



## **Financial Statements**

Prepared For:

Finance & Labour Relations Sub-Committee

June 2024

Financial Statements of

**FESTIVAL HYDRO SERVICES INC.**

And Independent Auditors' Report thereon

Year ended December 31, 2023

# FESTIVAL HYDRO SERVICES INC.

Statements of Financial Position

December 31, 2023, with comparative information for December 31, 2022

	Note	2023	2022
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 6,194	\$ 6,340
Accounts receivable		14,089	40,088
Inventory	5	7,132	7,617
Other assets		259	124
Due from Festival Hydro Inc.	15	24,254	-
Due from City of Stratford	15	5,101	5,780
Income tax receivable		3,859	-
Total current assets		60,888	59,949
<b>Non-current assets</b>			
Plant and equipment	6	2,641,169	2,840,389
Intangible assets	7	12,635	21,219
Due from QR Fibre Inc.		-	49,500
Total non-current assets		2,653,804	2,911,108
<b>Total assets</b>		<b>\$ 2,714,692</b>	<b>\$ 2,971,057</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 22,849	\$ 56,021
Due to Festival Hydro Inc.	15	-	127,927
Current portion of long-term debt	9	416,156	415,324
Deferred revenue	9	86,967	107,374
Income tax payable		-	22,299
Total current liabilities		525,972	728,945
<b>Non-current liabilities</b>			
Long-term debt	9	233,825	277,981
Deferred revenue	9	393,292	442,786
Deferred tax liability	8	248,000	247,000
Total non-current liabilities		875,117	967,767
<b>Total liabilities</b>		<b>1,401,089</b>	<b>1,696,712</b>
<b>Equity</b>			
Share capital	10	249,235	249,235
Retained earnings		1,064,368	1,025,110
<b>Total equity</b>		<b>1,313,603</b>	<b>1,274,345</b>
<b>Total liabilities and equity</b>		<b>\$ 2,714,692</b>	<b>\$ 2,971,057</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, 2023, with comparative information for 2022

	Note	2023	2022
<b>Revenue</b>	11	\$ 1,358,059	\$ 1,371,519
<b>Operating expenses</b>			
Employee salaries and benefits	12	527,364	463,684
Operating expenses	13	409,227	417,695
Depreciation and amortization	6, 7	373,188	366,553
		1,309,779	1,247,932
<b>Income from operating activities</b>		48,280	123,587
Finance income	14	1,544	36
Finance costs	14	(38,566)	(44,001)
<b>Income before undernoted items</b>		11,258	79,622
<b>Other income:</b>			
Gain on sale of QR Fibre shares		50,000	-
<b>Income before income taxes</b>		61,258	79,622
Income tax expense	8	22,000	22,000
<b>Net income and comprehensive income</b>		\$ 39,258	\$ 57,622

See accompanying notes to financial statements.

## FESTIVAL HYDRO SERVICES INC.

### Statement of Changes in Equity

Year ended December 31, 2023, with comparative information for 2022

		Share capital	Retained earnings	Total
<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
<b>Balance at January 1, 2023</b>	\$	249,235	\$1,025,110	\$ 1,274,345
Net income and comprehensive income		-	39,258	39,258
<b>Balance at December 31, 2023</b>	\$	249,235	\$1,064,368	\$ 1,313,603

See accompanying notes to the financial statements.

# FESTIVAL HYDRO SERVICES INC.

## Statement of Cash Flows

Year ended December 31, 2023, with comparative information for 2022

	2023	2022
<b>Operating activities:</b>		
Net income and comprehensive income	\$ 39,258	\$ 57,622
Adjustments for:		
Depreciation and amortization	373,188	366,553
Amortization of deferred revenue	(86,967)	(84,651)
Net finance costs	37,022	43,965
Gain on sale of QR Fibre shares	(50,000)	-
Income tax expense	1,000	4,000
Remeasurement of debt	(6,169)	(5,239)
Changes in non-cash operating working capital		
Accounts receivable	26,000	19,868
Inventory	485	-
Other assets	(135)	2,134
Due from QR Fibre Inc.	49,500	(49,500)
Income tax payable	(26,158)	(5,701)
Accounts payable and accrued liabilities	(33,172)	22,810
Due to Festival Hydro Inc.	(154,900)	(221,518)
Interest paid	(28,999)	(27,900)
Interest received	1,544	36
	141,496	122,479
<b>Financing activities:</b>		
Repayment of long-term debt	(43,324)	(42,508)
Deferred revenue received	17,066	37,346
	(26,258)	(5,162)
<b>Investing activities:</b>		
Purchase of plant and equipment	(165,197)	(119,993)
Purchase of intangible asset	(187)	-
Proceeds from sale of QR Fibre shares	50,000	-
	(115,384)	(119,993)
Decrease in cash	(146)	(2,676)
Cash, beginning of year	6,340	9,016
Cash, end of year	\$ 6,194	\$ 6,340

See accompanying notes to financial statements.

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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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, 2023.

## 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 25, 2024.

### (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, 2023, with comparative information for 2022

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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: useful lives and identification of significant components, including software that is acquired or developed by the Company.



# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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## 3. Material 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 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 Company 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 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.
- 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.
- Long-term debt is 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.

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

# **FESTIVAL HYDRO SERVICES INC.**

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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## **3. Material accounting policies (continued):**

### **(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.

### **(c) Fair value measurements:**

The Company 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 Company'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 SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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## 3. Material accounting policies (continued):

### (d) 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:

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

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, 2023, with comparative information for 2022

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## 3. Material accounting policies (continued):

### (e) 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.

### (f) 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, 2023, with comparative information for 2022

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## 3. Material accounting policies (continued):

### (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.

### (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.

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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## 3. Material accounting policies (continued):

### (j) Income taxes (continued):

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.

### (k) Changes in accounting standards:

#### **Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8))**

In February 2021, the IASB issued amendments to IAS 8 to introduce a definition of “accounting estimates” and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are to be applied prospectively.

#### **Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements (IAS 1))**

In February 2021, the IASB issued amendments to IAS 1 requiring an entity to disclose its material accounting policies, rather than its significant accounting policies. Additional amendments were made to explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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## 3. Material accounting policies (continued):

(k) Changes in accounting standards (continued):

### **Deferred related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes (IAS 12))**

In May 2021, the IASB issued amendments to IAS 12. The amendments clarify how companies should account for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption, so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize both a deferred tax asset and a deferred tax liability when accounting for such transactions. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

Effective January 1, 2023, the Company adopted these amendments, with no impact on the financial statements.

## 4. Future accounting pronouncements:

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

### **Disclosure Classification of Liabilities as Current or Non-current (Amendments to IAS 1)**

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or noncurrent. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. This right may be subject to compliance with covenants. After reconsidering certain aspects of the 2020 amendments, in October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1), reconfirming that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The amendments are to be applied retrospectively.

The Company anticipates that the adoption of these accounting pronouncements will not have a material impact on the Company's financial statements.

## 5. Inventory:

The amount of inventory consumed by the Company and recognized as an expense during 2023 was \$486 (2022 - nil).

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

### 6. Plant and equipment:

Cost	Fibre optics	WiFi assets	Computer hardware	Sentinel lights	Buildings and office furniture	Total
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
Balance at January 1, 2023	\$3,107,288	\$748,292	\$1,030,730	\$ 5,153	\$521,739	\$5,413,202
Additions	98,484	1,492	48,629	-	16,592	165,197
Disposals/retirements	(32,756)	(115,786)	-	(859)	-	(149,401)
Balance at December 31, 2023	\$3,173,016	\$633,998	\$1,079,359	\$4,294	\$538,331	\$5,428,998
<b>Accumulated depreciation</b>						
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
Balance at January 1, 2023	\$1,651,072	\$483,213	\$361,616	\$2,201	\$74,711	\$2,572,813
Depreciation	125,351	88,066	132,573	836	17,591	\$364,417
Disposals/retirements	(32,756)	(115,786)	-	(859)	-	(\$149,401)
Balance at December 31, 2023	\$1,743,667	\$455,493	\$494,189	\$2,178	\$92,302	\$2,787,829
<b>Carrying amounts</b>						
December 31, 2022	\$1,456,216	\$265,079	\$669,114	\$2,952	\$447,028	\$2,840,389
December 31, 2023	\$1,429,349	\$178,505	\$585,170	\$2,116	\$446,029	\$2,641,169

### Borrowing costs:

During the year there were no borrowing costs capitalized as part of the cost of plant and equipment (2022 – nil).



## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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### 7. Intangible assets:

	Computer software
<b>Cost</b>	
Balance at January 1, 2022	\$52,719
Additions	-
Disposals/retirements	(10,974)
Balance at December 31, 2022	<u>\$41,745</u>
Balance at January 1, 2023	\$41,745
Additions	187
Disposals/retirements	(6,889)
Balance at December 31, 2023	<u>\$35,043</u>
<b>Accumulated amortization</b>	
Balance at January 1, 2022	\$22,729
Amortization	8,771
Disposals/retirements	(10,974)
Balance at December 31, 2022	<u>\$20,526</u>
Balance at January 1, 2023	\$20,526
Amortization	8,771
Disposals/retirements	(6,889)
Balance at December 31, 2023	<u>\$22,408</u>
<b>Carrying amounts</b>	
December 31, 2022	\$ 21,219
December 31, 2023	<u>\$ 12,635</u>

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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### 8. Income taxes:

	<b>2023</b>	<b>2022</b>
Current Tax Expense	\$ 21,000	\$ 18,000
Deferred tax expense:		
Origination and reversal of temporary differences	1,000	4,000
	<hr/>	<hr/>
<b>Total income tax expense</b>	<b>\$22,000</b>	<b>\$22,000</b>
	<hr/>	<hr/>
	<b>2023</b>	<b>2022</b>
Basic rate applied to profit before income tax 26.5% (2022 - 26.5%)	\$21,000	\$21,000
Other	1,000	1,000
	<hr/>	<hr/>
	<b>\$22,000</b>	<b>\$22,000</b>
	<hr/>	<hr/>

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

	<b>2023</b>	<b>2022</b>
Deferred tax liabilities:		
Plant and equipment	\$ (243,000)	\$ (241,000)
Other	(5,000)	(6,000)
	<hr/>	<hr/>
Deferred tax liability	<b>\$ (248,000)</b>	<b>\$ (247,000)</b>
	<hr/>	<hr/>

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

## 9. Long-term debt:

	2023	2022
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	277,981	321,305
	<hr/> \$649,981	<hr/> \$693,305
Less: current portion	416,156	415,324
Long-term debt	<hr/> \$233,825	<hr/> \$277,981

The Company incurred interest expense in respect of these lending arrangements of \$34,069 (2022 – \$33,139).

## 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, 2023	\$693,305	\$550,160	\$1,243,465
Deferred revenue received	-	17,066	17,066
Repayments of long-term debt	(43,324)	-	(43,324)
<b>Total changes from financing cash flows</b>	<b>\$(43,324)</b>	<b>\$17,066</b>	<b>\$(26,258)</b>
Amortization of deferred revenue	-	(86,967)	(86,967)
Balance at December 31, 2023	\$649,981	\$480,259	\$1,130,240

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

### 10. Share capital:

	2023	2022
Authorized:		
Unlimited Class A special shares		
Unlimited Class B special shares		
Unlimited common shares		
Issued:		
3,382 common shares (2022 - 3,382)	\$249,235	\$249,235

### 11. Revenue:

	2023	2022
Fibre optics	\$ 593,663	\$ 657,128
Consulting revenue	383,637	311,179
WiFi services	248,212	271,642
Fibre room rental service	122,732	121,414
Sentinel light fixture rentals	9,815	10,156
	<u>\$ 1,358,059</u>	<u>\$ 1,371,519</u>

Included in fibre optic services is the amortization of deferred revenue in the amount of \$12,803 (2022 - \$13,025). Included in Wifi services is the amortization of deferred revenue in the amount of \$71,705 (2022 - \$71,626). Included in fibre room rental service is the amortization of deferred revenue in the amount of \$10,429 (2022 - \$nil).

### 12. Employee salaries and benefits:

	2023	2022
Salaries, wages and benefits	\$ 482,663	\$ 424,669
CPP and EI remittances	28,295	24,501
Group RRSP contributions	16,406	14,514
	<u>\$ 527,364</u>	<u>\$ 463,684</u>

### 13. Operating expenses:

	2023	2022
Administrative expenses	\$ 122,771	\$ 127,731
WiFi maintenance	149,150	131,822
Fibre optics maintenance	133,283	156,168
Sentinel lights maintenance	4,023	1,974
	<u>\$ 409,227</u>	<u>\$ 417,695</u>

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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### 14. Finance income and expense:

	2023	2022
<b>Finance income</b>		
Interest income on bank deposits	\$ 1,544	\$ 36
<b>Finance costs</b>		
Interest expense on long-term debt	\$ 34,069	\$ 33,139
Interest expense on loans with subsidiaries of the City	3,398	10,862
Interest expense on other financial liabilities	1,099	-
	<u>\$ 38,566</u>	<u>\$ 44,001</u>
Net finance costs recognized in profit or loss	<u>\$ 37,022</u>	<u>\$ 43,965</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.

	2023	2022
Directors fees	\$ 8,865	\$ 12,719
Management fee	60,982	64,851
	<u>\$ 69,847</u>	<u>\$ 77,570</u>

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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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.

	2023	2022
<b>Revenue</b>		
Fibre services	\$ 60,800	\$ 60,800
WiFi services	3,476	2,993
	<u>\$ 64,276</u>	<u>\$ 63,793</u>
<b>Expenses</b>		
Joint pole attachments on streetlights	\$ 144	\$ 178
Interest	27,900	27,900
	<u>\$ 28,044</u>	<u>\$ 28,078</u>

On December 31, 2023, the balance outstanding from the City was \$5,101 (2022 – \$5,780).

#### (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, 2023, the balance receivable from Festival Hydro Inc. was \$29,355. At December 31, 2022, there was a balance owing to Festival Hydro Inc of \$122,147.

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 7.20% at December 31, 2023 (2022 – 6.45%) as per the revised loan agreement, effective September 1, 2022. The loan is repayable on demand and no later than November 1, 2027. There is no interest accruing on the receivable balance.

## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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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:

	2023	2022
<b>Revenue</b>		
Consulting services	\$ 330,947	\$ 273,165
WiFi services	124,000	124,000
Fibre services	30,148	30,148
	<hr/>	<hr/>
	\$ 485,095	\$ 427,313
<b>Expenses</b>		
Water operations	\$ 76,358	\$ 75,120
Management fee	60,982	64,851
Joint pole attachments on hydro poles	57,384	55,308
Office and room rental	1,347	1,470
Operational services	31,538	33,397
Interest	3,398	10,862
Electricity charges	30,817	28,689
	<hr/>	<hr/>
	\$ 261,824	\$ 269,697

# FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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## 16. Financial instruments and risk management:

### Fair value disclosure

The carrying values of cash, accounts receivable, due to Corporations under common control & to the City of Stratford, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

The fair value of the shareholder demand note at December 31, 2023 is \$319,360 (2022 - \$341,901). 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, 2023 was 7.20% on the City demand note (2022 – 6.45%)

The fair value of the non-interest-bearing loan debt agreement with Wightman at December 31, 2023 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, 2023 was 3.10% (2022 – 1.67%). The difference between the amount lent and the fair value of the debt of \$ 6,169 (2022 - \$ 5,239) 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, 2023 is nil as the Company does not have a history of collection losses (2022 - nil).

The Company's credit risk associated with accounts receivable is primarily related to payments from fibre or wireless customers. At December 31, 2023 there was \$5,916 of 60 days past due (2022 – \$7,615).



## FESTIVAL HYDRO SERVICES INC.

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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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, 2023 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. There are no fixed repayment terms. Payment is reasonably assured as the affiliate provides cash management activities for the Company.

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

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

<b>December 31, 2023</b>					
	<b>Carrying Amounts</b>	<b>Total</b>	<b>Due within 1 year</b>	<b>Due within 1 to 5 years</b>	<b>Due &gt; 5 years</b>
<b>Accounts payable and accrued liabilities</b>	\$ 22,849	\$ 22,849	\$ 22,849	-	-
<b>Fixed Rate Loan 1.92% maturing December 31, 2029</b>	277,981	296,952	49,492	247,460	-
<b>Demand note payable</b>	372,000	399,900	399,900	-	-
	<b>\$ 672,830</b>	<b>\$ 719,701</b>	<b>\$ 472,241</b>	<b>\$ 247,460</b>	<b>\$ -</b>

#### (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, 2023, shareholder's equity amounts to \$1,313,603 (2022 - \$1,274,345) and long-term debt, including current portion thereof, amounts to \$649,981 (2022 - \$693,305).

## **FESTIVAL HYDRO SERVICES INC.**

Notes to Financial Statements

Year ended December 31, 2023, with comparative information for 2022

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### **17. Comparative figures:**

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

**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, 2024

The net income for the period was \$27, virtually breakeven, which is \$7.8K lower than budget and \$45K 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 in prepaid expenses is \$50K higher than March 31<sup>st</sup>, 2023, due to the billing of joint pole use for the year from FHI was billed in March in 2024, in 2023 this was billed in April.

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 2024 are \$268. The first quarter saw a slow start to FHSI's 2024 capital program. Several jobs were started in March but will not be invoiced until Q2. As well, direction on the downtown fibre project is required to set order of operations on the next series of capital jobs. Preparations have been ongoing to ensure these projects are ready when green lit.

**Due to Festival Hydro Inc.** – The balance in this account is sitting at \$3K at March 31<sup>st</sup>, 2024. In Q1 2023 and December 2023, this balance was in a receivable position due to the sale of QR Fibre shares and additional work completed by Rhyzome for FHI. This balance has adjusted back to a typical payable balance at the end of Q1 2024.

**Deferred Revenue** – This balance has decreased from the December 2023 balance as a portion of the balance has been recognized into revenue for Q1 2024. There have been no new funds received in Q1.

**Income Statement Commentary:**

**Revenues** – Revenues are \$30K lower than budget in Q1. Minimal growth was built into Dark Fibre Rental, WiFi and Co-Locate revenues which has not been realized in Q1 2024. There are a few contracts that will be renegotiated in the year and therefore revenue is likely to be made up in future quarters. Growth in ISP revenue was budgeted based on downtown expansion projections. This project has not been invested in as of March 2024. Consulting revenue is down compared to the budget, mostly due to lower than typical FHI project work in January. FHI work has increased through March and will continue to be high as FHI undergoes implementation of its Customer Information System in Q2.

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**Operating Expenses** – Operating expenses are below budget by \$10K at the end of Q1 and higher than Q1 2023 by \$13K. The majority of costs are relatively close to budget, however there were some slightly higher staffing costs due to changes in two positions after the budget was approved. Fibre costs decreased by \$11K compared to budget due to lower maintenance required. This balance is comparable to 2023 at this point in the year.

**Current Tax** – Due to break even net income, no tax expense has been recorded.

**Cash Flow Commentary:**

The cash balance has decreased to \$7K from the \$10K December 2023 balance. As discussed above, net income is falling short of budget. The variances in cash from year end are due to the net change in receivables and payables, loan repayments and working capital items.

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# FESTIVAL HYDRO SERVICES INC.

## Balance Sheet For the period ending March 31, 2024

	YTD as at Mar 31, 2023	YTD as at Dec 31, 2023	YTD as at Mar 31, 2024		YTD as at Mar 31, 2023	YTD as at Dec 31, 2023	YTD as at Mar 31, 2024
<b>ASSETS</b>				<b>LIABILITIES</b>			
<b>Current Assets</b>				<b>Current Liabilities</b>			
Cash	12,822	6,194	7,260	Accounts Payable	40,724	22,849	13,357
Accounts Receivable & Prepaids	19,266	14,348	68,941	Due to Festival Hydro Inc.	(46,469)	(29,355)	3,410
Inventory	7,617	7,131	7,131	Current Portion of LTD	32,493	44,156	33,117
				Promissory Note	372,000	372,000	372,000
				Income Tax Receivable/(Payable)	37,299	(3,859)	(7,659)
<b>Total Current Assets</b>	<b>39,704</b>	<b>27,673</b>	<b>83,332</b>	<b>Total Current Liabilities</b>	<b>436,047</b>	<b>405,790</b>	<b>414,225</b>
<b>Fixed Assets</b>				<b>Other Liabilities</b>			
Gross Book Value	5,472,698	5,464,038	5,464,307	Deferred Revenue	545,344	480,259	458,280
Accumulated Depreciation	(2,687,072)	(2,810,234)	(2,892,679)	Deferred Tax Liabilities	247,000	248,000	248,000
<b>Net Book Value</b>	<b>2,785,626</b>	<b>2,653,805</b>	<b>2,571,628</b>				
				<b>Long Term Debt</b>			
				POP Loan Long Term Portion	277,981	233,825	233,825
				<b>TOTAL LIABILITIES</b>	<b>1,506,372</b>	<b>1,367,874</b>	<b>1,354,330</b>
				<b>EQUITY</b>			
				Share Capital	249,236	249,236	249,236
				Retained Earnings	1,069,723	1,064,368	1,051,395
				<b>TOTAL EQUITY</b>	<b>1,318,959</b>	<b>1,313,604</b>	<b>1,300,630</b>
<b>TOTAL ASSETS</b>	<b>2,825,330</b>	<b>2,681,478</b>	<b>2,654,960</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,825,330</b>	<b>2,681,478</b>	<b>2,654,960</b>

# FESTIVAL HYDRO SERVICES INC.

## Statement of Operations For the period ending April 30, 2024

	YTD as at Mar 31, 2023	YTD as at Mar 31, 2024	YTD Budget at Mar 31, 2024	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
<b>TOTAL REVENUE</b>	399,765	340,035	369,607	-29,571	(8%)
<b>TOTAL OPERATING EXPENSES</b>	236,050	248,851	258,927	-10,075	(4%)
<b>NET INCOME BEFORE DEPRECIATION &amp; INTEREST</b>	163,715	91,184	110,680	-19,496	(18%)
Depreciation	93,735	82,445	85,085	—	—
Interest Expense	11,370	8,843	11,742	-2,899	(25%)
Interest Income	-1,004	-130	—	-130	—
<b>NET INCOME FOR THE PERIOD BEFORE TAXES</b>	59,614	27	13,852	-13,826	(100%)
Current Tax Provision	15,000	—	4,375	-4,375	(100%)
Future Tax Provision	—	—	1,625	-1,625	(100%)
<b>NET INCOME(LOSS) FOR THE PERIOD</b>	44,614	27	7,852	-7,826	(100%)

# FESTIVAL HYDRO SERVICES INC.

## Cash Flow Statement

For the period ending March 31, 2024

	YTD as at Dec 31, 2023	YTD as at Mar 31, 2024
<b>Cash from Operations</b>		
Net Income	39,259	27
Future tax provision	1,000	—
Current tax provision (ITC portion)	21,000	—
Depreciation	373,188	82,445
Amortization of contributed capital	(63,735)	(15,934)
Amortization of deferred revenue	(6,167)	(6,045)
Due to/from QR Fibre Co.	49,500	—
Net Change in Receivables/Payables	(53,981)	(80,885)
<b>Net Cash Provided</b>	<b>360,064</b>	<b>(20,392)</b>
<b>Cash from Financing</b>		
Capital expenditures - Festival	(165,384)	(268)
Loan - Wightman	(43,324)	(11,039)
Loan from/(repayment to) Festival	(151,502)	32,765
<b>Net Cash Used</b>	<b>(360,211)</b>	<b>21,458</b>
<b>Increase (Decrease) in Cash Position</b>	<b>(146)</b>	<b>1,065</b>
<b>Cash Beg of Period</b>	<b>6,341</b>	<b>6,194</b>
<b>Cash End of Period</b>	<b>6,194</b>	<b>7,260</b>

# FESTIVAL HYDRO SERVICES INC.

## Statement of Capital For the period ending March 31, 2024

	YTD as at Mar 31, 2024	YTD Budget at Mar 31, 2024	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
<b>CAPITAL</b>				
Computer Equipment - Hardware	—	5,000	(5,000)	(100%)
Computer Software	—	500	(500)	(100%)
Buildings	—	2,500	(2,500)	(100%)
Fibre Capital	268	26,000	(25,732)	(99%)
WiFi Capital	—	20,000	(20,000)	(100%)
<b>TOTAL CAPITAL</b>	<b>268</b>	<b>54,000</b>	<b>(53,732)</b>	<b>(100%)</b>