Memorandum

To: Abby Wilson, Owner & Chief Pilot, Eagle Services Ltd.
From: Abhinav Wadhwa
Subject: **Budget 2024**
Date: June 15, 2025

Eagle Services' 2024 budget and financial plan were evaluated considering three important banking covenants: (1) maintaining a current ratio of 1.5 or higher, (2) ensuring that the line of credit (LOC) does not exceed 60% of our good receivables and inventory, and (3) achieving a times-interest-earned (TIE) ratio of 5.0 or higher. This memorandum summarizes our significant quarterly decisions, the implications of these decisions for Eagle's financial status, and the rationale behind deferring the acquisition of a used aircraft in the fourth quarter.

Decision Making

Quarter 1

As anticipated, the year commenced slowly, as aerial spraying activities did not begin until summer. Revenue was solely derived from instructional services, while initial costs were incurred to build our chemical inventory in preparation for operations in Quarter 2. The purchase of essential safety radios for our existing aircraft further increased operating expenses. Consequently, our current ratio fell slightly below the required threshold, necessitating the use of a substantial portion of our line of credit. Nonetheless, we view this decrease as temporary. We remain confident in our ability to meet interest obligations and have submitted a waiver request for this quarter, with expectations of improved performance in Quarter 2.

Quarter 2

This quarter represented our peak operational period. We experienced significant increases in both spraying activities and flight instruction, leading to strong sales. However, a large portion of this revenue remained in accounts receivable, constraining our working capital. To address this, we renegotiated and expanded our line of credit. Although the current ratio stayed marginally below 1.5, we remained within our LOC limits. Minor renovations were made to improve office efficiency without incurring significant capital expenditures. Overall, Quarter 2 demonstrated that our existing aircraft and operational structure can generate healthy cash flow. However, we continue to rely on short-term financing during high-revenue periods when customer payments have not yet been collected.

Quarter 3

In this quarter, we began collecting payments from customers gained in Quarter 2 and reduced our chemical inventory as the spraying season ended. With no major purchases, we significantly reduced our line of credit usage. This led to an improved current ratio, reduced LOC utilization, and lowered total debt, resulting in better financial metrics. The quarter confirmed that our business model is effective and generates strong cash flow when seasonal pressures subside.

Quarter 4

With the spraying season concluded and payments still being received, our cash flow remained robust despite a return to off-season sales levels. This quarter was critical, as we needed to decide whether to purchase a used aircraft. After careful analysis, we chose not to proceed with the acquisition. Although financing was available, the purchase would have dropped our current ratio below 1.0, representing a significant violation of our covenant obligations. Additionally, it would have pushed our debt ratio above 45%, limiting our ability to fully repay the LOC by year-end. Instead, we prioritized liquidity by reallocating surplus cash into temporary investments. As a result, we concluded the year with the LOC fully repaid, a significantly strong current ratio of over 6, and minimal overall debt. By deferring the aircraft purchase, we effectively positioned the company for future growth while maintaining compliance with our banking covenants.

Recommended Changes

The results of this fiscal year indicate that Eagle Services has the capacity to cover all recurring expenses and build savings, provided we avoid making large, debt-financed purchases during the slower seasons. Our strategic plan is to complete one more peak season to increase savings and eventually purchase an aircraft with no more than 40% of the cost financed through debt. This approach will ensure continued compliance with our bank covenants while reinforcing financial stability.

We are prepared to share this budget with you and welcome any questions or feedback you may have.

Exhibit 1: Budgeted Income Statement

Budgeted Income Statement					
	Q1	Q2	Q3	Q4	Year
Sales					
Aerial Spraying	$ -	$ 96,200.00	$ 66,600.00	$ -	$ 162,800.00
Instruction	$ 35,380.00	$ 58,580.00	$ 58,580.00	$ 35,380.00	$ 187,920.00
Flight School	$ 33,000.00	$ -	$ -	$ 33,000.00	$ 66,000.00
Total Sales	$ 68,380.00	$ 154,780.00	$ 125,180.00	$ 68,380.00	$ 416,720.00
Expenses					
Wages	$ 15,000.00	$ 15,000.00	$ 15,000.00	$ 15,000.00	$ 60,000.00
Rent	$ 3,875.00	$ 3,875.00	$ 3,875.00	$ 3,875.00	$ 15,500.00
Fuel	$ 14,030.00	$ 53,130.00	$ 43,930.00	$ 14,030.00	$ 125,120.00
Maintenance	$ 7,930.00	$ 30,030.00	$ 24,830.00	$ 7,930.00	$ 70,720.00
Depreciation	$ 5,250.00	$ 5,762.50	$ 5,918.75	$ 5,918.75	$ 22,850.00
Chemicals	$ -	$ 20,475.00	$ 14,175.00	$ -	$ 34,650.00
Other	$ 1,162.50	$ 1,162.50	$ 1,162.50	$ 1,162.50	$ 4,650.00
Total Expenses	$ 47,247.50	$ 129,435.00	$ 108,891.25	$ 47,916.25	$ 333,490.00
Operating Income	$ 21,132.50	$ 25,345.00	$ 16,288.75	$ 20,463.75	$ 83,230.00
Interest Income	$ -	$ -	$ -	$ -	$ -
Interest Expense	$ 1,354.50	$ 1,634.60	$ 2,151.25	$ 1,561.54	$ 6,701.88
Income Before Tax	$ 19,778.00	$ 23,710.40	$ 14,137.50	$ 18,902.21	$ 76,528.12
Income Tax	$ 4,944.50	$ 5,927.60	$ 3,534.38	$ 4,725.55	$ 19,132.03
Net Income	$ 14,833.50	$ 17,782.80	$ 10,603.13	$ 14,176.66	$ 57,396.09

Exhibit 2: Cash Budget

Cash Budget					
	Q1	Q2	Q3	Q4	Year
Cash Balance, Beginning	$ 12,400.00	$ 20,000.00	$ 20,000.00	$ 20,000.00	$ 12,400.00
Cash Receipts					
Aerial Spraying					
Last Quarter	$ -	$ -	$ 64,133.33	$ 44,400.00	$ 108,533.33
This Quarter	$ -	$ 32,066.67	$ 22,200.00	$ -	$ 54,266.67
Flying Instructions	$ 35,380.00	$ 58,580.00	$ 58,580.00	$ 35,380.00	$ 187,920.00
Flight School	$ 33,000.00	$ -	$ -	$ 33,000.00	$ 66,000.00
Interest Income	$ -	$ -	$ -	$ -	$ -
Tax Refund	$ -	$ -	$ -	$ -	$ -
Total Cash Receipts	$ 68,380.00	$ 90,646.67	$ 144,913.33	$ 112,780.00	$ 416,720.00
Cash Disbursements					
Wages	$ 15,000.00	$ 15,000.00	$ 15,000.00	$ 15,000.00	$ 60,000.00
Rent	$ 3,875.00	$ 3,875.00	$ 3,875.00	$ 3,875.00	$ 15,500.00
Fuel	$ 14,030.00	$ 53,130.00	$ 43,930.00	$ 14,030.00	$ 125,120.00
Maintenance					
Last Quarter	$ 2,300.00	$ 2,643.33	$ 10,010.00	$ 8,276.67	$ 23,230.00
This Quarter	$ 5,286.67	$ 20,020.00	$ 16,553.33	$ 5,286.67	$ 47,146.67
Chemicals					
Last Quarter	$ -	$ 3,412.50	$ 5,775.00	$ 2,362.50	$ 11,550.00
This Quarter	$ 6,825.00	$ 11,550.00	$ 4,725.00	$ -	$ 23,100.00
Other	$ 1,162.50	$ 1,162.50	$ 1,162.50	$ 1,162.50	$ 4,650.00
Interest Expense	$ 1,354.50	$ 1,634.60	$ 2,151.25	$ 1,561.54	$ 6,701.88
Income Tax	$ 4,944.50	$ 5,927.60	$ 3,534.38	$ 4,725.55	$ 19,132.03
Capital Purchases	$ 20,500.00	$ 6,250.00	$ -	$ -	$ 26,750.00
Total Cash Disbursements	$ 75,278.17	$ 124,605.53	$ 106,716.46	$ 56,280.42	$ 362,880.58
Sub-total	$ 5,501.83	-$ 13,958.86	$ 58,196.88	$ 76,499.58	$ 66,239.42
Financing					
Borrowing					
Line-of-Credit	$ 6,148.17	$ 32,990.11	$ -	$ -	$ 39,138.28
Term Loan	$ 10,250.00	$ 3,125.00	$ -	$ -	$ 13,375.00
Repayment					
Line-of-Credit	$ -	$ -	-$ 35,962.50	-$ 3,175.78	-$ 39,138.28
Term Loan	-$ 1,900.00	-$ 2,156.25	-$ 2,234.38	-$ 2,234.38	-$ 8,525.00
Special Dividends	$ -	$ -	$ -	$ -	$ -
Issuance/Repurchase of Shares	$ -	$ -	$ -	$ -	$ -
Total Financing	$ 14,498.17	$ 33,958.86	-$ 38,196.88	-$ 5,410.16	$ 4,850.00
Temporary Investment	$ -	$ -		-$ 51,089.42	-$ 51,089.42
Cash Balance, Ending	$ 20,000.00	$ 20,000.00	$ 20,000.00	$ 20,000.00	$ 20,000.00

Exhibit 3: Balance Sheet

Balance Sheet				
	Q1	Q2	Q3	Q4
Current Assets				
Cash	$20,000	$20,000	$20,000	$20,000
Temporary Investments	$0	$0	$0	$51,089
Accounts Receivable	$0	$64,133	$44,400	$0
Chemical Supplies	$10,238	$7,088	$0	$0
Total Current Assets	$30,238	$91,221	$64,400	$71,089
Capital Assets				
Equipment, Net	$ 157,250.00	$ 157,737.50	$ 151,818.75	$ 145,900.00
Total Assets	**$ 187,487.50**	**$ 248,958.33**	**$ 216,218.75**	**$ 216,989.42**
Current Liabilities				
A/P - Maintenance	$ 2,643.33	$ 10,010.00	$ 8,276.67	$ 2,643.33
A/P - Chemicals	3412.5	5775	2362.5	0
Line of Credit	6,148.17	$ 39,138.28	$ 3,175.78	$ -
Current Portion of LT Debt	$ 8,625	$ 8,938	$ 8,938	$ 8,938
Total Current Liabilities	$ 20,829.00	$ 63,860.78	$ 22,752.45	$ 11,580.83
Long-term Liabilities				
Term Loan	$ 59,925	$ 60,581	$ 58,347	$ 56,113
Shareholders' Equity				
Share Capital	$ 52,000.00	$ 52,000.00	$ 52,000.00	$ 52,000.00
Retained Earnings	54,733.50	72,516.30	83,119.43	97,296.09
Total Liabilities and Equities	**$ 187,487.50**	**$ 248,958.33**	**$ 216,218.75**	**$ 216,989.42**

Exhibit 4: Key Financial Ratios

Ratio Table				
	Q1	**Q2**	**Q3**	**Q4**
Current Ratio	1.45	1.43	2.83	6.14
LOC/(A/R + Inventory)	1.00	0.92	0.12	0.00
LOC Financing	$6,148.17	$39,138.28	$3,175.78	$0.00
Debt Ratio	43.07%	49.99%	37.51%	31.20%
Times Interest Earned	15.60	15.51	7.57	13.10