

**Summary of the Financial Advisor Report
Dated August 25, 2021**

1. On June 19, 2020, BDO Canada Limited (“**BDO**” or the “**Financial Advisor**”) was engaged as Financial Advisor through Brownlee LLP, legal counsel for the Town of Olds (the “**Town**” or the “**Lender**”) for the purpose of providing the following financial and other advisory services in respect of loans made to Olds Institute for Community and Regional Development (the “**Institute**” or the “**Borrower**”) and the guarantee of Olds Fibre Ltd. (“**Olds Fibre**” or the “**Guarantor**”) (collectively the “**Companies**”).
2. The purpose of this report is to provide a summary of the steps taken by BDO, as well as to provide the various options provided to the Town.

Background

3. The Town has provided a variety of financial support to the Institute, for the purpose of promoting and facilitating investment in local business ventures owned by the Borrower. This includes:
 - a. A number of loans totalling approximately \$14,000,000;
 - b. A guarantee of a subordinate loan facility with connectFirst Credit Union for \$4,000,000; and
 - c. A substantial annual operating grant to the Borrower for its operations.
4. The Town has borrowed approximately \$10.1 million of the total \$14 million lent to Olds Institute. Below is a time line of the loans advanced:
 - a. September 2010 - \$6 million, initial amortization period of 10 years. This amount was scheduled to have been repaid in full by September of 2020.
 - b. May 2014 - \$8 million, initial amortization period of 15 years. This amount was scheduled to have been repaid in full by May 2029.
 - c. In 2015, OICRD approached the Town about re-advancing approximately \$3.9 million of the principal already paid. Over the next few years, these funds were re-advanced.
 - d. In July 2017, the Town agreed to refinance the entire \$14 million debt and have debt amortized over 25 years. Therefore, no principal has been paid on the loans to Olds Institute to date. In addition, the first 3 years were to be interest only payments.
5. In addition to the money lent by the Town, the Town also guaranteed the line of credit with connectFirst Credit Union. This line of credit is to a maximum of \$4 million. In addition, the town provided another \$600,000, the matching portion of the

CARES grant for Community Connectivity. The Companies also borrowed approximately \$1 million from private lenders.

6. These funds were advanced for the purposes of constructing a fibre optic network owned by the Institute (the “**Network**”), and the creation of the Guarantor, a wholly owned subsidiary. The wholly owned subsidiary was to operate the Network, and provide broadband fibre optic service. The Institute was to promote the community and region in a variety of ways, being supported by Olds’ strong and vibrant volunteer community.
7. The Town advanced the funds from the following sources:
 - a. Approximately \$3.9 million from cash flows; and
 - b. Borrowed \$10.1 million from Alberta Capital Finance Authority.
8. For the following reasons, the Town believed it was important to engage a third party to perform an overall analysis of the Companies and to provide potential restructuring options:
 - a. Due to the size of the loan;
 - b. The potential effect if nonpayment occurs to the Town and its citizens;
 - c. Change in government regulations, specifically that municipalities can now own for profit entities;
 - d. Specific concerns about governance issues;
 - e. The Companies were contemplating the sale of shares in Olds Fibre to invest in fibre expansion in Sundre diluting ownership of Olds Fibre;
 - f. Lack of clarity on operations; and
 - g. The effect it has on the Town’s borrowing capacity under provincial law.
9. The Town put the Companies on notice that it wanted to reorganize the financing and the terms under which it is maintained, and to set in place a more direct oversight to ensure that Town Council can be comfortable with the on-going operations.

Engagement of BDO Canada Limited

10. BDO’s work involved the following:
 - a. Reviewing the Companies’ cash flow requirements on a 13 week and long-term basis;

- b. Reviewing and analyzing the Lender's security position;
 - c. Reviewing options that have potential to allow the Lender to recover its loans to the Companies including recapitalization, refinancing, sale of the business or parts thereof as a going concern, sale of redundant assets or the orderly wind down of the Companies or formal insolvency proceedings;
 - d. Analyzing amounts due from/to shareholder;
 - e. Providing recommendations with respect to restructuring and other alternatives available to the Lender and the Companies; and
 - f. Reviewing the operational and financial viability of the Companies.
11. As part of this process, BDO prepared a report which was based primarily on the following information:
- a. Year-end financial statements for the periods ending December 31, 2014 to December 31, 2019, inclusive;
 - b. Internal financial statements for the period ending May 31, 2020 and June 30, 2020;
 - c. Internally prepared books and records;
 - d. Personal Property Registry report;
 - e. Corporate Registry report;
 - f. Accounts Receivable Aging Summary as at May 31, 2020;
 - g. Accounts Payable Aging Summary as May 31, 2020;
 - h. Discussions with year-end accountant, Doug Slade; and
 - i. Discussions with management of Olds Fibre Ltd. and of Olds Institute for Community and Regional Development, and other staff as needed.

Scope of Work and Limitations

12. Our work focused on the areas set out in our engagement letter. Our review does not constitute an audit in accordance with Generally Accepted Auditing Standards and we have carried out no verification work, except as expressly stated herein. Consequently, we do not express an opinion on the figures included in this Report.

13. The scope of our work has been limited both in terms of the areas of the business and operations which we have reviewed and the extent to which we have reviewed them. There may be matters, other than those noted in this Report, which a wider scope review might uncover.

Summary of the Financial Advisors Report

Financial Standing

14. The Financial Advisor determined that the combined projected revenues of the Companies would be insufficient to cover installments of principal and interest owed to the Town as they come due.
15. The Financial Adviser confirmed for the Town that the financial standing of the Companies posed a substantial risk to the Town in terms of default, requirement to amend terms of the loan, and/or recovery of Town's loan.

Loan Recovery Options

16. The report provided by the Financial Advisor Identified multiple loan recovery options, as outlined below.

Refinancing

17. Refinancing may be a viable option for the Town to recover a portion of its advances; however, the Institute would need to find a lender who would be willing to advance the funds to repay a portion of what is owing to the Town.

Sale to a Third Party

18. A sale to a third party may be a viable option; however, it is likely they would want to purchase the shares of Olds Fibre Ltd. and the fibre and WIFI assets of the Institute. The challenge with this option would be finding a purchaser who is interested as there may be a limited number of buyers in the market.

Sale of Redundant Assets

19. The Financial Advisor does not believe that there would be sufficient redundant assets in either entity to generate enough cash flow for the Town to recover their loans. This is another reason why the review was necessary.

Orderly Wind-Down

20. The Financial Advisor does not believe that an orderly wind-down would be the best option as there is still potential of Olds Fibre to generate net income and continue into the future.

Formal Insolvency Proceedings

21. A formal insolvency proceeding may be a viable option for the Town to recover their loans. This would likely be a receivership of both the Institute and Olds Fibre. The Town would apply to court to appoint a Receiver. The Receiver's job would be to realize on the assets of both the Institute and Olds Fibre.
22. The Receiver could sell the assets via a tender process, where the Town would credit bid, and offer the full amount of the loan to purchase all the assets of the Institute and Olds Fibre. This would allow an opportunity to see if any other parties would be interested in purchasing the assets, and allow the Town to consider if an offer is sufficient to sell or if they will just continue to operate Olds Fibre.
23. The advantages of this option include:
 - a. Under a credit bid, it is expected that the Town should maximize the recovery on their loan; and
 - b. If there were no other parties interested, the Town would gain control of the assets of the Institute, including the shares of Olds Fibre.
24. The disadvantages of this option include:
 - a. The Institute would no longer be operating as a going concern, and may or may not halt operations all together;
 - b. Consideration would need to be given to what will happen to the loans from private lenders; and
 - c. There will be significant costs associated with appointing a Trustee or Receiver, which would be incurred by the Town.

Updating Loan Terms

25. The Town may update the loan to the Olds Institute to become interest free, such that all payments made will become principal payments. When the principal balance is repaid in full, there can be an additional lump sum payment or dividend paid out to make up for lost interest.
26. The advantages to this option include:
 - a. The loan is repaid in full; and
 - b. The Institute and Olds Fibre can continue operating as a going concern.
27. The disadvantages to this option include:
 - a. The Town cannot update their loan with ACFA, therefore interest payments would still be due and payable and as such, Taxpayer funds would be required to pay over the terms of the loan; and
 - b. The length of time it will take the loan to be repaid.
28. Currently, under the terms of the loan, the Institute is making semi-annual interest payments of \$235,273. If these were converted to principal only payments, it would take just under 30 years for the Institute to repay the loan in full.

Transfer to Olds Fibre

29. In order for a sale of the assets to occur, the Institute needs to transfer the fibre and WIFI assets to Olds Fibre. This should be done in conjunction with the loan owing to the Town of Olds being transferred to Old Fibre.
30. The Town should consider allowing the transfer of the loan, and updating the terms of the loan at the same time.
31. If the fibre and WIFI assets were transferred into Olds Fibre, the Financial Advisor believes that Olds Fibre may be able to obtain alternative financing for a portion of the amount owing to the Town. If they were able to obtain this financing, they could make an immediate lump sum payment to the Town as part of a repayment plan.
32. The advantages under this option include:
 - a. Olds Fibre would be able to continue operating as a going concern;

- b. It is anticipated that the cash flows of Olds Fibre would improve as they would no longer be required to pay the monthly rental to the Institute for the rental of the fibre and building;
- c. While Olds Fibre would now be responsible to pay the Town, historically the payments to the Town have been significantly less than the rental payments to the Institute; and
- d. Over time, the loan to the Town would essentially be repaid in full by way of annual dividends.

33. The disadvantages for this option include:

- a. If minimum annual fixed dividends were \$500,000, it would take 28 years for the Town to recover what was advanced; and
- b. If there were to be formal insolvency proceedings, such as a bankruptcy, the Town's position may be eroded, as they would only hold equity under this option.

34. Based on discussion with the Town's legal counsel, in order to transfer ownership of Olds Fibre, the Municipal Government Act requires that a public hearing process occur and Town Council must consider a business plan. This should be discussed further with legal counsel to ensure all proper steps are taken.

Conclusions

- 35. The Financial Advisor determined that the combined projected revenues of the Companies would be insufficient to cover installments of principal and interest owed to the Town as they come due.
- 36. The Financial Adviser confirmed for the Town that the financial standing of the Companies posed a substantial risk to the Town in terms of default, requirement to amend terms of the loan, and/or recovery of Town's loan.
- 37. Olds Fibre continues to require capital investment in order for growth to occur outside of Olds and the Town is not in a position to provide the required capital investment.
- 38. Based on the above considerations, as the structure of the entities currently stands, there is value in both the Institute and Olds Fibre.

39. In order for the Town to maximize recovery in any option, the Financial Advisor believes it is crucial that all the assets are in one entity.
40. The recommendation would be that all assets are transferred to Olds Fibre, as they are the service provider.
41. If all assets were transferred to Olds Fibre, the value of the Institute would decrease significantly. Based on our review, the two largest sources of revenue for the Institute have historically been the grant funding received from the Town and the rental income it receives from Olds Fibre.
42. The Financial Advisor cannot speak on the intangible benefits that the Institute provides to the community.

Contacts

If there are any matters upon which you require clarification or further information please contact David Lewis 780.441.2155.

Yours truly,

BDO CANADA LIMITED

Per: 

David Lewis, CA, CPA, CIRP, LIT
Senior Vice-President Financial Advisory Services