



## **Financial Statements**

Prepared For:

Finance & Labour Relations Sub-Committee

June 2023

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

**Balance Sheet Commentary:**

**Capital asset additions:** Additions to the end of 2022 are \$120K, or 76% of budget. Details on the capital spend to date are as noted below:

**Computer Hardware/Software:** Total hardware/software spend for 2022 is \$76K which is \$29K under budget. A large portion of this was for new servers that were completed in Q1 and backup servers that were purchased in Q4. There were a few projects that have been deferred to 2023 due to time constraints or assets not yet reaching end of useful life. The servers purchased in Q4 came in \$2.5K under budget. The remaining variance from projection was an error in allocation of one project that should have been included in Wi-Fi capital instead of Computer hardware totaling \$6K.

**WIFI Capital:** Total capital WIFI spend for 2022 is \$14K which is \$7K over budget. There was limited work completed in the year under Wi-Fi capital. There is a variance from projection due to the allocation error noted above. This purchase was for a spare part for critical Wi-Fi equipment.

**Fibre Capital:** Total spend on fibre capital for 2022 was \$29K which was under budget by \$12K. The main fibre project in St. Mary's was budgeted in 2021 but was partially completed in 2022 with the remaining portion of the project to be completed in Q1 of 2023. There was also a large rebuild projection completed at Romeo/Frederick which came in approximately \$3.5K under budget.

**Due from QR Fibre:** In 2022 QR Fibre needed to borrow funds from its shareholders to cover the construction loan principal repayments. FHSI's portion was \$49.5K.

**Due to FHI:** The balance due to FHI is \$122K. The \$73K under projections is a result of less capital spend compared to projections and additional work completed by FHSI staff for FHI in the latter part of the year.

**Deferred Revenue and Long-Term Debt:** Deferred revenue increased compared to projection due to an additional cheque being received in Q4 for the DSRC (Dedicated Short Range Communication) project that was completed in 2020. This amount will be brought into revenue over the life of the asset. Long-term debt balances are as projected based on the loan and depreciation schedules.

**Income Statement Commentary:**

The net income for the period is \$58K, which is \$16K ahead of budget.

**Revenues:** Revenues are \$40K below budget and \$71K ahead of the projections.

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The two main areas where there are changes from projections are in Wi-Fi revenues and consulting revenue. ISP revenue was higher than projections by \$11K due to additional funds received for the DSRC project. This revenue was included in deferred revenue and amortized over the life of the corresponding assets. In addition, consulting revenue was higher than projections by \$58K due to a review and adjustment of the rates charged to FHI for FHSI staff.

**Operating Expenses:** Operating expenses are \$59K below budget and \$57K above projections. The \$57K above projections is driven by business development costs being \$68K higher than expected. The main reason was due to a formula error in the labour projection file which did not account for some employee's labour in Q4 (\$40K). The remainder of the variance is due to a low benefit projection which came in higher to the end of the year (\$20K). This is offset by Wi-Fi and fibre maintenance being lower than projection by \$7K and \$6K respectively. There is a portion of the asset management project that was not complete by the end of the year and therefore will be expensed in early 2023.

**Current and Future Income Tax:** A combined \$22K expense at the end of 2022 is made up of \$18K of current tax owing and \$4K in future taxes. The projections only included a net balance of \$18K. The difference being a better than anticipated net income.

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Financial Statements of

**FESTIVAL HYDRO SERVICES INC.**

And Independent Auditors' Report thereon

Year ended December 31, 2022



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## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Festival Hydro Services Inc.

### ***Opinion***

We have audited the accompanying financial statements of Festival Hydro Services Inc., which comprise:

- the statement of financial position as at December 31, 2022
- 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 significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Festival Hydro Services Inc. as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

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

We are independent of Festival Hydro Services Inc. 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 International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Festival Hydro Service Inc.'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 Festival Hydro Service Inc. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Festival Hydro Service Inc.'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.



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

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. 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 28, 2023

# FESTIVAL HYDRO SERVICES INC.

## Statements of Financial Position

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

	Note	2022	2021
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 6,340	\$ 9,016
Accounts receivable		40,088	59,956
Inventory	5	7,617	7,617
Other assets		124	2,258
Income tax receivable		-	-
<b>Total current assets</b>		<b>54,169</b>	<b>78,847</b>
<b>Non-current assets</b>			
Plant and equipment	6	2,840,389	3,078,178
Intangible assets	7	21,219	29,990
Due from QR Fibre Inc.		49,500	-
<b>Total non-current assets</b>		<b>2,911,108</b>	<b>3,108,168</b>
<b>Total assets</b>		<b>\$ 2,965,277</b>	<b>\$ 3,187,015</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 56,021	\$ 33,211
Due to Festival Hydro Inc.	15	122,147	332,803
Current portion of long-term debt	9	415,324	414,508
Deferred revenue	9	107,374	103,465
Income tax payable		22,299	28,000
<b>Total current liabilities</b>		<b>723,165</b>	<b>911,987</b>
<b>Non-current liabilities</b>			
Long-term debt	9	277,981	321,305
Deferred revenue	9	442,786	494,000
Deferred tax liabilities, net	8	247,000	243,000
<b>Total non-current liabilities</b>		<b>967,767</b>	<b>1,058,305</b>
<b>Total liabilities</b>		<b>1,690,932</b>	<b>1,970,292</b>
<b>Equity</b>			
Share capital	10	249,235	249,235
Retained earnings		1,025,110	967,488
<b>Total equity</b>		<b>1,274,345</b>	<b>1,216,723</b>
<b>Total liabilities and equity</b>		<b>\$ 2,965,277</b>	<b>\$ 3,187,015</b>

Guarantee (note 17)

Subsequent event (note 19)

See accompanying notes to the financial statements.

On behalf of the Board:



Director



Director



## FESTIVAL HYDRO SERVICES INC.

### Statement of Comprehensive Income

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

	Note	2022	2021
<b>Revenue</b>	11	\$ 1,371,519	\$ 1,336,141
<b>Operating expenses</b>			
Employee salaries and benefits	12	463,684	393,453
Operating expenses	13	417,695	381,916
Depreciation and amortization	6, 7	366,553	362,439
		1,247,932	1,137,808
<b>Income from operating activities</b>		123,587	198,333
Finance income	14	36	198
Finance costs	14	44,001	49,420
<b>Income before income taxes</b>		79,622	149,111
Income tax expense	8	22,000	39,000
<b>Net income and comprehensive income</b>		\$ 57,622	\$ 110,111

See accompanying notes to financial statements.

## FESTIVAL HYDRO SERVICES INC.

### Statement of Changes in Equity

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

	Share capital	Retained earnings	Total
<b>Balance at January 1, 2021</b>	\$ 249,235	\$ 857,377	\$1,106,612
Net income and comprehensive income	-	110,111	110,111
<b>Balance at December 31, 2021</b>	\$ 249,235	\$ 967,488	\$ 1,216,723
<b>Balance at January 1, 2022</b>	\$ 249,235	\$ 967,488	\$1,216,723
Net income and comprehensive income	-	57,622	57,622
<b>Balance at December 31, 2022</b>	\$ 249,235	\$1,025,110	\$1,274,345

See accompanying notes to the financial statements.

# FESTIVAL HYDRO SERVICES INC.

## Statement of Cash Flows

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

	2022	2021
<b>Operating activities:</b>		
Net income and comprehensive income	\$ 57,622	\$ 110,111
Adjustments for:		
Depreciation and amortization	366,553	362,439
Amortization of deferred revenue	(84,651)	(90,135)
Net finance costs	43,965	49,222
Income tax expense	4,000	5,000
Remeasurement of debt	(5,239)	(7,786)
Changes in non-cash operating working capital		
Accounts receivable	19,868	(2,312)
Inventory	-	156
Other assets	2,134	570
Due from QR Fibre Inc.	(49,500)	-
Income tax payable	(5,701)	28,000
Investment tax credit receivable	-	6,000
Accounts payable and accrued liabilities	22,810	196
Due to Festival Hydro Inc.	(221,518)	(307,980)
Interest paid	(27,900)	(27,922)
Interest received	36	198
	122,479	125,757
<b>Financing activities:</b>		
Repayment of long-term debt	(42,508)	(41,707)
Deferred revenue received	37,346	-
	(5,162)	(41,707)
<b>Investing activities:</b>		
Purchase of plant and equipment	(119,993)	(57,492)
Purchase of intangible asset	-	(27,071)
	(119,993)	(84,563)
Decrease in cash	(2,676)	(513)
Cash, beginning of year	9,016	9,529
Cash, end of year	\$ 6,340	\$ 9,016

See accompanying notes to financial statements.

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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## 1. Reporting entity:

Festival Hydro Services Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) pursuant to Section 142 of the Electricity Act 1998 on July 11, 2000. The Corporation of the City of Stratford (the "City") passed a bylaw pursuant to Section 145 of the Electricity Act 1998 transferring certain assets and liabilities used in connection with water heaters, sentinel lights, and other energy services and telecommunications from the Stratford Public Utility Commission – Electric Departments. In exchange for these assets the City received a promissory note and common shares. The Company also maintains a 45% ownership share in QR Fibre Inc. QR Fibre Inc., operates a telecommunications business under the regulation of the Canadian Radio-television and Telecommunications commission (CRTC). The investment in QR Fibre Inc is accounted for using the equity method. The Company is located in the City of Stratford. The address of the Company's registered office is 187 Erie Street, Stratford, Ontario N5A 2M6.

Festival Hydro Services Inc. is a telecommunications company that rents dark fibre and sentinel lights and is an internet service provider that focuses on lit fibre services as well as wireless services for its customers.

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

## 2. Basis of presentation:

### (a) Statement of compliance:

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### (b) Approval of the financial statements:

The financial statements were approved by the Board of Directors on April 27, 2023.

### (c) Basis of measurement:

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

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

The methods used to measure fair values are discussed further in note 3 (c) and note 16.

### (d) Functional and presentation currency:

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

# **FESTIVAL HYDRO SERVICES INC.**

Notes to Financial Statements

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

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## **2. Basis of presentation (continued):**

### **(e) 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 periods affected.

In particular, information about areas of estimation uncertainty and critical judgements in applying accounting policies that have an effect on the amounts recognized in these financial statements is included in the following notes:

- (i) Note 6 – Plant and equipment: useful lives and the identification of significant components of property, plant and equipment.
- (ii) Note 7 – Intangible assets.

## **3. Significant accounting policies:**

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

### **(a) Financial instruments:**

All financial assets are classified as loans and receivables. All financial liabilities are classified as other financial liabilities. These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs.

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

The Company does not enter into derivative instruments. Hedge accounting has not been used in the preparation of these financial statements.

### **(b) Inventory:**

Inventory is stated at lower of cost and net realizable value and consists of maintenance materials and supplies. Cost is determined on a weighted average basis. The cost of inventory includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing it to its existing location and condition.

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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## 3. Significant accounting policies (continued):

### (c) Plant and equipment:

Items of plant and equipment are measured at cost. 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, 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 based upon the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of twelve months to construct.

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

The cost of replacing part of an item of 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 Company 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 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 plant and equipment.

The estimated useful lives for the current and comparative years are as follows:

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Fibre optics	25 years
WiFi assets	7 years
Computer hardware	5 years
Sentinel lights	10 years
Furniture and fixtures	10 years
Buildings	30 years

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Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognized within other income or operating expenses in profit or loss.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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## 3. Significant accounting policies (continued):

### (d) Intangible asset:

Computer software that is acquired or developed by the Company, 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.

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

Computer software	5 years
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Amortization methods and useful lives of all intangible assets are reviewed at each reporting date.

### (e) 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 of that asset.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated 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 profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

#### (ii) Non-financial assets:

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU 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.

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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## 3. Significant accounting policies (continued):

### (f) Provisions:

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

### (g) Revenue:

Monthly fees in connection with fibre optic, sentinel light, WiFi services, rental revenue, and consulting revenue are recognized as the services are rendered to customers.

Deferred revenue relating to contributions under a cost share agreement is amortized to income on a straight-line basis over the term of the agreement with the customer which represents the period of ongoing service to the customer.

### (h) Deferred revenue and assets transferred from customers:

Certain partners are required to contribute towards the capital cost of fibre connections as part of a revenue/cost sharing agreement. Cash contributions are recorded as current liabilities. When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as deferred revenue.

The deferred revenue amount represents the Company's obligation to continue to provide the customers access to the fibre services and is amortized to income on a straight-line basis over the term of the agreement with the customer.

### (i) 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. Finance costs comprise interest expense on borrowings.



# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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## 3. Significant accounting policies (continued):

### (j) Income taxes:

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

Under the Electricity Act, 1998, the Company 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 Company was not subject to income or capital taxes. Payments in lieu of taxes ("PIL"s) are referred to as income taxes.

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

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.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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## 3. Significant accounting policies (continued):

### (k) Investments measured using equity method:

The Company uses the equity method as a basis of accounting for investments in companies over which it exercises significant influence or joint control. Under the equity method, the Company records these investments initially at cost and the carrying values are adjusted thereafter to include the Company's pro rata share of post-acquisition earnings of the investees, computed by the consolidation method. The adjustments are included in the determination of net income by the Company, and the investment accounts of the Company are also increased or decreased to reflect the Company's share of capital transactions (including amounts recognized in other comprehensive income). Profit distributions received from investees reduce the carrying values of the investments. Unrealized intercompany gains or losses are eliminated.

The Company's determination of significant influence is based on consideration of voting interest in the investees along with other indicators such as representation on the board of directors, participation in policy-making processes, material intercompany transactions, interchange of managerial personnel or provision of technical information. The Company uses the equity method to account for its 45% interest in QR Fibre Inc.

## 4. Standards issued but not yet adopted:

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

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

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

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

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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

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

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

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

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

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

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

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

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

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

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

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

## 5. Inventory:

The amount of inventory consumed by the Company and recognized as an expense during 2022 was \$0 (2021 - \$156).

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

## 6. Plant and equipment:

Cost	Fibre optics	WiFi assets	Computer hardware	Sentinel lights	Buildings and office furniture	Total
Balance at January 1, 2021	\$3,058,680	\$826,939	\$945,787	\$10,970	\$523,171	\$5,365,547
Additions	19,996	26,307	9,407	-	1,782	57,492
Disposals/retirements	-	(104,854)	(450)	(3,635)	(4,125)	(113,064)
Balance at December 31, 2021	\$3,078,676	\$748,392	\$954,744	\$7,335	\$520,828	\$5,309,975
Balance at January 1, 2022	\$3,078,676	\$748,392	\$954,744	\$7,335	\$520,828	\$5,309,975
Additions	28,612	14,484	75,986	-	911	119,993
Disposals/retirements	-	(14,584)	-	(2,182)	-	(16,766)
Balance at December 31, 2022	\$3,107,288	\$748,292	\$1,030,730	\$5,153	\$521,739	\$5,413,202

## Accumulated depreciation

Balance at January 1, 2021	\$1,405,178	\$404,551	\$130,336	\$5,759	\$44,078	\$1,989,902
Depreciation	122,747	101,859	111,618	1,275	17,460	354,959
Disposals/retirements	-	(104,854)	(450)	(3,635)	(4,125)	(113,064)
Balance at December 31, 2021	\$1,527,925	\$401,556	\$241,504	\$3,399	\$57,413	\$2,231,797
Balance at January 1, 2022	\$1,527,925	\$401,556	\$241,504	\$3,399	\$57,413	\$2,231,797
Depreciation	123,147	96,241	120,112	984	17,298	357,782
Disposals/retirements	-	(14,584)	-	(2,182)	-	(16,766)
Balance at December 31, 2022	\$1,651,072	\$483,213	\$361,616	\$2,201	\$74,711	\$2,572,813

## Carrying amounts

December 31, 2021	\$1,550,751	\$346,836	\$713,240	\$3,936	\$463,415	\$3,078,178
December 31, 2022	\$1,456,216	\$265,079	\$669,114	\$2,952	\$447,028	\$2,840,389

## Borrowing costs:

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

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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### 7. Intangible assets:

	Computer software
<b>Cost</b>	
Balance at January 1, 2021	\$28,848
Additions	27,071
Disposals/retirements	(3,200)
Balance at December 31, 2021	<u>\$52,719</u>
Balance at January 1, 2022	\$52,719
Additions	-
Disposals/retirements	(10,974)
Balance at December 31, 2022	<u>\$41,745</u>
<b>Accumulated amortization</b>	
Balance at January 1, 2021	\$18,447
Amortization	7,482
Disposals/retirements	(3,200)
Balance at December 31, 2021	<u>\$22,729</u>
Balance at January 1, 2022	\$22,729
Amortization	8,771
Disposals/retirements	(10,974)
Balance at December 31, 2022	<u>\$20,526</u>
<b>Carrying amounts</b>	
December 31, 2021	\$ 29,990
December 31, 2022	<u>21,219</u>

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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### 8. Income taxes:

	<b>2022</b>	<b>2021</b>
Current Tax Expense	\$ 18,000	\$ 34,000
Deferred tax expense:		
Origination and reversal of temporary differences	4,000	5,000
	<hr/>	<hr/>
<b>Total income tax expense</b>	<b>\$ 22,000</b>	<b>\$ 39,000</b>
	<hr/>	<hr/>
	<b>2022</b>	<b>2021</b>
Basic rate applied to profit before income tax 26.5% (2021 - 26.5%)	\$ 21,000	\$ 39,000
Other	1,000	-
	<hr/>	<hr/>
	<b>\$ 22,000</b>	<b>\$ 39,000</b>
	<hr/>	<hr/>

Significant components of the Company's deferred tax balances are as follows:

	<b>2022</b>	<b>2021</b>
Deferred tax liabilities		
Plant and equipment	\$ (241,000)	\$ 235,000
SR&ED pool, ITC & CMT credit claimed	(1,000)	(1,000)
Other	(5,000)	(7,000)
	<hr/>	<hr/>
Deferred tax liability	<b>\$ (247,000)</b>	<b>\$ (243,000)</b>
	<hr/>	<hr/>

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

## 9. Long-term debt:

	2022	2021
Demand note payable to shareholder, bearing interest at 7.5% per annum with interest payments only, due on demand, unsecured	\$372,000	\$372,000
Fixed rate loan, bearing an interest rate of 1.92%, quarterly instalments of \$12,373, term ending December 31, 2029	321,305	363,813
	<hr/> \$693,305	<hr/> \$735,813
Less: current portion	415,324	414,508
Long-term debt	<hr/> \$277,981	<hr/> \$321,305

The Company incurred interest expense in respect of these lending arrangements of \$33,139 (2021 – \$35,685).

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

	Current and long-term debt	Current and long-term deferred revenue	Total (financing cash flows)
Balance at January 1, 2022	\$735,813	\$597,465	\$1,333,278
Deferred revenue received	-	37,346	37,346
Repayments of long-term debt	(42,508)	-	(42,508)
<b>Total changes from financing cash flows</b>	<b>\$(42,508)</b>	<b>\$37,346</b>	<b>\$(5,162)</b>
Amortization of deferred revenue	-	(84,651)	(84,651)
Balance at December 31, 2022	\$693,305	\$550,160	\$1,243,465

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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### 10. Share capital:

	2022	2021
Authorized:		
Unlimited Class A special shares		
Unlimited Class B special shares		
Unlimited common shares		
Issued:		
3,382 common shares (2021 - 3,382)	\$ 249,235	\$ 249,235

### 11. Revenue:

	2022	2021
Fibre optics	\$ 657,128	\$ 706,776
Consulting revenue	311,179	225,215
WiFi services	271,642	271,952
Fibre room rental service	121,414	121,765
Sentinel light fixture rentals	10,156	10,433
	<u>\$ 1,371,519</u>	<u>\$ 1,336,141</u>

Included in fibre optic services is the amortization of deferred revenue in the amount of \$71,626 (2021 - \$72,698). Included in Wifi services is the amortization of deferred revenue in the amount of \$13,025 (2021 - \$17,437).

### 12. Employee salaries and benefits:

	2022	2021
Salaries, wages and benefits	\$ 427,669	\$ 359,950
CPP and EI remittances	24,501	23,023
Group RRSP contributions	14,514	10,480
	<u>\$ 466,684</u>	<u>\$ 393,453</u>

### 13. Operating expenses:

	2022	2021
Administrative expenses	\$ 127,731	\$ 112,415
WiFi maintenance	131,822	132,795
Fibre optics maintenance	156,168	135,743
Sentinel lights maintenance	1,974	963
	<u>\$ 417,695</u>	<u>\$ 381,916</u>



## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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### 14. Finance income and expense:

	2022	2021
<b>Finance income</b>		
Interest income on bank deposits	\$ 36	\$ 198
<b>Finance costs</b>		
Interest expense on long-term debt	\$ 33,139	\$ 35,685
Interest expense on loans with subsidiaries of the City	10,862	13,712
Interest expense on other financial liabilities	-	23
	<u>\$ 44,001</u>	<u>\$ 49,420</u>
Net finance costs recognized in profit or loss	<u>\$ 43,965</u>	<u>\$ 49,222</u>

### 15. Related party transactions:

(a) Parent and ultimate controlling party:

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

(b) Key management personnel:

The key management personnel of the Company have been defined as members of its Board of Directors and executive management team members. Executive management are paid under an administrative services agreement with Festival Hydro Inc., a company under common control by the City.

	2022	2021
Directors fees	\$ 12,719	\$ 15,351
Management fee	64,851	57,518
	<u>\$ 77,570</u>	<u>\$ 72,869</u>

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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### 15. Related party transactions (continued):

(c) Transactions with parent:

The table below summarizes the Company's related party transactions, recorded at the exchange amounts, with the parent, the City of Stratford, for the year ended December 31. The transactions include the sale of fibre and WiFi services to the City as well as payment of joint pole charges for attachments on City owned poles as well as interest expense on amounts owed to the City.

	2022	2021
<b>Revenue</b>		
Fibre services	\$ 60,800	\$ 49,856
WiFi services	2,993	4,296
	<u>\$ 63,793</u>	<u>\$ 54,152</u>
<b>Expenses</b>		
Joint pole attachments on streetlights	\$ 178	\$ 178
Interest	27,900	27,900
	<u>\$ 28,078</u>	<u>\$ 28,078</u>

At December 31, 2022, the balance outstanding from the City was \$5,780 which has been recorded net of the intercompany loan from Festival Hydro Inc. who collects these receivables on the Company's behalf (2021 – \$4,105).

(d) Transactions with subsidiaries of the City:

Festival Hydro Inc. performs all of the administrative functions for the Company. Most expenses are paid and revenue received through Festival Hydro Inc. according to a service level agreement, effective September 1, 2012. At December 31, 2022, the balance owing to Festival Hydro Inc. was \$122,147 (2021 - \$332,803), net of the \$5,780 (2021 - \$4,105) owed to the Company by the City of Stratford.

Festival Hydro Inc. charges interest on the balance owing from the Company at an interest rate equivalent to the Bank of Canada prime rate of 6.45% at December 31, 2022 (2021 – 2.70%) as per the revised loan agreement, effective September 1, 2022. The loan is repayable on demand and no later than November 1, 2027.

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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### 15. Related party transactions (continued):

(d) Transactions with subsidiaries of the City (continued):

The Company had the following transactions with subsidiaries of the City:

	2021	2021
<b>Revenue</b>		
Consulting services	\$ 273,165	\$ 128,117
WiFi services	124,000	124,000
Fibre services	30,148	30,148
	<u>\$ 427,313</u>	<u>\$ 282,265</u>
<b>Expenses</b>		
Water operations	\$ 75,120	\$ 73,410
Management fee	64,851	57,518
Joint pole attachments on hydro poles	55,308	71,311
Office and room rental	1,470	1,225
Operational services	33,397	40,872
Interest	10,862	13,712
Electricity charges	28,689	25,687
	<u>\$ 269,697</u>	<u>\$ 283,735</u>

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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## 16. Financial instruments and risk management:

### Fair value disclosure:

The carrying values of cash, accounts receivable, due to Festival Hydro Inc. and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

The fair value of the City demand note at December 31, 2022 is \$341,901 (2021 - \$502,474). The fair value is calculated based on the present value of future interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2022 was 6.45% on the City demand note (2021 – 2.70%)

The fair value of the non-interest-bearing loan debt agreement with Wightman at December 31, 2022 is calculated based on the present value of future principal and interest cash flows, discounted at the Bank of Canada 10-year rate at the reporting date. The interest rate used to calculate fair value at December 31, 2022 was 1.67% (2021 – 1.67%). The difference between the amount lent and the fair value of the debt of \$ 5,239 (2021 - \$ 7,786) is recognized in interest expense.

### Financial risks:

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

#### (a) Credit risk:

Financial assets carry credit risk that counter-party will fail to discharge and obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment, which management estimates based on lifetime expected credit losses, and the amount of the related impairment loss is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss. The balance of the allowance for impairment at December 31, 2022 is \$nil as the Company does not have a history of collection losses (2021 - \$nil).

The Company's credit risk associated with accounts receivable is primarily related to payments from fibre or wireless customers. At December 31, 2022 there was \$7,615 of 60 days past due (2021 – \$3,985).

# **FESTIVAL HYDRO SERVICES INC.**

Notes to Financial Statements

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

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## **16. Financial instruments and risk management (continued):**

### **(b) Market risk:**

The Company is minimally exposed to fluctuations in interest rates based on its need for external financing.

A 1% increase in the interest rate at December 31, 2022 would have increased interest expense on the long-term debt by an immaterial amount.

### **(c) Liquidity risk**

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

The Company has access to operating funds from an affiliate through an ongoing borrowing agreement and monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due.

The majority of accounts payable, as reported on the balance sheet are due within 30 days.

### **(d) Capital disclosures**

The main objective of the Company when managing capital is to ensure ongoing access to funding to maintain and improve the fibre and wireless infrastructure. The Company's definition of capital includes shareholder's equity and long-term debt. As at December 31, 2022, shareholder's equity amounts to \$1,267,645 (2021 - \$1,216,716) and long-term debt, including current portion thereof, amounts to \$693,305 (2021 - \$735,813).

## **17. Guarantee:**

The Company has guaranteed the bank loan of QR Fibre, a company in which the Company has a 45% ownership interest to the extent of \$4,500,000. No amount has been recorded in these financial statements as the Company does not expect to have to honour its guarantee. As of the date of sale of QR Fibre, the Company's guarantee was rescinded.

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

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

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### 18. Equity Investment:

On August 28, 2019 QR Fibre Inc. as incorporated with the Company acquiring 45% of the issued and outstanding common shares for an investment of \$nil.

December 31, 2021	\$	-
Equity in 2022 earnings		-
		<hr/>
December 31, 2022	\$	-
		<hr/>

### 19. Subsequent event:

On January 31, 2023, the Company sold its 45% ownership interest in QR Fibre Inc. for a sale proceeds of \$50,000 for the shares. As part of this transaction, QR Fibre Inc. also repaid the loan balance of \$49,500 to the Company.

# FESTIVAL HYDRO SERVICES INC.

## Balance Sheet

For the period ending December 31, 2022

	YTD as at Dec 31, 2021	YTD Bdgt. as at Dec 31, 2022	YTD Proj. as at Dec 31, 2022	YTD Final Audited as at		YTD as at Dec 31, 2021	YTD Bdgt. as at Dec 31, 2022	YTD Proj. as at Dec 31, 2022	YTD Final Audited as at
<b>ASSETS</b>					<b>LIABILITIES</b>				
<b>Current Assets</b>					<b>Current Liabilities</b>				
Cash	9,016	20,000	20,000	6,341	Accounts Payable	33,211	50,000	50,000	56,021
Accounts Receivable & Prepaids	62,215	60,000	60,000	40,212	Due to Festival Hydro Inc.	332,803	290,172	195,405	122,147
Other Assets	—	—	—	—	Current Portion of LTD	42,508	43,324	43,324	43,324
Inventory	7,617	8,000	8,000	7,617	Promissory Note	372,000	372,000	372,000	372,000
					Income Tax Receivable/(Payable)	28,000	—	21,100	22,299
<b>Total Current Assets</b>	<b>78,847</b>	<b>88,000</b>	<b>88,000</b>	<b>54,169</b>	<b>Total Current Liabilities</b>	<b>808,522</b>	<b>615,791</b>	<b>681,829</b>	<b>615,791</b>
<b>Fixed Assets</b>					<b>Other Liabilities</b>				
Gross Book Value	5,362,691	5,681,913	5,517,060	5,454,945	Deferred Revenue	597,465	514,747	523,610	550,160
Accumulated Depreciation	(2,254,523)	(2,749,956)	(2,628,732)	(2,593,336)	Deferred Tax Liabilities	243,000	202,999	240,000	247,000
<b>Net Book Value</b>	<b>3,108,168</b>	<b>2,931,956</b>	<b>2,888,327</b>	<b>2,861,608</b>					
<b>Other Assets</b>					<b>Long Term Debt</b>				
Investment in QR Fibre Co.	—	—	—	49,500	RBC Financing	—	—	—	—
Investment Tax Credit Receivable	—	—	—	—	POP Loan Long Term Portion	321,305	277,981	277,982	277,981
					<b>TOTAL LIABILITIES</b>	<b>1,970,292</b>	<b>1,751,224</b>	<b>1,723,421</b>	<b>1,690,933</b>
					<b>EQUITY</b>				
					Share Capital	249,236	249,236	249,235	249,236
					Retained Earnings	967,488	1,019,497	1,003,670	1,025,109
					<b>TOTAL EQUITY</b>	<b>1,216,724</b>	<b>1,268,733</b>	<b>1,252,905</b>	<b>1,274,345</b>
<b>TOTAL ASSETS</b>	<b>3,187,016</b>	<b>3,019,956</b>	<b>2,976,327</b>	<b>2,965,277</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,187,016</b>	<b>3,019,957</b>	<b>2,976,327</b>	<b>2,965,277</b>

# FESTIVAL HYDRO SERVICES INC.

## Statement of Operations For the period ending December 31, 2022

	YTD as at Dec 31, 2021	YTD Budget at Dec 31, 2022	YTD Proj. as at Dec 31, 2022	Audited as at Dec 31, 2022	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%	Cur to Proj. YTD Var\$
<b>TOTAL REVENUE</b>	<b>1,336,140</b>	<b>1,411,700</b>	<b>1,300,865</b>	<b>1,371,519</b>	<b>(40,181)</b>	<b>(3%)</b>	<b>70,654</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>775,369</b>	<b>940,327</b>	<b>824,591</b>	<b>881,380</b>	<b>(58,947)</b>	<b>(7%)</b>	<b>56,789</b>
<b>NET INCOME BEFORE DEPRECIATION &amp; INTEREST</b>	<b>560,771</b>	<b>471,373</b>	<b>476,274</b>	<b>490,140</b>	<b>18,767</b>	<b>4%</b>	<b>13,866</b>
Depreciation	362,439	375,856	374,206	366,553	(9,302)	(3%)	(7,653)
Interest Expense	49,420	43,820	47,785	44,001	181	0%	(3,784)
Interest Income	(198)	—	—	(36)	(36)	100%	(36)
<b>NET INCOME FOR THE PERIOD BEFORE TAXES</b>	<b>149,110</b>	<b>51,696</b>	<b>54,282</b>	<b>79,621</b>	<b>27,925</b>	<b>35%</b>	<b>25,339</b>
Current Tax Provision	34,000	10,000	21,100	18,000	8,000	44%	(3,100)
Future Tax Provision	5,000	—	(3,000)	4,000	4,000	100%	7,000
<b>NET INCOME(LOSS) FOR THE PERIOD</b>	<b>110,110</b>	<b>41,696</b>	<b>36,182</b>	<b>57,621</b>	<b>15,925</b>	<b>28%</b>	<b>21,439</b>



# FESTIVAL HYDRO SERVICES INC.

## Cash Flow Statement

For the period ending December 31, 2022

	YTD as at Dec 31, 2021	YTD Bdgt. as at Dec 31, 2022	YTD Proj. as at Dec 31, 2022	YTD Final Audited as at Dec 31, 2022
<b>Cash from Operations</b>				
Net Income	172,110	41,696	36,182	57,621
Future tax provision	(57,000)	—	(3,000)	4,000
Current tax provision (ITC portion)	34,000	10,000	—	18,000
Depreciation	362,439	375,856	374,206	366,553
Amortization of contributed capital	(72,698)	(69,693)	(69,693)	(80,489)
Amortization of deferred revenue	(17,437)	(13,025)	(4,162)	(4,162)
Due to/from QR Fibre Co.	—	—	—	(49,500)
Net Change in Receivables/Payables	(1,388)	(8,002)	11,723	21,112
<b>Net Cash Provided</b>	<b>420,026</b>	<b>336,833</b>	<b>345,257</b>	<b>333,136</b>
<b>Cash from Financing</b>				
Capital expenditures - Festival	(84,563)	(157,471)	(154,366)	(119,993)
Contributed capital received DSRC - AVIN	—	—	—	37,346
Loan - Wightman	(41,707)	(42,508)	(42,508)	(42,508)
Loan from/(repayment to) Festival	(294,268)	(136,854)	(137,398)	(210,656)
<b>Net Cash Used</b>	<b>(420,539)</b>	<b>(336,833)</b>	<b>(334,272)</b>	<b>(335,811)</b>
<b>Increase (Decrease) in Cash Position</b>	<b>(513)</b>	<b>(1)</b>	<b>10,985</b>	<b>(2,676)</b>
<b>Cash Beg of Period</b>	<b>9,529</b>	<b>10,000</b>	<b>9,015</b>	<b>9,016</b>

# FESTIVAL HYDRO SERVICES INC.

## Statement of Capital For the period ending December 31, 2022

	YTD as at Dec 31, 2021	YTD Budget at Dec 31, 2022	YTD Proj. as at Dec 31, 2022	Audited as at Dec 31, 2022	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%	Cur to Proj YTD Var\$
<b>CAPITAL</b>							
Computer Equipment - Hardware	9,407	104,830	83,321	75,986	(28,844)	(28%)	(7,335)
Computer Software	27,071	3,976	—	—	(3,976)	(100%)	—
Buildings	1,782	—	1,411	911	911	—	(500)
Fibre Capital	19,996	41,000	64,694	28,612	(12,388)	(30%)	(36,082)
WiFi Capital	26,307	7,665	4,940	14,484	6,819	89%	9,545
<b>TOTAL CAPITAL</b>	<b>84,563</b>	<b>157,471</b>	<b>154,366</b>	<b>119,993</b>	<b>(37,478)</b>	<b>(24%)</b>	<b>(34,372)</b>

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

The net income for the period was \$45K, which is \$36K higher than budget and \$20K higher than at this point last year. Detailed commentary on the balance sheet and income statement activity are noted below:

**Balance Sheet Commentary:**

**A/R & Prepaids** – This balance is \$30K lower than March 31<sup>st</sup>, 2022, due to the reduction in Wightman revenue for the fibre ring reimbursement and the ISP revenue that changed as of April 1<sup>st</sup>, 2022.

Outstanding accounts receivable balances are generally held in Festival Hydro as they hit the intercompany account and revenues when they are billed, not when they are collected. They are being monitored through the monitoring of the miscellaneous AR aging in Festival Hydro and there is a decrease in the aged balances at March 31<sup>st</sup>. We will continue to monitor the aged miscellaneous AR balances regularly to ensure Rhyzome receivables are not impacting Festival's cash flows increasingly.

**Capital Asset Additions** – Additions to the end of March 2023 are \$18K, or 61% of Q1 budget. This includes \$142 in computer hardware additions, \$5K on the Data Centre and \$13K on Fibre related projects. Details on the capital spend to date are as noted below:

**Computer Hardware:** Total spend for FHSI on hardware YTD is \$142; the budget spend has not occurred yet in Q1.

**Data Centre:** Total YTD spend on the data centre is \$5K. \$3.5K was for HVAC replacement parts and \$1.5K was for the DC UPS Rectifiers to support Acronym.

**Fibre Capital:** Total spend on fibre capital YTD is \$13K, there were three components of this expense, the first was \$6.7K for network expansion on Romeo Street that was mostly complete in 2022 but finalized in 2023, the second was \$2.3K for core switch firewall replacement that is a portion of a larger firewall project ongoing and \$3.7K for replacement APC Symmentra batteries due to end of useful life.

**WI-FI Capital:** Total YTD spend on WIFI related activity is zero to date as the budget spend has not occurred yet in Q1.

**Due from Festival Hydro Inc.** – The balance in this account has flipped from a payable to a receivable due to a repayment of the investment in QR Fibre and the gain on the sale of shares of QR Fibre.

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**Deferred Revenue** – This balance has decreased slightly from the December 2022 balance as a portion of the balance has been recognized into revenue for Q1 2023. There have been some funds that were received from Acronym for some upgrades to the DC. This will be brought in over the remaining period of their current contract which ends in June 2024.

**Income Statement Commentary:**

**Revenues** – Revenues are \$52K higher than budget in Q1. ISP revenue is down by \$11K mainly due to the completion of the fibre ring reimbursement with Wightman. The conclusion of this contract was not reflected in the preparation of the budget so this variance will continue throughout the year. Consulting revenue is up by \$29K compared to the prior year due to having a full staff compliment through the year. This revenue is also up compared to the budget due to additional billable hours compared to budget. FHI has not filled the EA position, so this work is being billed to FHI. Lastly, FHSI sold its shares of QR Fibre for a gain of \$50K. This transaction was completed in Q1.

**Operating Expenses** – Operating expenses are above budget by \$6K at the end of Q1 and higher than Q1 2022 by \$20K. The majority of costs are relatively close to budget, however there were some slightly higher staffing costs due to minimally higher contract wages as well as additional training and development costs occurring in Q1.

**Current Tax** – Current tax has been estimated higher than budget due to projected capital gains that will be incurred on the sale of shares.

**Cash Flow Commentary:**

The cash balance has increased to \$13K from the \$6K December 2022 balance. As discussed above, net income is ahead of budget. The cash balance would be higher if the gain on the sale of shares and repayment of QR Fibre investment did not go through the due to/from FHI account. The variances in cash from year end are due to the net change in receivables and payables loan repayments, capital purchases and working capital items.

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# FESTIVAL HYDRO SERVICES INC.

## Balance Sheet

For the period ending March 31, 2023

	YTD as at Mar 31, 2022	YTD as at Dec 31, 2022	YTD as at Mar 31, 2023		YTD as at Mar 31, 2022	YTD as at Dec 31, 2022	YTD as at Mar 31, 2023
<b>ASSETS</b>				<b>LIABILITIES</b>			
<b>Current Assets</b>				<b>Current Liabilities</b>			
Cash	13,654	6,341	12,822	Accounts Payable	33,684	56,021	40,724
Accounts Receivable & Prepaids	49,388	40,212	19,266	Due to Festival Hydro Inc.	292,981	122,147	—
Other Assets	—	—	—	Current Portion of LTD	31,881	43,324	32,493
Inventory	7,617	7,617	7,617	Promissory Note	372,000	372,000	372,000
Due from Festival Hydro Inc.	—	—	46,469	Income Tax Receivable/(Payable)	28,000	31,299	46,299
<b>Total Current Assets</b>	<b>70,659</b>	<b>54,169</b>	<b>86,173</b>	<b>Total Current Liabilities</b>	<b>758,545</b>	<b>624,791</b>	<b>491,516</b>
<b>Fixed Assets</b>				<b>Other Liabilities</b>			
Gross Book Value	5,427,684	5,454,945	5,472,698	Deferred Revenue	585,564	550,160	545,344
Accumulated Depreciation	(2,348,487)	(2,593,336)	(2,687,072)	Deferred Tax Liabilities	243,000	244,700	244,700
<b>Net Book Value</b>	<b>3,079,197</b>	<b>2,861,608</b>	<b>2,785,626</b>				
<b>Other Assets</b>				<b>Long Term Debt</b>			
Investment in QR Fibre Co.	—	49,500	—	RBC Financing	—	—	—
Investment Tax Credit Receivable	—	—	—	POP Loan Long Term Portion	321,305	277,981	277,981
				<b>TOTAL LIABILITIES</b>	<b>1,908,415</b>	<b>1,697,633</b>	<b>1,559,541</b>
				<b>EQUITY</b>			
				Share Capital	249,236	249,236	249,236
				Retained Earnings	992,206	1,018,409	1,063,023
				<b>TOTAL EQUITY</b>	<b>1,241,441</b>	<b>1,267,645</b>	<b>1,312,259</b>
<b>TOTAL ASSETS</b>	<b>3,149,856</b>	<b>2,965,277</b>	<b>2,871,799</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,149,856</b>	<b>2,965,277</b>	<b>2,871,799</b>

# FESTIVAL HYDRO SERVICES INC.

## Statement of Operations For the period ending March 31, 2023

	YTD as at Mar 31, 2022	YTD as at Mar 31, 2023	YTD Budget at Mar 31, 2023	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
<b>TOTAL REVENUE</b>	<b>345,126</b>	<b>399,765</b>	<b>347,891</b>	<b>51,874</b>	<b>15%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>215,517</b>	<b>236,050</b>	<b>230,319</b>	<b>5,731</b>	<b>2%</b>
<b>NET INCOME BEFORE DEPRECIATION &amp; INTEREST</b>	<b>129,610</b>	<b>163,715</b>	<b>117,572</b>	<b>46,142</b>	<b>39%</b>
Depreciation	93,964	93,735	93,644	—	—
Interest Expense	10,956	11,370	11,742	(373)	(3%)
Interest Income	(28)	(1,004)	—	(1,004)	—
<b>NET INCOME FOR THE PERIOD BEFORE TAXES</b>	<b>24,718</b>	<b>59,613</b>	<b>12,185</b>	<b>47,428</b>	<b>389%</b>
Current Tax Provision	—	15,000	5,375	9,625	179%
Future Tax Provision	—	—	(2,000)	2,000	(100%)
<b>NET INCOME(LOSS) FOR THE PERIOD</b>	<b>24,718</b>	<b>44,613</b>	<b>8,810</b>	<b>35,803</b>	<b>406%</b>

# FESTIVAL HYDRO SERVICES INC.

## Cash Flow Statement

For the period ending March 31, 2023

	YTD as at Dec 31, 2022	YTD as at Mar 31, 2023
<b>Cash from Operations</b>		
Net Income	50,921	44,614
Future tax provision	1,700	—
Current tax provision (ITC portion)	24,000	15,000
Depreciation	366,553	93,735
Amortization of contributed capital	(80,489)	(15,934)
Amortization of deferred revenue	(4,162)	11,117
Due to/from QR Fibre Co.	(49,500)	49,500
Net Change in Receivables/Payables	24,112	(40,820)
<b>Net Cash Provided</b>	<b>333,136</b>	<b>157,213</b>
<b>Cash from Financing</b>		
Capital expenditures - Festival	(119,993)	(17,754)
Contributed capital received DSRC - AVIN	37,346	—
Loan - Wightman	(42,508)	(10,831)
Loan from/(repayment to) Festival	(210,656)	(122,147)
<b>Net Cash Used</b>	<b>(335,811)</b>	<b>(150,732)</b>
<b>Increase (Decrease) in Cash Position</b>	<b>(2,676)</b>	<b>6,481</b>
<b>Cash Beg of Period</b>	<b>9,016</b>	<b>6,341</b>

# FESTIVAL HYDRO SERVICES INC.

## Statement of Capital

For the period ending March 31, 2023

	YTD as at Mar 31, 2023	YTD Budget at Mar 31, 2023	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
<b>CAPITAL</b>				
Computer Equipment - Hardware	142	13,000	(12,858)	(99%)
Computer Software	—	250	(250)	(100%)
Buildings	4,912	5,000	(88)	(2%)
Fibre Capital	12,700	19,625	(6,925)	(35%)
WiFi Capital	—	7,750	(7,750)	(100%)
<b>TOTAL CAPITAL</b>	<b>17,754</b>	<b>45,625</b>	<b>(27,871)</b>	<b>(61%)</b>