

Festival Hydro INC.

ANNUAL REPORT

2025 Year in Review



www.festivalhydro.com

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INTRODUCTION & COMPANY PROFILE

Incorporated in 2000 as a wholly owned subsidiary of the City of Stratford, Festival Hydro Inc. (FHI) is a leading electricity distribution company dedicated to delivering safe, reliable, and sustainable power to the communities it serves. Headquartered in Stratford, Ontario, Festival Hydro provides electricity distribution services to more than 22,600 residential, commercial, and industrial customers across Huron and Perth Counties, including Stratford, St. Marys, Seaforth, Hensall, Brussels, Zurich, and Dashwood.

As a customer-focused utility, Festival Hydro is committed to operational excellence, affordability, and long-term sustainability. The company continues to invest strategically in grid modernization, advanced technologies, and infrastructure renewal to enhance system reliability, improve resilience, and support energy efficiency. These investments position Festival Hydro to respond effectively to evolving customer needs, regulatory expectations, and the challenges associated with climate change.

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Sustainability is embedded across Festival Hydro's operations and governance. The company practices prudent financial management, supports renewable energy and conservation initiatives, and promotes responsible energy use. Through proactive planning and asset management, Festival Hydro works to reduce environmental impact while ensuring dependable service for current and future generations.

Reliability and safety remain core priorities. Festival Hydro maintains rigorous maintenance and inspection programs and continuously strengthens its distribution system to mitigate risks from extreme weather events and other external pressures. These efforts ensure the delivery of safe, uninterrupted electricity while protecting employees, customers, and infrastructure.

Festival Hydro is deeply connected to the communities it serves. Through partnerships, sponsorships, employee volunteerism, and community engagement initiatives, the company actively supports local economic development, social well-being, and community resilience.

Guided by a skilled and dedicated team, Festival Hydro fosters strong relationships with customers, stakeholders, and municipal partners through transparent communication and responsive service. The company's commitment to excellence, accountability, and innovation continues to set a high standard for electricity distribution in the region.



Our Mission

To provide cost effective distribution of reliable and safe electric power through our exceptional customer and employee experience, partnerships and performance execution.

Our Vision

We enable prosperity within our communities through exceptional people, partnerships and performance.

Our Values

- People First Through Positive Teamwork
- Commitment To Customers
- Accountability
- Honesty
- Trust

Our Purpose

Powering lives,
empowering communities.



MESSAGE FROM THE PRESIDENT AND CEO



Jeff Graham, P.Eng.

As we reflect on the successes and achievements from 2025 outlined in this annual report, we are reminded of our enduring commitments to our customers, communities, and our people. Supplying safe and reliable energy to residents and businesses in the Festival Hydro service territory, while keeping costs affordable, remains at the heart of everything we do.

The electricity industry in Ontario continues its profound energy transition. With electricity demand projected to rise significantly over the coming decade, local distribution companies must remain agile, strategic, and forward-thinking. In 2025, Festival Hydro advanced this vision – investing in critical infrastructure renewal, accelerating grid modernization, and deploying technology that positions our system for the capacity and flexibility demands ahead.

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The successful implementation of our new Enterprise Resource Planning (ERP) system was a landmark achievement, transforming how we operate across finance, engineering, operations, customer service, and human resources. Our Advanced Metering Infrastructure (AMI) expansion also progressed meaningfully, further strengthening the intelligence and responsiveness of our distribution network. We were also pleased to launch our 2025–2027 electricity Demand Side Management (eDSM) program, marking an important step in helping our customers use energy more efficiently and supporting a more sustainable grid for the future.

Our system reliability remained strong throughout the year, a direct reflection of our disciplined capital renewal program and the skill and dedication of our operations team. Supply chain pressures and workforce recruitment challenges continued to require careful planning and proactive management – areas where our team consistently demonstrated resilience and sound judgment.

Our people are the foundation of Festival Hydro's success. In 2025, we welcomed new talent to the organization, invested in workforce development, and maintained an unwavering commitment to health, safety, and employee well-being. Equally, our deep roots in the communities we serve were on full display – from local fundraising and environmental initiatives to electrical safety education for the next generation.

2025 was a year of meaningful progress, and with strong governance, effective management, and a clear strategic vision, Festival Hydro is well-positioned to lead with confidence as the energy landscape continues to evolve.



2025 Board of Directors

Geraldine (Gerry) Guthrie, Chair

Mark Henderson, Vice-Chair

David Baldarelli, Director

Brad Beatty, Director

Susan Nickle, Director

Martin Ritsma, Director

Cody Sebben, Director

John Tapics, Director



2025 Executive Leadership Team

Jeff Graham

- President & Chief Executive Officer (CEO)

Alyson Conrad

- Chief Financial Officer (CFO)

Bryon Hartung

- Vice-President of Engineering and Operations

Dave Cullen

- Vice-President of Information Technology





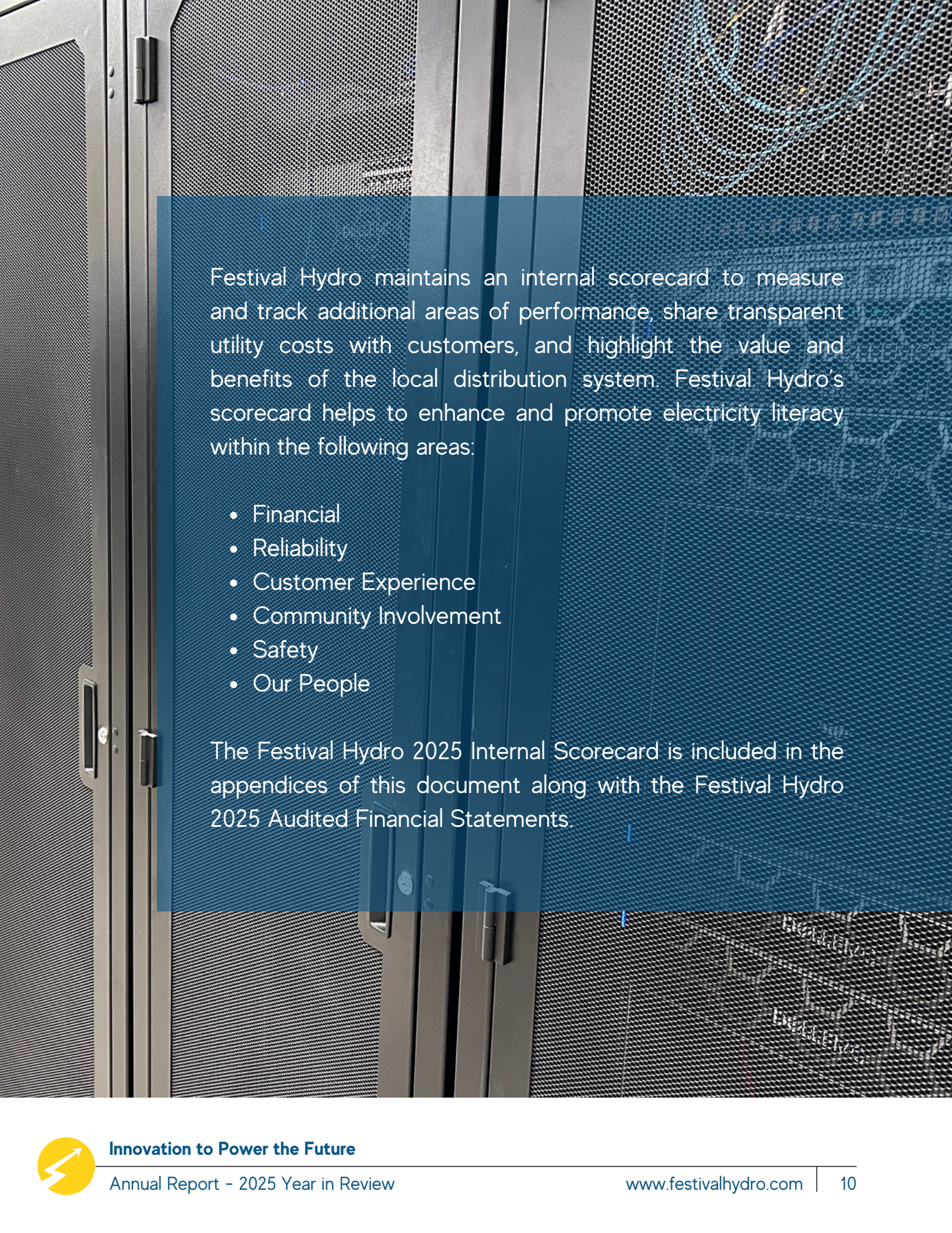
SUMMARY OF KEY PERFORMANCE INDICATORS (KPIs) & HIGHLIGHTS

Within the Ontario energy sector, there are performance assessments set by the Ontario Energy Board (OEB) in which LDCs across Ontario report on annually. Specifically, electricity utilities use scorecards to track and show comprehensive performance information over a range of time and for a specific year. The scorecard shows data for 20 specific measures within the following four key areas of performance:

- Customer Focus
- Operational Effectiveness
- Public Policy and Responsiveness
- Financial Performance

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Festival Hydro maintains an internal scorecard to measure and track additional areas of performance, share transparent utility costs with customers, and highlight the value and benefits of the local distribution system. Festival Hydro's scorecard helps to enhance and promote electricity literacy within the following areas:

- Financial
- Reliability
- Customer Experience
- Community Involvement
- Safety
- Our People

The Festival Hydro 2025 Internal Scorecard is included in the appendices of this document along with the Festival Hydro 2025 Audited Financial Statements.





FINANCIAL

Festival Hydro continued to perform well on its Financial KPI's in 2025. Distribution revenue was down throughout the year mainly due to lower consumption from large customers however this was made up with additional Other Operating Revenue through the new eDSM program, additional capital contributions and administration from billable projects. Controllable costs were managed effectively with Operating and Maintenance expenses being under budget. Administration was over budget due to unplanned professional service costs. These overages were offset by lower than budgeted interest expenses due to a new SWAP loan with beneficial rates that was entered into during the year. The resultant was Net Income and shareholder returns meeting expectations, while financial covenants were all met.

The capital program was substantially complete and met forecast, while expenditures remained within the acceptable spending range. Staff continue to work with customers and manage accounts receivable balances within reasonable limits.

Festival Hydro is maintaining a good efficiency ranking in PEG Group 3 and is managing controllable costs well. 2025 continued to show variability in areas of supply chain, inflation and interest rates. Management continues to monitor the local, and global economic situation and employs prudent and conservative decisions around strategic lending and financing options for its business and works closely with vendors and other third parties to ensure it can access the materials and labour it requires to maintain its business operations.



RELIABILITY

Festival Hydro's Reliability KPI's continue to perform very well over 2025 as throughout the year, Festival Hydro continued to respond to unplanned interruptions efficiently and effectively. The System Average Interruption Duration Index (SAIDI), and System Average Interruption Frequency Index (SAIFI), were consistent with historical averages with a SAIDI of 1.30 and SAIFI of 1.30. Almost 40% of these outage numbers were due to the December 28, 2025 ice storm.

Momentary interruptions outperformed targets and were the lowest in the past 8 years. Festival Hydro's system resiliency is a direct result to its well-informed capital renewal program and its prudent operating and maintenance planning and execution.

As was noted in the previous section, issues with access to materials through the supply chain continued to have negative pressure on availability, lead times and pricing however Festival Hydro works diligently to plan ahead and ensure materials are available minimizing impact on the completion of the capital and maintenance programs.



NOTABLE PROJECT DEVELOPMENTS

Operations/Engineering:

- Enhanced After-Hours Call Service (web chat feature, social media, outage management system enhancements)
- \$4.13M of Distribution System Assets designed and installed
- Completed migration to new GIS Utility Network System
- Implemented Quadra software for Engineering estimates and material lists

Metering:

- Completed integrations with AMI 2.0 system and CIS, GIS and OMS systems
- Converted Brussels and St. Mary's to new AMI 2.0 system, installing ~4,000 meters

Stations:

- Installed and commissioned new T1 230kV Primary Metering Units
- Installed and commissioned Dashwood Remote Fault Indicators

Fleet:

- Received new 42' Single Bucket Truck
- Ordered and received new Pickup Truck
- Ordered and received new Reel Trailer

Facilities/Procurement:

- Replaced Administration Building Roof
- Implemented new ERP system modules for Work Orders, Purchasing and Inventory



CUSTOMER EXPERIENCE

Customer experience metrics continue to outperform industry expectations. Festival Hydro's staff are committed to providing timely and transparent communications to its customers.

Customer Service and Billing:

- Successfully launched a new Enterprise Resource Planning (ERP) system, replacing legacy technology and enhancing performance across Finance, Operations, Engineering, Customer Service, and Human Resources;
- Supported customers during the AMI 2.0 launch and meter redeployment in Brussels and St. Marys;
- Increased e-billing enrollment to 14,880 customers;
- Maintained 99.96% billing accuracy;
- Delivered strong customer service engagement, responding to 2,797 emails (up from 1,863 in 2024), assisting 1,259 in-office visitors (up from 475 in 2024), and handling 20,402 incoming calls (compared to 22,070 in 2024); and
- Launched the 2025–2027 eDSM program in August 2025.



COMMUNITY INVOLVEMENT

Festival Hydro continues to believe in the importance of participating in the communities it serves. Through the internal employee volunteers on our Community Involvement Committee and our employee volunteers who dedicated their time for fundraising events, we shared great success partnering with other local groups to support community initiatives, such as:



Soup's On - Alzheimer Society Huron Perth

Festival Hydro took part in the 2025 Soup's On Fundraiser for the Alzheimer Society Huron Perth with dozens of other local chefs, not-for-profits, and businesses. Our employees came together to prepare over 60 liters of delicious soup, which was made at a local church and transported to the event. Our contribution helped support the Alzheimer Society Huron Perth while providing delicious warm soup to the community.



Tree Power Program with the Upper Thames River Conservation Authority (UTRCA)

Again in 2025, Festival Hydro collaborated with the Upper Thames River Conservation Authority (UTRCA) to present the Festival Hydro Tree Power Program initiative offered to the City of Stratford residents. The campaign provides affordable native trees to purchase and the trees sold out quickly and on a Saturday morning our employee volunteers handed out and loaded small trees into community members vehicles!



COMMUNITY INVOLVEMENT CONT'D

Paperless Billing Campaign with the Stratford General Hospital Foundation

Festival Hydro completed another annual paperless billing campaign in 2025, resulting in 788 additional e-billing customers or 3.5% and an \$11,820 donation to the Huron Perth Healthcare Alliance (HPHA) for local hospital equipment.



United Way Perth-Huron Campaign

Our annual United Way Perth-Huron campaign brought employees together for a week of fun and fundraising. With activities like music trivia, raffle, silent auction, a punch cup board, and a soup-making competition, Festival Hydro raised just over \$7,800 – our largest amount yet! We are incredibly proud of our employees for their generosity and enthusiasm in supporting this important cause.



Holiday Giving Tree with the Stratford House of Blessing

The holiday spirit was in full swing with our Giving Tree initiative. A tree in the lunchroom was decorated with tags listing the wishes and needs of local families. Employees selected tags, purchased gifts, and the committee delivered over 60+ pjs, slippers, books and gifts as a donation to the Stratford House of Blessing for local families in need over the holiday season.



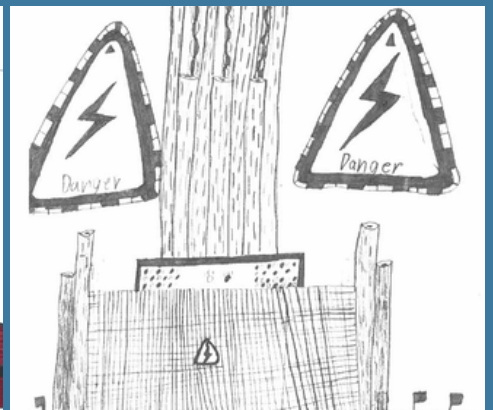
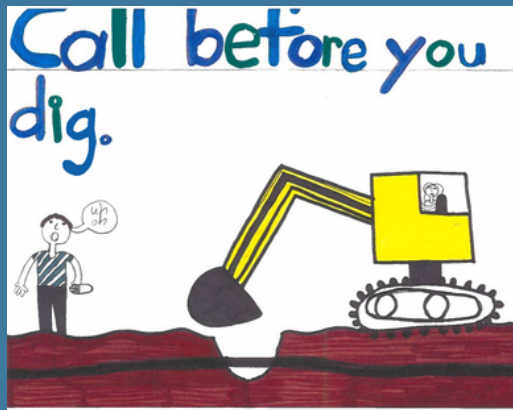
COMMUNITY INVOLVEMENT CONT'D

Kids' Electrical Safety Drawing Contest – Public Awareness of Electrical Safety Campaign

In 2025, Festival Hydro launched a new Electrical Safety Drawing Contest aimed at engaging elementary school students and promoting electrical safety awareness at a young age. Local teachers were provided with safety messaging and information to help introduce classroom discussions about electrical safety, including topics such as powerline awareness, staying clear of electrical equipment, and knowing when to call for help.

Students were then invited to create drawings illustrating these safety messages in a contest. With parent/caregiver and school approval, several of the drawings were shared on Festival Hydro's social media channels to highlight the important safety lessons being learned by students.

This initiative was designed to reinforce the belief that safety education begins early. By encouraging conversations between students, families, and teachers, Festival Hydro hopes to build a stronger culture of electrical safety within the community for future generations.



COMMUNITY INVOLVEMENT CONT'D

In addition to the noted large-scale fundraisers, Festival Hydro also contributes annually to other local events and initiatives such as LightsOn Stratford, WinterLights St. Marys, Secondary School Sponsorship Awards, Festival Hydro Community Park and the Stratford & District Chamber of Commerce.

Beyond the Community Involvement Committee, Executive Leadership Team members sit on local boards that are critical to the success of the community such as InvestStratford and the Huron Perth Healthcare Alliance Foundation.

In 2025, FHI's CEO travelled to Japan with the Mayor of Stratford and the CEO of InvestStratford to meet with several automotive manufacturers with operations in Stratford and surrounding communities. The CEO and delegation shared the City of Stratford's history as a Top 7 Smart City and some of the innovation projects from the past, along with the CEO's thoughts on the future of electricity and conservation programs offered to Ontario customers. The CEO was also able to share the benefits to the local community when the municipal government and the Local Distribution Company collaborate and partner on items such as economic development, lead generation for future investment, sustainability and innovation in the energy industry.



HEALTH & SAFETY

The safety of our employees and the public remain a top priority for Festival Hydro. Safety performance in 2025 continued to demonstrate the effectiveness of our programs and our strong organizational commitment to maintaining a safe work environment. Importantly, no lost time injuries were reported in 2025, and Festival Hydro remained fully compliant with the Electrical Safety Authority (ESA) and all applicable industry regulations.

Employees are encouraged to actively participate in safety protocols, workplace inspections, and the reporting of any safety concerns through management or the Joint Health, Safety & Environmental (JHSE) Committee. This culture of open reporting allows Festival Hydro to continuously strengthen internal practices through employee feedback, training, and ongoing improvements to safety procedures.

The Joint Health, Safety & Environmental Committee met monthly throughout the year to review internal and external incidents, address workplace concerns, and monitor corrective actions. The committee remains an important component of the organization's Internal Responsibility System, ensuring collaboration between employees and management to maintain a safe workplace. Committee members also continued to participate in training through the Infrastructure Health & Safety Association (IHSA) to maintain required certification and strengthen safety knowledge.



HEALTH & SAFETY

In 2025, employees also participated in additional safety training initiatives, including ergonomics training to support safe work practices and reduce the risk of strain or musculoskeletal injuries in the workplace. Operational staff also completed confined space training to reinforce safe entry procedures, hazard awareness, and regulatory compliance when working in controlled or restricted environments.

Festival Hydro also continued to promote safety awareness through regular workplace inspections conducted by supervisors, management, and executive leadership. These inspections provide opportunities to observe work practices, reinforce hazard awareness, and engage employees in meaningful safety discussions.

Overall, these activities reflect Festival Hydro's continued commitment to fostering a safe and secure workplace. Through strong leadership engagement, proactive hazard identification, ongoing training, and employee participation, the organization continues to effectively manage risk and protect the well-being of employees and the community we serve.



INFORMATION TECHNOLOGY

Festival Hydro continued to place cybersecurity at the forefront of its IT strategy in 2025, advancing both the resilience and maturity of its security posture across operational and corporate systems. Key initiatives included enhancements to Operational Technology (OT) network security, strengthening protections for the systems that underpin our distribution operations. Our overall cybersecurity efforts were validated through a formal cybersecurity maturity assessment, which confirmed that Festival Hydro not only meets but exceeds the requirements established by the Ontario Energy Board (OEB). Continued investment in proactive security measures also yielded strong results in our annual penetration testing program, demonstrating the effectiveness of our layered defences against evolving threats.

Beyond cybersecurity, 2025 saw the successful deployment of critical infrastructure supporting two major technology initiatives: Advanced Metering Infrastructure (AMI) 2.0 and the implementation of a new Enterprise Resource Planning (ERP) system. These projects represent a significant step forward in Festival Hydro's operational capabilities, improving data visibility, customer service delivery, and the efficiency of internal business processes. The IT team provided essential infrastructure, integration, and support services throughout both deployments, ensuring stable and secure transitions.

Looking ahead, Festival Hydro took deliberate steps in 2025 to prepare for the responsible adoption of artificial intelligence. An AI Governance Policy was formally adopted, and an AI Oversight Team was established to guide the ethical and effective use of AI technologies across the organization. With planned investments in AI initiatives for 2026, Festival Hydro is positioning itself to leverage emerging technologies while ensuring appropriate oversight and alignment with regulatory obligations. The organization remains committed to maintaining the highest standards of cybersecurity, operational reliability, and innovation in service of our customers and stakeholders.



OUR PEOPLE

The continued success of Festival Hydro is driven by the dedication, professionalism, and commitment of our employees. In 2025, Festival Hydro welcomed seven new employees to the organization and continued to support workforce development by providing co-operative education opportunities for local secondary school students as well as apprenticeship placements through Conestoga College.

Employee Appreciation Events

Festival Hydro recognizes the importance of celebrating employees and creating opportunities for staff to connect and build relationships outside of daily work activities. Throughout the year, several employee appreciation events were held, including:

- Annual Employee BBQ and Years of Service Awards – June
- Annual Employee Golf Tournament and Dinner – September
- Annual Employee Holiday Dinner Party – December
- Annual Employee Holiday Lunch Potluck – December

These events provide opportunities to recognize employee contributions, celebrate milestones, and strengthen the positive workplace culture that exists across the organization.

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OUR PEOPLE

Festival Hydro also continues to prioritize mental health and wellness as an important part of a strong workplace culture. Throughout 2025, employees received regular reminders of the resources available through the Employee Assistance Program (EAP) and benefits program to support personal well-being. Initiatives and employee gatherings throughout the year helped foster connection, encourage open conversations, and support a workplace where employees feel valued and supported.

Festival Hydro recognizes that continued success requires ongoing improvement. The organization remains committed to recognizing exceptional performance, maintaining clear communication across all levels of the organization, and investing in workplace facilities, tools, and resources that allow employees to perform their work safely and effectively.



WHAT'S NEXT

At Festival Hydro, we remain committed to investing in the future of our electrical distribution system through strategic grid modernization and thoughtful long-term planning. Our focus in 2026 and beyond includes the continued rollout of AMI 2.0 across our service territory, advancing distribution automation, and making meaningful investments in substation and transformer station infrastructure. These initiatives are designed to enhance system reliability, improve operational efficiency, and ensure our network is ready for the demands of a rapidly evolving energy landscape.

The execution of our 2025–2027 electricity Demand Side Management program will be a priority, helping customers use energy more efficiently while supporting the broader modernization of both local and bulk electricity systems. Alongside this, we will continue to pursue growth opportunities and explore new partnerships and collaborations – including initiatives such as GridSmartCity – that position Festival Hydro as an innovative and community-minded utility.

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WHAT'S NEXT

Our people remain central to everything we do. In 2026, we will deepen our investment in workforce development through expanded training, employee mentorship programs, and an ongoing commitment to health and safety excellence. We are also undertaking a comprehensive Enterprise Risk Assessment to ensure our organization is well-positioned to identify, manage, and respond to the risks and opportunities that lie ahead.

We remain dedicated to giving back to the communities we serve – through meaningful partnerships and local initiatives that enrich the places where our customers and employees live, work, and play. Looking ahead, Festival Hydro is focused on evaluating emerging trends and innovations across the energy sector, and through strategic investment and thoughtful leadership, we aim to remain a resilient, forward-thinking utility ready to meet the needs of our customers and communities well into the future.



Festival Hydro INC.

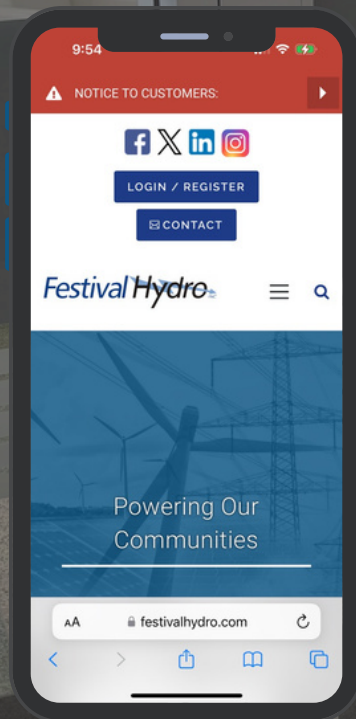


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WELCOME
Customer Service



Innovation to Power the Future

Annual Report - 2025 Year in Review

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APPENDICES

FHI Internal Scorecard December 31, 2025
FHI 2025 Audited Financial Statements



Preliminary Scorecard
Festival Hydro Inc. for December 31, 2025

Performance Outcomes	Measures	2020	2021	2022	2023	2024	2025	Status	Target
Financial Measures To Maintain Financial Health by Meeting or Exceeding all KPI Measures	Liquidity - Current Ratio (excluding shareholder debt)	1.21	1.11	0.93	0.92	1.00	1.09	Green	To exceed 1
	Debt to Equity	1.41	1.29	1.23	1.25	1.30	1.40	Green	Not to exceed 60/40 (1.5)
	Debt Servicing (excluding shareholder debt)	1.8	2.03	1.93	1.88	2.12	2.01	Green	Not less than 2.0x
	Dividend Payout (calculation changed for 2022)	33.8	50	128% (100%=\$500K)	119% (100%=\$500K)	108% (100%=\$500K)	128% (100%=\$500K)	Green	2022*To be at least 100% (\$500K)
	Efficiency Assessment (PEG)	3	3	3	3	3	3	Green	To reach efficiency ranking of Group 3
	DSP Implementation Process	79% - 2020	105% (2021), 92% (5 year)	95% (2022), 93% (5 Year)	106% (2023), 102% (5 Year)	104% (2024), 98% (5 Year)	110% (2025), 104% (5 Year)	Green	To maintain single year budget within +-10% and 5 year budget within +-5%
	Total Cost per Customer (OEB measure)	629	614	674	760	803	TBD	Green	To reach 2nd quartile
	Controllable Costs	95.70%	92.10%	95.56%	98.76%	95.91%	104.80%	Green	To achieve an actual spend within 5% of budget
	Net Income (2015& 16 - before swap/regulatory adjustments)	107.90%	113.70%	117.61%	108.73%	108.04%	124.17%	Green	To achieve a net income within 10% of budget
	Regulatory Rate of Return (OEB measure)	8.89%	9.93%	9.25%	8.62%	7.47%	TBD	Green	To achieve a ROE of greater than 8%
	Bad Debt	0.05%	0.17%	0.11%	0.15%	0.11%	0.04%	Green	To achieve a bad debt percentage of less than .12% of total electrical bill
	Regulatory Compliance	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant	Green	To be compliant with all Regulatory oversight bodies including OEB, ESA, WSIB, MOL, etc.
Reliability Measures Achieve Continuous Improvement on all Reliability Measures	SAIDI (*Excludes Loss of Supply and Major Events)	1.27*	1.95*	0.81*	1.09*	0.66*	1.30*	Red	To obtain FHI's OEB target for 2024 - 1.35
	SAIFI (*Excludes Loss of Supply and Major Events)	1.00*	1.63*	0.77	0.81*	0.35*	1.30*	Red	To obtain FHI's OEB target for 2024 - 1.31
	Momentary Interruptions (per Feeder)	C	NC	NC	NC	NC	NC	Red	Not to exceed 10 interruptions on any one feeder
Safety To Achieve WSIB Workwell Compliance	Number of Workplace Lost Time Injuries per Calendar Year	0	0	0	0	0	0	Green	Target to equal 0
	OEB ESA Measures	C	C	C	C	C	C	Green	Meet/exceed OEB Scorecard targets including public safety, public awareness & 22/04 Compliance
	Number of JHSC Meetings per year	12	12	12	12	12	12	Green	Monthly Meetings
	Number of "Safety Concerns" Reported per Calendar Year	60	33	27	39	56	42	Red	Target to be greater than 50
	Number of Line Crew Inspections to be Completed by Operations Manager	83	93	109	75	128	36	Green	Monthly Inspections
	Number of Line Crew Inspections to be Completed by VP Eng and Ops	12	6	14	12	12	12	Green	Monthly Inspections
	Number of Line Crew Inspections to be Completed by CEO	3	11	4	4	4	4	Green	Quarterly Inspections
	Number of Locator Inspections to be completed by Operations Manager	9	46	44	43	75	29	Green	Monthly Inspections
	Number Meter Tech Inspections completed by Metering/Smart Grid Manager	N/A	N/A	12	12	12	12	Green	Monthly Inspections
	Number Engineering Field Inspections completed by Engineering Manager	8	0	4	4	4	4	Green	Quarterly Inspections
	Number Engineering Field Inspections completed by VP Eng & Ops	4	4	4	4	4	4	Green	Quarterly Inspections
	Number of Office and Service Centre Inspections Completed	12	12	12	12	12	12	Green	Monthly Inspections
Lost time Injury Frequency (LTIF)	0	0	0	0	0	0	Green	Target to equal 0	
Lost time Injury Severity (LTIS)	0	0	0	0	0	0	Green	Target to equal 0	
Customer Experience To Obtain at least 90% Customer Satisfaction Score	Billing Accuracy	99.99	99.99	99.97	99.97	99.96	99.96	Green	Target to be at least 98%
	# of Phone Calls	19,282	19,185	18,651	18,447	22,070	20,402	Green	Average of less than one call per customer per year
	# of Customers on Paperless Billing	5,840	6,880	7,744	8,492	12,738	14,880	Green	Target to increase 2% over previous year
	# of Customers Accessing Website (unique user visits)	32,951	13,147 (Oct-Dec)	43,412	58,479	68,429	58,409	Green	Average of at least two visits to the website per
	First Contact Resolution	99.93	100	99.99	100	100	100	Green	Target to be at least 98%
	Telephone Calls Answered on Time	99	91.48	90.42	96.94	95.55	95.12	Green	Target to be at least 90%
	Telephone Call Abandon Rate	1.71	1.98	0.97	0.99	1.27	1.22	Red	Target to be under 1%
	Written Responses to Enquiry	99.96	99.99	99.95	100	100	100	Green	Target to be at least 98%
	Reconnection Performance Standard	100	100	100	100	100	100	Green	Target to be at least 98%
Customer Satisfaction	91	N/A	93	N/A	94	N/A	Green	Target to be at least 90%	
Human Resources To be a Canadian Small Business top 100 Employer	Staff Development Expenses	\$53,000 (1,223/employee)	\$95,882 (2,421.25 /employee)	\$160,620 (\$3788 /employee)	\$185,698 (\$4,298/employee)	240,523 (5,365/ employee)	240,523 (5,365/ employee)	Green	To be at least \$150,000 per year (roughly \$3000/employee)
	Short Term Absenteeism	4.38	4.29	4.65	5.4	4.5	4.5	Green	To be less than 5 days per employee
	Grievances	0	1	0	0	0	0	Green	To minimize grievances to less than 5 per contract term
	Employee Satisfaction Survey	NA	3.06	3.06	3.17	3.17	3.30	Green	To achieve a 3.0 on employee satisfaction
	Employee Engagement	NA	68%	87%	97%	100%	100%	Green	To get each employee out to at least 1 Festival Hydro event
Community Involvement To be Known for and Publicly Recognized as a Leader in Community Support and Contribution	Media/Social Media Mentions	75%	83%	75%	92%	92%	88%	Green	One goodwill interaction in media/social media per month
	Social Investment	Community contributions - \$20,000	Paperless promo - \$5,000, Community contributions - \$27,500	\$29,715	\$32,500	\$38,280	\$33,140	Green	Atleast \$20K/year towards community initiatives
	Employee Community Involvement					56%	43%	Yellow	80% participation rate of employees who volunteered time with a community organization
	Employee Community Involvement					53 hrs	180 hrs	Green	50 volunteer hours donated by FHI employees
Enterprise Risk Assessment - Mitigate Risks within Acceptable Tolerance Level	Enterprise Heat Map							Green	Continuous mitigation of Top Enterprise Risks

Financial Statements of



Year ended December 31, 2025



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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, 2025
- the statement of profit or loss and other 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 material accounting policy information

(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, 2025, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

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

We are independent of the 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.



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

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

In preparing the financial statements, management is responsible for assessing the 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.



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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

April 27, 2026

Festival Hydro Inc.

Statement of Financial Position

December 31, 2025, with comparative information for December 31, 2024

	Notes	2025	2024
Assets			
Accounts receivable	6, 22	\$ 9,674,180	\$ 8,099,761
Unbilled revenue	22	8,836,853	7,166,152
Inventories	7	544,601	410,006
Prepaid expenses		574,971	650,790
Income tax receivable		1,697,762	1,180,429
Due from corporations under common control	20	218,640	-
Total current assets		21,547,007	17,507,138
Non-current assets			
Property, plant and equipment	8	71,358,339	66,549,243
Intangible assets and goodwill	9	4,389,707	3,469,096
Interest rate swap	22	233,857	285,958
Total non-current assets		75,981,903	70,304,297
Total assets		97,528,910	87,811,435
Regulatory assets	13	7,918,179	7,769,430
Total assets and regulatory assets		\$ 105,447,089	\$ 95,580,865

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

Festival Hydro Inc.

Statement of Financial Position

December 31, 2025, with comparative information for December 31, 2024

	Notes	2025	2024
Liabilities and Equity			
Bank indebtedness	5	\$ 6,960,152	\$ 4,778,478
Accounts payable and accrued liabilities		8,861,347	9,429,000
Deferred revenue		401,477	406,914
Dividend payable	14, 15, 20	247,847	147,478
Current portion of long-term debt	14, 22	16,820,805	16,799,649
Customer deposits	11	1,445,854	1,186,600
Due to corporations under common control	20	-	94,300
Due to the Corporation of the City of Stratford	20, 22	983,067	758,862
Total current liabilities		35,720,549	33,601,281
Non-current liabilities			
Deferred revenue		5,908,929	4,397,353
Customer deposits	11	1,222,825	1,032,050
Deferred tax liabilities	10	3,757,983	3,028,217
Employee future benefits	12	1,062,017	1,006,032
Long-term debt	14, 20, 22	16,448,513	12,861,999
Total non-current liabilities		28,400,267	22,325,651
Total liabilities		64,120,816	55,926,932
Share capital	15	15,568,388	15,568,388
Accumulated other comprehensive loss		(240,668)	(131,825)
Retained earnings		22,653,782	20,991,348
Total equity		37,981,502	36,427,911
Total liabilities and equity		102,102,318	92,354,843
Regulatory liabilities	13	3,344,771	3,226,022
<i>Commitments and contingencies (note 23)</i>			
Total liabilities, equity and regulatory liabilities		105,447,089	95,580,865

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

On behalf of the Board:

Director

Gerry Guthrie, Chair

Director

Mark Henderson, Vice-Chair

Festival Hydro Inc.

Statement of Comprehensive Income

Year ended December 31, 2025, with comparative information for 2024

	Notes	2025	2024
Revenues			
Sale of energy	16	\$ 71,711,350	\$ 69,703,817
Distribution revenue	16	14,581,324	13,288,981
Other income	17	1,765,563	1,374,837
		88,058,237	84,367,635
Costs and expenses			
Cost of power purchased		70,895,689	68,099,720
Operating expenses	18	8,874,054	7,834,545
Depreciation and amortization	8,9	3,212,327	2,815,499
		82,982,070	78,749,764
Income from operating activities		5,076,167	5,617,871
Finance income	19	19,921	14,111
Finance costs	19	(2,241,127)	(2,338,094)
Income before income taxes		2,854,961	3,293,888
Income tax expense	10	613,199	500,306
Net income		2,241,762	2,793,582
Net movement in regulatory balances:			
Net movement in regulatory balances	13	(713,573)	(1,472,000)
Income tax	10,13	772,416	460,851
Net income and net movement in regulatory balances		2,300,605	1,782,433
Other comprehensive income (loss)			
Items that will not be reclassified to profit and loss:			
Remeasurements of employee future benefits	12	(108,843)	(21,829)
Tax on remeasurements	10	28,843	5,785
Net movement in regulatory balances	13	(28,843)	(5,785)
Other comprehensive loss		(108,843)	(21,829)
Total comprehensive income		\$ 2,191,762	\$ 1,760,604

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

Festival Hydro Inc.

Statement of Changes in Equity

Year ended December 31, 2025, with comparative information for December 31, 2024

	Share capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance at January 1, 2024	\$15,568,388	\$19,746,723	\$ (109,996)	\$ 35,205,115
Net income after net movement in regulatory balances	-	1,782,433	-	1,782,433
Other comprehensive loss	-	-	(21,829)	(21,829)
Dividends, paid or payable (note 15)	-	(537,808)	-	(537,808)
Balance at December 31, 2024	\$15,568,388	\$20,991,348	\$ (131,825)	\$ 36,427,911
Balance at January 1, 2025	\$15,568,388	\$20,991,348	\$ (131,825)	\$ 36,427,911
Net income after net movement in regulatory balances	-	2,300,605	-	2,300,605
Other comprehensive loss	-	-	(108,843)	(108,843)
Dividends, paid or payable (note 15)	-	(638,171)	-	(638,171)
Balance at December 31, 2025	\$15,568,388	\$22,653,782	\$ (240,668)	\$ 37,981,502

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

Festival Hydro Inc.

Statement of Cash Flows

Year ended December 31, 2025, with comparative information for December 31, 2024

Cash provided by (used in)	Notes	2025	2024
Operating activities			
Net income after net movement in regulatory balances		\$2,300,605	\$1,782,433
Adjustments for			
Depreciation - property, plant and equipment	8	2,783,650	2,517,121
Amortization - intangible assets	9	428,677	298,378
Amortization of deferred revenue		(210,295)	(99,691)
Employee future benefits		(52,858)	(40,250)
Net finance costs	19	2,221,206	2,323,983
Income tax expense	10	613,199	500,306
		8,084,184	7,282,280
Changes in non-cash operating working capital			
Accounts receivable		(1,574,419)	644,511
Unbilled revenue		(1,670,701)	(250,684)
Inventories		(134,594)	(198,001)
Prepaid expenses		75,819	(341,968)
Accounts payable and accrued liabilities		(567,653)	61,485
Due from related parties		(312,940)	64,946
Due from the City of Stratford		224,205	152,372
Dividends declared		100,369	(86,273)
Customer deposits		450,029	330,381
		(3,409,885)	376,769
Regulatory balances	13	(58,843)	1,011,149
Interest paid	19	(2,189,026)	(2,169,297)
Interest received		19,921	14,111
Income tax paid, net of refund		(211,026)	(883,798)
Net cash from operating activities		2,235,325	5,631,214
Investing activities			
Purchase of property, plant and equipment	8	(7,592,746)	(7,913,508)
Purchase of intangible assets	9	(1,349,288)	(1,538,849)
Net cash used in investing activities		(8,942,034)	(9,452,357)
Financing activities			
Contributions received from customers, net of repayments		1,455,167	1,597,070
Dividends	14	(537,802)	(624,080)
Proceeds from long-term debt		5,000,000	2,500,000
Repayment of long-term debt		(1,392,330)	(750,364)
Net cash from financing activities		4,525,035	2,722,626
Increase in bank indebtedness during the year		(2,181,674)	(1,098,517)
Bank indebtedness, beginning of the year		(4,778,478)	(3,679,961)
Bank indebtedness, end of the year		\$ (6,960,152)	\$ (4,778,478)

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

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

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, 2025.

2. Basis of preparation:

(a) Statement of compliance

The Corporation's financial statements have been prepared in accordance with IFRS Accounting Standards. These financial statements were approved by the Board of Directors on April 23, 2026.

(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

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

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:

2. Basis of preparation (continued)

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

- Note 3(o) Determination of the performance obligation for capital contribution and the related amortization period
- Note 3(p) 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.

(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 Inflation 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.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

2. Basis of preparation (continued)

- (f) Rate setting (continued)

Distribution revenue (continued)

Festival filed its 2024 IRM application for distribution rates and was approved new rates by the OEB effective January 1, 2024. The OEB issued a Decision to approve the Corporation's 2024 rates on Dec 14, 2023. The Corporation's approved adjustment to distribution rates was 4.20%, as a result of an OEB approved inflation factor of 4.80%, less a stretch factor of 0.60% determined by the relative efficiency of the Corporation or the length of time between COS. The application included the approval of rate riders for the disposition of certain deferral and variance balances.

Festival filed its 2025 COS application for distribution rates and was approved new rates by the OEB effective January 1, 2025. The OEB issued a Decision to approve the Corporation's 2025 rates on Dec 17, 2024. The OEB approved a revised revenue requirement which in essence increased distribution rates by 10.2% over existing rates. 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. Material 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.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

3. Material accounting policies (continue):

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.

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 and financial liabilities are classified as "Amortized cost". These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties. The Corporation uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which carrying amounts are included in the statement of financial position:

- Cash and cash equivalents are classified as "Amortized cost" and are initially measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Accounts receivable and unbilled revenue are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method, less expected credit loss allowance. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Bank indebtedness is classified as "Amortized cost" and is initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amount approximates fair value due to the short maturity of these instruments.
- Accounts payable are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Customer deposits are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

3. Material accounting policies (continued):

- Long-term debts are classified as "Amortized cost" and are initially measured at fair value. The carrying amounts of the debt are carried at amortized cost, based on the fair value of the debt at issuance, which was the fair value of the consideration received adjusted for transaction costs.

(d) Impairment

(i) Financial assets measured at amortized cost

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from that asset.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimate future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in the Statement of Comprehensive Income. An impairment loss is reversed through the Statement of Comprehensive Income if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(ii) Non-financial assets

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

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.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

3. Material accounting policies (continued):

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.

(e) Derivatives

Derivatives are initially measured at fair value and any attributable transaction costs are recognized in profit and loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized in profit or loss. Embedded derivatives are separated from the host contract upon initial recognition and accounted for separately at FVTPL when the host contract is not a financial asset and certain conditions are met. The Corporation does not use derivatives instruments for speculative purposes.

The Corporation holds derivative financial instruments to manage rate risk exposures. Derivatives are initially recognized at fair value; any directly attributable transaction costs are recognized in the Statement of Comprehensive Income as incurred as a change in interest rate swap. Subsequent to initial recognition, derivatives are measured at fair value, using Level 2 inputs, and changes therein are recognized in the Statement of Comprehensive Income.

Hedge accounting has not been used in the preparation of these financial statements.

(f) Fair value measurements

The Corporation utilizes valuation techniques that maximize the use of observable inputs to minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2: Other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

3. Material accounting policies (continued):

(g) 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.

(h) 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.

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:

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

3. Material accounting policies (continued):

(h) Property, plant and equipment ("PP&E") (continued)

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.

(i) 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.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

3. Material accounting policies (continued):

(i) Intangible assets (continued)

(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 to 10 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.

(j) 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.

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.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

3. Material accounting policies (continued):

(k) 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.

(l) 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.

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.

(m) 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.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

3. Material accounting policies (continued):

(n) Revenue Recognition (continued)

(ii) Water billing services

The Corporation provides services to the City of Stratford and the Town of St. Mary's including water and wastewater billing, customer support and water meter replacement administration services. The Corporation has determined that it is acting as an agent for these billing services as any uncollectable amount related to water billings are collected by the Corporation from the City of Stratford and Town of St. Mary's. Therefore, no amounts charged on behalf of the City of Stratford and the Town of St. Mary's to their customers are included in the Statement of Comprehensive Income.

(iii) 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.

(iv) Other revenue

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

(o) 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.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

3. Material accounting policies (continued):

(p) Leased assets (continued)

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.

(q) 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.

(r) 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.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

3. Material accounting policies (continued):

(r) Income taxes (continued)

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.

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. Future accounting pronouncements:

The IASB has issued a number of standards and amendments to existing standards that are not yet effective. The Corporation has determined that the following standard and amendments could have an impact on the Corporation's financial statements when adopted.

Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)

In May 2024, the IASB issued targeted amendments to IFRS 9 and IFRS 7 relating to the classification and measurement of financial instruments. The amendments clarify that a financial liability is derecognized on the 'settlement date' and introduce an accounting policy choice to derecognize financial liabilities settled using an electronic payment system before the settlement date, if specified criteria are met. Other clarifications include the classification of financial assets with environmental, social, and governance linked features and other similar contingent features, financial assets with non-recourse features, and contractually linked instruments. The amendments also introduce additional disclosures for financial instruments with contingent features and equity instruments designated at fair value through OCI. The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with early adoption permitted. The amendments are to be applied retrospectively.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

4. Future accounting pronouncements (continued):

The Corporation will adopt the amendments to IFRS 9 and IFRS 7 effective January 1, 2026. The Corporation anticipates that the adoption of this accounting pronouncement will not have a material impact on the Corporation's financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18)

In April 2024, the IASB issued IFRS 18, which replaces International Accounting Standard (IAS) 1 Presentation of Financial Statements and introduces limited amendments to IAS 7 Statement of Cash Flows. IFRS 18 aims to improve communication of financial information in the financial statements, with a focus on information about financial performance in the statement of profit or loss. To meet this objective, IFRS 18 introduces additional defined subtotals in the statement of profit or loss, disclosures about management-defined performance measures, and enhanced requirements for grouping (aggregation and disaggregation) of information. The standard is effective for annual reporting periods beginning on or after January 1, 2027, with early adoption permitted. The standard is to be applied retrospectively.

The Corporation is currently assessing the impact of adopting the above standard on the Corporation's financial statements.

5. Bank indebtedness:

	2025	2024
Cash	\$ 69,848	\$ 11,522
Revolving credit facility, revolving in increments of \$10,000 with a limit of \$10,000,000, charging interest at Canadian bank prime rates	(7,030,000)	(4,790,000)
Bank indebtedness	\$ (6,960,152)	\$ (4,778,478)

6. Accounts receivable:

	2025	2024
Energy, water and sewer	\$ 7,920,576	\$ 7,606,904
Other	1,753,604	492,857
Total	\$ 9,674,180	\$ 8,099,761

Included in accounts receivable is \$1,640,828 (2024 - \$1,538,089) 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 (2024 - 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 2025 was \$153,866 (2024 - \$182,105). During 2025, an amount of nil (2024 - nil) was recorded as an expense for the write-down of obsolete or damaged inventory to net realizable value.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

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, 2024	\$4,516,346	\$55,500,502	\$3,454,166	\$14,490,733	\$77,961,747
Additions	2,400,431	4,904,715	220,382	132,078	7,657,606
Work in Progress	-	75,565	133,710	46,627	255,902
Disposals/retirements	-	-	-	-	-
Balance at December 31, 2024	\$6,916,777	\$60,480,782	\$3,808,258	\$14,669,438	\$85,875,255
Balance at January 1, 2025	\$6,916,777	\$60,480,782	\$3,808,258	\$14,669,438	\$85,875,255
Additions	164,407	5,465,000	814,890	245,611	6,689,908
Work in Progress	229,404	673,434	-	-	902,838
Disposals/retirements	-	-	-	-	-
Balance at December 31, 2025	\$7,081,184	\$66,848,620	\$4,623,148	\$14,915,049	\$93,468,001

b) Accumulated depreciation

	Land and buildings	Distribution & substation equipment	Other distribution system equipment	Transformer station	Total
Balance at January 1, 2024	\$ 669,418	\$ 11,660,425	\$1,220,879	\$3,258,169	\$16,808,891
Depreciation	225,714	1,627,261	314,409	349,737	\$ 2,517,121
Disposals/retirements	-	-	-	-	-
Balance at December 31, 2024	\$ 895,132	\$13,287,686	\$1,535,288	\$3,607,906	\$ 19,326,012
Balance at January 1, 2025	\$ 895,132	\$13,287,686	\$1,535,288	\$3,607,906	\$ 19,326,012
Depreciation	276,651	1,818,761	316,920	371,318	\$ 2,783,650
Disposals/retirements	-	-	-	-	-
Balance at December 31, 2025	\$ 1,171,783	\$15,106,447	\$1,852,208	\$3,979,224	\$ 22,109,662

c) Carrying amounts

	Land and buildings	Distribution & substation equipment	Other distribution system equipment	Transformer station	Total
December 31, 2024	\$6,021,645	\$47,193,096	\$2,272,970	\$11,061,532	\$66,549,243
December 31, 2025	\$5,909,401	\$51,742,173	\$2,770,940	\$10,935,825	\$71,358,339

d) Borrowing costs

During the year, no borrowing costs (2024 – nil) were capitalized as part of the cost of property, plant and equipment.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

9. Intangible assets and goodwill:

a) Cost or deemed cost

	Goodwill	Computer software	Land Rights	CCRA's	Total
Balance at January 1, 2024	\$ 515,359	\$ 1,904,004	\$ 3,150	\$ 966,935	\$ 3,389,448
Additions	-	1,102,156	7,300	-	1,109,456
Work in Progress	-	429,393	-	-	429,393
Disposals	-	-	-	-	-
Balance at December 31, 2024	\$ 515,359	\$ 3,435,553	\$ 10,450	\$ 966,935	\$ 4,928,297
Balance at January 1, 2025	\$ 515,359	\$ 3,435,553	\$ 10,450	\$ 966,935	\$ 4,928,297
Additions	-	1,346,088	3,200	-	1,349,288
Work in Progress	-	-	-	-	-
Disposals	-	-	-	-	-
Balance at December 31, 2025	\$ 515,359	\$ 4,781,641	\$ 13,650	\$ 966,935	\$ 6,277,585

b) Accumulated amortization

	Goodwill	Computer software	Land Rights	CCRA's	Total
Balance at January 1, 2024	\$ -	\$ 623,385	\$ -	\$ 537,438	\$ 1,160,823
Amortization	-	243,905	-	54,473	298,378
Disposals	-	-	-	-	-
Balance at December 31, 2024	\$ -	\$ 867,290	\$ -	\$ 591,911	\$ 1,459,201
Balance at January 1, 2025	\$ -	\$ 867,290	\$ -	\$ 591,911	\$ 1,459,201
Amortization	-	374,204	-	54,473	428,677
Disposals	-	-	-	-	-
Balance at December 31, 2025	\$ -	\$ 1,241,494	\$ -	\$ 646,384	\$ 1,887,878

c) Carrying amounts

	Goodwill	Computer software	Land Rights	CCRA's	Total
December 31, 2024	\$ 515,359	\$ 2,568,263	\$ 10,450	\$ 375,024	\$ 3,469,096
December 31, 2025	\$ 515,359	\$ 3,540,147	\$ 13,650	\$ 320,551	\$ 4,389,707

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.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

9. Intangible assets and goodwill:

d) Goodwill impairment (continued)

A detailed valuation of the Corporation was undertaken during 2025 based on preliminary financial results of the Corporation as at December 31, 2025. Cash flows were projected based on actual operating results and the cost of capital and rate of return as approved in the 2025 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, 2025 or December 31, 2024.

10. Income taxes:

	2025	2024
Income tax expense		
Current tax expense:		
Current year	\$ (170,479)	\$ (14,400)
Prior year	25,069	98,587
Total current tax expense	(145,410)	84,187
Deferred tax expense:		
Change in recognized deductible temporary differences	758,609	416,139
Total current and deferred income tax in profit or loss, before movement of regulatory balance	613,199	500,326
Other comprehensive income:		
Employee future benefits	(28,843)	(5,785)
Total current and deferred tax, before movement in regulatory balances	584,356	494,541
Net movement in regulatory balances	(743,573)	(455,084)
Income tax expense recognized in statement of comprehensive Income	\$(159,217)	\$39,457

Reconciliation of effective tax rate

	2025	2024
Income before taxes	\$2,032,545	\$1,800,061
Canada and Ontario statutory income tax rates	26.5%	26.5%
Expected tax provision on income tax at statutory rates	538,625	477,016
Increase (decrease) in income tax resulting from:		
Permanent differences	(601)	15,757
Recognized deductible temporary difference due from customers	(743,573)	(455,084)
Other	46,332	1,768
Income tax expense	\$(159,217)	\$39,457

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

10. Income taxes (continued):

	2025	2024
Deferred tax assets (liabilities):		
Property, plant, equipment and intangible assets	(\$4,060,093)	(\$3,268,149)
Employee future benefits	281,435	266,598
Unrealized gain on interest rate swap	(61,972)	(75,779)
Other	82,647	49,113
	(\$3,757,983)	(\$3,028,217)

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:

	2025	2024
Electricity deposits	\$ 1,022,994	\$ 942,297
Construction deposits	1,645,685	1,276,353
Total customer deposits	\$2,668,679	\$2,218,650
Consisting of:		
Short-term	\$ 1,445,854	\$ 1,186,600
Long-term	1,222,825	1,032,050

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, 2025.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

12. Employee future benefits (continued):

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

	2025	2024
Defined benefit obligation, beginning of year	\$ 1,006,032	\$ 1,024,453
Included in profit or loss:		
Current service cost	24,582	26,723
Interest cost	45,003	45,204
	69,585	71,927
Included in OCI:		
Actuarial (gains) losses arising from changes in financial assumptions	108,843	21,829
Benefits paid during the year	(122,443)	(112,177)
Defined benefit obligation, end of year	\$1,062,017	\$1,006,032

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

	2025	2024
Discount rate	4.85%	4.65%
Rate of compensation increase	3.40%	3.30%
Initial health care cost trend rate	5.30%	5.10%
Initial dental cost trend rate	5.60%	5.40%
Year that rate reaches the rate it is assumed to be	2045	2040
Cost trend rate declines to	3.80%	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:

	2025	2024
Benefit Obligation, end of year	\$1,062,017	\$1,006,032
1% increase in health care trend rate	33,000	39,200
1% decrease in health care trend rate	(29,400)	(34,600)
1% increase in discount rate	(101,200)	(104,800)
1% decrease in discount rate	125,200	130,000

(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 2025, the Corporation made employer contributions of \$542,497 to OMERS (2024 - \$479,089). The Corporation's net benefit expense has been allocated as follows:

- \$195,299 (2024 - \$172,472) capitalized as part of PP&E
- \$287,523 (2024 - \$253,917) charged to operating expenses
- \$59,675 (2024 - \$52,700) charged to CDM and billable work

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

12. Employee future benefits (continued):

(b) Pension plan (continued)

As at December 31, 2025, OMERS states that their plan was 99% funded (2024 – 98%). 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, 2025 and 2024, the Corporation did not record any impairments related to regulatory debit balances.

	January 1, 2025	Transactions	Recovery/ reversal	Other Movements	December 31, 2025	Notes
Regulatory deferral account debit balances						
Settlement (Group 1 and 2) variances	\$ 4,716,827	\$ 997,554	\$ (1,560,386)	\$ (35,021)	\$ 4,118,974	(1)
LRAM	100,166	3,029	-	-	103,195	(1)
Deferred Taxes	2,952,437	743,573	-	-	3,696,010	(2)
	\$ 7,769,430	\$ 1,744,156	\$ (1,560,386)	\$ (35,021)	\$ 7,918,179	

	January 1, 2024	Transactions	Recovery/ reversal	Other Movements	December 31, 2024	Notes
Regulatory deferral account debit balances						
Settlement (Group 1 and 2) variances	\$ 3,865,095	\$ 2,406,163	\$ (2,992,354)	\$ 1,437,923	\$ 4,716,827	(1)
LRAM	105,629	(240,360)	234,897	-	100,166	(1)
Deferred Taxes	2,497,353	455,084	-	-	2,952,437	(2)
	\$ 6,468,077	\$ 2,620,887	\$ (2,757,457)	\$ 1,437,923	\$ 7,769,430	

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

13. Regulatory assets and liabilities (continued):

	January 1, 2025	Transactions	Recovery/ reversal	Other Movements	December 31, 2025	Notes
Regulatory deferral account credit balances						
Settlement (Group 1 and 2) variances	\$ (2,725,152)	(3,062,616)	\$ 2,508,699	\$ 35,021	\$ (3,244,048)	(1)
LRAM	(28,248)	-	(865)	-	(29,113)	(1)
PILS	(472,622)	(71,610)	472,622	-	(71,610)	
	\$ (3,226,022)	\$ (3,134,226)	\$ 2,980,456	\$ 35,021	\$ (3,344,771)	

	January 1, 2024	Transactions	Recovery/ reversal	Other Movements	December 31, 2024	Notes
Regulatory deferral account credit balances						
Settlement (Group 1 and 2) variances	\$ (650,206)	(3,422,597)	\$ 2,785,574	\$ (1,437,923)	\$ (2,725,152)	(1)
LRAM	(26,837)	(1,411)	-	-	(28,248)	(1)
PILS	(701,709)	(166,105)	395,192	-	(472,622)	
	\$ (1,378,752)	\$ (3,590,113)	\$ 3,180,766	\$ (1,437,923)	\$ (3,226,022)	

- 1) The changes in settlement (Group 1) and LRAM balances outstanding from December 31, 2024 were approved for disposition as part of the 2025 COS application with rates effective January 1, 2025 to be collected over a 12-month period.
- 2) 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.
- 3) As part of the 2025 COS application, the OEB approved the disposal of Group 2 accounts in the amount of \$799,383 reflected in the December 31, 2024, balances under Recovery/reversal in settlement and PILS. These balances are included as a rate rider effective January 1, 2025, and will be recovered over a 12-month period.

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 2025 COS application and its 2026 IRM application, the change in debit and credit balance settlement (Group 1) variance accounts occurring during fiscal 2023 and 2024 were approved in distribution rates for recovery over a 12-month period commencing January 1, 2025 and January 1, 2026 respectively. 2025 settlement transactions will be cleared through the 2027 IRM application. Also as part of the 2025 COS application, Group 2 balances were approved. As such, the risk associated with the recovery of variance accounts is limited to the incremental value of non-settlement variances arising in 2025.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

14. Long-term debt:

Long-term debt consists of the following:

	2025	2024
Royal Bank revolving term loan, bearing interest at 2.93%, payable in monthly principal instalments of approximately \$40,000 plus interest, increasing by \$1,000 yearly until maturity on May 31, 2038, secured by a general security agreement, subject to a swap agreement as outlined below (i).	8,308,000	8,847,000
Royal Bank non-revolving term loan, bearing interest at 3.15% plus 2.11% credit spread, payable in variable increasing quarterly instalments plus interest, quarterly until maturity on January 23, 2035, secured by a general security agreement, subject to a swap agreement as outlined below (ii).	4,807,318	-
Royal Bank revolving term loan, bearing variable interest at 2.21%, payable in quarterly instalments of \$110,000 plus interest, increase by \$1,000 quarterly until maturity on December 31, 2034, secured by a general security agreement, subject to a swap agreement as outlined below (iii).	4,554,000	5,000,000
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.	-	214,648
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
	33,269,318	29,661,648
Less: current portion	16,820,805	16,799,649
Long-term debt	\$ 16,448,513	\$ 12,861,999

Interest rate swaps

- (i) 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 occurred on May 31, 2023. On this day, the stamping fee changed from 0.42% to 1.81%.
- (ii) The Corporation entered into an interest rate swap agreement on a notional principal of \$5,000,000 effective April 23, 2025, which matures April 23, 2035. 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 3.15% plus credit spread 2.11% on the Royal Bank revolving term loan, for an all in rate of 5.26%.
- (iii) The Corporation entered into an interest rate swap agreement on a notional principal of \$5,000,000 effective December 31, 2024, which matures December 31, 2034. 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 2.21% plus stamping fee of 1.81% on the Royal Bank revolving term loan.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

14. Long-term debt (continued):

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, 2025 with the combined unrealized loss for the year of \$52,101 (2024 – \$168,797) recorded in the statement of comprehensive income. The Corporation uses Level 2 inputs to determine fair value.

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, 2025	\$ 29,661,648	\$ 147,478	\$ 20,991,348	
Dividends paid	-	(147,478)	(390,324)	\$ (537,802)
Proceeds from long-term debt	5,000,000	-	-	5,000,000
Repayments of long-term debt	(1,392,330)	-	-	(1,392,330)
Total changes from financing cash flows	\$ 3,607,670	\$ (147,478)	\$ (390,324)	\$ 3,069,868
Dividend declared but not paid	-	247,847	(247,847)	-
Net income after net movements in regulatory balances	-	-	2,300,605	-
Balance at December 31, 2025	\$ 33,269,318	\$ 247,847	\$ 22,653,782	\$ -

15. Share capital:

	2025	2024
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 2025 totalled \$152,500 (2024 - \$152,500). Dividends paid on the 6,995 common shares during 2025 totalled \$237,824 (2024 - \$385,308). A common share dividend was declared on December 11, 2025 and is payable on all common shares on record at December 31, 2025, with the dividend to be paid in 2025. The total dividend relating to 2025 is \$390,324 (2024 - \$537,808). The dividend amount payable at December 31, 2025 is \$247,847 (2024 - \$147,478).

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

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 documented in the table below.

	2025 Sale of Energy	2025 Distribution Revenue	2024 Sale of Energy	2024 Distribution Revenue
Residential	\$ 22,402,113	\$ 8,823,536	\$ 19,390,594	\$ 7,669,347
Commercial	45,983,183	5,286,356	46,989,379	5,224,546
Large Users	3,164,975	222,250	3,014,471	205,813
Other	161,079	249,182	309,373	189,275
	\$ 71,711,350	\$ 14,581,324	\$ 69,703,817	\$ 13,288,981

17. Other income:

	2025	2024
Collection, late payment and other service charges	\$ 123,883	\$ 128,440
Pole attachment and other rental income	174,507	139,173
Miscellaneous	1,443,653	1,078,335
Solar generation	23,520	28,889
	\$ 1,765,563	\$ 1,374,837

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:

	2025	2024
Salaries and benefits	\$ 4,600,949	\$ 4,131,416
External services	2,275,143	1,955,308
Materials and supplies	703,419	615,352
Other support costs	1,294,543	1,132,469
	\$ 8,874,054	\$ 7,834,545

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

19. Finance income and costs:

	2025	2024
Late payment charge income	\$ 18,447	\$ -
Interest on bank account	1,046	5,437
Interest income on loan to corporation under common control	428	8,674
Finance income	\$ 19,921	\$ 14,111
Interest expense on demand notes payable	\$1,131,000	\$1,131,000
Interest expense on long-term debt	732,479	662,802
Interest on revolving credit facility	294,377	277,504
Interest expense on deposits	28,073	45,670
Other interest expense	3,097	52,321
Finance costs	\$ 2,189,026	\$ 2,169,297
Unrealized loss on interest rate swap	52,101	168,797
Finance costs and unrealized loss on interest rate swap	\$ 2,241,127	\$ 2,338,094
Net finance costs	\$ 2,221,206	\$ 2,323,983

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 2025 was \$1,129,708 (2024 - \$1,171,215).

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

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:

	2025	2024
Revenues:		
Energy sales	\$ 1,853,569	\$ 1,586,266
Water and sewer administration fee	594,613	564,396
Street lighting services	40,398	28,596
Service centre space rental	40,162	36,988
Total revenues	\$ 2,528,742	\$ 2,216,246
Expenses:		
Interest on demand notes payable	\$ 1,131,000	\$ 1,131,000
Property taxes	150,674	107,549
Tree trimming	79,367	74,579
Total expenses	\$ 1,361,041	\$ 1,313,128
	December 31, 2025	December 31, 2024
Receivable balances:		
Accounts receivable	\$ 231,421	\$ 401,372
Payable balances:		
Accounts payable and accrued charges	\$ 1,214,488	\$ 1,160,234
Demand notes payable	15,600,000	15,600,000
Dividends payable	247,847	147,478
Total payables	\$17,062,335	\$16,907,712
The net amount owing to the Corporation of the City of Stratford for accounts receivable, accounts payable and accrued charges is \$983,067 (2024 - \$758,862).		
Dividends paid	\$ 390,324	\$ 390,330
Dividends payable	\$ 247,847	\$ 147,478
Total Dividend	\$ 638,171	\$ 537,808

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

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:

	2025	2024
Revenues:		
Operational services	\$ 20,726	\$ 32,739
Management fee	91,621	88,817
Office and fibre room rentals	1,826	1,555
Joint pole rentals	55,604	60,078
Interest earned	4,489	-
Energy sales	27,782	27,244
Water billing and collection services	78,392	77,336
Total revenues	\$ 280,440	\$ 287,769
Expenses:		
Fibre and WIFI services	\$ 154,148	\$ 154,148
Information technology and management services	321,625	438,938
Total expenses	\$ 475,773	\$ 593,086
Payable balance:		
	December 31, 2025	December 31, 2024
Due (to)/from corporations under common control	\$ 218,640	(\$ 94,300)

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, 2025, 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, 2024. As at December 31, 2025, equity amounted to \$37,981,502 (2024 - \$36,427,911), borrowings in the form of demand notes payable and long-term debt, including the current portion thereof, amounted to \$33,269,318 (2024 - \$29,661,648) and the revolving credit facility amounted to \$6,960,152 (2024 - \$4,779,138).

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

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, 2025 and December 31, 2024, the Corporation was in compliance 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, due to Corporations under common control & to the City of Stratford, 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 a cumulative unrealized gain recorded on the statement of financial position at December 31, 2025 of \$233,857 (2024 - \$285,958).

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:

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

22. Financial instruments and risk management (continued):

	2025	2024
Carrying amounts:		
Notes payable to shareholder, bearing interest at 7.25% per annum, due on demand	\$15,600,000	\$15,600,000
Royal Bank revolving term loan, bearing interest at 2.93%, plus a stamping fee of 1.81%, maturing May 31, 2038	8,308,000	8,847,000
Royal Bank non-revolving term loan, bearing interest at 3.15% plus 2.11% credit spread, maturing January 23, 2035	4,807,318	-
Royal Bank revolving term loan, bearing variable interest at 4.02%, maturing September 29, 2034	4,554,000	5,000,000
Royal Bank loan, bearing interest at 2.62%, maturing November 25, 2025	-	214,648
Total	\$33,269,318	\$29,661,648

	2025	2024
Fair values:		
Notes payable to shareholder, bearing interest at 7.25% per annum, due on demand	\$13,807,912	\$13,780,577
Royal Bank revolving term loan, bearing interest at 2.93%, plus a stamping fee of 1.81%, maturing May 31, 2038	6,168,435	6,231,304
Royal Bank non-revolving term loan, bearing interest at 5.26%, maturing January 23, 2035	1,999,689	-
Royal Bank revolving term loan, bearing variable interest at 4.02%, maturing September 29, 2034	1,829,777	3,841,602
Royal Bank loan, bearing interest at 2.62%, maturing November 25, 2025	-	202,847
Total	\$23,805,813	\$24,056,330

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.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

22. Financial instruments and risk management (continued):

(a) Credit risk (continued)

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, 2025, the Corporation held security deposits related to electricity receivables in the amount of \$1,022,993 (2024 - \$942,297).

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Corporation has estimated the expected credit losses using its historical loss rates and recent trends for customer collections along with current and forecasted economic conditions and data. Due to current uncertain economic conditions, the estimates and judgements made by management in the preparation of the expected credit losses allowance are subject to estimation uncertainty. The Corporation determines the expected credit loss allowance based on current estimates and assumptions, including but not limited to, recent trends for customer collections and current forecasted economic conditions. The Corporation continues to actively monitor its exposure to credit risk.

As at December 31, 2025, 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 23,024 customers (2024 - 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:

	2025	2024
Not more than 30 days	\$ 5,836,229	\$ 5,580,602
More than 30 but less than 90 days	130,282	175,198
More than 90 days	142,655	101,592
Less allowance for impairment	(243,232)	(169,899)
Unbilled revenue	8,836,853	7,166,152
	\$ 14,702,787	\$ 12,853,645

As at December 31, 2025, 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.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

22. Financial instruments and risk management (continued):

(a) Credit risk (continued)

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

	2025	2024
Balance, beginning of year	\$ 169,899	\$ 180,369
Provision for impairment	71,795	71,097
Write offs	-	(100,768)
Recoveries	1,538	19,201
Balance, end of year	\$ 243,232	\$ 169,899

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, 2025 (2024 – 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.

As at December 31, 2025, 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 \$154,794 (2024 - \$124,162) to annual finance costs. A decrease of 100 basis points would result in a reduction in financing costs of \$154,794 (2024 – \$124,162).

(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, 2025, \$7,030,000 (2024 - \$4,790,000) 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 \$3,095,409 (2024 - \$3,095,139) has been assigned to secure the prudential support required by the IESO.

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

22. Financial instruments and risk management (continued):

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:

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

December 31, 2025					
	Carrying Amounts	Total	Due within 1 year	Due within 1 to 5 years	Due > 5 years
Revolving credit facility	\$ 7,030,000	\$ 7,030,000	\$ 7,030,000	\$ -	\$ -
Accounts payable and accrued liabilities	8,861,347	8,861,347	8,861,347	-	-
Due to City of Stratford	983,067	983,067	983,067	-	-
Notes payable to shareholder, bearing interest at 7.25% per annum, due on demand	15,600,000	16,731,000	16,731,000	-	-
Royal Bank revolving term loan, bearing interest at 2.93%, plus a stamping fee of 1.81%, maturing May 31, 2038	8,308,000	10,159,598	825,775	3,291,629	6,042,194
Royal Bank non-revolving loan, bearing interest at 3.15%, plus a 2.11% credit spread, maturing January 23, 2035	4,807,318	6,139,915	646,506	2,585,594	2,907,815
Royal Bank revolving term loan, bearing variable interest at 4.02%, maturing September 29, 2034	4,554,000	5,431,504	632,170	2,461,797	2,337,537
	\$ 50,143,732	\$ 55,336,431	\$ 35,709,865	\$ 8,339,020	\$ 11,287,546
December 31, 2024					
	Carrying Amounts	Total	Due within 1 year	Due within 1 to 5 years	Due > 5 years
Revolving credit facility	\$ 4,790,000	\$ 4,790,000	\$ 4,790,000	\$ -	\$ -
Accounts payable and accrued liabilities	9,412,495	9,412,495	9,412,495	-	-
Due to City of Stratford	758,862	758,862	758,862	-	-
Notes payable to shareholder, bearing interest at 7.25% per annum, due on demand	15,600,000	16,731,000	16,731,000	-	-
Royal Bank revolving term loan, bearing interest at 2.93%, plus a stamping fee of 1.81%, maturing May 31, 2038	8,847,000	10,986,690	827,091	3,295,915	6,863,684
Royal Bank loan, bearing interest at 2.62%, maturing November 25, 2025	214,648	217,452	217,452	-	-
Royal Bank revolving term loan, bearing variable interest at 5.39%, plus a stamping fee of 1.51%, interest only payments until December 31, 2024	5,000,000	6,071,775	640,272	2,489,909	2,941,594
	\$ 44,623,005	\$ 48,968,274	\$ 33,377,172	\$ 5,785,824	\$ 9,805,278

Festival Hydro Inc.

Notes to the Financial Statements

Year ended December 31, 2025, with comparative information for 2024

22. 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 \$3,347 per month for 2025 (2024 - \$1,053 per month).

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.

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 however, this was completed in May 2023 and resulted in no contributions required.

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, 2025, no assessments had been made.

23. Comparative information:

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