Financial Statements

Prepared For:

Finance & Labour Relations Sub-Committee

June 2023

To: Mark Hunter and the Finance and Labour Relations Committee
From: Alyson Conrad, CFO
Re: Commentary on FHI Financial Results –
For the year ended December 31, 2022

BALANCE SHEET COMMENTARY:

Accounts Receivable: The accounts receivable balance is $57K less than it was in 2021 and $360K higher than projections. This variance is as described below.

> Electric/Water/Sewage receivables - These balances are $147K higher in 2022 than in 2021 however the majority is current. Past due receivables are $15K higher than they were in 2021 for electricity, water and sewer billing with less than 60 days arrears being up by $34K and greater than 60 days arrears being down by $19K.
>
> A/R Recoverable Work – A/R recoverable work is down by $273K from prior year. This is due to higher than typical subdivision work being completed last year.

Due from Festival Hydro Services (FHSI): The balance due to FHI is $122K as compared to the projection of $195K. The $73K under projection is a result of less capital spend compared to projections and additional work completed by FHSI staff for FHI in the latter part of the year.

Unbilled revenue: Unbilled revenue is currently $447K below prior year and $1.22M below projections. Projections were estimated but it is difficult to predict balances due to usage and rate changes month over month. Class A GA was down $570K from prior year. The provincial GA for Class A was down 45% from prior year. Class B GA was also down in December compared to prior year.

Regulatory Asset/(Liability): The regulatory asset balance has increased by $2.66M since December 2021 and $5.56M compared to projections. Regulatory balances are difficult to project month to month however the original projection was underestimated. In comparison to prior year, the increase is mainly driven by Wholesale Market Service (WMS) charges, Network charges and Connection charges. The variances in these three accounts total $2.3M. The largest of the variances is WMS totaling $1.6M. This variance was seen across the industry which led to the following decision and order from the OEB, "The weighted average WMS charges in the first ten months of 2022 ($0.0063 per kilowatt-hour) is significantly higher than the current WMS rate charged to customers by electricity distributors. Given that there has been a large under-collection by distributors in 2021 and the first ten months of 2022, the OEB finds that the current WMS rate (effective January 1, 2022) does not sufficiently capture the increase in the WMS charge and costs incurred by the IESO. The OEB will therefore set the WMS rate at $0.0045 per kilowatt-hour, including a CBR component of $0.0004 per kilowatt-hour, effective January 1, 2023." The remainder of the variance is spread out across several regulatory accounts, all to be cleared either at the next IRM application or the next Cost of Service application depending on the type of account.

Bank Indebtedness: The bank indebtedness is $3.1M more than projection and $3.7M more than the prior year. As noted in prior reports, the IESO invoices in 2022 varied wildly month to month. In the last 3 months of the year, FHI's paid IESO invoices totaled $19.7M. In Q4 of 2021 the total invoices paid were $13.7M with a difference of $6M. The difference has caused us to utilize more of our line of credit in the last quarter than we previously had to. Due to the current line of credit rate, FHI does plan to draw on the SWAP loan in Q1 of 2023.

Accounts Payable: The balance is $1.3M lower than 2021 and $437K lower than projections. The main variance is the accrued cost of power true up from settlement completed in mid-January for December was lower than prior year by $1.65M. These amounts will be included on the next IESO invoice in February.

Deposits: Total deposits on hand (both short term and long term) have increased by $233K compared to prior year. This is mostly due to construction deposits on hand increase by $337K compared to prior year. Customer electric deposits have decreased from prior year.

Employee Future Benefits – A full actuarial was completed in 2022 and the decrease was based on the results. The main driver for the decrease was the change in discount rate from 3% to 5%. This created a reduction of the liability. Claims costs did increase by approximately $30K due to increasing market costs but this was offset by a decrease in the composition of active and retirees from the 2018 actuarial.

Net income for the year is $2.35M before the gain on the swap and the OCI, which is $472K above budget and $295K ahead of projections.

INCOME STATEMENT COMMENTARY

Gross Margin on Service Revenue (Distribution Revenue) – The gross margin on service revenue (or Distribution Revenue) is above budget by $46K and below projections by $215K. FHI is ahead of budget due to an increase in usage for greater than 50 kW customers compared to the prior year (3M kWh). There is also an increase due to a higher IRM rate than was budgeted for. Projections were anticipated to be higher, however with a milder early winter, FHI did not see usage increase in Q4.

While there is no impact to distribution revenue, it should be noted that service revenue and cost of power were both down compared to budget by $16M and projections by $18M. In previous years we have seen global adjustment and cost of power increasing annually by approximately 10% year over year. In 2022, the average global adjustment and cost of power decreased by 1% compared to 2021. It was noted on the IESO's website that GA has decreased because 85% of non-hydro renewable energy contract costs are being shifted from the rate base to the tax base.

Other Revenue – Other revenue is above budget by $16K and is ahead of projections by $4K. As noted, when providing projections we had larger scrap metal sales than budgeted in early 2022. This was offset by decreases in late payment charges and lower than budget street light work.

Operating and Maintenance (O & M) Expenses: O&M costs are $59K above than budget and $20K less than projections. Increase from budget is due to additional tree trimming completed in Q4 to assist with outage risks. The decrease in projections is due to labour estimations being down for overtime and maintenance work.

Billing, Collecting & Admin Costs: Billing and collection costs are $145K under budget and $26K less than projection. Admin costs were $231K below budget and $83K less than projection. The decrease in billing for the year was due to staffing delays for CSRs as well as the IT position that was not filled after May. The difference from projection was bad debt being lower than expected by $35K. As mentioned throughout the year, administration costs were down mainly due to a delay in staffing the VP of IT position as well as executive incentive compensation being budgeted but not implemented. The actuals came in lower than projections due to the VP of IT leaving in Q4 as well as not engaging third party assistance with a review of FHI's commodity accounts that was projected but a third party vendor was not found.

Interest expense: Interest expense is $111K over budget and $26K under projection. The main variance from budget is due to the many increases to the line of credit rate throughout the year. The variance from projections is due to a correction in the SWAP expense amount totaling $43K. In September, October, and November there was an accrual entry that was posted in the wrong direction to account for the SWAP interest. This was included in projections but corrected in December. A portion of this was offset by the increase in interest rate income on regulatory asset balances.

Income tax expense: Current tax expense is $104K under budget and $290K under projection. The majority of the change is due to a detailed review being completed by the tax accountants. FHI was able to take advantage of accelerated CCA rates which allows for more favourable CCA rates for asset additions.

LOAN COVENANT RATIOS

The Loan Covenant liquidity ratios and debt to equity ratios as prescribed by our major lender, RBC, are being met.

CASH FLOW COMMENTARY:

The cash indebtedness balance at the end of the year is $3.7M. As noted, the reason for the large bank indebtedness balance was the higher than typical IESO invoices in Q4. FHI pays the IESO invoice in advance of bills being collected from customers. When the global adjustment varies throughout the year, only a portion are collected through the IESO invoice, the remainder is settled through the IRM application which can impact the amount that is carried in regulatory assets. Other balances such as wholesale market service, network and connection charges are also cleared through the IRM. When there are large variances, as there are in 2022, it can significantly impact cash flow.

In most months, FHI's cash balance turns positive in the first week or two of the month before the IESO bill is paid. Due to the high RBC prime rate charged on the line of credit, FHI will draw on the SWAP loan to benefit from the lower rate.

Financial Statements of

Festival Hydro Inc.

Year ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Festival Hydro Inc.

Opinion

We have audited the financial statements of Festival Hydro Inc. (the Entity), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2022, 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. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity 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.

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member firms affiliated with KPMG International Limited, a private English company limited by guarantee.
KPMG Canada provides services to KPMG LLP.

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 International Financial Reporting Standards (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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

April 28, 2023

Festival Hydro Inc.

Statement of Financial Position
December 31, 2022, with comparative information for December 31, 2021

	Notes	2022	2021
Assets			
Accounts receivable	6, 22	$ 8,079,655	$ 8,124,901
Unbilled revenue	22	4,783,498	5,230,771
Inventories	7	177,526	163,443
Prepaid expenses		230,441	357,282
Income tax receivable		511,562	356,057
Due from corporations under common control	20	122,147	332,803
Total current assets		**13,904,829**	**14,565,257**
Non-current assets			
Property, plant and equipment	8	58,854,033	57,113,909
Intangible assets and goodwill	9	1,806,282	1,734,841
Unrealized gain on interest rate swap	22	784,886	-
Total non-current assets		**61,445,201**	**58,848,750**
Total assets		**75,350,030**	**73,414,007**
Regulatory balances	13	7,503,962	4,527,854
Total assets and regulatory balances		**$ 82,853,992**	**$ 77,941,861**

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

Festival Hydro Inc.

Statement of Financial Position

December 31, 2022, with comparative information for December 31, 2021

	Notes	2022	2021
Liabilities and Equity			
Bank indebtedness	5	$ 3,740,695	$ 15,768
Accounts payable and accrued liabilities		8,658,017	9,902,642
Deferred revenue		273,286	194,274
Income tax payable		-	-
Dividend payable	15, 21	248,269	500,556
Current portion of long-term debt	14, 22	16,328,464	16,307,717
Customer deposits	11	1,016,175	1,169,542
Due to the Corporation of the City of Stratford	20	624,251	625,460
Total current liabilities		**30,889,157**	**28,715,959**
Non-current liabilities			
Deferred revenue		2,641,341	2,453,813
Customer deposits	11	980,367	594,311
Deferred tax liabilities	10	2,381,370	1,308,987
Employee future benefits	12	1,009,878	1,361,643
Unrealized loss on interest rate swap	22	-	938,948
Long-term debt	14, 22	9,812,012	10,540,477
Total non-current liabilities		16,824,968	17,198,179
Total liabilities		**47,714,125**	**45,914,138**
Share capital	15	15,568,388	15,568,388
Accumulated other comprehensive loss		(54,479)	(357,737)
Retained earnings		18,525,126	15,085,495
Total equity		**34,039,035**	**30,296,146**
Total liabilities and equity		81,753,160	76,210,284
Regulatory balances	13	1,100,832	1,731,577
Total liabilities, equity and regulatory balances		**82,853,992**	**77,941,861**

Commitments and contingencies (note 23)
Guarantee (note 24)
Subsequent event (Note 25)

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

On behalf of the Board:

Director

Director

Festival Hydro Inc.

Statement of Comprehensive Income

Year ended December 31, 2022, with comparative information for 2021

	Notes	2022	2021
Sale of energy	16	$ 55,589,074	$ 59,559,802
Distribution revenue	16	12,174,085	11,582,698
Other income	17	1,118,521	1,195,884
Cost of power purchased		58,141,145	60,698,856
Operating expenses	18	6,759,045	6,014,814
Depreciation and amortization	8,9	2,505,726	2,412,000
		67,405,916	**69,125,670**
Finance income	19	1,747,174	664,530
Finance costs	19	(1,574,778)	(1,604,249)
Income tax expense	10	1,096,421	917,289
Net income		**551,739**	**1,355,706**
Net movement in regulatory balances:			
Net movement in regulatory balances	13	2,534,470	1,168,069
Income tax	10,13	992,021	590,859
Other comprehensive income (loss)			
Items that will not be reclassified to profit and loss:			
Remeasurements of employee future benefits	12	303,258	80,606
Tax on remeasurements	10	(80,363)	(21,361)
Net movement in regulatory balances	13	80,363	21,361

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

Festival Hydro Inc.

Statement of Changes in Equity

Year ended December 31, 2022, with comparative information for December 31, 2021

	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance at January 1, 2021	**$15,568,388**	**$12,861,747**	**$ (438,343)**	**$ 27,991,792**
Net income after net movement in regulatory balances	–	3,114,634	–	3,114,634
Other comprehensive loss	–	–	80,606	80,606
Dividends, paid or payable	–	(890,886)	–	(890,886)
Balance at December 31, 2021	**$15,568,388**	**$15,085,495**	**$ (357,737)**	**$ 30,296,146**
Balance at January 1, 2022	**$15,568,388**	**$15,085,495**	**$ (357,737)**	**$ 30,296,146**
Net income after net movement in regulatory balances	–	4,078,230	–	4,078,230
Other comprehensive loss	–	–	303,258	303,258
Dividends, paid or payable	–	(638,599)	–	(638,599)
Balance at December 31, 2022	**$15,568,388**	**$18,525,126**	**$ (54,479)**	**$ 34,039,035**

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

Festival Hydro Inc.

Statement of Cash Flows

Year ended December 31, 2022, with comparative information for December 31, 2021

Cash provided by (used in)	Notes	2022	2021
Net income after net movement in regulatory balances		$4,078,230	$3,114,634
Adjustments for			
Depreciation - property, plant and equipment	8	2,243,817	2,113,654
Amortization - intangible assets	9	261,909	298,348
Amortization of deferred revenue		(76,869)	(60,633)
Employee future benefits		(48,508)	(50,668)
Net finance costs	19	(172,396)	939,718
Income tax expense	10	1,096,421	917,289
		7,382,604	7,272,342
Changes in non-cash operating working capital			
Accounts receivable		45,246	(1,104,430)
Unbilled revenue		447,273	1,140,450
Inventories		(14,083)	9,169
Prepaid expenses		126,841	32,564
Accounts payable and accrued liabilities		(1,244,625)	1,314,930
Due from related parties		210,656	294,268
Due from the City of Stratford		(1,209)	(6,477)
Dividends declared		(252,287)	385,345
Customer deposits		232,689	269,859
		(449,499)	2,335,678
Regulatory balances	13	(3,526,490)	(1,758,928)
Interest paid	19	(1,574,778)	(1,604,248)
Interest received		23,340	18,445
Income tax paid, net of refund		(5,476)	(888,101)
Purchase of property, plant and equipment	8	(3,983,941)	(3,780,502)
Purchase of intangible assets	9	(333,350)	(77,945)
Contributions received from customers, net of repayments		341,267	479,666
Dividends	15	(890,886)	(505,541)
Proceeds from long-term debt		-	900,000
Repayment of long-term debt		(707,718)	(1,429,445)
Decrease in bank indebtedness during the year		(3,724,927)	961,421
Bank indebtedness, beginning of the year		(15,768)	(977,189)

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

1. Reporting entity:

Festival Hydro Inc. (the "Corporation") is a wholly owned subsidiary of the City of Stratford. The Corporation was incorporated on July 11, 2000 under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act Laws of the Province of Ontario, Canada. The address of the Corporation's registered office is 187 Erie Street, Stratford, Ontario, Canada.

The principal activity of the Corporation is to distribute electricity to the residents and businesses in the City of Stratford and the towns of Brussels, Dashwood, Hensall, Seaforth, St. Marys and Zurich, under a license issued by the Ontario Energy Board ("OEB"). The Corporation is regulated by the Ontario Energy Board and adjustments to the Corporation's distribution and power rates require OEB approval.

The financial statements are for the Corporation as at and for the year ended December 31, 2022.

2. Basis of preparation:

(a) Statement of compliance

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements were approved by the Board of Directors on April 27, 2023.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, unless otherwise stated.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

Information about judgements made in applying accounting policies that have an effect on the amounts recognized in the financial statements is included in the following notes:

Note 3(l)	Determination of the performance obligation for contribution and the related amortization period
Note 3(m)	Whether an arrangement contains a lease
Note 6	Estimate for impairment for uncollected amounts, based on the lifetime expected credit losses
Note 8	Property, plant and equipment: useful lives and the identification of significant components of property, plant and equipment.
Note 9	Intangible assets: useful lives and goodwill impairment testing.
Note 12	Measurement of the defined benefit obligation – actuarial assumptions
Note 23	Recognition and measurement of commitments and contingencies.

2. Basis of preparation (continued)

(e) Rate regulation

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

The Corporation is required to bill certain classes of customers for the debt retirement charges. The Corporation may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC") once each year.

(f) Rate setting

Distribution revenue

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

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

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

On May 27, 2014, the Corporation filed its 2015 Cost of Service application. The OEB issued its final Decision and Order dated June 5, 2015. The decision allows for a total service revenue requirement of $11,210,828 based on a total rate base of $61,778,759. The deemed debt portion of the rate base (60%) at $27,067,256 earns a weighted average rate of 4.05%. The deemed equity portion of the rate base (40%) at $24,711,504 earns a deemed return on equity of 9.30%. The rates were effective May 1, 2015 with an implementation date of June 1, 2015.

2. Basis of preparation (continued)

(f) Rate setting (continued)

Distribution revenue (continued)

Festival filed its 2021 IRM application for distribution rates and was approved new rates by the OEB effective January 1, 2021. The Corporation's approved adjustment to distribution rates was 1.90%, as a result of an OEB approved inflation factor of 2.20%, less a stretch factor of 0.30% determined by the relative efficiency of the Corporation. The application included the approval of rate riders for the disposition of certain deferral and variance balances.

Festival filed its 2022 IRM application for distribution rates and was approved new rates by the OEB effective January 1, 2022. The Corporation's approved adjustment to distribution rates was 3.00%, as a result of an OEB approved inflation factor of 3.30%, less a stretch factor of 0.30% determined by the relative efficiency of the Corporation. The application included the approval of rate riders for the disposition of certain deferral and variance balances.

Electricity rates

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

3. Significant accounting policies:

The accounting policies set out below have been applied consistently for both years presented in these financial statements in accordance with IFRS.

(a) Regulatory balances

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or other comprehensive income (“OCI”). When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in profit or loss or OCI.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB. Any resulting impairment loss is recognized in profit or loss in the year incurred.

3. Significant accounting policies (continue):

(a) Regulatory balances (continued)

When the Corporation is required to refund amounts to ratepayers in the future, the Corporation recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in profit or loss or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in profit or loss or OCI.

(b) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts. On the statement of cash flows, cash and cash equivalents includes bank overdrafts (revolving credit facility) that are repayable on demand and form an integral part of the Corporation's cash management.

(c) Financial instruments

All financial assets are classified as loans and receivables, except for marketable securities which are classified as available for sale and derivatives which are measured as fair value through profit and loss. All financial liabilities are classified as other financial liabilities. These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs.

Loans and receivables and other financial liabilities are subsequently measured at amortized cost using the effective interest method less any impairment for the financial assets.

Available for sale financial assets are subsequently measured at fair value, within the changes therein recognized in other comprehensive income until the assets are sold. Upon sale of an available for sale asset, the Corporation has elected to record the accumulated unrealized change in value of the asset as a transfer through other comprehensive income into profit and loss.

The Corporation holds derivative financial instruments to manage its interest rate risk exposures. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein, are recognized in the statement of comprehensive income. Hedge accounting has not been used in the preparation of these financial statements.

(d) Inventories

Inventories are stated at lower of cost and net realizable value and consist of maintenance materials and supplies. Cost is determined on a weighted average basis, net of a provision for obsolescence, as applicable. The Corporation classifies all major construction related component of its electricity distribution infrastructure to property, plant and equipment.

(e) Property, plant and equipment ("PP&E")

Items of property, plant and equipment used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation and accumulated impairment losses. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

3. Significant accounting policies (continued):

(e) Property, plant and equipment ("PP&E")

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Borrowing costs on qualifying assets are capitalized as part of the cost of the asset and are based on the Corporation's cost of borrowing. For construction projects of less than one year in length, borrowing costs are not capitalized unless specific identifiable loans are acquired for the express purpose of financing a specific construction activity.

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

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

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

Depreciation begins when an asset becomes available for use. Depreciation is provided on a straight-line basis over the estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The estimated useful lives for the current and comparative years are as follows:

Buildings	10 to 60 years
Distribution substation equipment	30 to 60 years
Distribution system equipment	30 to 60 years
Transformers	35 to 40 years
Meters	15 to 40 years
Other capital assets	4 to 20 years

Other capital assets include vehicles, office and computer equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized within other income in the statement of comprehensive income.

3. Significant accounting policies (continued):

(f) Intangible assets

Intangible assets include goodwill, computer software and capital contributions paid under capital cost recovery agreements ("CCRAs").

(i) Goodwill

Goodwill represents the excess of cost over fair value of net assets which arose upon amalgamation of the former electrical distribution entities. Goodwill is measured at cost less accumulated impairment losses.

(ii) Computer software

Computer software acquired prior to January 1, 2014, is measured at deemed cost less accumulated depreciation. All other software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Capital contributions paid under capital cost recovery agreements

Capital contributions paid under CCRAs are measured at cost less accumulated amortization and accumulated impairment losses.

(iv) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative years are:

Computer software	5 years
CCRAs	15 to 25 years

Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted if appropriate.

(g) Impairment

(i) Financial assets measured at amortized cost

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

3. Significant accounting policies (continued):

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than regulatory assets, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated as at December 31 of each year.

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

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

(h) Provisions

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

(i) Employee benefits

(i) Pension plan

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (OMERS). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“Fund”). 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.

3. Significant accounting policies (continued):

(i) Pension plan (continued)

OMERS is a defined benefit plan, however, as the plan assets and pension obligations are not segregated in separate accounts for each member entity, sufficient information is not available to enable the Corporation to directly account for the plan. As such, the plan has been accounted for as a defined contribution plan. The contribution payable is recognized as an employee benefit expense in the statement of comprehensive income in the period in which the service was rendered by the employee, since it is not practicable to determine the Corporation's portion of person obligations of the fair value of plan assets.

(ii) Employee future benefits, other than pension

The Corporation has an unfunded benefit plan providing post-employment benefits (other than pension) to its employees. The Corporation provides its retired employees (20 years service; less than age 65) with life insurance and medical benefits beyond those provided by government sponsored plans. Life insurance is provided for current retirees including those over age 65.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses, are recognized immediately in other comprehensive income. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

(j) Deferred revenue and assets transferred from customers

Certain customers and developers are required to contribute towards the capital cost of construction in order to provide ongoing service. Cash contributions are initially recorded under current liabilities as customer deposits. Once the distribution system asset is completed or modified, as outlined in the terms of the contract, the contribution amount is transferred to deferred revenue.

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction. The contributions in aid of construction account, which represents the Corporation's obligation to continue to provide the customers access to the supply of electricity, is reported as deferred revenue, and is amortized to other income on a straight-line basis over the terms of the agreement with the customer or the economic useful life of the acquired or contributed asset, which represents the period of ongoing service to the customer.

(k) Customer deposits

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. The electricity customer security deposits liability includes related interest amounts, calculated using OEB prescribed interest rates, and owed to the customers with a corresponding amount charged to finance costs. Deposits that are refundable upon demand are classified as a current liability. Annually, accrued interest is applied directly to the customers' accounts.

3. Significant accounting policies (continued):

(k) Customer deposits (continued)

Security deposits on offers to connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits are classified as a current liability when the Corporation no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

(l) Revenue Recognition

(i) Sale and distribution of electricity

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

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

Customer billings for debt retirement charges are recorded on a net basis as the Corporation is acting as an agent for this billing stream.

(ii) Capital contributions

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

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

3. Significant accounting policies (continued):

(l) Revenue Recognition (continued)

(ii) Other revenue

Revenue earned from the provision of services is recognized as the service is rendered. Government grants and the related performance incentive payments under Conservation and Demand Management (“CDM”) programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

(m) Leased assets

At inception of a contract, the Corporation assess whether the contract is or contains a lease. A contract is determined to contain a lease if it provides the Corporation with the right to control the use of an identified asset for a period of time in exchange for consideration. Contracts determined to contain a lease are accounted for as leases. For leases and contracts that contain a lease, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Subsequent to initial recognition, the right-of-use asset is recognized at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for certain remeasurements of the corresponding lease liability.

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

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

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

3. Significant accounting policies (continued):

(n) Finance income and finance costs

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

Finance costs comprise interest expense on customer deposits, the demand notes payable, revolving credit facility and long-term borrowings.

Changes in the fair value of interest rate swap agreements are recorded either in finance income, or costs, depending on whether an unrealized gain or loss is required.

(o) Income taxes

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

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

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

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

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 or debt balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the statements of comprehensive income.

3. Significant accounting policies (continued):

(o) Income taxes (continued)

The benefits of the refundable and non-refundable apprenticeship and other ITCs are credited against the related expense in the statements of comprehensive income.

4. Standards issued but not yet adopted:

There are new standards, amendments to standards and interpretations which have not been applied in preparing these financial statements. These standards or amendments relate to the measurement and disclosure of financial assets and liabilities. The extent of the impact on adoption of these standards and amendments has not yet been determined.

i. Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
ii. Definition of Accounting Estimates (Amendments to IAS 8)
iii. Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

i. Classification of Liabilities as Current or Non-current (Amendments to IAS 1):

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. On July 15, 2020 the IASB issued an amendment to defer the effective date by one year. The amendments are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted.

For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period. The amendments also clarify how a company classifies a liability that includes a counterparty conversion option.

The amendments state that settlement of a liability includes transferring a company's own equity instruments to the counterparty, and when classifying liabilities as current or non-current, a company can ignore only those conversion options that are recognized as equity.

The Corporation intends to adopt this standard in its financial statements for the annual period beginning January 1, 2023. The extent of the impact of adoption of the standard has not yet been determined

ii. Definition of Accounting Estimates (Amendments to IAS 8):

On February 12, 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8). The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

4. Standards issued but not yet adopted (continued):

The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The Company intends to adopt this standard in its financial statements for the annual period beginning January 1, 2023. The extent of the impact of adoption of the standard has not yet been determined.

iii. Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2):

On February 12, 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements). The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

The amendments help companies provide useful accounting policy disclosures. The key amendments include:

– requiring companies to disclose their material accounting policies rather than their significant accounting policies;

– clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and

– clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The Company intends to adopt this standard in its financial statements for the annual period beginning January 1, 2023. The Company does not expect this standard to have a material impact on the financial statements.

5. Bank indebtedness:

	2022	2021
Cash	$ 660	$ 1,660
Revolving credit facility	(3,741,355)	(17,428)
Bank indebtedness	**$ (3,740,695)**	**$ (15,768)**

6. Accounts receivable:

	2022	2021
Energy, water and sewer	$ 6,523,810	$ 6,223,521
Other	1,555,845	1,901,380
Total	**$ 8,079,655**	**$ 8,124,901**

Included in accounts receivable is $1,230,333 (2021 - $1,193,417) of customer receivables for water consumption and sewer ("water & sewer") that the Corporation bills and collects on behalf of the City of Stratford and the Town of St. Marys. As the Corporation does not assume liability for collection of these amounts, any amount related to City of Stratford and Town of St. Marys water & sewer charges that are determined to be uncollectible are charged to the City of Stratford and Town of St. Marys, respectively. At year end, there is nil (2021 - nil) included in the provision for impairment for uncollectable amounts relating to water and sewer.

7. Inventories:

The amount of inventories consumed by the Corporation and recognized as an expense during 2022 was $149,137 (2021 - $166,873). During 2022, an amount of nil (2021 – nil) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

8. Property, plant and equipment:

a) Cost or deemed cost

	Land and buildings	Distribution & substation equipment	Other distribution system equipment	Transformer station	Total
Balance at January 1, 2021	$2,663,162	$47,579,167	$2,810,734	$14,049,010	$67,102,073
Additions	477,555	2,698,194	326,676	143,417	3,645,842
Transfers	-	-	134,660	-	134,660
Disposals/retirements	(6,795)	(230,606)	(155,736)	-	(393,137)
Balance at December 31, 2021	**$3,133,922**	**$ 50,046,755**	**$ 3,116,334**	**$ 14,192,427**	**$ 70,489,438**
Balance at January 1, 2022	$3,133,922	$50,046,755	$3,116,334	$14,192,427	$70,489,438
Additions	357,228	3,022,647	281,971	86,263	$3,748,109
Transfers	-	-	235,832	-	$235,832
Disposals/retirements	(27,578)	(297,300)	(375,808)	-	($700,686)
Balance at December 31, 2022	**$3,463,572**	**$52,772,102**	**$3,258,329**	**$14,278,690**	**$73,772,693**

b) Accumulated depreciation

	Land and buildings	Distribution & substation equipment	Other distribution system equipment	Transformer station	Total
Balance at January 1, 2021	$ 337,380	$ 7,977,726	$ 1,119,839	$ 2,220,066	$ 11,655,011
Depreciation	96,716	1,413,877	268,888	334,173	2,113,654
Disposals/retirements	(6,795)	(230,605)	(155,736)	-	(393,136)
Balance at December 31, 2021	$ 427,301	$ 9,160,998	$ 1,232,991	$ 2,554,239	$ 13,375,529
Balance at January 1, 2022	$427,301	$9,160,998	$1,232,991	$2,554,239	$13,375,529
Depreciation	120,660	1,491,865	285,635	345,657	$2,243,817
Disposals/retirements	(27,578)	(297,300)	(375,808)	-	($700,686)
Balance at December 31, 2022	$520,383	$10,355,563	$1,142,818	$2,899,896	$14,918,660

c) Carrying amounts

	Land and buildings	Distribution & substation equipment	Other distribution system equipment	Transformer station	Total
December 31, 2021	$2,706,621	$40,885,757	$1,883,343	$11,638,188	$57,113,909
December 31, 2022	$2,943,189	$42,416,539	$2,115,511	$11,378,794	$58,854,033

d) Borrowing costs

During the year, no borrowing costs (2021 – nil) were capitalized as part of the cost of property, plant and equipment.

9. Intangible assets and goodwill:

a) Cost or deemed cost

	Goodwill	Computer software	Land Rights	CCRA's	Total
Balance at January 1, 2021	$ 515,359	$ 1,593,915	$ 3,150	$ 966,935	$ 3,079,359
Additions	-	77,945	-	-	77,945
Disposals	-	(252,888)	-	-	(252,888)
Balance at December 31, 2021	**$ 515,359**	**$ 1,418,972**	**$ 3,150**	**$ 966,935**	**$ 2,904,416**
Balance at January 1, 2022	$515,359	$ 1,418,972	$ 3,150	$ 966,935	$ 2,904,416
Additions	-	111,889	-	-	111,889
Work in Progress	-	221,461	-	-	221,461
Disposals	-	(312,506)	-	-	(312,506)
Balance at December 31, 2022	**$ 515,359**	**$ 1,439,816**	**$ 3,150**	**$ 966,935**	**$ 2,925,260**

b) Accumulated amortization

	Goodwill	Computer software	Land Rights	CCRA's	Total
Balance at January 1, 2021	**$ -**	**$ 750,096**	**$ -**	**$ 374,019**	**$ 1,124,115**
Amortization	**-**	243,875	**-**	54,473	298,348
Disposals	**-**	(252,888)	**-**	-	(252,888)
Balance at December 31, 2021	$ -	**$ 741,083**	$ -	**$ 428,492**	**$ 1,169,575**
Balance at January 1, 2022	$ -	$ 741,083	$ -	$ 428,492	$ 1,169,575
Amortization	-	207,436	-	54,473	261,909
Disposals	-	(312,506)	-	-	(312,506)
Balance at December 31, 2022	$ -	**$ 636,013**	$ -	**$ 428,492**	**$ 1,118,978**

c) Carrying amounts

	Goodwill	Computer software	Land Rights	CCRA's	Total
December 31, 2021	$ 515,359	$ 677,889	$ 3,150	$ 538,443	$ 1,734,841
December 31, 2022	$ 515,359	$ 803,803	$ 3,150	$ 483,970	$ 1,806,282

d) Goodwill impairment

Management has determined that the Corporation's rate regulated operations are one cash generating unit. Therefore, the goodwill was allocated to the Corporation as a whole. The annual impairment test is based on the Corporation's value in use. Value in use was determined by discounting the future cash flows of the Corporation and was based on the following key assumptions:

9. Intangible assets and goodwill:

d) Goodwill impairment (continued)

A detailed valuation of the Corporation was undertaken during 2022 based on financial results of the Corporation as at December 31, 2022. Cash flows were projected based on actual operating results and the cost of capital and rate of return as approved in the 2015 Cost of Service application. A discounted cash flow model was utilized based on free cash flows for 20 years, followed by a terminal value calculated based on a steady-state cash flow, with the terminal value within range of market-based terminal multiples. The recoverable amount of the Corporation was determined to be greater than the carrying value of goodwill and no impairment was recorded as at December 31, 2022 or December 31, 2021.

10. Income taxes:

	2022	2021
Income tax expense		
Current tax expense:		
Current year	$ 160,945	$ 322,507
Prior year	(56,545)	3,923
Total current tax expense	104,400	326,430
Deferred tax expense:		
Change in recognized deductible temporary differences	992,021	590,859
Total current and deferred income tax in profit or loss, before movement of regulatory balance	1,096,421	917,289
Other comprehensive income:		
Employee future benefits	80,363	(21,361)
Total current and deferred tax, before movement in regulatory balances	1,176,784	938,650
Net movement in regulatory balances	(1,072,384)	(612,220)
Income tax expense recognized in statement of comprehensive Income	**$104,400**	**$326,430**

Reconciliation of effective tax rate

	2022	2021
Income before taxes	$4,486,834	$3,538,670
Canada and Ontario statutory income tax rates	26.5%	26.5%
Expected tax provision on income tax at statutory rates	1,189,011	937,748
Increase (decrease) in income tax resulting from:		
Permanent differences	2,212	1,420
Recognized deductible temporary difference due from customers	(1,072,384)	(612,220)
Other	(14,439)	(518)
Income tax expense	**$ 104,400**	**$ 326,430**

10. Income taxes (continued):

	2022	2021
Deferred tax assets (liabilities):		
Property, plant, equipment and intangible assets	($2,488,634)	($1,968,063)
Employee future benefits	267,618	360,835
Other	(160,354)	298,241
	($2,381,370)	**($1,308,987)**

11. Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers as well as construction deposits. These customer deposits bear interest at the OEB's prescribed interest rate, which is the Bank of Canada's prime business rate less 2%.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service. Due to the demand nature of these deposits, they are classified as current liabilities.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, these deposits are transferred to deferred revenue.

Customer deposits comprise:

	2022	2021
Electricity deposits	$ 957,164	$1,061,051
Construction deposits	1,039,378	702,802
Total customer deposits	**$1,996,542**	**$1,763,853**
Consisting of:		
Short-term	$ 1,016,175	$ 1,169,542
Long-term	980,367	594,311

12. Employee future benefits:

(a) Employee future benefits, other than pension

The Corporation provides certain unfunded health, dental and life insurance benefits on behalf of its retired employees. These benefits are provided through a group defined benefit plan. The Corporation has reflected its share of the defined benefit costs and related liabilities, as calculated by the actuary, in these financial statements. The accrued benefit liability and the corresponding expense were based on results and assumptions determined by actuarial valuation as at December 31, 2022.

12. Employee future benefits (continued):

Changes in the present value of the defined benefit unfunded obligation and the accrued benefit liability:

	2022	2021
Defined benefit obligation, beginning of year	$ 1,361,643	$ 1,492,917
Included in profit or loss:		
Current service cost	36,217	39,189
Interest cost	38,994	37,165
	75,211	76,354
Included in OCI:		
Actuarial (gains) losses arising from changes in financial assumptions	(303,258)	(80,606)
Benefits paid during the year	(123,718)	(127,022)
Defined benefit obligation, end of year	**$1,009,878**	**$1,361,643**

The significant actuarial assumptions used in the valuation are as follows:

	2022	2021
Discount rate	5.05%	3.00%
Rate of compensation increase	3.30%	2.50%
Initial health care cost trend rate	4.70%	4.70%
Initial dental cost trend rate	4.90%	4.90%
Year that rate reaches the rate it is assumed to be	2040	2040
Cost trend rate declines to	4.00%	4.00%

Significant actuarial assumptions for benefit obligation measurement purposes are the discount rate and assumed medical and dental cost trend rates. The sensitivity analysis below has been determined based on reasonably possible changes in the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely these changes in assumptions would occur in isolation from each other. The approximate effect on the accrued benefit obligation of the entire plan and the estimated net benefit expense of the entire plan if the health care trend rate assumption was increased or decreased by 1%, and all other assumptions were held constant, is as follows:

	2022	2021
Benefit Obligation, end of year	$1,009,878	$1,361,644
1% increase in health care trend rate	26,900	50,156
1% decrease in health care trend rate	(24,300)	(44,744)
1% increase in discount rate	(96,500)	(167,544)
1% decrease in discount rate	119,000	215,456

(b) Pension plan

The Corporation provides a pension plan for its employees through the Ontario Municipal Employees Retirement System. The plan is a multi-employer, contributory defined benefit pension plan. In 2022, the Corporation made employer contributions of $365,116 to OMERS (2021 - $353,752). The Corporation's net benefit expense has been allocated as follows:

- $138,744 (2021 - $134,426) capitalized as part of PP&E
- $186,209 (2021 - $180,413) charged to operating expenses
- $40,163 (2021 - $38,913) charged to CDM and billable work

12. Employee future benefits (continued):

(b) Pension plan (continued)

As at December 31, 2022, OMERS states that their plan was 95% funded (2021 – 97%). OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. The Corporation’s contributions represent less than 1% of the total annual contributions to the OMERS plan.

13. Regulatory assets and liabilities:

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

In the tables below, the “Additions” column consists of new additions to regulatory balances (for both debits and credits). The “Recovery/reversal” column consists of amounts collected through rate riders or transactions reversing an existing regulatory balance. The “Other movements” column consists of reclassification between the regulatory debit and credit balances. For the years ended December 31, 2022 and 2021, the Corporation did not record any impairments related to regulatory debit balances.

	January 1, 2022	Additions	Recovery/ reversal	Other Movements	December 31, 2022	Notes
Regulatory deferral account debit balances						
Settlement (Group 1) variances	$ 2,939,939	$ 386,141	$ (313,926)	$ 2,075,470	$ 5,087,624	(1)
Stranded meters	2,292	21	-	-	2,313	(2)
LRAM	268,628	(244,237)	256	-	24,646	(1)
Deferred Taxes	1,308,987	1,072,383	-	-	2,381,370	(4)
Rate application costs	8,008	-	-	-	8,008	(3)
	$ 4,527,854	**$1,214,308**	**$ (313,670)**	**$ 2,075,470**	**$ 7,503,962**	

	January 1, 2021	Additions	Recovery/ reversal	Other Movements	December 31, 2021	Notes
Regulatory deferral account debit balances						
Settlement (Group 1) variances	$ 1,605,348	$ 1,538,071	$ (203,135)	$ (345)	$ 2,939,939	(1)
Stranded meters	2,286	6	-	-	2,292	(2)
LRAM	494,049	(219,691)	(5,730)	-	268,628	(1)
Deferred Taxes	696,766	612,221	-	-	1,308,987	(4)
Rate application costs	8,008	-	-	-	8,008	(3)
	$ 2,806,457	**$1,930,607**	**$ (208,865)**	**$(345)**	**$ 4,527,854**	

13. Regulatory assets and liabilities (continued):

	January 1, 2022	Additions	Recovery/ reversal	Other Movements	December 31, 2022	Notes
Regulatory deferral account credit balances						
Settlement (Group 1) variances	$ (1,286,576)	2,500,939	$ 313,670	$ (2,075,470)	(547,437)	(1)
IFRS transition adjustments	(10,783)	-	-	-	(10,783)	(5)
PILS	(434,218)	(108,394)	-	-	(542,612)	
	$ (1,731,577)	**$ 2,392,545**	**$ 313,670**	**$ (2,075,470)**	**$ (1,100,832)**	

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	January 1, 2021	Additions	Recovery/ reversal	Other Movements	December 31, 2021	Notes
Regulatory deferral account credit balances						
Settlement (Group 1) variances	$ (1,507,500)	11,714	$ 208,865	$ 345	(1,286,576)	(1)
IFRS transition adjustments	(10,783)	-	-	-	(10,783)	(5)
PILS	(272,186)	(162,032)	-	-	(434,218)	
	$ (1,790,469)	**$ (150,318)**	**$ 208,865**	**$ 345**	**$ (1,731,577)**	

1) The changes in settlement (Group 1) and LRAM balances outstanding from December 31, 2021 were approved for disposition as part of the 2022 IRM application with rates effective January 1, 2022 to be collected over a 12-month period.

2) As part of the 2015 COS application, the OEB approved the disposition of stranded meters through a rate rider effective May 1, 2015 (implemented June 1, 2015) with recovery over a 7-month period ending December 31, 2015. Since the residual balance is not material, it will remain in place until the next COS application.

3) The 2015 COS rate application costs were approved for recovery by the OEB and have been amortized over a forty-three-month period ending December 31, 2019.

4) Disposition is not requested for the deferred tax balance as it is being reversed through timing differences in the recognition of deferred tax assets. No carrying charges are calculated on this balance.

5) As part of the 2015 COS application, the OEB approved the disposition of the account 1575/76 IFRS transition account balance used to record the difference arising on adoption of new asset useful lives and overhead rates and write off of end-of-life assets. These account balances were included as a rate rider effective May 1, 2015 (implemented June 1, 2015) and were recovered over a 7-month period ended December 31, 2015. Since the residual balance is not material, it will remain in place until the next COS application.

Carrying charges are applied to all regulatory account balances at the OEB prescribed interest rates, with the exception of the deferred tax assets on which no carrying charges are applied.

As part of the Corporation's 2022 IRM application, the change in debit and credit balance settlement (Group 1) variance accounts occurring during fiscal 2021 were approved as part of 2022 distribution rates for recovery over a 12-month period commencing January 1, 2022. As such, the risk associated with the recovery of variance accounts is limited to the incremental value of non-settlement variances arising since 2021.

14. Long-term debt:

Long-term debt consists of the following:

	2022	2021
Royal Bank revolving term loan, bearing interest at 2.93%, plus a stamping fee of 0.42%, payable in monthly principal instalments of approximately $35,000 plus interest, increasing by $1,000 yearly until maturity on May 31, 2038, secured by a general security agreement.	9,875,000	10,366,000
Royal Bank loan, bearing interest at 2.62%, payable in monthly principal instalments of $19,768, maturing November 25, 2025, secured by a general security agreement.	665,476	882,194
Notes payable to shareholder, bearing interest at 7.25% per annum, with interest payments only, due on demand, unsecured.	15,600,000	15,600,000
	26,140,476	**26,848,194**
Less: current portion	16,328,464	16,307,717
Long-term debt	**$9,812,012**	**$10,540,477**

Interest rate swaps

The Corporation entered into an interest rate swap agreement on a notional principal of $14,000,000 effective May 31, 2013, which matures May 31, 2038. The swap is a receive-variable, pay-fixed swap with the Royal Bank. This agreement has effectively converted variable interest rates to an effective fixed interest rate of 2.93% plus stamping fee of 0.42% on the Royal Bank revolving term loan. The stamping fee is subject to change every 10 years, with the first maturity being May 31, 2023.

Additionally, the Corporation entered into an interest rate swap agreement on a notional principal of $5,000,000. The Corporation has not yet made any draws on this available credit and is not required to do so until the effective date of December 31, 2024. This agreement has effectively converted variable interest rates to an effective fixed interest rate of 2.51% plus stamping fee of 0.42% on the Royal Bank revolving term loan.

The Corporation has determined these swaps do not meet the standard to apply hedge accounting. Since the standard is not met, the interest rate swap contracts have been recorded at their fair value at December 31, 2022 with the combined unrealized gain for the year of $1,723,834 (2021 – $646,085) recorded as finance cost in the statement of comprehensive income.

14. Long-term debt continued:

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Current and long-term debt	Dividends payable	Retained earnings	Total (financing cash flows)
Balance at January 1, 2022	$ 26,848,194	$ 500,556	$ 15,085,495	
Dividends paid	-	(500,556)	(390,330)	$ (890,886)
Proceeds from long-term debt	-	-	-	-
Repayments of long-term debt	(707,718)	-	-	(707,718)
Total changes from financing cash flows	**$ (707,718)**	**$ (500,556)**	**$ (390,330)**	**$ (1,598,604)**
Dividend declared but not paid	-	248,269	(248,269)	-
Net income after net movements in regulatory balances	-	-	4,078,230	-
Balance at December 31, 2022	$ 26,140,476	$ 248,269	$ 18,525,126	$ -

15. Share capital:

	2022	2021
Authorized:		
Unlimited Class A special shares, non-cumulative, 5.0%		
Unlimited Class B special shares		
Unlimited Common shares		
Issued:		
6,100 Class A special shares	$ 6,100,000	$ 6,100,000
6,995 Common shares	9,468,388	9,468,388
	$ 15,568,388	**$15,568,388**

Dividends paid on the 6,100 class A special shares during the year totalled $152,500 (2021 - $152,500). Dividends paid on the 6,995 common shares during the year totalled $486,099 (2021 - $738,386). A common share dividend was declared on December 15, 2022 and is payable on all common shares on record at December 31, 2022, with the dividend to be paid in 2023. The dividend amount payable at December 31, 2022 is $248,269 (2021 - $500,556).

16. Revenue from Contracts with Customer:

The Corporation generates revenue primarily from the sale and distribution of electricity to its customers. Sources of revenue are as documented in the table below.

	2022 Sale of Energy	2022 Distribution Revenue	2021 Sale of Energy	2021 Distribution Revenue
Residential	$ 17,226,469	$ 6,928,900	$ 16,035,245	$ 6,695,809
Commercial	35,806,876	4,757,459	39,685,538	4,553,668
Large Users	2,762,863	314,993	2,653,924	321,241
Other	(207,133)	172,733	1,185,095	11,980
	$ 55,589,074	**$ 12,174,085**	**$ 59,559,802**	**$ 11,582,698**

17. Other income:

	2022	2021
Collection, late payment and other service charges	$ 124,331	$ 187,699
Pole attachment and other rental income	108,836	128,767
Miscellaneous	853,362	852,693
Solar generation	31,992	26,725
	$ 1,118,521	**$ 1,195,884**

Collection, late payment and other service charges are based on service charge rates and retailer rates as approved by the OEB. Pole attachment and other rentals consist primarily of pole attachment charges and charges for office and service centre space.

Miscellaneous includes revenues from City of Stratford and Town of St. Marys water and sewage billing services, street lighting services, management fees charged to Festival Hydro Services Inc. and other revenue sources.

18. Operating expenses:

	2022	2021
Salaries and benefits	$ 3,329,138	$ 3,003,417
External services	1,924,106	1,664,018
Materials and supplies	584,647	624,585
Other support costs	921,154	722,794
	$ 6,759,045	**$ 6,014,814**

19. Finance income and costs:

	2022	2021
Interest income on loan to corporation under common control	$ 10,862	$ 13,587
Interest on bank account	12,036	2,991
Interest on written off trade receivables	442	1,867
Unrealized gain on interest rate swap	1,723,834	646,085
Finance income	**$ 1,747,174**	**$ 664,530**
Interest expense on demand notes payable	$1,131,000	$1,131,000
Interest expense on long-term debt	338,185	378,136
Interest on revolving credit facility	84,552	24,449
Interest expense on deposits	21,041	6,207
Other interest expense	-	64,457
Finance costs	**$ 1,574,778**	**$ 1,604,249**
Net finance income (costs)	**$ 172,396**	**$ (939,719)**

Other interest expenses of $64,457 in 2021 are related to accrued interest and discharge fees for the early payment of the Infrastructure Ontario Projects Corporation (OIPC) loans with a combined principal payout of $842,668.

20. Related party transactions:

a) *Parent and ultimate controlling party*

The parent and sole shareholder of the Corporation is the Corporation of the City of Stratford (the "City"). The City of Stratford produces financial statements that are available for public use.

b) *Key management personnel*

The key management personnel of the Corporation has been defined as members of its Board of Directors and executive management team members. Total compensation of key management in 2022 was $833,946 (2021 - $662,748).

20. Related party transactions (continued):

(b) Transactions with the Corporation of the City of Stratford

The following summarizes the Corporation's related party transactions, recorded at the exchange amounts, with the parent, the City of Stratford, for the years ended December 31:

	2022	2021
Revenues:		
Energy sales	$ 1,475,873	$ 1,612,278
Water and sewer administration fee	499,716	494,093
Street lighting services	18,760	34,878
Service centre space rental	33,477	27,638
Expenses:		
Interest on demand notes payable	$ 1,131,000	$ 1,131,000
Property taxes	121,157	118,062
Tree trimming	54,494	78,073

	December 31, 2022	December 31, 2021
Receivable balances:		
Accounts receivable	$ 371,073	$ 370,838
Payable balances:		
Accounts payable and accrued charges	$ 995,324	$ 996,298
Demand notes payable	15,600,000	15,600,000
Dividends payable	248,269	500,556
Total payables	$16,843,593	$17,096,854

The net amount owing to the Corporation of the City of Stratford for accounts receivable, accounts payable and accrued charges is $624,251 (2021 - $625,460).

Dividends paid or payable	$ 638,599	$ 890,886

20. Related party transactions (continued):

(c) Transactions with corporations under common control of the parent

The following summarizes the Corporation's related party transactions, recorded at the exchange amounts, with Festival Hydro Services Inc., a wholly-owned subsidiary of the City of Stratford, for the years ended December 31:

	2022	2021
Revenues:		
Operational services	$ 33,397	$ 40,872
Management fee	64,851	57,518
Office and fibre room rentals	1,470	1,225
Joint pole rentals	55,308	71,311
Interest earned	10,862	13,712
Energy sales	28,689	25,687
Water billing and collection services	75,120	73,410
Total revenues	$269,697	$283,735
Expenses:		
Fiber and WIFI services	$154,148	$154,148
Information technology and management services	273,165	128,117
Total expenses	$427,313	$282,265

Receivable balance:	December 31, 2022	December 31, 2021
Due from corporations under common control	$122,147	$332,803

21. Capital management:

The Corporation's main objectives when managing capital is to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system;
- ensure sufficient liquidity is available (either through cash and cash equivalents or committed credit facilities) to meet the needs of the business;
- ensure compliance with covenants related to its credit facilities; and
- prudent management of its capital structure with regard to recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios. The Corporation manages capital by preparing short-term and long-term cash flow forecasts, statements of financial position and comprehensive statements of income. In addition, the Corporation accesses its revolving credit facility to fund net periodic net cash outflows and to maintain available liquidity.

There have been no changes in the Corporation's approach to capital management during the year. As at December 31, 2022, the Corporation's definition of capital included borrowings under its revolving credit facility, long-term debt and obligations including the current portion thereof, and equity, and had remained unchanged from the definition as at December 31, 2021. As at December 31, 2022, equity amounted to $34,039,035 (2021 - $30,296,146), borrowings in the form of demand notes payable and long-term debt, including the current portion thereof, amounted to $26,140,476 (2021 - $26,848,194) and the revolving credit facility amounted to $3,720,132 (2021 - $17,428).

21. Capital management (continued):

The OEB regulates the amount of deemed interest on debt and rate of return that may be recovered by the Corporation, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure and finance costs for the Corporation may differ from the OEB deemed structure.

The Corporation is subject to debt agreements that contain various covenants. The Corporation's credit agreement with Royal Bank provides a revolving demand facility, letter of guarantee which is posted with the IESO as prudential support, and a long-term loan facility. These combined facilities are subject to a funded indebtedness debt to equity ratio of no more than 65%.

The Corporation has customary covenants typically associated with long-term debt. As at December 31, 2022 and December 31, 2021, the Corporation was in compliance with all with all credit agreement covenants and limitations associated with its long-term debt.

22. Financial instruments and risk management:

Fair value disclosure

The carrying values of accounts receivable, unbilled revenue, and the revolving term facility, accounts payable and accrued liabilities approximate their fair values due to the short maturity of these instruments. The fair values of customer deposits approximate their carrying amounts taking into account interest accrued on the outstanding balance. Cash is measured at fair value.

The swap agreements are measured at fair value, which is provided by a third-party, banking institution and is based on market rates at the date of the valuation. The valuation of the interest rate swaps resulted in an unrealized gain recorded on the statement of financial position at December 31, 2022 of $784,886 (2021 - $938,948 unrealized loss).

The fair value of the long-term borrowings is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The carrying amounts and fair values of the Corporation's long-term loans consist of the following:

22. Financial instruments and risk management (continued):

	2022	2021
Carrying amounts:		
Demand notes payable, 7.25%	$15,600,000	$15,600,000
Term Loan 2.93% maturing May 1, 2038 plus stamping fee of 0.42%	9,875,000	10,366,000
Term Loan 2.62% maturing November 25, 2025	665,476	882,194
Total	**$26,140,476**	**$26,848,194**

	2022	2021
Fair values:		
Demand notes payable valued based on current revolving credit facility rate of 3.95%	$12,556,106	$16,422,603
Term Loan 2.93 % plus stamping fee of 0.42% booked at market value	9,581,114	11,304,948
Term Loan 2.62% maturing November 25, 2025, booked at market interest rate of 2.95%	609,697	865,230
Total	**$22,746,917**	**$28,592,781**

Financial risks

The following is a discussion of financial risks and related mitigation strategies that have been identified by the Corporation for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed. The Corporation's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

a) *Credit risk*

The Corporation is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The Corporation's credit risk associated with accounts receivable and unbilled revenue is primarily related to electricity bill payments from electricity customers. The Corporation obtains security deposits from certain customers in accordance with direction provided by the OEB and as outlined in the Corporation's conditions of service. As of December 31, 2022, the Corporation held security deposits related to electricity receivables in the amount of $957,164 (2021 - $1,061,051).

22. Financial instruments and risk management (continued):

(a) *Credit risk (continued)*

As at December 31, 2022, there were no significant concentrations of credit risk with respect to any one customer. No single customer accounts for revenue in excess of 5% of total distribution revenue. The Corporation earns its revenue from a broad base of approximately 21,000 customers (2021 - 21,000 customers) located throughout its service territory.

The credit risk and mitigation strategies with respect to unbilled revenue are the same as for accounts receivable. The credit risk related to cash is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties.

Credit risk associated with electricity accounts receivable and unbilled revenue (electricity only) is as follows:

	2022	**2021**
Not more than 30 days	$ 6,448,968	$ 6,635,586
More than 30 but less than 90 days	405,840	295,071
More than 90 days	167,531	179,511
Less allowance for impairment	(173,017)	(178,684)
Unbilled revenue	4,783,498	5,230,771
	$ 11,632,820	**$12,162,255**

As at December 31, 2022, the Corporation's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional allowance for impairment was required for these balances.

Reconciliation between the opening and closing allowance for impairment is as follows:

	2022	**2021**
Balance, beginning of year	$ 178,684	$ 152,435
Provision for impairment	**53,870**	120,944
Write offs	(72,374)	(108,245)
Recoveries	12,837	13,550
Balance, end of year	**$ 173,017**	**$ 178,684**

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at year end. Unbilled revenue is considered current and no provision for impairment was established as at December 31, 2022 (2021 – nil).

(b) *Interest rate risk*

The Corporation is exposed to fluctuations in interest rates for the valuation of its employee future benefit obligations (note 12). The Corporation is also exposed to short-term interest rate risk on the net of cash position and short-term borrowings under its Revolving Credit Facility and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments and taking action as necessary to maintain an appropriate balance.

22. Financial instruments and risk management (continued):

(b) Interest rate risk (continued)

As at December 31, 2022, aside from the valuation of its employee future benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its revolving credit facility and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase in short-term interest rates, with all other variables held constant, would result in an increase of approximately $61,266 (2021 - $17,921) to annual finance costs. A decrease of 100 basis points would result in a reduction in financing costs of $61,266 (2021 – $17,921).

(c) Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. The Corporation has access to credit facilities and monitors cash balances daily. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs.

The Corporation has a revolving credit facility available of $10,000,000 with a Canadian chartered bank. As at December 31, 2022, $3,720,132 (2021 - $17,428) was drawn on this facility.

As a purchaser of electricity through the Independent Electricity System Operator ("IESO"), the Corporation is required to provide security to minimize the risk of default based on its expected activity in the market. The IESO may draw on this security if the Corporation fails to make payment required by a default notice issue by the IESO. The Corporation has a $3.6 million revolving term facility by way of a letter of guarantee with Royal Bank, of which $3,095,139 (2021 - $3,095,139) has been assigned to secure the prudential support required by the IESO.

The majority of accounts payable, as reported on the statement of financial position, is due within 30 days.
Liquidity risks associated with financial commitments are as follows:

22. Financial instruments and risk management (continued):

Contractual cash flows, including interest, at year end are:

December 31, 2022

	Carrying Amounts	Total	Due within 1 year	Due within 1 to 5 years	Due> 5 years
Revolving credit facility	$ 3,741,355	$ 3,741,355	$ 3,741,355	$ -	$ -
Accounts payable and accrued liabilities	8,658,017	8,658,017	8,658,017	-	-
Due to City of Stratford	624,251	624,251	624,251	-	-
Demand notes payable	15,600,000	15,600,000	15,600,000	-	-
Term Loan 2.93 % plus stamping fee of 0.42%	9,875,000	12,645,318	828,224	3,308,138	8,508,956
Term Loan 2.62% maturing November 25, 2025	665,476	691,894	237,221	454,673	-
	$ 39,164,099	$ 41,960,835	$ 29,689,068	$ 3,762,811	$ 8,508,956

December 31, 2021

	Carrying Amounts	Total	Due within 1 year	Due within 1 to 5 years	Due> 5 years
Revolving credit facility	$ 17,428	$ 17,428	$ 17,428	$ -	$ -
Accounts payable and accrued liabilities	9,902,642	9,902,642	9,902,642	-	-
Due to City of Stratford	625,460	625,460	625,460	-	-
Demand notes payable	15,600,000	15,600,000	15,600,000	-	-
Term Loan 2.93 % plus stamping fee of 0.42%	10,366,000	13,475,135	829,817	3,311,494	9,333,824
Term Loan 2.62% maturing November 25, 2025	882,194	929,115	237,221	691,894	-
	$ 37,393,724	$ 40,549,780	$ 27,212,568	$ 4,003,388	$ 9,333,824

23. Commitments and contingencies:

Operating leases

The Corporation entered into a non-cancellable operating lease for service centre space for a period of five years dated November 15, 2015. The contract is subject to an annual increase based on the Ontario Consumer Price Index. Minimum lease payments required are $997 per month for 2022.

Connection and cost recovery agreement - St. Mary's transformer station

The Corporation and Hydro One Networks Inc. entered into a twenty-five-year capital cost recovery agreement ("CCRA") in September 2002 relating to Hydro One Networks Inc. building new feeder positions at the existing St. Mary's Transformer Station. Under the terms of the agreement, the Corporation has guaranteed new load growth which, if not met, would require the Corporation to provide a financial contribution toward the capital investment of the transformer station.

The CCRA has been trued-up effective July 5, 2013. Since load growth had fallen below a target amount, a cumulative contribution in the amount of $550,200 has been paid to Hydro One Networks. This amount has been recorded as an intangible asset subject to 15-year amortization over the remaining life of the agreement. The agreement was subject to true up effective on the fifteenth year of the agreement in July 2018 however, this has not been completed by Hydro One Inc. It is possible that the Corporation may owe a further payment as a result of the agreement but an estimate of any amount owing is not possible at December 31, 2022 given the nature of the variables included in the calculation. The need for a contribution will be determined by Hydro One Networks Inc. based on actual new load growth.

Connection and cost recovery agreement-Stratford transformer station ("Festival Hydro MTS1")

The Corporation and Hydro One Networks Inc. entered into a twenty-five-year CCRA in November, 2012, relating to Hydro One Networks Inc. building a new 230kV line to connect Festival Hydro`s MTS1 to Hydro One`s 230kV circuit. Under the terms of the agreement, the Corporation has guaranteed new load growth which, if not met, would require the Corporation to provide a financial contribution toward the capital investment. The CCRA is trued-up (a) following the fifth and tenth anniversaries of the in-service date; and (b) following the fifteenth anniversary of the in-service date if the actual load is 20% higher or lower than the load forecast at the end of the tenth anniversary of the in-service date. The fifth anniversary of the in-service date was in November 2017. The need for a contribution will be determined by Hydro One Networks Inc. based on actual new load growth.

General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation’s financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (“MEARIE”). MEARIE is a pooling of public liability insurance risks of many of the electrical utilities in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur it would be funded over a period of up to 5 years. As at December 31, 2022, no assessments had been made.

24. Guarantee:

The Corporation has guaranteed the bank loan of QR Fibre, a company related through common ownership, to the extent of $4,500,000. In addition, the Corporation has entered into a Guarantee Indemnification Agreement to ensure compliance with the Affiliation Relationships code for Electricity Distributors and Transmitters and mitigate its risk exposure. No amount has been recorded in these financial statements as the Corporation does not expect to have to honour its guarantee.

25. Subsequent event:

The shares of QR Fibre Inc. held under common control were sold on January 31, 2023 for proceeds of $50,000. As of the date of sale, the Corporation is no longer obligated to honour the guarantee for the bank loan of QR Fibre.

26. Comparative figures:

Certain comparative figures have been restated to conform to the current year presentation.

FESTIVAL HYDRO INC.

Balance Sheet

For the period ending December 31, 2022

	YTD as at Dec 31, 2021	YTD Budget at Dec 31, 2022	YTD Proj. as at Dec 31, 2022	YTD Final Audited as at Dec 31, 2022
ASSETS				
Current Assets				
Accounts Receivable	8,517,199	7,100,000	8,100,000	8,460,478
Inventory	163,445	200,000	200,000	177,526
Prepaid Expenses	357,282	450,000	450,000	230,441
Due from FHSI	332,803	336,032	195,405	122,147
Corporate PILS Recoverable	356,057	—	—	511,562
Unbilled Revenue	5,230,771	6,500,000	6,000,000	4,783,498
	14,957,557	**14,586,032**	**14,945,405**	**14,285,653**
Property, Plant & Equipment	57,113,909	57,577,058	58,191,066	58,854,036
Other Assets				
Intangible Assets	1,734,841	2,027,793	2,293,142	1,806,282
Future payments in lieu of income taxes	(3,109,920)	(745,865)	(1,706,586)	(3,239,959)
Regulatory Assets	4,597,210	800,000	1,700,000	7,261,719
TOTAL ASSETS	**75,293,597**	**74,245,018**	**75,423,027**	**78,967,731**

	YTD as at Dec 31, 2021	YTD Budget at Dec 31, 2022	YTD Proj. as at Dec 31, 2022	YTD Final Audited as at Dec 31, 2022
LIABILITIES				
Current Liabilites				
Bank Indebtedness	15,768	477,157	634,708	3,740,695
Accounts Payable & Accrued Liabilities	10,920,398	10,300,000	10,100,000	9,663,091
Current Portion of Consumer Deposits	1,169,541	1,000,000	1,100,000	1,016,175
Current Portion of Long Term Loans	707,717	676,718	727,496	728,464
Dividends Declared	500,556	—	235,645	248,269
Promissory Note	15,600,000	15,600,000	15,600,000	15,600,000
	28,913,981	**28,053,876**	**28,397,850**	**30,996,695**
Other Liabilites				
Unrealized loss on interest rate swap	938,948	744,235	938,948	(784,886)
Deferred Revenue	2,648,087	2,064,554	2,781,764	2,914,627
Employee Future Benefits	1,361,643	1,451,944	1,361,643	1,009,878
Long Term Debt				
Consumer Deposits over one year	594,311	400,000	400,000	980,367
RBC Loan - LT Portion	10,540,477	9,369,000	9,812,980	9,812,012
Infrastructure Ontario Loan - LT Portion	—	—	—	—
TOTAL LIABILITIES	**44,997,447**	**9,769,000**	**10,212,980**	**44,928,692**
EQUITY				
Share Capital - Common	9,468,388	9,468,388	9,468,388	9,468,388
Share Capital - Preferred	6,100,000	6,100,000	6,100,000	6,100,000
Retained Earnings	15,085,499	16,912,539	16,519,192	18,525,130
Accumulated Other Comprehensive Income	(357,737)	(319,518)	(357,737)	(54,479)
TOTAL EQUITY	**30,296,150**	**32,161,409**	**31,729,843**	**34,039,039**
TOTAL LIABILITIES AND EQUITY	**75,293,597**	**74,245,018**	**75,423,027**	**78,967,731**

FESTIVAL HYDRO INC.

Income Statement

For the period ending December 31, 2022

	YTD as at Dec 31, 2021	YTD Budget at Dec 31, 2022	YTD Proj. as at Dec 31, 2022	YTD Final Audited as at Dec 31, 2022	Cur to Bdg YTD Var$	Cur to Bdg YTD Var%	Cur to Proj. YTD Var$
REVENUE							
Service Revenue	72,302,125	86,557,124	88,884,422	70,315,230	(16,241,894)	(19%)	(18,569,192)
Cost of Power	60,698,856	74,429,400	76,495,106	58,141,145	(16,288,255)	(22%)	(18,353,961)
GROSS MARGIN (DISTRIBUTION REVENUE)	**11,603,269**	**12,127,724**	**12,389,316**	**12,174,085**	**46,361**	**0%**	**(215,231)**
`							
Other Operating Revenue	1,203,160	1,106,523	1,118,743	1,122,786	16,263	1%	4,043
OPERATING & MAINTENANCE EXPENSE							
Transformer & Distribution Station Expense	175,463	191,505	198,857	239,484	47,979	25%	40,627
Distribution Lines & Services Overhead	1,420,532	1,766,895	1,780,116	1,677,230	(89,665)	(5%)	(102,887)
U/G Distribution Lines & Services	244,173	210,164	229,466	254,396	44,232	21%	24,930
Distribution Transformers	97,568	78,956	90,392	81,251	2,294	3%	(9,141)
Distribution Meters	311,900	427,611	445,444	444,351	16,740	4%	(1,092)
Customer Premises	194,867	169,738	179,225	206,830	37,093	22%	27,605
TOTAL OPERATING AND MAINTENANCE	**2,444,502**	**2,844,869**	**2,923,500**	**2,903,543**	**58,673**	**2%**	**(19,957)**
ADMINISTRATION							
Billing, Collecting & Meter Reading	1,293,457	1,428,798	1,309,733	1,283,486	(145,313)	(10%)	(26,248)
Administration	2,406,903	2,925,464	2,777,959	2,694,580	(230,884)	(8%)	(83,379)
TOTAL ADMINISTRATION	**3,700,360**	**4,354,262**	**4,087,692**	**3,978,065**	**(376,196)**	**(9%)**	**(109,627)**
Allocated Depreciation	(130,048)	(126,030)	(120,672)	(122,564)	(3,466)	(3%)	—
TOTAL CONTROLLABLE COST	**6,014,814**	**7,073,102**	**6,890,520**	**6,759,045**	**(314,057)**	**(4%)**	**(131,476)**
NET INCOME BEFORE DEP'N, INTEREST & TAX	**6,791,614**	**6,161,145**	**6,617,538**	**6,537,826**	**376,681**	**6%**	**(79,712)**
Depreciation	2,412,000	2,559,342	2,515,754	2,505,726	—	—	(10,028)
Interest Expense	1,617,799	1,544,141	1,681,185	1,655,362	111,222	7%	(25,823)
Interest Income	(33,164)	(33,000)	(33,000)	(82,058)	49,058	149%	(49,058)
NET INCOME BEFORE SWAP, ICM & PBA & INC TAXES	**2,794,979**	**2,090,663**	**2,453,600**	**2,458,796**	**368,133**	**18%**	**5,196**
Current Tax	326,430	208,000	393,933	104,400	(103,600)	(50%)	(289,533)
NET INCOME BEFORE SWAP & ICM	**2,468,549**	**1,882,663**	**2,059,667**	**2,354,396**	**471,733**	**25%**	**294,729**
Unrealized Gain/Loss on Swap	(646,085)	—	—	(1,723,834)	(1,723,834)	—	(1,723,834)
Marketable Security - recorded as OCI	(80,606)	—	—	(303,258)	(303,258)	—	(303,258)
NET INCOME	**3,195,240**	**1,882,663**	**2,059,667**	**4,381,488**	**2,498,825**	**133%**	**2,321,821**

FESTIVAL HYDRO INC.

Cash Flow Statement

For the period ending December 31, 2022

	YTD as at Dec 31, 2021	YTD Budget at Dec 31, 2022	YTD Proj. as at Dec 31, 2022	YTD Final Audited as at Dec 31, 2022
Cash from Operations				
Net Income	3,195,240	1,882,662	2,059,667	4,381,488
Depreciation	2,412,000	2,559,342	2,515,754	2,505,726
Amortization of deferred revenue in other revenue	(65,645)	(77,165)	(68,743)	(358,598)
Unrealized Gain on interest rate swap	(646,085)	—	—	(1,723,834)
Decrease/(Increase) in Receivables	(1,111,618)	1,000,000	417,199	(179,111)
Decrease/(Increase) in Inventory	9,168	—	(36,555)	(14,081)
Decrease/(Increase) in Prepaids	32,568	—	(92,718)	126,840
Decrease/(Increase) in Due from FHSI	294,268	126,696	137,398	210,656
Decrease/(Increase) in PILS	(178,120)	—	356,057	(155,505)
Decrease/(Increase) in Unbilled Revenues	1,140,450	—	(769,229)	447,273
Decrease/(Increase) in Future Tax (offsetting entry in payab	2,161,939	—	(1,403,334)	130,039
Decrease/(Increase) in Regulatory Assets	(3,330,007)	900,000	2,897,210	(2,664,508)
Increase/(Decrease) in Payables	1,322,917	500,000	(820,398)	(1,257,307)
Increase/(Decrease) in Deposits	269,859	—	(263,853)	232,689
Increase/(Decrease) in Employee Future Benefits	(131,274)	—	0	(351,765)
Contributed Capital	486,469	200,000	122,905	483,203
Net Cash Provided	**5,862,129**	**7,091,535**	**5,051,360**	**1,813,204**
Cash from Financing				
Loan Repayments	529,445	1,066,935	628,203	707,718
Cash Used - Capital Expenditures	3,865,723	3,730,830	4,151,212	3,939,526
Cash Used - TS expansion	—	—	—	—
TS Expansion Construction Loan Proceeds	—	—	—	—
Cash Used - Dividends paid current year	390,330	390,330	390,330	390,330
Cash Used - Dividends declared in prior year	115,211	—	500,556	500,556
Net Cash Used	**4,900,709**	**5,188,095**	**5,670,301**	**5,538,130**
Increase (Decrease) in Cash Position	**961,420**	**1,903,440**	**(618,941)**	**(3,724,926)**
Bank Indebtedness, Beg of Period	**(977,188)**	**(2,380,598)**	**(15,768)**	**(15,769)**
Bank Indebtedness, End of Period	**(15,769)**	**(477,158)**	**(634,709)**	**(3,740,695)**

Bank and Line of Credit Analysis	**2021**	**2022**
High balance (YTD)	3,245,015	5,889,735
Low Balance (YTD)	(4,904,523)	(8,463,958)
Overdraft interest (annualized)	24,449	84,552
Interest rate (avg annual for period)	**2.45%**	**4.13%**
Average overdraft balance	**997,918**	**2,046,185**

FESTIVAL HYDRO INC.

Statement of Capital

For the period ending December 31, 2022

	YTD as at Dec 31, 2021	YTD Budget at Dec 31, 2022	YTD Proj. as at Dec 31, 2022	YTD Final Audited as at Dec 31, 2022	Cur to Bdg YTD Var$	Cur to Bdg YTD Var%	Cur to Proj. YTD Var$
DISTRIBUTION							
Distribution Overhead	846,828	1,367,514	1,098,104	919,529	(447,985)	(33%)	(178,575)
Underground Conductor and Devices	1,134,294	818,100	1,010,305	871,375	53,275	7%	(138,930)
Distribution Transformers	409,448	195,075	263,119	374,144	179,069	92%	111,025
Services	350,012	—	235,275	317,708	317,708	(100%)	82,433
Distribution Meters	99,550	387,149	327,000	397,955	10,806	3%	70,955
SCADA/Distribution Automation	11,881	55,000	35,000	33,563	(21,437)	(39%)	(1,437)
Tools and Miscellaneous Equipment	26,796	30,000	30,000	28,200	(1,800)	(6%)	(1,800)
TOTAL DISTRIBUTION	**2,878,808**	**2,852,838**	**2,998,803**	**2,942,474**	**89,636**	**3%**	**(56,329)**
OTHER CAPITAL							
Land and Buildings	485,903	274,692	309,108	365,904	91,212	33%	56,796
Transformer Station	143,417	139,000	217,000	86,263	(52,737)	(38%)	(130,737)
Vehicles and Trailers	16,511	210,000	68,000	68,635	(141,365)	(67%)	635
Computer Hardware and Software	341,084	454,300	558,301	254,790	(199,510)	(44%)	(303,511)
Work in Progress	—	—	(202,420)	221,461	221,461	100%	423,881
TOTAL OTHER CAPITAL	**986,915**	**1,077,992**	**949,989**	**997,052**	**(80,940)**	**(8%)**	**47,063**
TOTAL CAPITAL	**3,865,723**	**3,930,830**	**3,948,792**	**3,939,526**	**8,696**	**0%**	**(9,266)**

Festival Hydro INC.
P.O. Box 397, Stratford, Ontario N5A 6T5

187 ERIE STREET, STRATFORD
TELEPHONE: 519-271-4700
TOLL-FREE: 1-866-444-9370
FAX: 519-271-7204
www.festivalhydro.com

May 10, 2023

City of Stratford
P.O Box 818
1 Wellington Street
Stratford, ON N5A 6W1

Dear City of Stratford Representative:

The following motion was made by the Festival Hydro Inc. board at the April 2023 board meeting:

> MOTION- It was moved by B. Beatty and seconded by M. Ritsma that the Board recommend to the City of Stratford to declare a top-up Common Share dividend in the amount of $248,269 for the year 2022, calculated in accordance with Festival Hydro's Dividend Policy, to be paid in Q2 of 2023.
>
> CARRIED

If you have any questions or require any clarification, please do not hesitate to contact me.

Regards,

Jeff Graham P.Eng
President & CEO
Festival Hydro Inc

To: Mark Hunter and the Finance and Labour Relations Committee
From: Alyson Conrad, CFO
Re: Commentary on FHI Financial Results – For the period ended March 31, 2023

Net income for the period is $603K, which is $76K above the YTD budget. Detailed commentary on the balance sheet and statement of operations are noted below:

BALANCE SHEET COMMENTARY:

Accounts Receivable – The accounts receivable balance is $889K less than it was in March of 2022. This variance is the result of the following:

- Electric receivables are $702K higher than March 2022, the majority of this being current balance i.e., not in arrears. However, we are seeing steady increases in past due balances, both in the quantity of accounts and value of accounts. Arrears balances have increased by $107K compared to March 2022.
- Water and sewer receivables are $115K higher than March 2022 with the majority being current balances. Water and sewer receivables are seeing a similar trend in increasing arrears. Past due balances have increased by $66K compared to March 2022.
- Accounts receivables for recoverable work have decreased by $289K compared to the prior year due larger deposits on hand for upcoming work that are offset in this account.
- OER settlement has decreased by $1.365M compared to the prior year mainly because of a large drop in the OER rate from 17% to 11.7%.

Electric receivables are being continuously monitored due to the disconnection moratorium which will end on April 30, 2023. The customer service team continues to work diligently to attempt to collect arrears while being understanding and empathic to customers. Wherever possible, customer service representatives are making payment arrangements with customers.

Due to/from FHSI – The balance in this account has flipped from a receivable to a payable due to cash transactions related to the sale of investment shares.

Unbilled Revenue – This balance is $838K higher than the balance in March of 2022 and $1.96M higher than the balance at the end of 2022. The major difference is due to the change in cost of power. The cost of power including global adjustment has increased by 8% from March 2022 and has increased by 17% from December 2022.

Regulatory Assets – The regulatory asset balance has increased by $328K since December 2022 and is driven virtually all by the variance in 1589 (Global Adjustment). The variance occurs due to GA being billed on the first estimate, and FHI being billed on actual. The difference remains in account 1589 until the next rate application. In the first three months of the year, GA rates have been 1-2 cents higher on the final rate compared to the first estimate.

A/P and Accrued Liabilities – This balance has decreased by $1.7M from the March 2022 balance. A portion of this variance is due to a lower IESO invoice by $500K and lower HST invoice by $200K. The remaining differences are due to trade payables. In 2022 the A/P balance was higher than normal levels.

Loan Advance – In late March of 2023, FHI drew $2.5M on the available SWAP loan of $5M. This loan is considered short term until the loan becomes fixed loan at the end of 2024.

INCOME STATEMENT COMMENTARY

Gross Margin on Service Revenue (Distribution Revenue) – The distribution revenue to the end of Q1 2023 is $31K above budget. We are continuing to see steady residential customer growth, which accounts for the majority of the variance. Usage has remained relatively stable year-over-year.

Other Revenue – Other revenue is running $8K above budget at the end of Q1. The increases are spread through many accounts so there is nothing significant to note. FHI is down compared to the prior year due to a larger than normal sale of scrap balance in Q1 of 2022.

Controllable Costs - Total controllable costs are $20K less than budget to the end of Q1.

Operating and Maintenance expenses are up overall by $71K compared to the budget. There were a few areas that FHI saw increased costs due to failed equipment. Oil testing was done at the transformer station that required additional contractor work for remediation. Underground cable testing identified some failed cable that required maintenance. Similarly, there has been an increase in failed meters which requires additional meter testing and meter reading to be completed.

Administration expenses are down overall by $90K. The majority of this balance is due to the vacancy of the VP of IT position and EA position. In addition, many of the non-labour costs in this area occur later in the year.

Interest Income and Expense – Interest income and expense are both increasing due to the rising prime rates. Income is increasing substantially due to larger regulatory asset balances and the carrying charge rate going from .57% at the beginning on 2022 to the current rate of 4.73%.

CASH FLOW COMMENTARY

As per the cash flow statement, the March 31 cash balance increased by $1.2M since yearend. The majority of this is due to the draw on the swap loan in March of $2.5M. Subsequently in April, FHI is seeing positive cash balances compared to earlier in the year.

LOAN COVENANT RATIOS

The Loan Covenant as prescribed by our lender, RBC, is being met.

Presented for information purposes.

FESTIVAL HYDRO INC.

Balance Sheet

For the period ending March 31, 2023

	YTD as at Mar 31, 2022	YTD as at Dec 31, 2022	YTD as at Mar 31, 2023
ASSETS			
Current Assets			
Accounts Receivable	7,428,686	8,460,478	6,539,384
Inventory	232,006	177,526	398,248
Prepaid Expenses	345,245	230,441	372,951
Due from FHSI	292,981	122,147	—
Corporate PILS Recoverable	372,057	511,562	578,562
Unbilled Revenue	5,906,712	4,783,498	6,744,927
	14,577,686	**14,285,653**	**14,634,073**
Property, Plant & Equipment	56,676,283	58,854,036	58,463,051
Other Assets			
Intangible Assets	1,910,792	1,806,282	1,884,244
Future payments in lieu of income taxes	(3,109,920)	(3,239,959)	(3,239,959)
Regulatory Assets	4,457,071	7,261,719	7,589,699
TOTAL ASSETS	**74,511,912**	**78,967,731**	**79,331,108**

	YTD as at Mar 31, 2022	YTD as at Dec 31, 2022	YTD as at Mar 31, 2023
LIABILITIES			
Current Liabilites			
Bank Indebtedness	(84,274)	3,740,695	2,542,785
Accounts Payable & Accrued Liabilities	10,550,987	9,663,091	8,858,826
Current Portion of Consumer Deposits	1,087,245	1,016,175	947,048
Current Portion of Long Term Loans	533,068	728,464	548,393
Dividends Declared	500,556	248,506	248,269
Promissory Note	15,600,000	15,600,000	15,600,000
Loan Advance	—	—	2,500,000
Due to FHSI	—	—	46,469
	28,187,582	**30,996,931**	**31,291,789**
Other Liabilites			
Unrealized loss on interest rate swap	938,948	(784,886)	(784,886)
Deferred Revenue	2,593,611	2,914,627	3,219,858
Employee Future Benefits	1,361,643	1,009,878	1,009,878
Long Term Debt			
Consumer Deposits over one year	—	980,367	—
RBC Loan - LT Portion	10,540,477	9,812,012	9,812,012
Infrastructure Ontario Loan - LT Portion	—	—	—
TOTAL LIABILITIES	**43,622,260**	**44,928,929**	**44,548,652**
EQUITY			
Share Capital - Common	9,468,388	9,468,388	9,468,388
Share Capital - Preferred	6,100,000	6,100,000	6,100,000
Retained Earnings	15,679,001	18,524,894	19,268,547
Accumulated Other Comprehensive Income	(357,737)	(54,479)	(54,479)
TOTAL EQUITY	**30,889,652**	**34,038,803**	**34,782,456**
TOTAL LIABILITIES AND EQUITY	**74,511,912**	**78,967,731**	**79,331,108**

FESTIVAL HYDRO INC.

Income Statement

For the period ending March 31, 2023

	YTD as at Mar 31, 2022	YTD as at Mar 31, 2023	YTD Budget at Mar 31, 2023	Cur to Bdg YTD Var$	Cur to Bdg YTD Var%
REVENUE					
Service Revenue	20,422,860	19,546,732	22,703,049	(3,156,317)	(14%)
Cost of Power	17,311,419	16,221,849	19,409,211	(3,187,362)	(16%)
GROSS MARGIN (DISTRIBUTION REVENUE)	**3,111,441**	**3,324,883**	**3,293,838**	**31,045**	**1%**
Other Operating Revenue	311,117	287,431	278,599	8,832	3%
OPERATING & MAINTENANCE EXPENSE					
Transformer & Distribution Station Expense	40,517	116,732	84,413	32,319	38%
Distribution Lines & Services Overhead	531,411	450,914	447,339	3,575	1%
U/G Distribution Lines & Services	48,837	73,819	54,895	18,925	34%
Distribution Transformers	10,813	26,875	21,484	5,391	25%
Distribution Meters	104,506	128,880	107,980	20,899	19%
Customer Premises	40,448	45,054	55,565	(10,510)	(19%)
TOTAL OPERATING AND MAINTENANCE	**776,533**	**842,274**	**771,675**	**70,599**	**9%**
ADMINISTRATION					
Billing, Collecting & Meter Reading	345,935	324,902	350,272	(25,370)	(7%)
Administration	674,624	739,227	804,755	(65,528)	(8%)
TOTAL ADMINISTRATION	**1,020,559**	**1,064,129**	**1,155,027**	**(90,898)**	**(8%)**
Allocated Depreciation	(31,507)	(30,582)	(30,582)	(0)	0%
TOTAL CONTROLLABLE COST	**1,765,585**	**1,875,820**	**1,896,120**	**(20,300)**	**(1%)**
NET INCOME BEFORE DEP'N, INTEREST & TAX	**1,656,973**	**1,736,494**	**1,676,318**	**60,176**	**4%**
Depreciation	639,836	671,472	671,472	(0)	(0%)
Interest Expense	380,091	472,295	399,259	73,036	18%
Interest Income	(8,455)	(70,690)	(8,250)	(62,440)	757%
NET INCOME BEFORE SWAP, ICM & PBA & INC TAXES	**645,502**	**663,418**	**613,837**	**49,581**	**8%**
Current Tax	52,000	60,000	86,500	(26,500)	(31%)
NET INCOME BEFORE SWAP & ICM	**593,502**	**603,418**	**527,337**	**76,081**	**14%**
Unrealized Gain/Loss on Swap	—	—	—	—	—
Marketable Security - recorded as OCI	—	—	—	—	—
NET INCOME	**593,502**	**603,418**	**527,337**	**76,081**	**14%**

FESTIVAL HYDRO INC.

Cash Flow Statement

For the period ending March 31, 2023

	YTD as at Dec 31, 2022	YTD as at Mar 31, 2023
Cash from Operations		
Net Income	4,381,488	603,418
Depreciation	2,505,726	671,472
Amortization of deferred revenue in other revenue	(358,598)	305,231
Unrealized loss on interest rate swap	(1,723,834)	—
Decrease/(Increase) in Receivables	(179,111)	2,061,094
Decrease/(Increase) in Inventory	(14,081)	(220,722)
Decrease/(Increase) in Prepaids	126,840	(142,510)
Decrease/(Increase) in Due from FHSI	210,656	168,616
Decrease/(Increase) in PILS	(155,505)	(67,000)
Decrease/(Increase) in Unbilled Revenues	447,273	(1,961,429)
Decrease/(Increase) in Future Tax (offsetting entry in payal	130,039	—
Decrease/(Increase) in Regulatory Assets	(2,664,508)	(327,981)
Increase/(Decrease) in Payables	(1,257,307)	(804,265)
Increase/(Decrease) in Deposits	232,689	(1,049,494)
Increase/(Decrease) in Employee Future Benefits	(351,765)	—
Contributed Capital	483,203	283,621
Net Cash Provided	**1,813,204**	**(479,950)**
Cash from Financing		
Loan Repayments	707,718	180,071
Loan Advance	0	(2,500,000)
Cash Used - Capital Expenditures	3,939,526	642,068
Cash Used - Dividends paid current year	390,330	—
Cash Used - Dividends declared in prior year	500,556	—
Net Cash Used	**5,538,130**	**(1,677,860)**
Increase (Decrease) in Cash Position	**(3,724,926)**	**1,197,910**
Bank Indebtedness, Beg of Period	**(15,769)**	**(3,740,695)**
Bank Indebtedness, End of Period	**(3,740,695)**	**(2,542,785)**

Bank and Line of Credit Analysis	**2022**	**2023**
High balance (YTD)	5,889,735	1,769,494
Low Balance (YTD)	(8,463,958)	(6,140,288)
Overdraft interest (annualized)	84,552	265,429
Interest rate (avg annual for period)	**4.13%**	**6.75%**
Average overdraft balance	**2,046,185**	**3,932,283**

Key Financial Ratios:	Actual Ratio	Required Ratio
RBC Compliance Ratio - Funded Debt to Total Capital	0.46	Less than 0.65
Debt to Equity Test	28:72	Less than 75:25
Debt Service Ratio	2.14	Not less than 1.30X

FESTIVAL HYDRO INC.

Statement of Capital

For the period ending March 31, 2023

	YTD as at Mar 31, 2022	YTD as at Mar 31, 2023	YTD Budget at Mar 31, 2023	Cur to Bdg YTD Var$	Cur to Bdg YTD Var%
DISTRIBUTION					
Distribution Overhead	205,166	210,112	272,588	(62,475)	(23%)
Underground Conductor and Devices	41,534	63,603	293,488	(229,885)	(78%)
Distribution Transformers	101,034	91,269	78,750	12,519	16%
Services	90,687	34,819	48,750	(13,931)	(100%)
Distribution Meters	63,227	24,543	83,750	(59,207)	(71%)
SCADA/Distribution Automation	—	25,703	18,750	6,953	37%
Tools and Miscellaneous Equipment	2,424	6,067	7,500	(1,433)	(19%)
TOTAL DISTRIBUTION	**504,071**	**456,116**	**803,575**	**(347,459)**	**(43%)**
OTHER CAPITAL					
Land and Buildings	16,194	29,465	229,500	(200,035)	(87%)
Transformer Station	6,015	1,374	41,250	(39,876)	(97%)
Vehicles and Trailers	—	—	18,750	(18,750)	(100%)
Computer Hardware and Software	281,369	155,113	160,444	(5,331)	(3%)
TOTAL OTHER CAPITAL	**303,578**	**185,952**	**449,944**	**(263,992)**	**(59%)**
TOTAL CAPITAL	**807,649**	**642,068**	**1,253,519**	**(611,451)**	**(49%)**