Three such programs are; safety concerns (85 received), safety alerts (0 issued) and detailed crew visits (334 performed).

Reporting incidents and accidents is an important feature of a strong H&S program, no matter how small they are. In 2023 we had 20 incidents and accidents reported with no occurrence being of a significant or severe nature.

EI has worked towards the Certificate of Recognition (COR) in H&S from the Industrial Health and Safety Association (IHSA) for many years now. In 2023, Entegrus received a Letter of Good

Standing from the IHSA for both Entegrus Powerlines Inc. and Entegrus Inc.

Community focus
EI and the employees believe that we have a responsibility to support the communities we serve. The support provided may be financial, personal time and time during work hours. The pandemic limited the opportunities for our employees to be directly active with supporting the communities, which required them to be creative and find other ways to continue providing the support.

Entegrus continues to focus our support to those in need.

Some of the other groups that were supported in 2023 are:

- Ontario Special Olympics St. Thomas Soccer Club
- Hospice of Elgin
- Salvation Army Outreach Team – St. Thomas
- Salvation Army - Chatham-Kent
- Chatham-Kent Health Alliance Foundation
- Children's Treatment Center of Chatham-Kent
- Habitat for Humanity Chatham-Kent

The total support that EI has provided to the communities we serve was over $400,000. These costs are not included in the rates that are approved by the Ontario Energy Board. EI provides the support to the communities as part of being a good corporate citizen.

Customers
The Southwest region continued to experience strong residential customer growth in 2023. New home construction was on the rise in all communities that we serve. In addition, there were several multi-unit projects in each of the main service territories. Calendar year 2023 was the third year in a row with this level of residential customer growth. It is expected that 2024 customer growth will slow versus the prior years.

The number of customers and year-over-year change by customer type are as follows:

EPI - All Areas	2022	2023	Difference
Residential	55,948	56,526	578
General Service	6,332	6,386	54
Total	**62,280**	**62,912**	**632**

Employees
EI continues to experience turnover due to retirements. The turnover has created some challenges for EI, especially when we lose the knowledge of long-term employees. While there are challenges it also provides an opportunity for EI to refresh our talent at a time that the industry is continuing to evolve, and the expectations of customers are growing. The new talent will assist in delivering our services differently in order to meet the many new demands of the industry and our customers.

In 2023, there were 7 internal promotions, 18 external hires plus additional contractor and co-op term placements. EI continues to see a decrease in the average age of employee.

To assist in the recruiting process, EI continues to support the St. Clair College Lineman Program, and is building a relationship with Conestoga College Lineman Program. In addition, EI actively hires co-op students from many post-secondary institutions in the region.

Capital Investment Program

EPI continues to significantly reinvest and modernize the distribution system. This along with strong customer growth resulted in a total capital spend of $14.4M in 2023. The two largest categories of capital investment were system renewal of approximately $9.1M and system access of approximately $ 2.5M ($5.6M gross less customer/developer contributions of $3.1M). System renewal includes many conversion projects which involve the elimination of the antiquated lower voltage system and replacing it with a more modern 27,600-volt system. Conversion projects are key to our asset revitalization strategy and allow EPI to more efficiently deploy automated equipment and evolve the system to a smart grid over time. The result is a more robust and reliable system that will be able to more effectively respond to adverse events by having enhanced fault locating capabilities; automation that enables the re-routing of power to minimize outages and restore power more quickly to our customers; and improved voltage control and stability for customers. A more modern distribution system will also enable our customers to take advantage of electrification opportunities such as; energy storage with the use of batteries; generating their own electricity from solar; and investing in an electric vehicle with their own charging stations at their residence or business.

Some of the renewal capital projects completed in 2023 were:

- Chatham-Kent projects
    - M8 Refurbishment
    - Gregory Drive 6F05 conversion
    - 1F12 and 1F13 conversion – Downtown Chatham
    - Victoria Ave Project
    - Keil Dr. S. Feeder Tie
- Strathroy projects
    - Beattie St. Substation 24 Conversion
    - Agnes Industrial Park
    - Drury Lane Pole Relocation
- St Thomas projects
    - Leger Ave
    - Southdale / Sunset Feeder Tie

The system access investments relate to continued customer growth that has been experienced in the service territories. This type of capital investment is partially funded by customer/developer contributions. While customer growth is exciting and in the long run will be a benefit to EI, the capital investments can create some short-term cash flow challenges as we continue to require the funds to replace the old distribution system.

Ontario Energy Board Regulatory Activities
The Ontario Energy Board (OEB) regulates EPI for items such as rates that are charged to customers and the level of service we provide. EPI is required to provide a significant amount of reporting. EPI continues to have two rate zones, former Entegrus and former St Thomas Energy. This will continue to be the case until 2026 when a full cost of service rate application will be filed. In 2023, the distribution rates increased by 3.7% which is made up of a 3.7% inflation factor and an efficiency reduction of 0.0% due to EPI's Group 1 efficiency ranking.

There are two main reporting tools that the OEB and EPI use in measuring service levels:

- Scorecard 2023 (Appendix B)
- Efficiency ranking (Appendix C)

The OEB scorecard for 2023 was another strong result. In 2023, Entegrus met or exceeded all OEB performance targets.

EPI is proud to be included in the highest efficiency cohort, Group 1. To achieve this efficiency ranking the total costs (OM&A and capital) for EPI are at least 25% lower than benchmarked by OEB consultants. We ranked 14th out of 55 distributors in terms of cost performance results versus benchmark.

Customer Service Department
The customer service department continues to leverage technology investments to deliver a higher level of service to the customers. The focus has been and continues to be around assisting customers by using technology to communicate with EPI and allow them more options to obtain information after hours or without contacting the office by phone.

EPI now has over 39,000 customers signed up for its online customer portal, representing approximately 60% of its customer base and an increase of 20% over 2022. Also, in 2023, there were over 16,000 emails from customers that were responded to. Providing customers with the option to communicate with us through email and the web portal allows customers to send messages at their convenience 24/7 and will reduce the number of phone calls received.

Live Chat functions with customers were rolled out in December 2021. This function allows customers to communicate electronically with our employees in real time. In 2023, EPI received over 1,800 live chats from customers, an increase of 67% over 2022.

EPI annually reports two different customer survey results. The 2023 results are as follows: first call resolution which scored 75%, and customer satisfaction which scored 94%.

Outside Operations Department
The outside operations department was very busy in 2023 as new homes and commercial growth continued at a strong pace. Large provincial initiatives such as the St. Thomas Volkswagen plant, electrification of transportation and the target to build 1.5 million new homes required innovation and the implementation of new technologies (GIS, SCADA, DER's) to meet customer needs. Additional focus was made on the attraction and training of staff to perform engineering, construction and locate work to ensure that we were responsive to customer growth

and electrification needs with a safe, flexible and reliable system.

Entegrus Services Inc (ESI)
Just prior to the merger of EPI and St. Thomas Energy Inc., ESI purchased the St Thomas based fibre business from Ascent Energy Services Inc. (an affiliate of St Thomas Energy Inc.). ESI made great progress growing the business and in making the system more resilient and reliable. In 2022, ESI decided to monetize the fibre business and was successful in finding a strong local company to purchase the system. The sale provided a very good return which resulted in an increase to the 2022 EI dividend of $300,000.

ESI's remaining core business is a data centre located in Chatham. In 2023, the ESI data centre continued to provide reliable service to a stable customer base while maintaining consistent financial results.

ESI also has beneficial ownership of a utility land corridor that supports renewable generation in Chatham-Kent and earns easement revenue. In 2022, ESI which was able to find another partner for the corridor. The subsequent negotiations resulted in a significant financial return for the year. This additional financial return resulted in a special dividend of $3,000,000 in 2023 to EI shareholders.

Entegrus Renewable Energy Investment (EREI)
EI invested in the North Kent Wind (NKW) development in 2018. NKW is a 100 Mw capacity wind development in Chatham-Kent. The cash disbursements to partners fluctuate from time to time but overall are similar to the original forecasts from the majority partner. For 2023, the disbursements were $81,000 less than forecast.

The financial return since initial investment in the limited partnership wind investment continues to exceed expectations.

Financial Statements
A copy of the audited consolidated financial statements for EI as at December 31, 2023 are provided along with the Supplemental Income Statement (Appendix D). The audited consolidated financial statements were approved by the Entegrus Inc. Board at the April 18, 2024 Board meeting.

The following are summary comments on the 2023 financial results:

Financial Results (Supplemental Consolidated Income Statement)

1. The 2023 net earnings exceeded target earnings but were less than 2022 due to the prior year fibre business and land corridor easement sales. The core business of distributing electricity continues to have strong growth in customers in all service areas.

2. Gross margin for 2023, from the core business is higher by 6.7% due to residential customer growth, significant subdivision and commercial growth in all service areas as well as a rate increase of 3.7%.

3. Expenses were increased by approximately 7% due to increased activity to support customer requests such as locates, storm recovery and additional investments in maintenance programs, higher asset depreciation and increased interest cost.

4. Net property plant and equipment increased by approximately 4.9%, which improves the reliability of the distribution system over time and directly influences the valuation of the EI.

5. The financial capital structure for EI remains strong as the debt level remains below the OEB deemed level of 60% debt and 40% equity.

6. Entegrus declared and paid the largest dividend in its history as committed to do in the Business Plan

EI once again was able to meet all its financial commitments to the shareholders and stakeholders, while making strategic investments in the core distribution business and strategic investments to expand the scope of the company.

Prepared by:

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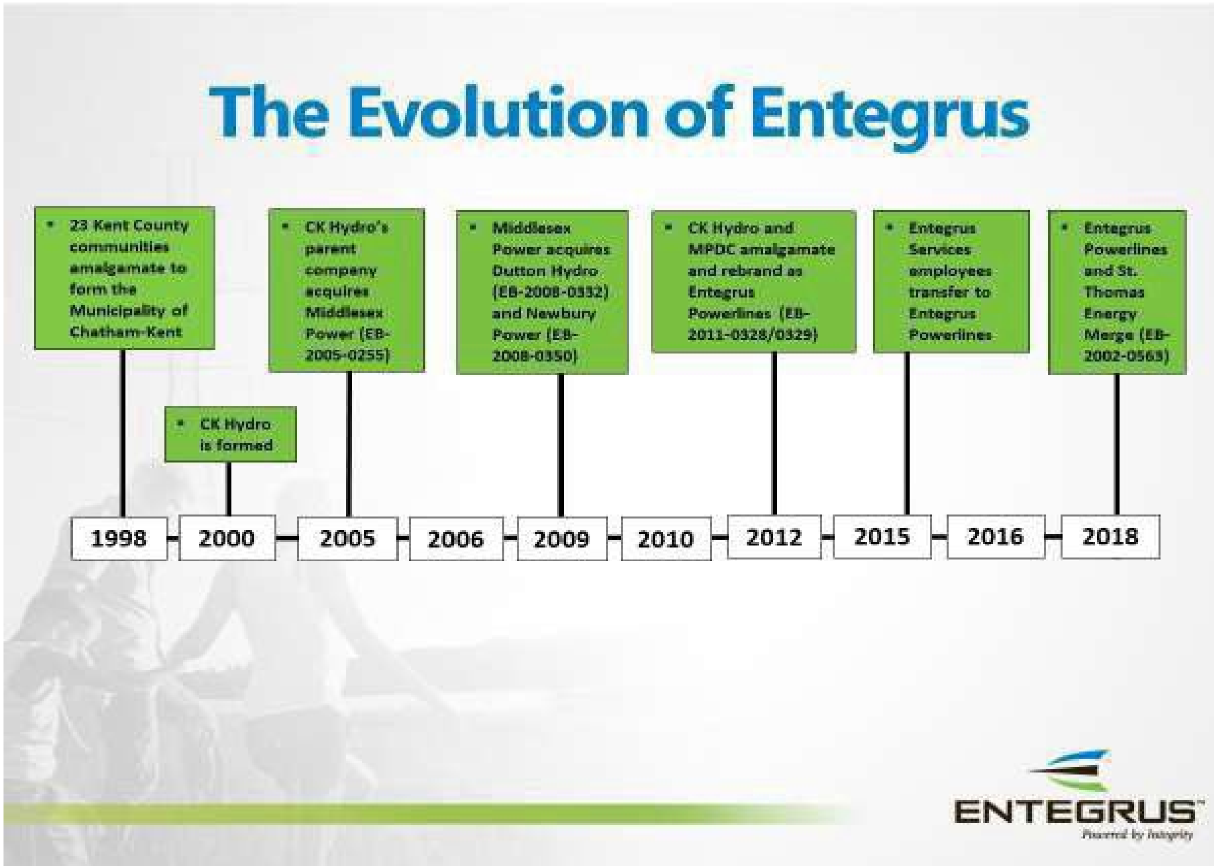
Appendix A – Entegrus Evolution



Appendix B – OEB 2023 Scorecard - Entegrus Powerlines Inc.

Scorecard - Entegrus Powerlines Inc.

8/15/2024

Performance Outcomes	Performance Categories	Measures		2019	2020	2021	2022	2023	Trend	Target: Industry	Target: Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	**Service Quality**	New Residential/Small Business Services Connected on Time		98.04%	96.91%	97.60%	98.55%	97.48%	↑	90.00%	
		Scheduled Appointments Met On Time		99.53%	99.83%	99.71%	100.00%	99.96%	↑	90.00%	
		Telephone Calls Answered On Time		65.61%	79.11%	81.26%	68.42%	83.75%	↑	65.00%	
	Customer Satisfaction	First Contact Resolution		79	74	85	81	75			
		Billing Accuracy		99.90%	99.81%	99.91%	99.91%	99.95%	↑	98.00%	
		Customer Satisfaction Survey Results		94	93	92	93	94			
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	**Safety**	Level of Public Awareness		81.00%	81.00%	78.00%	78.00%	79.00%			
		Level of Compliance with Ontario Regulation 22/04 [1]		C	C	C	C	C	→		C
		Serious Electrical Incident Index	Number of General Public Incidents	1	4	1	1	0	↓		2
			Rate per 10, 100, 1000 km of line	0.805	1.297	0.329	0.311	0.000	↓		0.610
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted [2]		1.73	1.47	1.09	1.76	1.31	↓		1.42
		Average Number of Times that Power to a Customer is Interrupted [2]		1.02	1.18	1.02	1.18	0.93	↓		1.01
	Asset Management	Distribution System Plan Implementation Progress		85.6	112.4	20.2	40.6	61.9			
	Cost Control	Efficiency Assessment		2	2	1	1	1			
		Total Cost per Customer [3]		$566	$553	$558	$627	$713			
		Total Cost per Km of Line [3]		$10,982	$11,008	$10,670	$11,977	$13,731			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	**Connection of Renewable Generation**	New Micro-embedded Generation Facilities Connected On Time		100.00%	100.00%	100.00%	100.00%	100.00%	→	90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	**Financial Ratios**	Liquidity: Current Ratio (Current Assets/Current Liabilities)		1.41	1.23	1.06	1.08	1.08			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		1.20	1.30	1.24	1.25	1.39			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	9.19%	9.19%	9.19%	9.19%	9.19%			
			Achieved	10.58%	8.23%	9.29%	7.85%	8.79%			

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

Legend:

5-year trend: ↑ up, ↓ down, → flat

Current year: target met, target not met

2023 Scorecard Management Discussion and Analysis ("2023 Scorecard MD&A")

The link below provides a document titled "Scorecard - Performance Measure Descriptions" that has the technical definition, plain language description and how the measure may be compared for each of the Scorecard's measures in the 2023 Scorecard MD&A:

https://www.oeb.ca/oeb/_Documents/scorecard/Scorecard_Performance_Measure_Descriptions.pdf

Scorecard MD&A - General Overview

Entegrus Powerlines Inc. ("Entegrus") owns, operates and manages the assets associated with the distribution of electrical power to approximately 62,910 customers in 17 Southwestern Ontario communities. The roots of Entegrus extend back to the formation of Chatham Hydro in 1914.

The communities serviced by Entegrus in 2023 are: Blenheim, Bothwell, Chatham (including a portion of the Township of Raleigh known as the "Bloomfield Business Park"), Dresden, Dutton, Erieau, Merlin, Mount Brydges, Newbury, Parkhill, Ridgetown, Strathroy, Thamesville, Tilbury, Wallaceburg, Wheatley and St. Thomas. Additional details are provided in the Entegrus Electricity Distribution License (ED-2002-0563).

On April 1, 2018, Entegrus amalgamated with St. Thomas Energy Inc. ("STEI"), a licensed electricity distributor operating within the City of St. Thomas. The merged electricity distributor continues as Entegrus. The scorecard results discussed herein relate to the combined 2023 results.

Entegrus monitors the scorecard measures on an ongoing basis and continuously seeks opportunities to improve its performance. The company is committed to meeting the needs of its customers both today and in the future. Entegrus is confident that its focus on customer outcomes will allow it to continue to meet or exceed performance targets.

Entegrus is committed to continuous year over year performance improvement for 2024 and beyond.

Service Quality

- **New Residential/Small Business Services Connected on Time**
  In 2023, Entegrus connected 97.48% of 1,666 eligible low-voltage residential and small business customers (those utilizing connections under 750 volts) to its system within the five-day timeline prescribed by the OEB. For the five-year period from 2019 to 2023, Entegrus has consistently performed better than the industry target of 90% in this area.

- **Scheduled Appointments Met on Time**
  Entegrus scheduled 2,700 appointments in 2023 to complete work requested by customers (where customer presence is required). Entegrus met 99.96% of these appointments on time. For the five-year period from 2019 to 2023, Entegrus has consistently performed better than the industry target of 90% in this area.

- **Telephone Calls Answered on Time**
  In 2023, Entegrus Customer Service received 47,269 calls from its customers – an average of over 187 calls per working day. In 83.75% of instances, Entegrus answered the call within 30 seconds or less. This result exceeds the OEB-mandated 65% target for timely call response.

  Entegrus staffs its Customer Service Call Centre to meet the 65% target, while balancing the need to prudently deploy resources in all areas of the business. For the five-year period from 2019 to 2023, Entegrus has consistently met the industry target of 65% in this area.

Customer Satisfaction

- **First Contact Resolution**
  Entegrus engages a third-party service provider to conduct ongoing First Contact Resolution ("FCR") surveys. FCR traditionally represents a percentage of instances where a customer's need is addressed at the time of their first point of contact on the matter. However, FCR can be measured in a variety of ways and further regulatory guidance will be necessary in order to achieve meaningful, consistent and comparable information across electricity distributors.

  Entegrus believes that best practice is to measure FCR based on ongoing third-party surveys of a random sample of those customers who have recently contacted Entegrus. Accordingly, Entegrus' FCR is measured based on live agent transactional phone surveys conducted by a third-party service provider. To facilitate these surveys, throughout the year Entegrus provides the third-party service provider with a report of all customers who had contacted Entegrus Customer Service by telephone within the previous two weeks.

The third-party service provider's telephone agents, in turn, contact and survey Entegrus customers. Customers are asked to rate various facets of their customer experience and are also asked if their issue (i.e. their reason for calling) was resolved on their first contact to Entegrus. In 2023, the service provider's agents surveyed a random sample of 412 Residential and Small Business customers from January to October 2023. Of the 412 customers surveyed (the denominator), 308 customers (the numerator) indicated that their issue was resolved on the first call to Entegrus. This equates to the reported FCR result of 75%.

Entegrus continues to maintain its strong FCR results by implementing recommendations from the service provider. Accordingly, Entegrus has continued to engage the third-party service provider to assist with ongoing FCR measurement and customer service strategy improvements on specific issue types.

- **Billing Accuracy**
  In 2023, Entegrus issued 766,062 bills and achieved a billing accuracy of 99.95%. This compares favourably to the prescribed OEB target of 98%.

  Entegrus continues to monitor its billing accuracy results and processes to identify opportunities for improvement.

- **Customer Satisfaction Survey Results**
  Entegrus engages a third-party service provider to conduct annual Customer Satisfaction surveys.

  In 2023, the third-party service provider conducted a random telephone survey for the period November 16, 2023 to November 24, 2023. A total of 502 customers were surveyed, however seven customers did not respond. Of the remaining 495 customers who responded (the denominator), 464 customers (the numerator) rated their Overall Satisfaction in the top 3 boxes. This equates to the reported Customer Satisfaction result of 94%, which is comparable to previous years.

  Customer Satisfaction is a key area of focus for Entegrus. Accordingly, Entegrus will continue to measure Customer Satisfaction annually, as opposed to the regulatory requirement to measure it every other year.

Safety

- **Public Safety**

  - **Component A – Public Awareness of Electrical Safety**

  On a bi-annual basis, Entegrus engages a third-party service provider to conduct Public Safety Awareness surveys. The surveys are based upon a representative sample of each electrical distributor's service territory population and gauges awareness levels of key electrical safety concepts related to distribution assets. The surveys provide a benchmark of levels of awareness including identifying gaps where additional education and awareness efforts may be required. In accordance with OEB requirements, the surveys are conducted every other year. Accordingly, the survey results described below were completed for the 2023 scorecard and will also be applicable to the 2024 scorecard.

Entegrus conducted a public safety awareness campaign in Q1 of 2024 utilizing local media and digital website content. Further, Entegrus continues to assist and participate in community safety events.

Entegrus engaged a third-party service provider to conduct stratified random telephone surveys of 603 Ontario residents, ages 18 or older, currently residing in the Entegrus service territory during the period from March 6, 2024 and March 18, 2024. The survey asked residents electrical safety questions and then an overall index score was calculated in accordance with a prescribed algorithm. Public Awareness of Electrical Safety results for 2023/2024 showed a slight increase compared to the prior results at 79%.

- **Component B – Compliance with Ontario Regulation 22/04**

Ontario Regulation 22/04 (Electrical Distribution Safety) establishes objective-based electrical safety requirements for the design, construction, and maintenance of electrical distribution systems owned by licensed distributors. The regulation requires the approval of equipment, plans, specifications and inspection of construction before they are put into service. Entegrus is audited annually for compliance and was found to be compliant in 2023.

- **Component C – Serious Electrical Incident Index**

This is measured as the number of non-occupational (general public) serious electrical incidents occurring on Entegrus' distribution system and reported to the ESA, expressed as a raw number and as the number per 1,000 km of line. In 2023, no incidents were reported.

In accordance with its foremost core value of Safety, Entegrus' staff examine the circumstances surrounding such incidents and incorporate insights into the content of relevant employee safety training and public safety awareness programs.

System Reliability

- **Average Number of Hours that Power to a Customer is Interrupted**

  For this measure, the OEB establishes baseline targets based on the average of the distributor's performance for the period 2016 – 2020 (the baseline period is updated every 5 years). Entegrus' 2023 result of 1.31 is favourable to prior year results and is also better than the target of 1.42. In recent years, Entegrus service territory has experienced more severe weather. In March 2023, the OEB standardized the methodology by which distributors report major weather events (which are excluded from these statistics). Thereafter, four weather events in 2023 met the major event threshold in 2023, which contributed to the favourable result versus target.

  Starting in 2020, Entegrus has intensified its efforts on system renewal, including remediation of at-risk poles, which will contribute to a reduction in outages that would otherwise occur. Entegrus continues to focus on the installation of smart grid equipment, which will contribute to a reduction in the duration and frequency of outages.

Entegrus continues to view reliability of electricity service as a high priority. As further discussed below, Entegrus continued to make substantial progress on its Distribution System Plan ("DSP") implementation in 2023.

- **Average Number of Times that Power to a Customer is Interrupted**
  For this measure, the OEB establishes baseline targets calculated as the average of the distributor's performance for the period 2016 – 2020 (the baseline period is updated every 5 years). Entegrus' 2023 result of 0.93 is better than the target of 1.01. As discussed above, despite experiencing more severe weather, this is the result of the four major events in 2023 that met the threshold to be excluded from the statistics.

  Entegrus continues to view reliability of electricity service as a high priority. As further discussed below, in 2021 Entegrus filed a combined and comprehensive 2021-2025 DSP. Entegrus made substantial progress on its DSP implementation in 2023.

Asset Management

- **Distribution System Plan Implementation Progress**
  Entegrus maintains a DSP that adopts a proactive, balanced approach to distribution system planning, infrastructure investment and replacement programs to address immediate risks associated with end-of-life assets; manage distribution system risks; ensure the safe and reliable delivery of electricity; and balance ratepayer and utility affordability.

  In 2021, Entegrus filed a combined and comprehensive 2021-2025 DSP, inclusive of both the Entegrus-Main and Entegrus-St. Thomas rate zones.

  Entegrus reports this metric based on percentage of actual life-to-date capital expenditures divided by the aggregate total DSP (5 year) capital expenditures. The Entegrus 2023 life-to-date actual capital expenditures were $43M (the numerator). The total projected DSP (5 year) capital expenditures are $69.5M (the denominator). This numerator and denominator equate to the reported DSP Implementation Progress figure of 61.9%.

  In 2023, the focus of the DSP was on continued distribution system access and renewal, including voltage conversions of sections of the system from lower voltages to 27.6 KV and additional system service investment, including deployment of smart grid technologies.

Cost Control

- **Efficiency Assessment**
  The total costs for Ontario local electricity distribution companies are evaluated based on econometric modeling conducted by a consultant (the Pacific Economics Group LLC) on behalf of the OEB to produce a single efficiency ranking. The electricity distributors are divided into five groups based on the magnitude of the difference between their respective individual actual and predicted costs over the past three years.

  In 2023, Entegrus' actual costs for 2021-2023 were 27.8% lower than the costs predicted by the OEB's consultant. For the third consecutive year, Entegrus was placed in Group 1, where a Group 1 distributor is defined as having actual costs which are at least 25% lower than the costs predicted for the distributor. Group 1 is considered "most efficient". In 2023, Entegrus ranked 14th out of 54 distributors in terms of cost performance results versus benchmark.

- **Total Cost per Customer**
  Total cost per customer is calculated as the sum of Entegrus' capital and operating costs (including certain adjustments to make the costs more comparable between distributors), divided by the total number of customers that Entegrus serves. Entegrus' cost performance result for 2023 is $713 per customer.

- **Total Cost per Km of Line**
  This measure uses the same total cost that is used in the Cost per Customer calculation above. The total cost is divided by the kilometers of line that Entegrus operates to serve its customers, which equates to $13,731 per kilometer of line.

Connection of Renewable Generation

- **New Micro-Embedded Generation Facilities Connected on Time**
  Electricity distributors are required to connect an applicant's micro-embedded generation facility (i.e. MicroFIT projects of less than 10kW or net metering projects) to its distribution system within five business days of the applicant informing the distributor that it has satisfied all applicable service conditions, received all necessary approvals and provided the distributor with a copy of the authorization to connect from the ESA. The minimum acceptable performance level for this measure is 90%.

  In 2023, Entegrus connected the 13 new micro-embedded generation facility requests received within the prescribed time frame of five business days. Entegrus works closely with its customers and their contractors to address any connection issues to ensure the project is connected on time.

Financial Ratios

- **Liquidity: Current Ratio (Current Assets/Current Liabilities)**
  Liquidity is calculated by dividing Current Assets by Current Liabilities. This ratio is also known as Working Capital Ratio and measures an entity's ability to pay short-term financial obligations. As an indicator of financial health, a Liquidity Ratio of greater than 1 is considered good, as it indicates that the company can pay its short-term debts and financial obligations. Companies with a ratio of greater than 1 are often referred to as being "liquid". The higher the number, the more "liquid" and the larger the margin of safety to cover the company's short-term debts and financial obligations.

  The Entegrus current ratio was 1.08 in 2023. Entegrus' goal is to maintain a Liquidity Ratio of more than 1.00. As noted above, this means that the organization has resources available in the short term to meet its short-term financial obligations.

- **Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio**
  The OEB uses a deemed capital structure of 60% debt, 40% equity for electricity distributors when establishing rates. This deemed capital mix is equal to a debt-to-equity ratio of 1.5 (60/40). A debt-to-equity ratio of more than 1.5 indicates that a distributor is more highly levered than the deemed capital structure. A high debt to equity ratio may indicate that an electricity distributor may have difficulty generating sufficient cash flows to make its debt payments. A debt-to-equity ratio of less than 1.5 indicates that the distributor is less levered than the deemed capital structure. A low debt-to-equity ratio may indicate that an electricity distributor is not taking advantage of the increased profits that financial leverage may bring.

  As demonstrated by its 2023 Leverage Ratio of 1.39, Entegrus continues to maintain a debt-to-equity structure that closely approximates the deemed 60% to 40% capital mix as set out by the OEB. Entegrus' strong financial position is further supported by its recent Standard & Poor's Rating Services rating of "A".

- **Profitability: Regulatory Return on Equity – Deemed (included in rates)**
  Entegrus' 2023 distribution rates were approved by the OEB and include an expected (deemed) regulatory return on equity of 9.19%. The OEB allows a distributor to earn within +/- 3% of the expected return on equity. When a distributor performs outside of this range, the actual performance may trigger a regulatory review of the distributor's revenues and costs structure by the OEB.

- **Profitability: Regulatory Return on Equity – Achieved**
  Entegrus' achieved a 2023 Regulatory Return on Equity ("ROE") of 8.79%, which is within the +/-3% range of Deemed ROE allowed by the OEB.

Note to Readers of 2023 Scorecard MD&A

The information provided by distributors on their future performance (or what can be construed as forward-looking information) may be subject to a number of risks, uncertainties and other factors that may cause actual events, conditions or results to differ materially from historical results or those contemplated by the distributor regarding their future performance. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and the weather. For these reasons, the information on future performance is intended to be management's best judgement on the reporting date of the performance scorecard and could be markedly different in the future.

Appendix C - OEB Efficiency Ranking

Ontario Energy Board - Distributor Efficiency Rankings - Released August 2024

More efficient ← → Less efficient

Group I (17 Distributors)

Stretch Factor = **0%**

- Cooperative Hydro Embrun Inc.
- E.L.K. Energy Inc.
- Entegrus Powerlines Inc.
- ENWIN Utilities Ltd.
- Essex Powerlines Corporation
- Grimsby Power Incorporated
- Halton Hills Hydro Inc.
- Hearst Power Distribution Company Limited
- Hydro Hawkesbury Inc.
- Lakefront Utilities Inc.
- Milton Hydro Distribution Inc.
- Northern Ontario Wires Inc.
- Orangeville Hydro Limited
- Ottawa River Power Corporation
- Sioux Lookout Hydro Inc.
- Wasaga Distribution Inc.
- Welland Hydro-Electric System Corp.

Group II (15 Distributors)

Stretch Factor = **0.15%**

- Burlington Hydro Inc.
- Centre Wellington Hydro Ltd.
- EPCOR Electricity Distribution Ontario Inc.
- Fort Frances Power Corporation
- GrandBridge Energy Inc.
- Hydro 2000 Inc.
- Kingston Hydro Corporation
- Lakeland Power Distribution Ltd.
- Newmarket-Tay Power Distribution Ltd.
- Niagara-on-the-Lake Hydro Inc.
- Niagara Peninsula Energy Inc.
- Oshawa PUC Networks Inc.
- Rideau St. Lawrence Distribution Inc.
- Tillsonburg Hydro Inc.
- Westario Power Inc.

Group III (17 Distributors)

Stretch Factor = **0.30%**

- Alectra Utilities Corporation
- Atikokan Hydro Inc.
- Bluewater Power Distribution Corporation
- Chapleau Public Utilities Corporation
- Elexicon Energy Inc.
- Enova Power Corp.
- ERTH Power Corporation
- Festival Hydro Inc.
- Greater Sudbury Hydro Inc.
- Innpower Corporation
- London Hydro Inc.
- North Bay Hydro Distribution Limited
- Oakville Hydro Electricity Distribution Inc.
- PUC Distribution Inc.
- Renfrew Hydro Inc.
- Synergy North Corporation
- Wellington North Power Inc.

Group IV (3 Distributors)

Stretch Factor = **0.45%**

- Canadian Niagara Power Inc.
- Hydro One Networks Inc.
- Hydro Ottawa Limited

Group V (2 Distributors)

Stretch Factor = **0.60%**

- Algoma Power Inc.
- Toronto Hydro-Electric System Limited

Appendix D – Audited December 2023 EI Financials

Consolidated Financial Statements of

ENTEGRUS INC.

December 31, 2023

Management's Responsibility for Financial Reporting

Entegrus Inc.'s management is responsible for the preparation and presentation of the consolidated financial statements. Management is also responsible for the selection and use of accounting principles that are appropriate in the circumstances, and for the internal controls over the financial reporting process to reasonably ensure that relevant and reliable information is produced. Financial statements are not precise in nature as they include certain amounts based on estimates and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control over the financial reporting process. The Board of Directors exercises this responsibility through its Audit Committee. This committee is comprised of four directors of companies within the Entegrus group, two of whom are directors of the Entegrus Inc. Board. This committee meets with management and the external auditors to ensure that management responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board of Directors for approval. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

MNP LLP, an independent external audit firm, has been appointed by the shareholders and engaged to examine the accompanying consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion. Their report is presented with the consolidated financial statements.

Jim Hogan
President and CEO

Chris Cowell
Chief Financial Officer
& VP Administration

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Independent Auditor's Report

To the Chairman and Board Members of
Entegrus Inc.

Opinion

We have audited the consolidated financial statements of Entegrus Inc. (the "Company"), which comprise the consolidated balance sheet as at December 31, 2023, and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of material accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants
April 18, 2024

ENTEGRUS INC.
Consolidated Balance Sheet
December 31, 2023

	2023	2022
ASSETS	**$**	$
CURRENT		
Cash and cash equivalents	**3,152,446**	7,656,448
Accounts receivable (Note 5)	**17,336,664**	15,209,887
Accounts receivable - unbilled revenue	**15,045,823**	15,723,825
Income taxes receivable	**2,148,591**	-
Inventories	**3,347,081**	2,836,377
Prepaid expenses	**1,789,997**	1,779,155
	42,820,602	43,205,692
NON-CURRENT		
Property, plant and equipment (Note 6)	**180,114,933**	170,228,662
Goodwill and intangible assets (Note 7)	**12,128,014**	12,215,131
Derivative instruments	**1,449,329**	3,829,958
Investment in North Kent Wind LP (Note 8)	**10,720,000**	11,170,000
Non-current portion of accounts receivable	**-**	185,982
	204,412,276	197,629,733
REGULATORY		
Regulatory debit balances (Note 9)	**22,985,233**	21,824,014
	270,218,111	262,659,439
LIABILITIES AND EQUITY		
CURRENT		
Accounts payable and accrued liabilities	**19,713,282**	18,956,821
Income taxes payable	**-**	707,109
Due to related parties (Note 14)	**13,096,329**	14,354,380
Current portion of long-term debt (Note 10)	**1,618,133**	1,387,096
Other current liabilities (Note 11)	**2,311,384**	1,822,780
	36,739,128	37,228,186
NON-CURRENT		
Long-term debt (Note 10)	**75,512,935**	67,639,729
Employee future benefits (Note 12)	**3,112,571**	3,048,156
Other non-current liabilities (Note 11)	**32,824,510**	30,352,284
Deferred income tax liability (Note 19)	**10,018,623**	8,532,729
	121,468,639	109,572,898
SHAREHOLDERS' EQUITY		
Share capital (Note 15)	**52,161,260**	52,161,260
Share premium	**16,571,469**	16,571,469
Hedging reserve	**1,449,329**	3,829,958
Retained earnings	**36,023,958**	37,757,986
	106,206,016	110,320,673
	264,413,783	257,121,757
REGULATORY		
Regulatory credit balances (Note 9)	**5,804,328**	5,537,682
	270,218,111	262,659,439

ENTEGRUS INC.
Consolidated Statement of Earnings and Comprehensive Income
Year Ended December 31, 2023

	2023	2022
	$	$
DISTRIBUTION REVENUE		
Residential	**69,732,033**	72,804,532
General service (Note 14)	**99,455,784**	95,179,896
Street lighting	**1,110,788**	1,019,488
	170,298,605	169,003,916
Retailer energy sales	**5,513,092**	7,511,753
	175,811,697	176,515,669
COST OF POWER	**147,471,844**	153,085,442
GROSS MARGIN ON SERVICE REVENUE	**28,339,853**	23,430,227
OTHER OPERATING REVENUE	**4,890,102**	10,674,287
INVESTMENT INCOME	**1,417,440**	1,736,940
	34,647,395	35,841,454
OPERATING AND MAINTENANCE EXPENSE	**7,974,157**	7,108,372
ADMINISTRATIVE EXPENSES		
Billing and collection	**3,664,445**	3,898,775
General administration	**5,985,583**	5,688,536
Interest	**3,611,643**	2,948,793
DEPRECIATION AND AMORTIZATION	**7,416,553**	7,287,677
	28,652,381	26,932,153
EARNINGS BEFORE INCOME TAXES	**5,995,014**	8,909,301
Provision for income taxes (Note 19)	**285,677**	1,537,562
NET EARNINGS	**5,709,337**	7,371,739
REGULATORY		
Net movement in regulatory balances, net of tax	**1,828,065**	5,180,207
NET EARNINGS AFTER NET MOVEMENTS IN REGULATORY BALANCES	**7,537,402**	12,551,946
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX		
Change in fair value of NKW investment (Note 8)	**(390,375)**	(1,448,725)
Remeasurements of employee benefits (Note 12)	**(81,055)**	1,020,987
Cash flow hedges - effective portion of changes in fair value	**(2,380,629)**	6,145,929
	(2,852,059)	5,718,191
COMPREHENSIVE INCOME	**4,685,343**	18,270,137

ENTEGRUS INC.
Consolidated Statement of Changes in Equity
Year Ended December 31, 2023

	2023	2022
	$	$
SHARE CAPITAL	**52,161,260**	52,161,260
SHARE PREMIUM	**16,571,469**	16,571,469
HEDGING RESERVE, BEGINNING OF YEAR	**3,829,958**	(2,315,971)
Other comprehensive (loss) income:		
Cash flow hedges - effective portion of change in fair value	**(2,380,629)**	6,145,929
HEDGING RESERVE, END OF YEAR	**1,449,329**	3,829,958
RETAINED EARNINGS, BEGINNING OF YEAR	**37,757,986**	31,733,778
Net earnings after net movements in regulatory balances	**7,537,402**	12,551,946
Other comprehensive (loss) income:		
Change in fair value of NKW investment	**(390,375)**	(1,448,725)
Remeasurements of employee benefits	**(81,055)**	1,020,987
Dividends paid	**(8,800,000)**	(6,100,000)
RETAINED EARNINGS, END OF YEAR	**36,023,958**	37,757,986
TOTAL EQUITY	**106,206,016**	110,320,673

ENTEGRUS INC.
Consolidated Statement of Cash Flows
Year Ended December 31, 2023

	2023	2022
	$	$
OPERATING ACTIVITIES		
Net earnings after net movement in regulatory balances	**7,537,402**	12,551,946
Adjustments for:		
Depreciation of property, plant and equipment	**7,600,404**	7,468,222
Amortization of intangible assets	**148,399**	4,978,297
Amortization of deferred revenue	**(545,091)**	(433,137)
Gain on disposal of property, plant and equipment	**(31,779)**	(1,314,359)
Deferred income taxes	**122,179**	163,811
Employee future benefits	**(16,640)**	(114,058)
Contributions in aid of construction received	**3,068,244**	5,888,094
Net movements in regulatory balances	**528,767**	(4,706,046)
Change in non-current accounts receivable	**185,982**	172,938
Change in non-current deferred revenue	**(7,762)**	(37,458)
Change in non-current customer deposits	**(43,165)**	1,247,118
Change in non-cash working capital items (Note 16)	**(3,407,586)**	(3,351,799)
	15,139,354	22,513,569
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	**96,227**	3,066,499
Additions to property, plant and equipment	**(17,551,123)**	(19,781,281)
Additions to intangible assets	**(61,282)**	-
	(17,516,178)	(16,714,782)
FINANCING ACTIVITIES		
Amounts paid to related parties	**(1,431,421)**	(1,493,146)
Advances from long-term debt	**9,500,000**	12,500,000
Repayment of long-term debt	**(1,395,757)**	(1,360,550)
Dividends paid	**(8,800,000)**	(6,100,000)
	(2,127,178)	3,546,304
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(4,504,002)**	9,345,091
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), BEGINNING OF YEAR	**7,656,448**	(1,688,643)
CASH AND CASH EQUIVALENTS, END OF YEAR	**3,152,446**	7,656,448

See Note 16 for supplemental cash flow information

1. NATURE OF OPERATIONS

Incorporation

Entegrus Inc. (“EI” or “the Company”) and its wholly-owned subsidiaries, Entegrus Powerlines Inc. (“EPI”), Entegrus Services Inc. (“ESI”), Entegrus Transmission Inc. (“ETI”), and Entegrus Renewable Energy Inc. (“EREI”), are incorporated under the *Business Corporations Act (Ontario)*.

The address of the Company’s registered office is 320 Queen Street, Chatham, Ontario.

The principal activity of EPI is to distribute electricity to certain customers within the Municipality of Chatham-Kent, Middlesex County, the County of Elgin, and the City of St. Thomas under a licence issued by the Ontario Energy Board (“OEB”). The principal activity of ESI is to operate a Data Centre located in Chatham-Kent. The principal activity of ETI is the development of electrical transmission throughout the province of Ontario. The principal activity of EREI is to invest in renewable energy opportunities in southwestern Ontario.

The Company is owned 71.49% by the Municipality of Chatham-Kent (“the Municipality”), 20.57% by the City of St. Thomas, and 7.94% by Corix Infrastructure Inc.

On March 15, 2018, the OEB approved the merger of EPI and St. Thomas Energy Inc. (“STEI”). The effective date of the merger was April 1, 2018.

2. REGULATION

Rate-regulated entity

One of the Company’s subsidiaries, EPI, is a regulated electricity Local Distribution Company (“LDC”) and has an electricity distribution license that is regulated by the OEB. The OEB has regulatory oversight of electricity matters in Ontario. The *Ontario Energy Board Act, 1998* sets out the OEB’s authority to issue an electricity distribution licence which must be obtained by owners or operators of an electricity distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles and filing process requirements for rate-setting purposes.

The OEB’s authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity and the responsibility of ensuring the electricity distribution companies fulfill obligations to connect and service customers.

EPI is required to charge its customers for the following amounts (all of which, other than the distribution rates, represent a pass through of amounts payable to third parties):

- Electricity Price – The electricity price represents the commodity cost of electricity;
- Distribution Rate – The distribution rate is designed to recover the costs incurred by EPI in delivering electricity to customers and the OEB allowed rate of return;

2. REGULATION (continued)

Rate-regulated entity (continued)

- Global Adjustment – The difference between the rate paid to regulated and contracted electricity generators and the spot market price;
- Retail Transmission Rate – The retail transmission rate represents the wholesale costs incurred by EPI in respect of the transmission of electricity from generating stations to the local areas; and,
- Wholesale Market Service Charge – The wholesale market services charge represents the cost of services provided by the Independent Electricity System Operator ("IESO") to operate the wholesale electricity market and maintain the reliability of the power grid.

In order to operate in the Ontario electrical industry all market participants, including EPI, are required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of obtaining a credit rating, letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings.

Market-based rate of return

The OEB approved rates in the legacy EPI service area effective May 1, 2016, which resulted in approved rates that include a 9.19% rate of return on equity rebased at 2016 test year levels. The rate of return of 9.19% was in accordance with the OEB's cost of capital parameters at that time.

The OEB approved rates in the legacy STEI service area effective January 1, 2015, which resulted in approved rates that include a 9.30% rate of return on equity rebased at 2015 test year levels. The rate of return of 9.30% was in accordance with the OEB's cost of capital parameters at that time.

Incentive Rate Mechanism

Between rate basing years, the OEB regulates the rates of EPI under an Incentive Rate Mechanism ("IRM") regime. The process includes a mechanistic approach to establishing rates with a rate rebasing (using a cost-of-service methodology) normally every five years. In conjunction with the approval of the merger of EPI and STEI, the OEB approved an extension of the IRM period through 2025. The IRM rate setting process provides an increase in rates for inflationary cost, partially offset by productivity and efficiency gains established by the OEB.

Regulatory balances

Electricity distributors are required to reflect certain prescribed costs on their balance sheet until the manner and timing of distribution is determined by the OEB. These costs include:

- Settlement variance between amounts charged by the Company to customers (based on regulated rates) and corresponding cost of non-competitive electricity service incurred by it in the wholesale market administered by the IESO after May 1, 2002;
- Costs incurred related to changes in the OEB's Cost Assessment Model; and,
- Tax savings related to the accelerated investment incentive and immediate expensing incentive programs introduced by the Government of Canada in 2018 and 2021, respectively.

3. BASIS OF PREPARATION

Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with IFRS as adopted by the International Accounting Standards Board ("IASB") and interpretations as issued by the IFRS Interpretations Committee ("IFRIC") of the IASB.

The consolidated financial statements were approved by the Board of Directors and authorized for issue on April 18, 2024.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the investment in North Kent Wind LP and the derivative instruments, both of which are measured at fair value.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's and its wholly owned subsidiaries' functional currency.

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Significant sources of estimation uncertainty, assumptions and judgments include the following:

- Accounts receivable and distribution revenue – measurement of unbilled revenue;
- Goodwill – determination of cash-generating units ("CGUs") for impairment testing;
- Investment in North Kent Wind – fair value measurement of the investment, including the use of Level 3 inputs determination of fair value;
- Deferred income tax assets – utilization of tax losses;
- Derivative instruments – fair value measurement; and,
- Employee future benefits – measurement of accrued benefit liability.

4. MATERIAL ACCOUNTING POLICIES

The accounting principles set out below have been applied consistently to all periods presented in these consolidated financial statements. These accounting policies are consistent with those set forth in the Accounting Procedures Handbook for Electricity Distributors ("APH") issued by the OEB under the authority of the Ontario Energy Board Act, 1998.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: EPI, ESI, ETI and EREI. All intercompany transactions are eliminated in full on consolidation.

Regulation and regulatory balances

EPI is regulated under an electricity distribution licence by the OEB and any rate adjustments require OEB approval. ETI is regulated under a transmission licence by the OEB. All activities between OEB-regulated entities and their affiliates must adhere to the Affiliate Relationship Code issued by the OEB.

In January 2014, the IASB issued IFRS 14, *Regulatory Deferral Accounts*, as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous generally accepted accounting principles ("GAAP"). Regulatory balances provide useful information about the Company's financial position, financial performance and cash flows. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

The Company has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the APH. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Company's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on the Company's consolidated balance sheet, and they represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is judged to be probable. In the event that the disposition of these balances are assessed to no longer be probable based on management's judgments, the balances will be recorded in the Company's consolidated statement of earnings and comprehensive income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the consolidated balance sheet, and on the consolidated statement of earnings and comprehensive income. The netting of regulatory debit and credit balances is not permitted. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with the bank, and bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

4. MATERIAL ACCOUNTING POLICIES (continued)

Unbilled revenue

Unbilled revenue is an estimate of customers' consumption of power from the last meter read to December 31.

Inventories

Inventories consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. Inventories are valued at the lower of cost and net realizable value with cost being determined using the weighted average method.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Distribution assets:	
Distribution station equipment	15–45 years
Distribution system – overhead	30–60 years
Distribution system – underground	30–55 years
Distribution transformers	35–45 years
Distribution meters	25 years
System supervisory equipment	20 years
Automated mapping	15 years
Services	40–50 years
Smart meters	15 years
Buildings	20–50 years
Equipment and other:	
General office equipment	10 years
Computer hardware	3–5 years
Computer software	3–10 years
Rolling stock	10–15 years
Tools	10 years
Non-regulated generation assets	25 years

The Company recognizes work in process for larger capital projects that are not available for use at the end of the year. When the capital projects are completed, they are transferred to the appropriate property, plant and equipment account. Depreciation on these assets will begin when they are available for use.

Contributions in aid of construction

Contributions in aid of construction consist of third party contributions toward the cost of constructing the Company's assets. Contributions received are recorded as deferred revenue and recognized as revenue over the useful lives of the related assets.

4. MATERIAL ACCOUNTING POLICIES (continued)

Goodwill

Goodwill represents the excess of purchase price over fair value of the net identifiable assets of acquired businesses.

Intangible assets

Intangible assets include land rights, deferred development costs and other assets. These assets are measured at cost less accumulated amortization and any accumulated impairment losses, if applicable. Cost is comprised of directly attributable expenditures such as labour, legal, consulting, and overhead costs. Land rights relate to assets not currently in use and therefore, are not subject to amortization. Deferred development costs are amortized on a straight-line basis over their useful life of 21 years. Amortization of other intangible assets is recorded on a straight-line basis over a five year useful life.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial 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. Goodwill is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired.

For impairment testing, assets are grouped together into CGUs, which are defined as the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. Goodwill arising from a business combination is allocated to the CGUs or group of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, 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 or CGU.

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

Impairment losses recognized in prior periods are 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.

Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of electricity bills. Deposits that are refundable to customers on demand are classified as a current liability. Interest on deposits is paid at a rate of prime less 200 basis points.

4. MATERIAL ACCOUNTING POLICIES (continued)

Employment benefits other than pension

The Company provides its current and retired employees with life insurance and medical benefits beyond those provided by government-sponsored plans. The cost of these benefits is actuarially determined annually as at December 31. The cost is determined using the projected unit credit method and assumptions including interest rates, salary escalation, retirement ages of employees, mortality rates, and health care costs. Remeasurements of the net defined benefit liability, which include actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions, are recognized in other comprehensive income as they arise without recycling through profit or loss in subsequent periods.

Deferred revenue

Deferred revenue is comprised of lease payments received which are not yet permitted to be recognized as revenue in accordance with IFRS 16, *Leases*; contributions in aid of construction received from third parties; and conservation program funding advances received from the IESO.

Revenue recognition and cost of power

Distribution revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used. Any discrepancies in the revenue collected and associated cost of power to distribute are charged to regulatory assets or liabilities.

Income taxes

Under the *Electricity Act, 1998*, the Company is required to make payments-in-lieu of corporate taxes to the Ontario Electricity Financial Corporation (“OEFC”). These payments are recorded in accordance with the rules for computing income taxes and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Corporation Tax Act* (Ontario) and modified by the *Electricity Act, 1998*, and related regulations.

The Company uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. The Company recognizes deferred tax assets and liabilities for future tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the consolidated balance sheet and their respective tax basis, using the tax rates enacted or substantively enacted by the consolidated balance sheet date that are in effect for the year in which the differences are expected to reverse. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when it is probable that they will be realized, and are measured at the best estimate of the tax amount expected to be paid to or recovered from the taxation authorities. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. The calculation of current and deferred taxes requires management to make certain judgments with respect to changes in tax interpretations, regulations, and legislation, and to estimate probable outcomes on the timing and reversal of temporary differences and tax authority audits of income tax.

4. MATERIAL ACCOUNTING POLICIES (continued)

Income taxes (continued)

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded to, or recovered from, customers through future electricity distribution rates. A gross-up to reflect the income tax benefits associated with reduced revenues resulting from the realization of deferred tax assets is recorded within regulatory credit balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the consolidated statement of earnings and comprehensive income.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

Classification

Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Investment in North Kent Wind LP	FVOCI
Derivative instruments	Designated in a hedging relationship
Bank indebtedness	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities
Due to related parties	Other financial liabilities
Current portion of customer deposits	Other financial liabilities
Current portion of long-term debt	Other financial liabilities
Long-term debt	Other financial liabilities
Non-current portion of customer deposits	Other financial liabilities

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Amortized cost

Subsequent to initial recognition, these assets are accounted for at amortized cost using the effective interest method.

Derivative instruments

The Company holds derivative financial instruments to hedge its interest rate risk exposure. These derivatives are designated and effective hedging instruments, and as such, they are accounted for using hedge accounting.

4. MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Other financial liabilities

Subsequent to initial recognition, other financial liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Effective interest method

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fair value measurements are established based on the following hierarchy that categorizes the inputs to valuation techniques:

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

Hedge accounting

An item may only be designated in a hedging relationship if changes in fair value of the hedging item are expected to offset virtually all changes in fair value of the hedged item attributable to the hedged risk. This offsetting must be expected at inception of the hedge and throughout the hedging period.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents and assesses, both at hedge inception and on an ongoing basis, whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting expected changes in the hedged items attributable to the hedged risk, which occurs when the hedging relationships meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of the hedged item.

4. MATERIAL ACCOUNTING POLICIES (continued)

Hedge accounting (continued)

The Company designates interest rate swap contracts as cash flow hedges of interest rate variability. In a cash flow hedging relationship, the change in value of the effective portion of the derivative is recognized in other comprehensive income. In contrast, the change in value of the ineffective portion of the derivative is recognized directly in profit or loss.

Hedge accounting is discontinued prospectively if the hedging instrument or hedged item is terminated or sold, or if it is determined that the hedging instrument is no longer effective.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree, and the equity interest issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes*, and IAS 19, *Employee Benefits*, respectively. Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Standards issued but not yet effective

Certain new or amended accounting standards have been published that are effective for annual periods beginning on or after January 1, 2024, with earlier application permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards are not expected to have a significant impact on the Company's financial statements:

<u>Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)</u>

The amendments to IAS 1 clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024, with early application permitted.

4. MATERIAL ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Non-Current Liabilities with Covenants (Amendments to IAS 1)

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g., a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date). The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024, with early application permitted.

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk. The amendments are applicable for annual periods beginning on or after January 1, 2024, with early application permitted.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognize a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments are effective for annual periods beginning on or after January 1, 2024, with early application permitted.

5. ACCOUNTS RECEIVABLE

	2023	2022
	$	$
Electrical energy	**14,169,820**	10,821,816
Other	**4,088,987**	5,355,891
	18,258,807	16,177,707
Allowance for doubtful accounts	**(922,143)**	(967,820)
Net accounts receivable	**17,336,664**	15,209,887

6. PROPERTY, PLANT AND EQUIPMENT

	Distribution assets	Land and buildings	Equipment and other	**Total**
	$	$	$	**$**
Cost or deemed cost				
Balance at January 1, 2022	169,473,241	19,320,634	20,283,440	**209,077,315**
Additions	17,755,786	531,117	1,930,602	**20,217,505**
Disposals and retirements	(7,967)	(4,851,555)	(2,320,628)	**(7,180,150)**
Balance at December 31, 2022	187,221,060	15,000,196	19,893,414	**222,114,670**
Additions	15,721,850	154,190	2,096,002	**17,972,042**
Disposals and retirements	-	(72,730)	(37,870)	**(110,600)**
Balance at December 31, 2023	202,942,910	15,081,656	21,951,546	**239,976,112**
Accumulated depreciation				
Balance at January 1, 2022	29,677,889	3,012,080	11,929,478	**44,619,447**
Depreciation	5,686,137	391,960	1,764,919	**7,843,016**
Disposals and retirements	(7,547)	-	(568,908)	**(576,455)**
Balance at December 31, 2022	35,356,479	3,404,040	13,125,489	**51,886,008**
Depreciation	5,934,828	396,769	1,691,456	**8,023,053**
Disposals and retirements	(1,731)	(9,263)	(36,888)	**(47,882)**
Balance at December 31, 2023	41,289,576	3,791,546	14,780,057	**59,861,179**
Carrying amount				
Balance at December 31, 2022	151,864,581	11,596,156	6,767,925	170,228,662
Balance at December 31, 2023	**161,653,334**	**11,290,110**	**7,171,489**	**180,114,933**

The Company has recognized work in process of $60,132 for capital projects that were not available for use at December 31, 2023 (2022 - $59,920).

7. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Development costs	Land rights	Other	**Total**
	$	$	$	$	**$**
Balance at January 1, 2022	11,208,748	897,703	6,018	229,403	**12,341,872**
Amortization	-	(62,340)	-	(64,401)	**(126,741)**
Balance at December 31, 2022	11,208,748	835,363	6,018	165,002	**12,215,131**
Additions	-	-	-	61,282	**61,282**
Amortization	-	(74,808)	-	(73,591)	**(148,399)**
Balance at December 31, 2023	11,208,748	760,555	6,018	152,693	**12,128,014**

7. GOODWILL AND INTANGIBLE ASSETS (continued)

For the purposes of impairment testing, all of the Company's goodwill has been allocated to the regulated LDC. The recoverable amount of this CGU was based on fair value less costs of disposal. Fair value was estimated by applying an industry-specific valuation multiple to regulated rate base. The valuation multiple, which represents a key assumption in the determination of fair value, was determined by referencing recent enterprise acquisition activity in the Ontario electricity distribution industry. At December 31, 2023, the recoverable amount of the regulated LDC exceeded its carrying amount.

8. INVESTMENT IN NORTH KENT WIND LP

North Kent Wind Limited Partnership ("NKWLP") is a wind farm project located in southwestern Ontario. According to the terms of the limited partnership agreement, EI's investment in NKWLP does not give the Company the power to control, jointly control or otherwise participate in the financial and operating policy decisions of the project. As such, the Company accounts for its investment in NKWLP as a financial instrument, classified as a FVOCI financial asset, with changes in fair value recognized in other comprehensive income.

The following is a reconciliation from the opening balance to the closing balance for the investment:

	2023	2022
	$	$
Balance, beginning of year	**11,170,000**	12,840,000
Change in fair value recognized in other comprehensive income	**(450,000)**	(1,670,000)
	10,720,000	11,170,000

The change in fair value recognized in other comprehensive income has been recorded net of related tax recovery of $59,625 (2022 – $221,275). Therefore, the net loss recorded in other comprehensive income in 2023 was $390,375 (2022 – $1,448,725).

9. REGULATORY BALANCES

Regulatory balances arise as a result of the rate-making process. Regulatory debit balances represent future revenues associated with certain costs incurred in the current period or in prior periods that are expected to be recovered from customers in future periods through the rate setting process. Regulatory credit balances represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate setting process.

	January 1, 2023	Balances arising in the period	Recovery / reversal	**December 31, 2023**
	$	$	$	**$**
Regulatory debit balances				
Deferred income taxes	10,609,368	1,232,696	-	**11,842,064**
Energy cost variances	10,332,222	2,826,724	(4,901,479)	**8,257,467**
Other regulatory debit balances	373,120	1,177,068	(392,744)	**1,157,444**
Balances to be recovered	509,304	5,294,223	(4,075,269)	**1,728,258**
	21,824,014	10,530,711	(9,369,492)	**22,985,233**
Regulatory credit balances				
Other regulatory credit balances	2,325,776	(170,840)	628,130	**2,783,066**
Deferred tax liability associated with regulatory balances	3,211,906	(190,644)	-	**3,021,262**
	5,537,682	(361,484)	628,130	**5,804,328**

9. REGULATORY BALANCES (continued)

	January 1, 2022	Balances arising in the period	Recovery / reversal	**December 31, 2022**
	$	$	$	**$**
Regulatory debit balances				
Deferred income taxes	5,613,400	4,995,968	-	**10,609,368**
Energy cost variances	4,322,346	5,434,409	575,467	**10,332,222**
Other regulatory debit balances	764,309	392,744	(783,933)	**373,120**
Balances to be recovered	758,727	208,466	(457,889)	**509,304**
	11,458,782	11,031,587	(666,355)	**21,824,014**
Regulatory credit balances				
Other regulatory balances	1,662,558	663,218	-	**2,325,776**
Deferred tax liability associated with regulatory balances	1,515,168	1,696,738	-	**3,211,906**
	3,177,726	2,359,956	-	**5,537,682**

Regulatory debit and credit balances

a) Deferred income taxes

This debit/credit balance represents the amount expected to be recovered/refunded in rates arising from temporary differences in the recognition of deferred income tax liabilities/assets (see Note 19).

b) Energy cost variances

These accounts represent the variance between the revenue collected using OEB approved rates for the non–competitive components of energy and the corresponding cost of these non-competitive charges. The net amount of these variances is held as a regulatory debit or credit balance, based on the expectation that the amounts will ultimately be approved for disposition by the OEB.

c) Other regulatory balances

Other regulatory balances include various deferred amounts in connection with the Lost Revenue Adjustment Mechanism, changes in the OEB's Cost Assessment Model, and tax savings related to the accelerated investment incentive and immediate expensing incentive programs introduced by the Government of Canada in 2018 and 2021, respectively.

d) Regulatory balances to be recovered/refunded

This balance represents the remaining amounts to be refunded to or recovered from ratepayers arising from dispositions that have been approved by the OEB.

10. LONG-TERM DEBT

	2023	2022
	$	$
Note due to the Municipality of Chatham-Kent, bearing interest at 4.54%	**23,523,326**	23,523,326
Variable rate term instalment bank loans with variable interest rates exchanged for fixed interest rates via interest rate swap:		
Maturing in 2043, fixed interest rate of 3.6%	**15,113,560**	15,656,639
Maturing in 2043, fixed interest rate of 3.677%	**6,464,576**	6,683,099
Maturing in 2044, fixed interest rate of 3.32%	**4,639,244**	4,793,001
Maturing in 2045, fixed interest rate of 2.41%	**3,111,043**	3,222,443
Maturing in 2046, fixed interest rate of 2.786%	**2,748,064**	2,825,173
Maturing in 2047, fixed interest rate of 4.049%	**7,166,915**	7,352,992
Maturing in 2047, fixed interest rate of 5.04%	**4,864,340**	4,970,152
Maturing in 2048, fixed interest rate of 4.96%	**9,500,000**	-
	77,131,068	69,026,825
Less: Current portion of long-term debt	**4,118,133**	1,387,096
	73,012,935	67,639,729

The note payable is due to the Municipality with no set repayment terms and interest payable monthly at 4.54% (2022 – 4.54%). The repayment of the note payable has been formally postponed beyond December 31, 2024. In 2023, interest expense recognized relating to long-term debt was $2,735,397 (2022 - $2,483,217).

The bank loans are secured by a general security agreement creating in favour of the lender a first priority security interest in all present and future undertaking and personal property of EPI.

11. OTHER LIABILITIES

	2023	2022
	$	$
Customer deposits	**11,310,385**	10,887,732
Deferred revenue	**23,825,509**	21,287,332
	35,135,894	32,175,064
Less: Current portion of other liabilities	**2,311,384**	1,822,780
	32,824,510	30,352,284

12. EMPLOYEE FUTURE BENEFITS

The Company measures its accrued benefit obligation as at December 31 of each year. The Company pays certain medical and life insurance benefits on behalf of its retired and current employees. The most recent actuarial valuation of the benefit plans for funding purposes was as of December 31, 2022 and the next required valuation will be as of December 31, 2025.

Information about the Company's accrued benefit liability is as follows:

	2023	2022
	$	$
Accrued benefit liability, beginning of year	**3,048,156**	4,183,201
Expense for the year		
Current service cost	**106,851**	113,663
Interest on obligation	**144,838**	130,358
Employer contributions	**(268,329)**	(358,079)
Remeasurements in other comprehensive income	**81,055**	(1,020,987)
Accrued benefit liability, end of year	**3,112,571**	3,048,156

The main actuarial assumptions employed for the valuation are as follows:

General inflation

Future inflation levels, as measured by changes in the Consumers Price Index ("CPI"), were assumed to be 2.5% annually after the valuation date.

Interest (discount) rate

The present value of the future benefits and the expense for the year ended December 31, 2023 were determined using a discount rate of 4.58% (2022 – 4.88%). This corresponds to the most recent OEB approved non-arm's length cost of debt rate.

Health costs

Health costs were assumed to increase at 8% per year for 10 years after the valuation date, and then at the CPI rate plus 1% thereafter.

Dental costs

Dental costs were assumed to increase at the CPI rate plus 1% per year after the valuation date.

13. PENSION AGREEMENT

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund") and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. As there is insufficient information to apply defined benefit plan accounting, defined contribution plan accounting has been used by the Company. The Company's contribution for employees' current service in 2023 was $1,383,227 (2022 - $1,363,479).

14. RELATED PARTY TRANSACTIONS

Municipality of Chatham-Kent

The Company provided the following services in the normal course of operations to the Municipality:

	2023	2022
	$	$
Energy (at commercial rates)	**5,607,262**	5,856,857
Billing and collection services - water/wastewater	**2,278,514**	2,582,149
Streetlight maintenance	**294,987**	294,568
	8,180,763	8,733,574

The Municipality provided administrative services in the normal course of operations to the Company. In 2023, the amount charged for these services was $164,202 (2022 - $612,672).

City of St. Thomas

The Company provided the following services in the normal course of operations to the City of St. Thomas:

	2023	2022
	$	$
Energy (at commercial rates)	**1,792,139**	1,902,736
Billing and collection services - water/wastewater	**365,597**	344,902
	2,157,736	2,247,638

Due to/from related parties

At December 31, 2023, the Company had an outstanding balance payable to the Municipality in the amount of $11,784,695 (2022 - $12,572,521).

At December 31, 2023, the Company has an outstanding balance payable to the City of St. Thomas in the amount of $1,311,634 (2022 - $1,781,859).

14. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

Compensation of directors and other members of key management personnel was as follows:

	2023	2022
	$	$
Salaries, wages and other short-term benefits	**1,443,301**	1,457,166
Post-employment benefits	**230,046**	216,273
	1,673,346	1,673,439

15. SHARE CAPITAL

The share capital of the Company consists of the following:

Authorized
Unlimited common shares

	Number of Shares	**$**
Issued at December 31, 2022 and 2023	3,301	**52,161,260**

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items

	2023	2022
	$	$
Accounts receivable	**(2,126,777)**	(41,672)
Accounts receivable - unbilled revenue	**678,002**	(1,588,801)
Income taxes receivable/payable	**(2,855,700)**	600,124
Inventories	**(510,704)**	(700,711)
Prepaid expenses	**(10,842)**	(363,294)
Accounts payable and accrued liabilities	**929,831**	(1,018,631)
Current portion of deferred revenue	**22,786**	-
Current portion of customer deposits	**465,818**	(238,814)
	(3,407,586)	(3,351,799)

Income taxes of $3,359,835 were paid (2022 –$751,806) and interest of $3,611,643 (2022 - $2,948,793) was paid during the year.

17. FINANCIAL INSTRUMENTS

Fair value

The Company's recognized financial instruments consist of cash and cash equivalents, accounts receivable, investment in North Kent Wind LP, derivative instruments, bank indebtedness, accounts payable and accrued liabilities, due to related parties, customer deposits and long-term debt.

The fair values of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and due to related parties approximate their carrying amounts due to their short-term nature.

As there is no secondary market for customer deposits, the calculation of their fair value with appropriate reliability is impractical.

Fair value measurement of the investment in North Kent Wind LP is determined on the basis of a discounted cash flow model using inputs that are not based on observable market data (i.e., Level 3 inputs). Significant inputs in the valuation model include energy generation estimates obtained from a wind study that was commissioned by the wind farm operator.

Fair value measurement of the derivative instruments is determined on the basis of a discounted cash flow model using inputs that are based on observable market data (i.e., Level 2 inputs). Estimate of future floating-rate cash flows are based on quoted swap rates, future prices, and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps.

In order to determine fair value of long-term debt, comparison was made to the approved interest rate from the OEB. The OEB approves the rate of return on the long-term debt portion of "Cost of Capital" for non-arm's length transactions. An interest rate of 4.58% has been approved by the OEB through the rate setting process for rates effective January 2024. Using the OEB approved non-arm's length cost of debt for 2024 of 4.58%, the fair value of long-term debt is $75,072,391.

Credit risk

The Company is exposed to credit risk from its customers. The Company has a large number of diverse customers for the most part minimizing concentration of risk. There are a select group of manufacturing-based corporations that pose a significant increase in risk due to the current state of the economy as well as the future outlook for the economy. Close monitoring of this sector is currently being examined through internal and external credit rating resources. The Company continues to utilize special payment arrangements and security deposits to reduce this risk to an acceptable level.

Interest rate risk

EI is exposed to interest rate risk on interest-bearing debt. The Company manages its exposure to interest rate risk by ensuring that substantially all of its interest on debt is at a fixed rate. This is achieved partly by entering into fixed rate instruments and partly by borrowing at a floating rate and using interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates.

17. FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

The Company determines the existence of an economic relationship between the hedging instrument and the hedged item based on the reference interest rates, maturities and notional amounts. In these hedge relationships, the main source of ineffectiveness is the effect of the counterparty's and the Company's own credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates.

Liquidity risk

EI is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Company monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. The Company has access to debt capital markets and monitors cash balances daily. The Company also manages its liquidity risk by ensuring that all of its interest on debt is at a fixed rate.

The following tables set out the contractual maturities (representing undiscounted contractual cash flows) of the Company's financial liabilities:

At December 31, 2023	Less than 12 months	Between 1 and 5 years	Over 5 years	Total contractual cash flows
	$	$	$	$
Accounts payable and accrued liabilities	19,713,282	-	-	19,713,282
Due to related parties	13,096,329	-	-	13,096,329
Customer deposits	2,288,598	4,510,894	4,510,894	11,310,385
Long-term debt	4,774,471	19,097,884	116,432,901	140,305,256
Total	39,872,680	23,608,778	120,943,795	184,425,252

At December 31, 2022	Less than 12 months	Between 1 and 5 years	Over 5 years	Total contractual cash flows
	$	$	$	$
Accounts payable and accrued liabilities	18,956,821	-	-	18,956,821
Due to related parties	14,354,380	-	-	14,354,380
Customer deposits	1,822,780	4,532,476	4,532,476	10,887,732
Long-term debt	4,110,691	16,442,764	102,076,726	122,630,181
Total	39,244,672	20,975,240	106,609,202	166,829,114

18. CAPITAL DISCLOSURES

The Company's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain and improve the electricity distribution system of LDC; and
- maintain a capital structure comparable for regulated activities as approved by the OEB's deemed debt-to-equity structure in our rates.

As at December 31, 2023, the Company's definition of capital includes Shareholders' Equity and Long-Term Debt, the latter of which is comprised of the current and long-term portions of banks loans and amounts due to the Municipality. This definition has remained unchanged from December 31, 2023. As at December 31, 2023, shareholders' equity amounts to $106,206,016 (2022 - $110,320,673) and long-term debt amounts to $77,131,068 (2022 - $69,026,825).

In 2023, the capital structure approved by the OEB in rates was 40% Equity, 56% Long-Term Debt and 4% Short-Term Debt. The OEB-approved capital structure is unchanged from 2022. The Company's 2023 actual capital structure was 58% Equity (2022 - 62%) and 42% Long-Term Debt (2022 - 38%).

19. INCOME TAXES

The reconciliation between the combined Federal and Ontario statutory tax rate and the effective rate of income tax is as follows:

	2023	2022
	$	$
Net earnings after net movements in regulatory balances, before income tax	**7,823,079**	14,089,508
Statutory income tax rate	**26.50%**	26.50%
Statutory income tax rate applied to earnings	**2,073,116**	3,733,720
Increase / (decrease) resulting from:		
Deferred income taxes transferred to regulatory assets	**(1,232,696)**	(4,995,968)
Temporary differences between accounting and tax basis of assets and liabilities	**(6,977)**	3,015,886
Permanent differences	**12,000**	7,640
Effective of loss carryovers used	**(559,766)**	(223,716)
Provision for income taxes	**285,677**	1,537,562
Effective rate of income tax	**3.65%**	10.91%

19. INCOME TAXES (continued)

Deferred income taxes

The deferred income tax liability is comprised of the following:

	2023	2022
	$	$
Temporary differences related to:		
Accounts receivable	**(53,000)**	(102,285)
Property, plant and equipment	**(17,681,032)**	(14,744,257)
Investment in North Kent Wind	**(1,420,400)**	(1,480,025)
Employee future benefits	**1,115,559**	1,092,430
Derivative instruments	**(522,547)**	(1,380,869)
Non-current deferred revenue	**7,690,180**	6,780,472
Unused tax losses and deductions	**852,617**	1,301,805
	(10,018,623)	(8,532,729)

The Company's unused tax losses are scheduled to expire as follows:

	$
Expiry year:	
2039	**431,420**
2040	**20,395**
2041	**21,992**
2043	**1,557,538**
	1,830,714

Entegrus Inc.
Supplemental Consolidated Income Statement
Pre-Regulatory Presentation Basis

	2023	2022
	$	$
DISTRIBUTION REVENUE		
Residential	**69,982,678**	73,106,690
General service	**99,399,346**	95,396,360
Street lighting	**1,110,788**	1,019,488
	170,492,812	169,522,538
Retailer energy sales	**5,513,092**	7,511,753
	176,005,904	177,034,291
COST OF POWER	**144,645,120**	147,651,033
GROSS MARGIN ON SERVICE REVENUE	**31,360,784**	29,383,258
OTHER OPERATING REVENUE	**4,692,191**	10,476,376
INVESTMENT INCOME	**1,417,440**	1,736,940
OPERATING INCOME	**37,470,415**	41,596,574
OPERATING AND MAINTENANCE EXPENSE	**8,283,475**	7,227,602
ADMINISTRATIVE EXPENSE		
Billing and collection	**3,664,445**	3,898,775
General administration	**5,985,583**	5,688,536
Interest	**3,611,643**	2,948,793
DEPRECIATION AND AMORTIZATION	**7,416,553**	7,287,677
	28,961,699	27,051,383
EARNINGS BEFORE INCOME TAXES	**8,508,717**	14,545,191
Provision for income taxes	**971,314**	1,993,245
NET EARNINGS	**7,537,402**	12,551,946

Appendix E – AGM Resolutions

Entegrus Inc.

(the "Corporation")

Shareholders Resolution

BE IT RESOLVED that the shareholders of the corporation approve:

1. The audited consolidated financial statements of Entegrus Inc. for the financial year ended December 31, 2023.

2. The following persons appointed as Directors to the Entegrus Inc. Board:

   Max Fantuz (Chatham-Kent independent representative)
   Pat McMahon (Chatham-Kent independent representative)
   Helen Platis (Chatham-Kent independent representative)
   Councillor Brock McGregor (Chatham-Kent representative)
   Mayor Darrin Canniff (Chatham-Kent representative)
   Lindsay Boyd (Chatham-Kent independent representative)
   Seth Whitney (Corix District Energy Holdings LP representative)
   Councillor Seve Wookey (St Thomas representative)
   Joe Brophy (St Thomas independent representative)

3. That MNP be appointed as the auditors for Entegrus Inc for the year ending December 2024.

The forgoing resolution is hereby consented to by all of the Shareholders of the Corporation pursuant to the Business Corporations Act, R.S.O. 1990 Chap. B.16.

The Municipality of Chatham-Kent

____

Mayor

____

Municipal Clerk

The City of St. Thomas

____

Mayor

____

City Clerk

Corix District Energy Holdings LP

____

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