

Town of Mahone Bay Electric Utility
Financial Statements
For the Year Ended March 31, 2026

Draft - Subject to Change

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Financial Statements
For the Year Ended March 31, 2026

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Independent Auditor's Report

To Her Worship the Mayor and Members of the Council of the Town of Mahone Bay

Qualified Opinion

We have audited the financial statements of the Town of Mahone Bay Electric Utility (the "Utility"), which comprise the statement of financial position - operating fund and the statement of financial position - capital fund as at March 31, 2026, the statements of operations - operating fund, cash flows and investment in capital assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Utility as at March 31, 2026, and the results of its operations and cash flows for the year then ended in accordance with the accounting principles prescribed for Nova Scotia electric utilities by the Nova Scotia Utility and Review Board (the "Financial Reporting Framework").

Basis for Qualified Opinion

The Utility has not performed the preliminary study necessary to assess whether a liability exists in relation to remediation costs of its utility, plant and equipment.

Effective April 1, 2022, the Utility was required to adopt PS 3280 *Asset Retirement Obligations*, which requires the recognition of legal obligations associated with the retirement of tangible capital assets by public sector entities. Under the modified retroactive application method, the asset retirement obligation on transition is to be recorded using assumptions as of April 1, 2022. The corresponding asset retirement cost is added to the carrying value of the utility, plant and equipment, adjusted for amortization since the time the legal obligation was incurred. Comparative figures are to be restated to reflect the change in accounting policy.

As of the audit report date, management has not completed its assessment of its utility, plant and equipment for potential asset retirement obligations. As a result, it is not possible to quantify the impact of the departure from the Financial Reporting Framework on expenditures and excess of revenue over expenditures for the years ended March 31, 2026, 2025 and 2024, utility, plant and equipment and the asset retirement obligation liability as at March 31, 2025 and 2024, and net assets as at April 1 and March 31 for 2026, 2025 and 2024.

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

Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Utility in complying with the financial reporting requirements of Nova Scotia electric utilities. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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 the Financial Reporting Framework, 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 Utility'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 Utility or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility'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 Utility'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 Utility to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Halifax, Nova Scotia
TBD

**Town of Mahone Bay Electric Utility
Statement of Financial Position - Operating Fund**

March 31	2026	2025
Assets		
Cash	\$ 550	\$ 550
Rates and other receivables (Note 7)	1,197,112	1,072,986
Inventory	330,160	360,311
Prepaid expenses	21,086	50,301
Due from General Capital Fund (Note 2)	-	2,064
	<u>\$ 1,548,908</u>	<u>\$ 1,486,212</u>
Liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 139,096	\$ 53,661
Customer deposits	35,129	35,170
Due to General Operating Fund (Note 2)	774,898	1,113,306
Due to Water Utility Operating Fund (Note 2)	-	296,097
Due to Electric Capital Fund (Note 2)	175,826	56,922
Due to Capital Reserve (Note 2)	23,292	36,122
	<u>1,148,241</u>	<u>1,591,278</u>
Net assets		
Surplus	<u>400,667</u>	<u>(105,066)</u>
	<u>\$ 1,548,908</u>	<u>\$ 1,486,212</u>

On behalf of Council:

Mayor

Chief Administrative Officer

**Town of Mahone Bay Electric Utility
Statement of Financial Position - Capital Fund**

March 31	2026	2025
Assets		
Cash - Depreciation Fund (Note 3)	\$ 100,484	\$ 97,700
Due from Electric Operating Fund	175,826	56,922
Utility, plant and equipment (Schedule 1)	<u>10,959,010</u>	<u>2,765,852</u>
	<u>\$11,235,320</u>	<u>\$ 2,920,474</u>
Liabilities		
Other accrued payables	\$ -	\$ 11,646
Long-term debt (Note 5)	2,334,541	69,878
Accumulated depreciation (Schedule 1)	1,329,749	867,664
Due to General Operating Fund (Note 2)	<u>2,262,409</u>	<u>703,468</u>
	<u>5,926,699</u>	<u>1,652,656</u>
Net assets		
Investment in capital assets	<u>5,308,621</u>	<u>1,267,818</u>
	<u>\$11,235,320</u>	<u>\$ 2,920,474</u>

On behalf of Council:

_____ Mayor _____ Chief Administrative Officer

Town of Mahone Bay Electric Utility Statement of Operations - Operating Fund

For the year ended March 31	Budgeted (Unaudited)	2026	2025
Operating revenue			
Domestic sales	\$ 1,580,856	\$ 1,638,680	\$ 1,582,229
Power, demand sales	1,302,772	1,291,444	1,307,347
Commercial sales	142,103	142,639	141,983
Street lighting	73,796	72,428	72,705
Other revenue	20,000	25,000	-
Sundry	13,933	18,540	19,311
Interest on overdue accounts	5,600	13,773	10,977
	<u>3,139,060</u>	<u>3,202,505</u>	<u>3,134,553</u>
Non-operating revenue			
	<u>20,000</u>	<u>740,755</u>	<u>24,235</u>
Total revenue	<u>3,159,060</u>	<u>3,943,260</u>	<u>3,158,788</u>
Operating expenditures			
Power purchased (Note 6)	2,025,471	2,025,376	2,669,811
Operating and maintenance	277,617	302,160	282,673
Administration	403,635	388,076	331,607
Transmission and distribution - salaries	434,971	192,232	189,786
Depreciation	-	334,852	69,337
	<u>3,141,694</u>	<u>3,242,696</u>	<u>3,543,214</u>
Non-operating expenditures			
Interest expense	86,262	88,339	2,101
Debt charges - principal	-	106,492	11,646
	<u>86,262</u>	<u>194,831</u>	<u>13,747</u>
Total expenditures	<u>3,227,956</u>	<u>3,437,527</u>	<u>3,556,961</u>
Excess of expenditures over revenue	<u>(68,896)</u>	<u>505,733</u>	<u>(398,173)</u>
Surplus, beginning of year	<u>(105,066)</u>	<u>(105,066)</u>	<u>293,107</u>
Surplus, end of year	<u>\$ (173,962)</u>	<u>\$ 400,667</u>	<u>\$ (105,066)</u>

Rate of return (Schedule 1)

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

Town of Mahone Bay Electric Utility Statement of Investment in Capital Assets

For the year ended March 31	2026	2025
Investment in capital assets, beginning of year	\$ 1,267,818	\$ 1,267,818
Add: interest income on depreciation fund	2,783	4,150
Add: solar garden capital assets transferred from Town General capital fund	6,409,175	-
Less: debentures related to the solar garden transferred from Town General capital fund	(2,371,155)	-
Less: interest transferred	-	(4,150)
Investment in capital assets, end of year	\$ 5,308,621	\$ 1,267,818

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

Town of Mahone Bay Electric Utility Statement of Cash Flows

For the year ended March 31	2026	2025
Cash flows from (used by) operating activities		
Excess of expenditures over revenue	\$ 505,733	\$ (398,173)
Adjustments for non-cash items:		
Depreciation	334,852	69,337
Debt charges paid by Capital Reserve Fund	106,492	11,646
	947,077	(317,190)
Changes in non-cash working capital:		
Rates receivable	(124,126)	(335,113)
Inventory	30,151	(13,501)
Prepaid expenses	29,213	5,251
Accounts payable and accrued liabilities	(21,057)	(27,210)
Customer deposits	(40)	(1,967)
Other accrued payables	94,846	-
	956,064	(689,730)
Cash flows (used by) from investing activities		
Acquisition of utility, plant and equipment	(1,656,750)	(158,261)
Transfers to Water Utility	(296,097)	-
Transfers from General Operating	1,220,533	815,817
Transfers from General Capital Fund	2,064	90
	(730,250)	657,646
Cash flows from financing activities		
Transfers from Water Utility Operating Fund	-	19,254
Transfers from Capital Reserve Fund	12,830	12,830
Repayments to related parties	(238,644)	-
Interest income on depreciation fund	2,783	4,150
	(223,031)	36,234
Net increase in cash	2,783	4,150
Cash, beginning of year	98,250	94,100
Cash, end of year	\$ 101,033	\$ 98,250
Represented by		
Cash - operating fund	\$ 550	\$ 550
Cash - capital fund	100,483	97,700
	\$ 101,033	\$ 98,250

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

Town of Mahone Bay Electric Utility Notes to Financial Statements

March 31, 2026

1. Significant Accounting Policies

Nature of Operations Town of Mahone Bay Electric Utility (the "Utility") was founded in 1919 and operates under the Utility and Review Board Act of Nova Scotia. The Utility is engaged in the business of providing electrical connection, operational and maintenance services for customers in the Town of Mahone Bay.

Basis of Accounting These financial statements have been prepared to conform in all material respects to the accounting principles prescribed for Nova Scotia electric utilities by the Nova Scotia Utility and Review Board (the "NSURB") (the "Financial Reporting Framework").

The basis of accounting used in these financial statements differs materially from Canadian Public Sector Accounting Standards ("PSAS") as prescribed by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada ("CPA").

The significant differences from PSAS are described below:

- Accumulated allowance for depreciation be presented as a liability on the statement of financial position, rather than netted against utility, plant and equipment and presented within assets;
- Depreciation funds be reported as part of the capital fund rather than as part of the reserve fund;
- Revenues and expenditures include inter-fund transfers;
- Principal payments on debt be reported on the statement of operations rather than as repayments against the liability; and
- Financial statements are not required to be presented in accordance with PS 1201 *financial statement presentation*.

Cash Cash is comprised of amounts held with financial institutions and petty cash.

Town of Mahone Bay Electric Utility Notes to Financial Statements

March 31, 2026

1. Significant Accounting Policies (continued)

Financial Instruments

Cash and equity instruments quoted in an active market are measured at fair value. Rates receivable, accounts payable and accrued liabilities, and long-term debt are measured at cost or amortized cost.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

Transaction costs are added to the carrying value for financial instruments measured using cost or amortized cost. Transaction costs are expensed for financial instruments measured at fair value.

The Utility has no financial instruments subject to remeasurement gains and losses; therefore, no statement of remeasurement gains and losses is included in the financial statements.

Allowance for Doubtful Accounts

A valuation allowance is provided for estimated losses that will be incurred in collecting outstanding rates receivables.

Inventory

Inventory, which is comprised of materials to be used in the construction of utility, plant and equipment, is carried at the lower of cost and replacement value, with cost being determined on a first-in, first-out basis. Work in progress is included in utility, plant and equipment.

Town of Mahone Bay Electric Utility Notes to Financial Statements

March 31, 2026

1. Significant Accounting Policies (continued)

Utility, Plant and Equipment	The utility, plant and equipment is carried at cost and depreciation is provided on the straight-line basis at rates specified by the NSURB. Utility, plant and equipment are written down when conditions indicate that they no longer contribute to the Utility's ability to provide goods and services, or when the value of future economic benefits associated with the utility, plant and equipment are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations. Funds equal to the amount of depreciation charged during the year are set aside to be used for future extensions or repairs of the utility, plant and equipment as approved by the NSURB (see Note 3).
Capital Fund	This fund reflects all the capital assets of the Town of Mahone Bay Electric Utility (the "Utility") and their related financing. All debt charges with respect to the loans are reflected in the Operating Fund.
Revenue and Expenditure	Revenue and expenditure items are recorded on an accrual basis. Electricity sales and street lighting revenues are recognized in the period in which the transactions or events that give rise to the revenues occur. Certain sources of revenue, including forfeited discounts, are recorded on a cash basis. Interest earned on depreciation funds is recorded as an addition to the depreciation reserve fund (see Note 3). Principal and interest payments related to long-term debt are recorded as an expense of the operating fund when paid.
Allocation of Town Costs to Electric Utility Funds	Where identifiable, costs incurred by the Town of Mahone Bay (the "Town") on behalf of the Utility are charged to the Utility. The salaries of Public Works staff is allocated in proportion to time spent working for the Utility. A portion of administrative salaries and other expense of the Town are allocated to the Utility.

Town of Mahone Bay Electric Utility Notes to Financial Statements

March 31, 2026

1. Significant Accounting Policies (continued)

Use of Estimates	The preparation of financial statements in conformity with the Financial Reporting Framework requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates included in these financial statements include the allowance for doubtful accounts and certain accruals. Actual results could differ materially from these estimates.
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Town of Mahone Bay Electric Utility Notes to Financial Statements

March 31, 2026

2. Inter-fund Balances

The inter-fund balances are non-interest bearing and have no fixed terms of repayment.

3. Reconciliation of Depreciation Fund

The following table reconciles required depreciation fund cash:

	2026	2025
Required depreciation fund cash, beginning of year	\$ (544,698)	\$ (459,924)
Add: interest income on depreciation fund	2,783	4,150
Add: depreciation expense	334,685	69,337
Less: capital expenditures from depreciation fund (Note 4)	(1,776,087)	(158,261)
(Excess investment in capital assets) required depreciation fund cash, end of year	(1,983,317)	(544,698)
Depreciation fund cash, end of year	100,484	97,700
Add: interest income on depreciation fund	2,783	4,148
Due to General Operating Fund	(2,262,410)	(703,468)
Due to Electric Operating Fund	175,826	56,922
Net (excess) investment in capital assets depreciation fund cash	\$ (1,983,317)	\$ (544,698)

4. Capital Asset Expenditures

	2026	2025
Total capital asset expenditures	\$ 8,184,835	\$ 158,261
Proceeds from debentures	2,371,155	-
Repayment of debentures	(106,492)	-
Transfer of solar garden asset out of Town General	(6,405,953)	-
Capital out of revenue (from operating fund)	(2,267,458)	-
Capital expenditures from depreciation fund	\$ 1,776,087	\$ 158,261

Town of Mahone Bay Electric Utility Notes to Financial Statements

March 31, 2026

5. Long-Term Debt

	2026	2025
Nova Scotia Municipal Finance Corporation ("NSMFC") Debenture, bearing interest rates of 3.428% to 3.613% over the term of the debenture, repayable in annual principal payments of \$94,846 until 2028, with a balloon payment of \$1,991,771 due upon maturity. The loan matures on November 28, 2029.	\$ 2,276,309	\$ -
Nova Scotia Municipal Finance Corporation ("NSMFC") Debenture 40-A-1, bearing interest rate range of 1.24 - 1.88% (2025 - 1.12% - 1.88%). The loan is repayable in annual principal installments of \$11,646. The loan matures on July 7, 2030.	58,232	69,878
	<u>2,334,541</u>	<u>69,878</u>

Principal payments required in each of the next five years and thereafter are as follows:

2027	\$ 106,492
2028	106,492
2029	2,098,263
2030	11,646
2031	11,648
	<u>\$ 2,334,541</u>

6. Related Party Transactions

During the year, the Utility purchased \$355,502 (2025 - \$549,655) of power from Alternative Resource Energy Authority ("AREA"), a government partnership in which the Town holds a 10% economic interest.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Town of Mahone Bay Electric Utility

Notes to Financial Statements

March 31, 2026

7. Financial Risk Management

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will change as a result of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk. The Utility is exposed to certain of these risks as described below:

Interest rate risk

Interest rate risk is the risk that the market value of the Utility's financial instruments will fluctuate due to changes in the market interest rates. The NSMFC debenture bears interest at fixed rates. Consequently, the cash flow exposure is not significant. However, the fair value of the debenture having a fixed rate of interest could fluctuate because of changes in market interest rates. The Utility does not actively manage this risk.

Interest expense based on the high-end of the range for the Utility's debenture would decrease the Utility's annual surplus by \$4,041 compared to interest expense calculated using the low-end of the range (2025 - \$5,140). This sensitivity analysis was prepared on the basis that rates used are those prescribed by the Nova Scotia Municipal Finance Corporation ("NSMFC") to the 2026 fiscal year-end and that principal repayments were made as set out in the loan repayment schedule. The methods and assumptions used have not changed from prior period.

The risk has increased from the prior year due to securing new debentures.

(b) Credit risk

Credit risk is the risk of loss if a customer or counterparty cannot meet its contractual obligations. The carrying amount of financial assets represents the maximum credit exposure. The Utility's credit risk is attributable to rates receivable from its customers. To mitigate this risk, the Utility has developed the policy of issuing disconnection notices to past due accounts. The Utility does not have a significant exposure to any individual customer. The Utility has recorded an \$36,500 (2025 - \$62,000) allowance for doubtful accounts.

The risk has increased from the prior year because of the increase in accounts receivable.

As at March 31	2026			2025		
	Rates receivable, net of prepayments	Less: Impairment Allowance	Total	Rates receivable, net of prepayments	Less: Impairment Allowance	Total
Current	763,662	(36,500)	727,162	682,357	(62,000)	620,357
31 to 60 days	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-
Over 90 days	-	-	-	-	-	-
Total	763,662	(36,500)	727,162	682,357	(62,000)	620,357

Town of Mahone Bay Electric Utility Notes to Financial Statements

March 31, 2026

7. Financial Risk Management (continued)

(b) Credit risk (continued)

As at March 31	2026			2025		
	Other receivables	Less: Impairment Allowance	Total	Other receivables	Less: Impairment Allowance	Total
Current	469,950	-	469,950	452,629	-	452,629
31 to 60 days	-	-	-	-	-	-
61 to 90 days	-	-	-	-	-	-
Over 90 days	-	-	-	-	-	-
Total	469,950	-	469,950	452,629	-	452,629

(c) Liquidity risk

Liquidity risk is the risk that the Utility will encounter problems in raising funds to meet its commitments at maturity. The Utility is exposed to liquidity risk through its accounts payable and accrued liabilities and long-term debt. The Utility monitors its cash and cash flows generated from operations to meet its requirements. The following table shows the remaining contractual maturities of the Utility's financial liabilities, excluding inter-fund balances (Note 2):

	No set terms of repayment	Due within 1 year	Due within 2-5 years	Thereafter	Totals
Accounts payable and accrued liabilities	\$ 139,096	\$ -	\$ -	\$ -	\$ 139,096
Long-term debt	-	106,492	2,216,403	11,646	2,334,541
	\$ 139,096	\$ 106,492	\$ 2,216,403	\$ 11,646	\$ 2,473,637

Liquidity risk has increased due to the increase in long-term debt.

Town of Mahone Bay Electric Utility
Schedule 1 - Schedule of Utility, Plant and Equipment

For the year ended March 31	2026	2025
Intangible plant		
Organization	\$ 500	\$ 500
Miscellaneous - intangible plant	10,540	10,540
Working capital	2,750	2,750
	<u>\$ 13,790</u>	<u>\$ 13,790</u>
Tangible plant		
Overhead conductors	\$ 388,795	\$ 388,795
Transformers	569,387	394,300
Poles and fixtures	340,953	323,541
Street lighting system	1,653,719	207,153
Meters	100,954	100,954
Equipment	1,050,027	1,032,343
Services	304,976	304,976
Solar garden	6,536,409	-
	<u>\$10,945,220</u>	<u>\$ 2,752,062</u>
Total utility, plant and equipment	<u>\$10,959,010</u>	<u>\$ 2,765,852</u>
Less: Accumulated depreciation	<u>(1,329,749)</u>	<u>(867,664)</u>
Rate base	9,629,261	1,898,188
Operating income	<u>(40,191)</u>	<u>(408,661)</u>
Rate of return (%)	<u>(0.42)</u>	<u>(21.53)</u>