

To: Mark Hunter and the Finance and Labour Relations Committee
From: Alyson Conrad, CFO
Re: Preliminary FHI Financial Statement Commentary for the year ended December 31, 2024

BALANCE SHEET COMMENTARY

Accounts Receivable: The accounts receivable balance is \$636K lower than it was in 2023. This variance is as described below.

Electric/Water/Sewage receivables – Electric receivables are \$178K lower than prior year while Water and Sewer receivables are \$59K higher than the prior year. All arrears balances (30/60/90 days) are all lower than in prior years. This is a positive trend as FHI moves into the current Winter Moratorium.

A/R Recoverable Work and Miscellaneous AR – A/R recoverable work is down by \$251K from prior year. This is due to payments received from the City for streetlighting construction, maintenance and rent prior to yearend where last year this was in a receivable position.

The remain differences related to the Ontario Energy Rebate and a Reclassification of HST.

Due to Festival Hydro Services (FHSI): The balance due to FHSI is \$94K as compared to the prior year receivable balance of \$29K. Throughout 2024, the balance was in a large payable position due to lower-than-expected capital additions in FHSI however this balance has decreased by \$62K since the end of Q3.

Unbilled revenue: Unbilled revenue is currently \$251K above prior year. There was a moderate increase in the cost of power estimate used for December billings compared to prior year.

Regulatory Asset/(Liability): The regulatory asset balance has decreased by \$1M since December 2023. The majority of the difference from last year is due to lower variances in Wholesale Market Service (WMS) charges (\$1.4M). This is trending downward because the OEB adjusted all WMS rates in order to clear variance accounts faster. These variances have been offset by balances in Network and Connection accounts which are cleared through the Cost of Service and annual IRM processes.

Bank Indebtedness: The bank indebtedness is \$1.1M more than the prior year. This is increasing at the end of the year due to larger than typical capital spend particularly related to the completion of the building renovations. We have seen overall bank indebtedness decrease through the year as demonstrated on the cash flow statement as the full SWAP loan was drawn on in 2024.

Accounts Payable: The balance is \$222K higher than 2023. Previous CDM programs have been reconciled and an expected repayment was made to the IESO in Q4 which cleared several old balances. Overall A/P is up due to trade payables, with a large portion related to the completion of the administration building renovations.

Deposits: Total deposits on hand (both short term and long term) have increased by \$330K compared to prior year. The majority relates to two large construction deposits totaling \$490K.

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Re: Preliminary FHI Financial Statement Commentary for the year ended December 31, 2024 – cont'd

Net income for the year is \$1.91M before the gain on the swap and the OCI, which is \$100K ahead of budget.

INCOME STATEMENT COMMENTARY

Gross Margin on Service Revenue (Distribution Revenue) – The gross margin on service revenue (or Distribution Revenue) is below budget by \$419K. FHI has seen actuals below budget throughout all quarters in the year. The first half of the year was unseasonably mild which decreased consumption. This was partially offset by hot weather in the summer, but the latter months of the year were also more mild than typical years. In addition, there was the loss of one large use customer in February who moved to GS >50kW. The impact of this is approximately \$120K per year.

Other Revenue – Other revenue is above budget by \$341K. \$188K relates to deferral and variance account approvals from the 2025 Cost of Service Application. The remaining is due to increases in administration revenue from billable projects as well as streetlight revenue.

Operating and Maintenance (O & M) Expenses: O&M costs are \$335K below budget. There were several causes for this decrease: 1) a large portion of property taxes were previously included and budgeted in O&M expenses however through the Cost of Service process it was determined that this would be included under the Property Tax USoA which is included in Administration Costs. 2) Tree trimming was unable to be completed in December due to weather and ground conditions so this was completed in early 2025. 3) Underground Distribution Lines and Services continue to be down as FHI has seen less underground issues compared to historical years as well as deferrals made to cable testing.

Billing, Collecting & Admin Costs: Billing and collection costs are \$39K under budget. Admin costs were \$7K under budget. The majority of the billing and collecting decrease is related to a delay in the Customer Information System go live, software maintenance costs did not start until after the system was in production. Postage was also down compared to budget due to increases in e-billing as well as impacts from the Canada Post strike. Administration costs were relatively on budget as a whole with some decreases in office admin, communications and contract services which were offset by the property taxes being moved to this category as noted above.

Interest expense: Interest expense is \$183K over budget. \$82K related to interest on Deferral and Variance accounts (DVAs), this balance can vary greatly year over year depending on the balances in the DVAs.

Current taxes: The main variance from budget to actual was due to lower than budgeted current income tax. This tax calculation is estimated based on planned net income as well as CCA from capital additions. After completion of a detailed tax review, the taxes came in lower than expected.

LOAN COVENANT RATIOS

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

CASH FLOW COMMENTARY:

The cash indebtedness balance at the end of the year is \$4.8M. As noted, there were higher than typical capital spend at the end of the year relating to the completion of the administration building renovation.

FESTIVAL HYDRO INC.

Balance Sheet

For the period ending December 31, 2024

	YTD as at Dec 31, 2023	YTD as at Dec 31, 2024		YTD as at Dec 31, 2023	YTD as at Dec 31, 2024
ASSETS			LIABILITIES		
Current Assets			Current Liabilities		
Accounts Receivable	9,135,134	8,499,148	Bank Indebtedness	3,679,961	4,778,478
Inventory	212,005	410,006	Accounts Payable & Accrued Liabilities	10,364,864	10,587,244
Prepaid Expenses	308,822	650,790	Current Portion of Consumer Deposits	1,256,618	1,186,600
Corporate PILS Recoverable	743,093	1,180,429	Current Portion of Long Term Loans	750,364	1,199,649
Unbilled Revenue	6,915,469	7,166,152	Dividends Declared	233,750	147,478
			Promissory Note	15,600,000	15,600,000
			Loan Advance	2,500,000	—
			Due to FHSI	29,355	94,301
	17,285,168	17,906,525		34,385,556	33,593,749
Property, Plant & Equipment	61,152,857	66,549,243	Other Liabilities		
			Future Payments in Lieu of Income Taxes	3,518,269	3,028,217
Other Assets			Deferred Revenue	3,284,439	4,804,267
Intangible Assets	2,228,625	3,469,096	Employee Future Benefits	1,024,453	1,006,032
Unrealized Gain on Interest Rate Swap	454,755	285,958			
Regulatory Assets	5,989,731	4,543,408	Long Term Debt		
			Consumer Deposits Over One Year	631,651	1,032,050
			RBC Loan - LT Portion	9,061,648	12,861,999
			TOTAL LIABILITIES	51,906,017	56,326,314
			EQUITY		
			Share Capital - Common	9,468,388	9,468,388
			Share Capital - Preferred	6,100,000	6,100,000
			Retained Earnings	19,746,727	20,991,353
			Accumulated Other Comprehensive Income	-109,996	-131,825
			TOTAL EQUITY	35,205,119	36,427,916
TOTAL ASSETS	83,138,112	92,754,230	TOTAL LIABILITIES AND EQUITY	83,138,112	92,754,230

FESTIVAL HYDRO INC.

Statement of Capital For the period ending December 31, 2024

	YTD as at Dec 31, 2023	YTD Budget at Dec 31, 2024	YTD as at Dec 31, 2024	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
DISTRIBUTION					
Distribution Overhead	1,027,272	1,207,254	1,133,268	-73,986	-6%
Underground Conductor and Devices	715,996	1,200,519	2,156,730	956,211	80%
Distribution Transformers	553,413	415,000	856,197	441,197	106%
Services	242,624	195,000	345,207	150,207	-100%
Distribution Meters	433,583	400,000	346,503	-53,497	-13%
SCADA/Distribution Automation	120,308	76,500	81,805	5,305	7%
Tools and Miscellaneous Equipment	36,453	45,000	41,286	-3,714	-8%
TOTAL DISTRIBUTION	3,129,649	3,539,273	4,960,995	1,421,722	40%
OTHER CAPITAL					
Land and Buildings	1,060,506	2,165,000	2,401,240	236,240	11%
Transformer Station	212,043	150,000	132,078	-17,922	-12%
Vehicles and Trailers	92,935	450,000	62,038	-387,962	-86%
Computer Hardware and Software	620,617	1,412,667	1,143,901	-268,766	-19%
Work in Progress	221,461	—	685,295	685,295	100%
Contributed Capital	—	-200,000	-546,819	-346,819	100%
Assumed Capital Assets	—	—	-994,866	-994,866	100%
TOTAL OTHER CAPITAL	2,207,562	3,977,667	2,882,867	-1,094,800	-28%
TOTAL CAPITAL	5,337,210	7,516,940	7,843,861	326,921	4%

FESTIVAL HYDRO INC.

Income Statement

For the period ending December 31, 2024

	YTD as at Dec 31, 2023	YTD Budget at Dec 31, 2024	YTD as at Dec 31, 2024	Cur to Bdg YTD Var\$	Cur to Bdg YTD Var%
REVENUE					
Service Revenue	75,645,240	73,237,405	81,388,662	8,151,257	11%
Cost of Power	62,317,681	59,529,328	68,099,720	8,570,392	14%
GROSS MARGIN (DISTRIBUTION REVENUE)	13,327,558	13,708,077	13,288,942	-419,135	-3%
Other Operating Revenue	1,128,216	1,053,436	1,393,978	340,543	32%
OPERATING & MAINTENANCE EXPENSE					
Transformer & Distribution Station Expense	419,509	343,730	387,102	43,372	13%
Distribution Lines & Services Overhead	1,711,863	1,961,283	1,736,174	-225,110	-11%
U/G Distribution Lines & Services	235,721	248,456	223,886	-24,570	-10%
Distribution Transformers	70,932	85,823	85,931	108	0%
Distribution Meters	394,578	460,545	368,486	-92,059	-20%
Customer Premises	216,533	252,148	214,985	-37,163	-15%
TOTAL OPERATING AND MAINTENANCE	3,049,137	3,351,985	3,016,564	-335,421	-10%
ADMINISTRATION					
Billing, Collecting & Meter Reading	1,448,423	1,527,186	1,487,925	-39,261	-3%
Administration	3,106,894	3,440,082	3,432,588	-7,494	0%
TOTAL ADMINISTRATION	4,555,317	4,967,268	4,920,513	-46,755	-1%
Allocated Depreciation	-114,241	-135,373	-102,532	-32,841	-24%
TOTAL CONTROLLABLE COST	7,490,213	8,183,880	7,834,545	-349,334	-4%
NET INCOME BEFORE DEP'N, INTEREST & TAX	6,965,562	6,577,633	6,848,375	270,742	4%
Depreciation	2,619,161	2,800,946	2,815,498	—	—
Interest Expense	1,958,442	2,118,661	2,301,391	182,730	9%
Interest Income	-281,671	-320,000	-259,200	-60,800	-19%
NET INCOME BEFORE SWAP, ICM & PBA & INC TAXES	2,669,630	1,978,026	1,990,686	12,660	1%
Current Tax	373,312	171,970	84,187	-87,783	-51%
NET INCOME BEFORE SWAP, ICM & FUTURE TAX	2,296,318	1,806,056	1,906,499	100,443	6%
Unrealized Gain/Loss on Swap	330,131	—	168,797	168,797	—
Future Tax	120,510	—	-44,731	-44,731	—
Marketable Security - recorded as OCI	55,517	—	21,829	21,829	—
NET INCOME	1,790,160	1,806,056	1,760,604	-45,452	-3%

FESTIVAL HYDRO INC.

Cash Flow Statement

For the period ending December 31, 2024

	YTD as at Dec 31, 2023	YTD Bdgt. as at Dec 31, 2023	YTD Final Audited as at Dec 31, 2024
Cash from Operations			
Net Income	1,790,160	1,806,057	1,760,604
Depreciation	2,619,161	2,800,946	2,815,498
Amortization of Deferred Revenue in Other Revenue	-96,570	-76,869	-21,857
Unrealized Loss on Interest Rate Swap	330,131	—	168,797
Decrease/(Increase) in Receivables	-677,770	—	569,178
Decrease/(Increase) in Inventory	-34,479	—	-198,001
Decrease/(Increase) in Prepaids	-78,381	-425,000	-341,968
Decrease/(Increase) in Due to/from FHSI	151,502	-50,000	64,946
Decrease/(Increase) in PILS	-231,530	750,000	-437,336
Decrease/(Increase) in Unbilled Revenues	-2,131,971	500,000	-250,684
Decrease/(Increase) in Future Tax	278,310	—	-490,052
Decrease/(Increase) in Regulatory Assets	1,271,988	2,000,000	1,446,323
Increase/(Decrease) in Payables	701,773	100,000	222,380
Increase/(Decrease) in Deposits	-108,272	—	330,381
Increase/(Decrease) in Employee Future Benefits	14,575	—	-18,421
Contributed Capital	466,382	200,000	1,541,685
Net Cash Provided	4,265,008	7,605,134	7,161,473
Cash from Financing			
Loan Repayments	728,465	750,364	750,364
Loan Advance	-2,500,000	-2,500,000	-2,500,000
Cash Used - Capital Expenditures	5,337,210	7,716,940	9,385,546
Cash Used - Dividends Paid Current Year	390,330	390,330	390,330
Cash Used - Dividends Declared in Prior Year	248,269	200,000	233,750
Net Cash Used	4,204,274	6,557,633	8,259,990
Increase (Decrease) in Cash Position	60,734	1,047,501	-1,098,517
Bank Indebtedness, Beg of Period	-3,740,695	-634,709	-3,679,961
Bank Indebtedness, End of Period	-3,679,961	412,792	-4,778,478
Bank and Line of Credit Analysis	2023	2024	
High balance (YTD)	2,146,529	5,281,013	
Low Balance (YTD)	-6,140,288	-6,552,953	
Overdraft interest (annualized)	199,421	133,767	
Interest rate (avg annual for period)	6.94%	6.75%	
Average overdraft balance	2,872,478	1,983,139	

Key Financial Ratios:	Actual Ratio	Required Ratio
RBC Compliance Ratio - Funded Debt to Total Capital	0.49	Less than 0.65