To: Mark Hunter and the Finance and Labour Relations Committee

From: Alyson Conrad, CFO

Re: Commentary on FHI Financial Results –

For the period ended September 30, 2023

Net income for the period is \$1.67M, which is \$88K above the YTD budget. Detailed commentary on the balance sheet and statement of operations are noted below:

BALANCE SHEET COMMENTARY:

Accounts Receivable – The accounts receivable balance is \$1.66M less than it was in September of 2022 and \$573K higher than June 2023. This variance is the result of the following:

- Electric receivables are \$12K higher than September 2022. Arrears balances have increased by \$71K compared to September 2022, with the majority being less than 30 days. We will continue to monitor electric receivables and engage in payment arrangements with as many customers as possible before the beginning of the Winter Disconnection Moratorium.
- Water and sewer receivables are \$226K higher than September 2022, mostly current balances as arrears have only increased by \$35K.
- OER has decreased by \$1.55M compared to the prior year because of a large drop in the OER rate from 17% to 11.7%.

Electric receivables that are in arrears are being diligently reviewed and acted on by the customer service team as we prepare for the next Winter Disconnection Moratorium (starting on November 15). We generally see arrears increase through the disconnection period, so we attempt to be in the best state prior to that start date.

Due from FHSI – The balance in this account increased from June 30, 2023, moving from a payable to a receivable position of \$20K. The change is due to ongoing work being completed by FHSI staff for FHI.

Unbilled Revenue – This balance is \$2.2M lower than the balance in June of 2023, and \$241K more than September 2023. The main difference between June and September was due to a decrease in global adjustment rates from 9.9 cents to 5.8 cents.

Regulatory Assets – The regulatory asset balance has increased by \$2.9M since September 2022 and is driven virtually all by the commodity accounts (1588/89). There was an \$879K decrease related to 1589 which is the Global Adjustment (GA) Variance indicating there have been less monthly fluctuations between the first and final estimates for GA this year compared to prior year. The variance in 1588 increased by \$3.8M from a large receivable balance in 2022 to a near net zero balance in 2023. This account is intended to be close to zero at any given point.

A/P and Accrued Liabilities – This balance has decreased by \$284K from the June 2023 balance. The difference mainly relates to a decrease in IESO billing from \$6M to \$5.8M. The remainder are typical trade payable variances.

INCOME STATEMENT COMMENTARY

Gross Margin on Service Revenue (Distribution Revenue) – The distribution revenue to the end of Q3 2023 is \$130K above budget. Overall kWhs for the year are relatively comparable to the prior year; however, there has been a decrease in residential usage and an increase in non-residential usage by 6M kWh which increases distribution revenue.

Other Revenue – Other revenue is running \$92K below budget at the end of Q3. \$35K is due to less billable work being completed this year compared to the prior year. When there is more billable work, administrative costs are billed to the customer. \$20K is due to lower joint pole revenue, and \$36K is due to scrap metal sale being down compared to budget.

Controllable Costs - Total controllable costs are \$148K less than budget to the end of Q3.

Operating and Maintenance expenses are up overall by \$36K compared to the budget. Transformer and Distribution Station Expense is up by \$28K. A portion of this is due to Hydro One transfer trip testing that required additional consultant time. There was also an additional cost for the disposal of failed metering equipment. Distribution Lines and Services Overhead is under by \$45K. The majority of this is the timing of tree trimming that will be completed in Q4. Underground Distribution Lines and Services is over budget by \$40K. This is due to higher volumes of labour, truck and materials for call outs compared to prior year and budget both during regular time and overtime.

Billing, Collecting and Meter Reading expenses are down \$16K compared to the budget. So far in 2023, FHI is underspent in software support. There has been less support requested from Daffron as we look to migrate to Jomar in 2024. The majority of the lower Daffron costs have been offset by the hiring of a contract customer service representative, that was not budgeted, to assist with the workload while other team members are assisting with the new CIS project.

Administration expenses are down overall by \$168K. The majority of this balance is due to the vacancy of the VP of IT position for the first half of the year and a portion of the year without a Director/Manager of HR position. There are also many administrative costs that occur in the final quarter of the year that have not yet been spent yet. Costs related to legal, environmental and tax support have been accrued for unbudgeted amounts anticipated to the end of the year.

CASH FLOW COMMENTARY

As per the cash flow statement, the September 30 cash balance increased by \$354K since June 2023. Cash flows have improved due to improved net income and some larger capital expenses such as CIS and renovation costs occurring earlier in the year. In any given month, half of the month is in a positive balance and later in the month it is in a credit position because of the timing of the IESO invoice.

LOAN COVENANT RATIOS

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

Presented for information purposes.

Balance Sheet For the period ending September 30, 2023

	YTD as at Sep 30, 2022	YTD as at Dec 31, 2022	YTD as at Sep 30, 2023		YTD as at Sep 30, 2022	YTD as at Dec 31, 2022	YTD as at Sep 30, 2023
ASSETS				LIABILITIES			
Current Assets				Current Liabilites			
Accounts Receivable	8,357,624	8,460,478	6,700,552	Bank Indebtedness	1,111,759	3,740,695	2,158,227
Inventory	468,422	177,526	493,853	Accounts Payable & Accrued Liabilities	9,534,438	9,663,091	9,102,876
Prepaid Expenses	250,483	230,441	167,088	Current Portion of Consumer Deposits	936,528	1,016,175	950,518
Due from FHSI	201,894	122,147	20,363	Current Portion of Long Term Loans	179,712	728,464	184,163
Corporate PILS Recoverable	405,962	511,562	759,334	Dividends Declared	_	248,506	_
Unbilled Revenue	5,442,859	4,783,498	5,684,102	Promissory Note	15,600,000	15,600,000	15,600,000
				Loan Advance	_	_	2,500,000
	15,127,244	14,285,653	13,825,292		27,362,437	30,996,931	30,495,783
Property, Plant & Equipment	57,193,434	58,854,036	59,902,505	Other Liabilites			
				Unrealized loss on interest rate swap	938,948	(784,886)	(784,886)
Other Assets				Deferred Revenue	2,607,528	2,914,627	3,074,907
Intangible Assets	1,810,613	1,806,282	2,107,683	Employee Future Benefits	1,361,643	1,009,878	1,009,878
Future payments in lieu of income taxes	(3,109,920)	(3,239,959)	(3,239,959)				
Regulatory Assets	4,010,827	7,261,719	6,890,952	Long Term Debt			
				Consumer Deposits over one year	_	980,367	_
				RBC Loan - LT Portion	10,540,477	9,812,012	9,812,012
				TOTAL LIABILITIES	42,811,032	44,928,929	43,607,694
				EQUITY			
				Share Capital - Common	9,468,388	9,468,388	9,468,388
				Share Capital - Preferred	6,100,000	6,100,000	6,100,000
				Retained Earnings	17,010,516	18,524,894	20,364,869
				Accumulated Other Comprehensive Income	(357,737)	(54,479)	(54,479)
				TOTAL EQUITY	32,221,167	34,038,803	35,878,778
TOTAL ASSETS	75,032,199	78,967,731	79,486,473	TOTAL LIABILITIES AND EQUITY	75,032,199	78,967,731	79,486,473

Income Statement

	YTD as at Sep 30, 2022	YTD as at Sep 30, 2023	YTD Budget at Sep 30, 2023	Cur to Bdg YTD Var\$ Cu	ur to Bdg YTD Var%
REVENUE				//- /	
Service Revenue	56,970,163	55,956,613	68,450,010	(12,493,398)	(18%)
Cost of Power	47,670,713	45,944,644	58,568,495	(12,623,851)	(22%)
GROSS MARGIN (DISTRIBUTION REVENUE)	9,299,450	10,011,969	9,881,515	130,453	1%
Other Operating Revenue	843,849	743,971	835,798	(91,827)	(11%)
OPERATING & MAINTENANCE EXPENSE					
Transformer & Distribution Station Expense	121,441	281,203	253,238	27,965	11%
Distribution Lines & Services Overhead	1,270,979	1,297,128	1,342,016	(44,889)	(3%)
U/G Distribution Lines & Services	174,003	204,794	164,684	40,111	24%
Distribution Transformers	59,273	62,803	64,453	(1,650)	(3%)
Distribution Meters	349,795	325,785	323,941	1,844	1%
Customer Premises	130,039	179,450	166,694	12,756	8%
TOTAL OPERATING AND MAINTENANCE	2,105,530	2,351,163	2,315,025	36,137	2%
ADMINISTRATION					
Billing, Collecting & Meter Reading	984,841	1,034,697	1,050,816	(16,119)	(2%)
Administration	1,976,352	2,246,318	2,414,264	(167,947)	(7%)
TOTAL ADMINISTRATION	2,961,194	3,281,014	3,465,080	(184,066)	(5%)
Allocated Depreciation	(94,522)	(91,746)	(91,746)	_	_
TOTAL CONTROLLABLE COST	4,972,202	5,540,431	5,688,359	(147,928)	(3%)
NET INCOME BEFORE DEP'N, INTEREST & TAX	5,171,097	5,215,508	5,028,954	186,554	4%
Depreciation	1,919,507	2,014,416	2,014,416	_	_
Interest Expense	1,207,822	1,530,294	1,197,777	332,517	28%
Interest Income	(52,346)	(214,106)	(24,750)	(189,356)	765%
NET INCOME BEFORE SWAP, ICM & PBA & INC TAXES	2,096,114	1,884,904	1,841,511	43,393	2%
Current Tax	351,000	215,000	259,500	(44,500)	(17%)
NET INCOME BEFORE SWAP & ICM	1,745,114	1,669,904	1,582,011	87,893	6%
Unrealized Gain/Loss on Swap	_	· —	· —	_	_
Marketable Security - recorded as OCI			<u> </u>	_	-
NET INCOME	1,745,114	1,669,904	1,582,011	87,893	6%

Cash Flow Statement

	YTD as at Dec 31, 2022	YTD as at Sep 30, 2023
Cash from Operations		
Net Income	4,381,488	1,669,904
Depreciation	2,505,726	2,014,416
Amortization of deferred revenue in other revenue	(358,598)	160,280
Unrealized loss on interest rate swap	(1,723,834)	<u> </u>
Decrease/(Increase) in Receivables	(179,111)	2,124,925
Decrease/(Increase) in Inventory	(14,081)	(316,327)
Decrease/(Increase) in Prepaids	126,840	63,353
Decrease/(Increase) in Due from FHSI	210,656	101,784
Decrease/(Increase) in PILS	(155,505)	(247,771)
Decrease/(Increase) in Unbilled Revenues	447,273	(900,604)
Decrease/(Increase) in Future Tax (offsetting entry in payabl	130,039	_
Decrease/(Increase) in Regulatory Assets	(2,664,508)	370,767
Increase/(Decrease) in Payables	(1,257,307)	(560,215)
Increase/(Decrease) in Deposits	232,689	(1,046,024)
Increase/(Decrease) in Employee Future Benefits	(351,765)	_
Contributed Capital	483,203	134,577
Net Cash Provided	1,813,204	3,569,065
Cash from Financing		
Loan Repayments	707,718	544,301
Loan Advance	_	(2,500,000)
Cash Used - Capital Expenditures	3,939,526	3,498,863
Cash Used - Dividends paid current year	390,330	443,434
Cash Used - Dividends declared in prior year	500,556	<u> </u>
Net Cash Used	5,538,130	1,986,598
Increase (Decrease) in Cash Position	(3,724,926)	1,582,467
Bank Indebtedness, Beg of Period	(15,769)	(3,740,695)
Bank Indebtedness, End of Period	(3,740,695)	(2,158,227)
Bank and Line of Credit Analysis	2022	2023
High halanga (VTD)	5 000 725	2,146,529
High balance (YTD)	5,889,735	· ·
Low Balance (YTD) Overdraft interest (annualized)	(8,463,958) 84,552	(6,140,288) 206,863
Interest rate (avg annual for period)	4.13 %	6.86%
Average overdraft balance	2,046,185	3,017,398
Key Financial Ratios:	Actual Ratio	Required Ratio
RBC Compliance Ratio - Funded Debt to Total Capital	0.44	Less than 0.65
Debt to Equity Test	23:73	Less than 75:25
Debt Service Ratio	2.28	Not less than 1.30X

Statement of Capital For the period ending September 30, 2023

	YTD as at Sep 30, 2022	YTD as at Sep 30, 2023	YTD Budget at Sep 30, 2023	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
DISTRIBUTION					
Distribution Overhead	785,372	911,703	545,175	366,528	67%
Underground Conductor and Devices	236,733	157,697	586,975	(429,278)	(73%)
Distribution Transformers	255,213	361,916	157,500	204,416	130%
Services	260,215	183,232	97,500	85,732	(100%)
Distribution Meters	156,634	355,729	167,500	188,229	112%
SCADA/Distribution Automation	20,143	76,704	37,500	39,204	105%
Tools and Miscellaneous Equipment	11,190	23,748	15,000	8,748	58%
TOTAL DISTRIBUTION	1,725,500	2,070,730	1,607,150	463,580	29%
OTHER CAPITAL					
Land and Buildings	190,369	678,751	459,000	219,751	48%
Transformer Station	16,080	89,088	82,500	6,588	8%
Vehicles and Trailers	63,625	81,470	37,500	43,970	117%
Computer Hardware and Software	326,414	578,825	320,888	257,937	80%
TOTAL OTHER CAPITAL	596,488	1,428,133	899,888	528,246	59%
TOTAL CAPITAL	2,321,988	3,498,863	2,507,038	991,825	40%

To: Mark Hunter and the Finance and Labour Relations Committee

From: Alyson Conrad, CFO

Re: Commentary on FHSI Financial Results – For the period ended September 30, 2023

The net income for the period was \$19K which is \$7K lower than budget and \$27K lower 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 lower than Q2 by \$16K. This is lower due to a portion prepaid amount of joint use expenses being recognized in the period. This balance is also \$24K lower than prior year because of decreased shared revenue and fibre ring reimbursement from Wightman.

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. 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 September 2023 are \$91K, or 66% of Q3 budget. This includes \$47K in computer hardware additions, \$17K on the data centre building and \$27K on fibre related projects. Details on the capital spend to date are as noted below:

Computer Hardware and ISP Capital: Total spend for FHSI on computer hardware and ISP capital YTD is \$47K. Budgeted for 2023 is a replacement of the core routing equipment used by Rhyzome. Costs incurred to date for that project amount to \$47K. Work is ongoing to move the new core routing equipment into production.

Building Capital: Building capital has held steady at \$17K. The HVAC improvements have been working reliably and the DC UPS Expansion has been fully operationalized, with costs being recovered through Acronym revenue.

Fibre Capital: Total spend on fibre capital YTD is \$27K. This infrastructure will provide capability for downtown expansion. In addition, 2023 fibre asset remediation has kicked off and work will be ongoing for the remainder of the year.

Due to Festival Hydro Inc. – The balance in this account increased from June 30, 2023, moving from a receivable to a payable position of \$20K. The change is due to ongoing work being completed by FHSI staff for FHI.

Deferred Revenue – This balance has decreased from the June 2023 balance as a portion of the balance has been recognized into revenue for Q3 2023. No new contributions have been received in the period.

Income Statement Commentary:

Revenues — Revenues are \$33K higher than budget in Q3. ISP revenue is down by \$57K 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. Dark fibre is up due to a one year contract for fibre strands with Acronym. Wi-Fi revenue is down \$10K mainly due to a decrease in non-contract Wi-Fi purchases and limited growth in Wi-Fi customers. Consulting revenue is up \$23K due to additional work being completed for FHI, specifically on the new CIS and for EA coverage in the first several months of the year. 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 \$40K at the end of Q3. Fibre costs are up due to multiple emergency repairs compared to an average year. This account fluctuates year over year depending on equipment maintenance needs. FHSI has seen an increase over budget in employee costs by \$25K. Employee costs have increased due to some training and development costs that occurred earlier in the year. FHSI also had one network administrator leave in Q2 but the position was quickly filled with a more experienced employee at a higher rate.

Cash Flow Commentary:

The cash balance has increased to \$34K from the \$15K June 2023 balance. The variances in cash from Q2 are due to the net change in receivables and payables, loan repayments, capital purchases, share sale and working capital items. There were limited capital additions in the quarter which allowed for cash increases.

Balance Sheet For the period ending September 30, 2023

	YTD as at Sep 30, 2022	YTD as at Dec 31, 2022	YTD as at Sep 30, 2023		YTD as at Sep 30, 2022	YTD as at Dec 31, 2022	YTD as at Sep 30, 2023
ASSETS				LIABILITIES			
Current Assets				Current Liabilites			
Cash	20,824	6,341	17,875	Accounts Payable	32,269	56,021	34,150
Accounts Receivable & Prepaids	50,913	40,212	27,254	Due to Festival Hydro Inc.	201,894	122,147	20,363
Inventory	7,617	7,617	7,410	Current Portion of LTD	10,627	43,324	10,831
Total Current Assets	79,353	54,169	52,539	Promissory Note	372,000	372,000	372,000
				Income Tax Receivable/(Payable)	7,299	22,299	(4,159)
Fixed Assets				Total Current Liabilities	624,088	615,791	433,184
Gross Book Value	5,451,735	5,454,945	5,565,498				
Accumulated Depreciation	(2,536,415)	(2,593,336)	(2,874,270)	Other Liabilites			
Net Book Value	2,915,321	2,861,608	2,691,229	Deferred Revenue	543,857	550,160	502,077
				Deferred Tax Liabilities	243,000	247,000	247,000
Other Assets				Long Term Debt			
Investment in QR Fibre Co.	_	49,500	_	POP Loan Long Term Portion	321,305	277,981	277,981
				TOTAL LIABILITIES	1,732,251	1,690,933	1,460,242
				EQUITY			
				Share Capital	249,236	249,236	249,236
				Retained Earnings	1,013,188	1,025,109	1,034,290
				TOTAL EQUITY	1,262,423	1,274,345	1,283,525
TOTAL ASSETS	2,994,674	2,965,277	2,743,768	TOTAL LIABILITIES AND EQUITY	2,994,674	2,965,277	2,743,768

Statement of Operations

	YTD as at Sep 30, 2022	YTD as at Sep 30, 2023	YTD Budget at Sep 30, 2023	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
TOTAL REVENUE	989,482	1,076,861	1,043,674	33,186	3%
TOTAL OPERATING EXPENSES	629,436	730,510	690,957	39,552	6%
NET INCOME BEFORE DEPRECIATION & INTEREST	360,046	346,351	352,717	(6,366)	(2%)
Depreciation	281,892	280,933	280,933	_	_
Interest Expense	32,293	32,757	35,227	(2,470)	(7%)
Interest Income	1 61	(1,358)	_	(1,358)	_
NET INCOME FOR THE PERIOD BEFORE TAXES	45,700	34,019	36,556	(2,537)	(7%)
Current Tax Provision	_	15,000	16,125	(1,125)	(7%)
Future Tax Provision	_	_	(6,000)	6,000	(100%)
NET INCOME(LOSS) FOR THE PERIOD	45,700	19,019	26,431	(7,412)	(28%)

Cash Flow Statement

	YTD as at Dec 31, 2022	YTD as at Sep 30, 2023
Cash from Operations		
Net Income	50,921	19,020
Future tax provision	1,700	_
Current tax provision (ITC portion)	24,000	15,000
Depreciation	366,553	280,933
Amortization of contributed capital	(80,489)	(47,801)
Amortization of deferred revenue	(4,162)	(121)
Due to/from QR Fibre Co.	(49,500)	49,500
Net Change in Receivables/Payables	24,112	(80,165)
Net Cash Provided	333,136	236,366
Cash from Financing		
Capital expenditures - Festival	(119,993)	(90,554)
Contributed capital received DSRC - AVIN	37,346	_
Loan - Wightman	(42,508)	(32,493)
Loan from/(repayment to) Festival	(210,656)	(101,784)
Net Cash Used	(335,811)	(224,831)
Increase (Decrease) in Cash Position	(2,676)	11,534
Cash Beg of Period	9,016	6,341

Statement of Capital

	YTD as at Sep 30, 2023	YTD Budget at Sep 30, 2023	Cur to Bdg YTD Var\$ Cur to	Bdg YTD Var%
CAPITAL				
Computer Equipment - Hardware	46,887	39,000	7,887	20%
Computer Software	-	750	(750)	(100%)
Buildings	16,592	15,000	1,592	11%
Fibre Capital	27,076	58,875	(31,799)	(54%)
WiFi Capital	_	23,250	(23,250)	(100%)
TOTAL CAPITAL	90,554	136,875	(46,321)	(34%)