

Aquatera Utilities Inc.

Financial Statements

December 31, 2013

Aquatera Utilities Inc.

December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Aquatera Utilities Inc.

We have audited the accompanying financial statements of Aquatera Utilities Inc., which comprise the statement of financial position as at December 31, 2013 and the statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Aquatera Utilities Inc. as at December 31, 2013 and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Fletcher Mudryk & Co.

Grande Prairie, Alberta
March 18, 2014

Chartered Accountants

Aquatera Utilities Inc.

Statement of Income and Comprehensive Income

Year Ended December 31, 2013

	<u>2013</u>	<u>2012</u>
REVENUE		
Sale of services	\$ 39,239,376	\$ 37,154,712
Franchise fee revenue	2,944,047	2,793,053
Penalties	155,469	148,457
Other (Note 20)	1,776,400	1,113,420
	<u>44,115,292</u>	<u>41,209,642</u>
EXPENSES		
Salaries, wages and benefits (Note 21)	13,162,472	11,580,378
General, administrative and contracted services	9,386,641	9,014,937
Utilities	2,659,790	2,574,642
Major maintenance	496,663	150,489
Materials, goods and supplies	3,419,003	2,998,288
Amortization	4,782,518	4,339,346
Franchise fees	2,944,047	2,793,053
	<u>36,851,134</u>	<u>33,451,133</u>
OPERATING INCOME	7,264,158	7,758,509
Other income (expenses)		
Recognition of deferred revenue for capital contributions	1,955,852	1,854,343
Interest income (Note 22)	740,346	828,656
Finance costs (Note 22)	(953,193)	(1,162,714)
Dividends declared (Note 22)	(3,527,000)	(3,527,000)
Gain on disposal of property, plant and equipment	408	25,210
	<u>(1,783,587)</u>	<u>(1,981,505)</u>
NET INCOME AND COMPREHENSIVE INCOME	<u>\$ 5,480,571</u>	<u>\$ 5,777,004</u>

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Statement of Financial Position

December 31, 2013

	2013	2012
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	\$ 20,974,590	\$ 18,016,825
Trade and other receivables (Note 5)	5,770,398	4,617,082
Inventories (Note 6)	461,270	435,816
Investments maturing in one year (Note 7)	2,972,055	631,445
	30,178,313	23,701,168
Long-term investments (Note 7)	16,224,333	14,853,981
Loan to subsidiary (Note 8)	2,800,000	-
Investment in subsidiary (Note 9)	100	-
Property, plant and equipment, net (Note 10)	191,911,082	161,036,246
	241,113,828	199,591,395
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 11)	4,997,233	2,224,496
Dividends payable	3,527,000	3,527,000
Deferred revenue (Note 12)	272,356	277,766
Current sewer trunk oversizing payable (Note 13)	914,728	421,842
Customer deposits	1,428,397	1,607,667
Callable debt due in one year (Note 14)	21,224,828	1,085,742
	32,364,542	9,144,513
Callable debt due thereafter (Note 14)	21,665,275	22,887,486
Other long-term liabilities (Note 15)	1,989,619	-
Deferred infrastructure charges (Note 16)	21,213,304	17,062,537
	77,232,740	49,094,536
Deferred revenue of capital contributions (Note 12)	83,603,665	75,070,761
Provisions for landfill closure and long-term sewer trunk oversizing (Note 13)	4,778,349	5,407,595
Stock dividend payable (Note 17)	22,136,784	-
Preferred shares (Note 18)	53,361,851	53,361,851
	241,113,389	182,934,743
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Common shares (Note 18)	439	439
Retained earnings	-	16,656,213
	439	16,656,652
	\$ 241,113,828	\$ 199,591,395

ON BEHALF OF THE BOARD

 Director

 Director

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Statement of Changes in Equity

For the Year Ended December 31, 2013

	Share capital	Retained earnings	Equity attributable to the owners of the Company
Balance at December 31, 2012	\$ 439	\$ 16,656,213	\$ 16,656,652
Net income for the period	-	5,480,571	5,480,571
Stock dividends declared (<i>Note 17</i>)		(22,136,784)	(22,136,784)
Balance at December 31, 2013	\$ 439	\$ -	\$ 439

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Statement of Cash Flows

Year Ended December 31, 2013

	2013	2012
OPERATING ACTIVITIES		
Net income and comprehensive income	\$ 5,480,571	\$ 5,777,004
Reconciliation of net income to cash from operating activities		
Net finance costs	3,739,847	3,861,058
Depreciation and amortization	4,782,518	4,339,346
Recognition of deferred revenue for capital contributions	(1,955,852)	(1,854,343)
Gain on disposal of property, plant and equipment	(408)	(25,210)
	<u>12,046,676</u>	<u>12,097,855</u>
Changes in non-cash working capital		
Accounts receivable and bad debts	(1,153,316)	(381,604)
Inventory	(25,454)	42,342
Accounts payable and accrued liabilities	2,772,737	(757,178)
Customer deposits	(179,270)	340,690
Deferred revenue	(5,410)	173,060
Provisions - current	492,886	(611,923)
	<u>1,902,173</u>	<u>(1,194,613)</u>
Net cash flows from operating activities	<u>13,948,849</u>	<u>10,903,242</u>
INVESTING ACTIVITIES		
Property, plant and equipment purchases	(1,325,822)	(2,857,196)
Developer contributed assets	(8,906,006)	(3,012,631)
Construction in progress	(25,425,526)	(3,800,700)
Proceeds on disposal of property, plant and equipment	408	72,125
Loan to subsidiary	(2,800,000)	-
Investment in subsidiary	(100)	-
Capital contributions	10,488,757	4,938,511
Interest earned	740,346	828,656
Investment purchases	(4,342,407)	(8,634,901)
Proceeds from sale of investments	631,445	5,283,308
	<u>(30,938,905)</u>	<u>(7,182,828)</u>
Net cash used in investing activities		
FINANCING ACTIVITIES		
Advances from City of Grande Prairie	-	361,513
Infrastructure charges collected	6,853,863	7,907,182
Infrastructure charges expended	(2,703,096)	(1,620,877)
Proceeds from callable debt financing	20,000,000	-
Repayment of callable debt	(1,083,125)	(1,028,047)
Change in non-current provisions	(629,246)	(913,815)
Other long-term liabilities	1,989,619	-
Regular dividends paid on preferred shares	(3,527,000)	-
Interest expense and accretion of landfill liability	(971,188)	(1,076,882)
	<u>19,929,827</u>	<u>3,629,074</u>
Net cash flows used in financing activities		
Net cash increase in cash and cash equivalents	<u>2,957,765</u>	<u>7,349,488</u>
Cash and cash equivalents at beginning of year	<u>18,016,825</u>	<u>10,667,337</u>
Cash and cash equivalents at end of year	<u>\$ 20,974,590</u>	<u>\$ 18,016,825</u>

Cash and cash equivalents consist of the following:

Cash in banks and short-term guaranteed investment certificates	<u>\$ 20,974,590</u>	<u>\$ 18,016,825</u>
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Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

1. REPORTING ENTITY

Aquatera Utilities Inc. (the "Company") provides water, wastewater and solid waste services to residents and commercial customers of the City of Grande Prairie, the Town of Sexsmith and to residents residing in specific service areas within the County of Grande Prairie No. 1.

The Company operates in Canada with its registered office located at 11101 – 104 Avenue, Grande Prairie, Alberta, Canada, T8V 8H6.

The common shares of the Company are owned by the City of Grande Prairie, the County of Grande Prairie No. 1 and the Town of Sexsmith.

2. BASIS OF PRESENTATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were approved and authorized for issuance by the Board of Directors on March 18, 2014.

(b) Basis of measurement

The Company's financial statements are prepared on the historical cost basis except for the landfill closure and post closure liability which is based on the present value of future cash flows. Revenue and expenses are recognized in the period in which the transactions or events occurred that gave rise to the revenue and expenses in the period the goods and services are provided and a liability is incurred.

(c) Additional IFRS financial measure

The Company uses "operating income" as an additional IFRS financial measure. In management's opinion, the measure is a more effective indicator of the Company's and reportable business segments' operating performance than net income because it only includes items directly related to or resulting from management's operating decisions and actions.

(d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(e) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may differ from prior estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

2. BASIS OF PRESENTATION (continued)

(e) Use of estimates and judgements (continued)

Significant estimates made by the Company include the allowance for doubtful accounts, the useful life of property, plant and equipment and the provision for landfill closure.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Cash and cash equivalents

Cash and cash equivalents include cash or guaranteed investment certificates less than a year in term and are recorded at amortized cost.

(b) Inventory

Small parts and other consumables, the majority of which are consumed by the Company in the provision of its goods and services, are valued at the lower of cost and net realizable value with cost being determined on a weighted average basis. Cost includes the purchase price, transportation and other costs incurred to bring the inventories to their present location and condition.

(c) Investment in subsidiary

The Company's subsidiary, 25 By 20 Holdings Ltd. of which it owns 100% of the outstanding voting shares, is not consolidated as the Company has met all conditions under IFRS to account for its investment using the equity method. Accordingly, the investment is recorded at acquisition cost and is increased for the proportionate share of post-acquisition earnings and decreased by post acquisition losses and dividends received.

(d) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, contracted services any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2011. For items acquired prior to the transition date of January 1, 2011, cost was determined consistent with previous Canadian generally accepted accounting principles, using that carrying cost as the deemed cost at the date of transition as allowed through IFRS 1.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

Subsequent costs

The cost of replacing a part of an item of property, 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 property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is charged on a straight-line basis over the estimated economic useful lives of items of each depreciable component of property, plant and equipment, from the date they are available for use, as this most closely reflects the expected usage of the assets. Land and construction work in progress are not depreciated. Estimating the appropriate useful lives of assets requires significant judgment and is generally based on estimates of life characteristics of similar assets. The useful economic lives, methods of depreciation and residual values are reviewed annually with any changes adopted on a prospective basis.

The range of estimated useful lives used is as follows:

Engineering structures	60 – 75 years
Buildings	50 years
Leasehold improvements	terms of lease
Equipment	5 – 40 years
Equipment under finance lease	15 years
Vehicles and mobile equipment	5 years - 15 years

In the year of acquisition, depreciation is applied at half of normal rates. No depreciation is recorded in the year of disposition.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized within gain (loss) on disposal.

Leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Capitalized borrowing costs

The Company capitalizes interest during construction of an asset using specific borrowings to finance qualifying assets. Qualifying assets are considered to be those that take a substantial period of time to construct.

(f) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Company's statement of financial position.

(g) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Company considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment (continued)

Non-financial assets

The carrying amounts of the Company's non-financial assets consisting of property, plant and equipment and inventory 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.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is based on estimated market values based on actual market transactions, if available, or a fair value estimation model. The value in use is the present value of estimated future cash flows that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually 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 Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount, and is recorded in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss will be recorded in net income for the period as the excess of the carrying amount of the asset over its recoverable amount. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

At the end of each reporting period, the Company makes an assessment as to whether there is any indication that any previously incurred impairment losses have reversed. If such an indication exists, the Company estimates the asset's recoverable amount, and compares it to the carrying amount, including accumulated depreciation that would have been determined had no impairment loss been recognized. Any reversal is limited to this latter amount.

(h) Deferred revenue

Deferred revenue consists of levies and infrastructure charges collected from developers and customers to be utilized for future capital or other projects, capital contributions from developers, government grants and other deferrals.

Certain assets may be acquired or constructed using non-repayable government grants or infrastructure charges. Contributions received towards construction or acquisition of an item of property, plant and equipment which are used to provide ongoing service to a customer are recorded as deferred revenue and are amortized on a straight-line basis over the estimated economic useful lives of the assets to which they relate.

Government grants are recognized initially as deferred revenue at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognized in net income as other income on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Company for the cost of an item of property, plant and equipment are recognized in net income on a systematic basis over the useful life of the asset.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Deferred revenue (continued)

Infrastructure charges levied on customers are available to be used for future capital or other projects, as determined by management. Infrastructure charges relating to the acquisition or construction of property, plant and equipment are deferred until the related asset is available for use and then recognized in revenue over the estimated useful life of the related asset. Other infrastructure levies are recorded as revenue in net income in the period in which the related expense is incurred.

(i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Landfill closure obligation

The Company recognizes a decommissioning liability relating to estimated landfill closure and post-closure costs for which it has a legal obligation to restore. The provision is determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The accretion of the provision is recognized as a finance cost.

Sewer trunk oversizing obligation

The Company recognizes a provision for reimbursement costs it has committed to provide to certain real estate developers for the installation of wastewater infrastructure in specific real estate developments in the Company's service area.

(j) Loans and borrowings

The Company's callable debt consists of demand loans for which the lender has the right to demand repayment.

(k) Revenue recognition

Goods and services

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and where it can be reliably measured. Revenues are measured at the fair value of the consideration received.

Revenues from the sale of water and other services are recognized upon delivery or provision of the services to the customer. These revenues include an estimate of the value of services consumed by customers in the year but billed subsequent to year-end.

Penalties

Revenue from penalties is earned at a rate of 3% per month on trade receivable balances outstanding for more than thirty days.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Revenue recognition (continued)

Other income

Other income is recognized at such time as the product or service has been delivered to the customer.

(l) Finance income and finance costs

Finance income comprises interest income on funds invested and dividend income. Interest income is recognized in net income on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings, accretion of provisions, dividends on preferred shares classified as liabilities and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net income using the effective interest method (*Note 14*).

(m) Income taxes

The Company is exempt from income taxes as it is municipally-owned and the revenue earned outside its geographical boundaries does not exceed 10% of net income before dividends.

(n) Employee future benefits

Pension plans

Selected employees of the Company are members of the Local Authorities Pension Plan ("LAPP"), a multi-employer defined benefit pension plan. The trustee of the plan is the Alberta Treasurer and the plan is administered by a Board of Trustees. Since the plan is a multi-employer plan, it is accounted for as a defined contribution plan and, accordingly, the Company does not recognize its share of any plan surplus or deficit.

A supplementary plan ("APEX") is available through the Alberta Urban Municipalities Association for selected employees conditional upon the Company being a member of the LAPP. The plan is a top-up of the LAPP.

Other long-term employee benefits

The Company's obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned for their service in the current and past periods. That benefit is discounted to determine its present value and adjusted based on probability analysis of all eligibility factors.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Non-derivative financial assets and liabilities

Non-derivative financial assets and liabilities are comprised of financial assets or liabilities at fair value through profit or loss, held-to-maturity financial assets and loans and receivables.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Held-to-maturity financial assets

The Company's investments are classified as held-to-maturity as the Company has the positive intent and ability to hold debt securities to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

Financial assets or liabilities at fair value through profit or loss

The Company does not have any financial assets or liabilities at fair value through profit or loss.

Loans and receivables

The Company recognizes loans and receivables on the date that they are originated. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of trade and other receivables and amounts due from the City of Grande Prairie.

Other financial liabilities

The Company recognizes all financial liabilities initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Other financial liabilities are recognized initially at fair value, plus any directly attributable transaction costs. Subsequently, these liabilities are measured at amortized cost using the effective interest method. Other liabilities are comprised of callable debt, accounts payable and accrued liabilities and preferred shares.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Non-derivative financial assets and liabilities (continued)

Other financial liabilities

The Company recognizes all financial liabilities initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Other financial liabilities are recognized initially at fair value, plus any directly attributable transaction costs. Subsequently, these liabilities are measured at amortized cost using the effective interest method. Other liabilities are comprised of callable debt, accounts payable and accrued liabilities and preferred shares.

(p) Share capital

Common shares

Common share capital is classified as equity.

Preferred share capital

Preferred share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Preferred share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if the dividend payments are not discretionary. Dividends thereon are recognized as a financing expense in profit or loss as accrued.

(q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's components. All operating segments' operating results are reviewed regularly by the Company's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(r) New standards and interpretations not yet adopted

The Company is currently assessing the impact of adopting the following applicable standard on the financial statements. At this time, the impact of these changes to the Company is unknown.

IFRS 9 Financial Instruments

The new standard is the first phase of the project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard simplifies the current financial asset classifications contained in IAS 39 by creating two classifications – amortized cost and fair value. In addition, the standard will require that all equity instruments are measured at fair value. The new standard is currently effective for financial years beginning on or after January 1, 2015. The second and third phases of the project dealing with financial asset impairment and hedging remain in development and so the full impact of the standard on the Company will be unknown until the completion of the project.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

4. CASH

Cash consists of:

	2013	2012
Cash on hand	\$ 3,900	\$ 3,300
Cash in banks	14,770,690	9,513,525
Guaranteed investment certificates	6,200,000	8,500,000
Total cash	\$ 20,974,590	\$ 18,016,825

Guaranteed investment certificates mature within one year and bear interest at 1%.

Cash is held for use by the corporation in accordance with Board Cash Management and Restricted Cash policies:

	2013	2012
Dividends payable	\$ 3,527,000	\$ 3,527,000
Capital accounts payable	1,455,670	205,677
Sewer trunk oversizing obligations - current	914,728	421,842
Restricted cash requirement	3,717,669	3,462,544
Working capital cash requirement	1,219,591	1,403,262
Capital expenditure funds	5,347,432	5,000,526
Business development funds	4,792,400	3,995,974
Total cash and cash equivalents	\$20,974,590	\$ 18,016,825

5. ACCOUNTS RECEIVABLE

	2013	2012
Trade receivables	\$ 2,517,175	\$ 2,177,676
Estimated unbilled accrual	2,096,207	1,921,326
Accrued investment earnings	765,271	434,332
GST receivable	226,131	86,027
Other receivables	225,614	99,721
	5,830,398	4,719,082
Allowance for doubtful accounts	(60,000)	(102,000)
	\$ 5,770,398	\$ 4,617,082

6. INVENTORY

In 2013, inventory consumables recognized as materials, goods and supplies expense amounted to \$2,416,434 (2012 - \$2,881,963). In 2013, the write-down of inventories to net realizable value amounted to \$NIL (2012 - \$NIL).

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

7. LONG-TERM INVESTMENTS

	2013	2012
Investments	\$ 19,196,388	\$ 15,485,426
Investments maturing in one year	<u>(2,972,055)</u>	<u>(631,445)</u>
	<u>\$ 16,224,333</u>	<u>\$ 14,853,981</u>

Long-term investments consist of held-to-maturity fixed income investments and Canadian treasury bills, bear interest at rates between 2.1% and 8.9% and mature between February, 2014 and August, 2023.

8. LOAN TO SUBSIDIARY

Loan to the Company's subsidiary, 25 By 20 Holdings Inc. is unsecured, bears no interest and has no fixed terms of repayment. The Company's Board of Directors have indicated that repayment of the loan will not be demanded in the next fiscal year.

9. INVESTMENT IN SUBSIDIARY

The Company was issued share capital in 25 By 20 Holdings Inc. for \$100 on December 28, 2013 and holds 100% of the voting share capital at December 31, 2013. At December 31, 2013, its statement of financial position is as follows:

	Assets	
Cash		\$ 200,100
Cash held in trust		2,600,000
		<u>\$ 2,800,100</u>
	Liabilities	
Loan from Aquatera Utilities Inc.		\$ 2,800,000
	Equity	
Common shares		100
		<u>\$ 2,800,100</u>

No revenues or expenses occurred during the three days ended December 31, 2013 and, therefore, net income is \$NIL.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

10. PROPERTY, PLANT AND EQUIPMENT

Original cost	Land	Buildings	Leasehold Improvements	Engineering Structures	Equipment	Vehicles and Mobile Equipment	Construction in Progress	Total
Cost or deemed cost								
Balance at December 31, 2012	\$1,794,331	\$32,136,519	\$2,192,856	\$100,462,946	\$22,384,265	\$2,229,891	\$7,995,002	\$169,195,810
Additions	425,944	-	25,074	8,515,919	368,092	896,797	25,863,335	36,095,161
Transfers to property, plant and equipment	-	-	-	-	-	-	(437,807)	(437,807)
Balance at December 31, 2013	2,220,275	32,136,519	2,217,930	108,978,865	22,752,357	3,126,688	33,420,530	204,853,164
Amortization								
Balance at December 31, 2012	-	(2,108,990)	(109,643)	(3,233,211)	(1,976,245)	(731,475)	-	(8,159,564)
Amortization	-	(1,057,219)	(220,855)	(1,768,055)	(1,302,943)	(433,446)	-	(4,782,518)
Disposals	-	-	-	-	-	-	-	-
Balance at December 31, 2013	-	(3,166,209)	(330,498)	(5,001,266)	(3,279,188)	(1,164,921)	-	(12,942,082)
Carrying amounts								
At December 31, 2012	\$1,794,331	\$30,027,529	\$2,083,213	\$97,229,735	\$20,408,020	\$1,498,416	\$7,995,002	\$161,036,246
At December 31, 2013	\$2,220,275	\$28,970,310	\$1,887,432	\$103,997,599	\$19,473,169	\$1,961,767	\$33,420,530	\$191,911,082

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Borrowing costs capitalized during the year ended December 31, 2013 were \$171,732 (2012 - \$176,898). The weighted average rate used to determine the borrowing costs eligible for capitalization was 3.42% (2012 - 3.27%). All borrowing costs that are being incurred for the Waste Water Treatment Plant expansion are currently residing in Construction in Progress.

There are no restrictions on assets.

Impairments

During the year ended December 31, 2013, the Company performed a detailed analysis of existing property, plant and equipment, and no impairments were found.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
Trade payables	\$ 2,709,438	\$ 1,282,318
Capital payables	1,455,670	205,677
Accrued employee benefits	832,125	736,501
	<u>\$ 4,997,233</u>	<u>\$ 2,224,496</u>

12. DEFERRED REVENUE AND DEFERRED REVENUE OF CAPITAL CONTRIBUTIONS

	Current Deferrals	Developer Contributions	Government Grants and Infrastructure Charges	Total Long-term Deferred Revenue
Balance at the beginning of year	\$ 277,766	\$ 10,165,719	\$ 64,905,042	\$ 75,070,761
Contributions received	169,722	8,906,006	1,582,750	10,488,756
Revenue recognized	(175,132)	(204,917)	(1,750,935)	(1,955,852)
Balance at December 31, 2013	<u>272,356</u>	<u>18,866,808</u>	<u>64,736,857</u>	<u>83,603,665</u>
Current	\$ 272,356	-	-	-
Non-current	-	\$ 18,866,808	\$ 64,736,857	\$ 83,603,665

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

13. PROVISIONS

	Sewer Trunk Oversizing Obligation	Landfill Closure and Post-Closure Liability	Total
Balance at the beginning of year	\$ 421,842	\$ 5,407,595	\$ 5,829,437
Provisions made during the year	914,728	-	914,728
Provisions used during the year	(421,842)	-	(421,842)
Change in estimate	-	(872,589)	(872,589)
Accretion of liability	-	243,343	243,343
Balance at December 31, 2013	914,728	4,778,349	5,693,077
Current	\$ 914,728	\$ -	\$ 914,728
Non-current	\$ -	\$ 4,778,349	\$ 4,778,349

Sewer trunk oversizing obligation

The Company has committed to reimburse costs incurred by certain real estate developers to install wastewater infrastructure in specific real estate developments in the Company's service area. The amounts are payable contingent upon the Company collecting infrastructure charges to fund the cost. The agreement requires the Company to repay an amount equal to half of the infrastructure charges collected each year in the specific service area by March 31 of the following year until the obligation is paid in full.

Landfill closure and post-closure liability

The Company has recognized a decommissioning liability for the estimated expected costs for closure and post-closure activities of a landfill site. The estimated costs are based on estimates and assumptions related to future events and using information currently available to management. Future events may result in significant changes to the estimated total costs and the estimated liability.

The Company has revised its estimate in 2013 based on a study performed by a qualified engineering firm. The study estimates the discounted amount of cash flow required to settle its decommissioning liability is approximately \$4,778,349 (2012 – \$5,407,596), calculated using inflation rates of 2.00% and a long-term discount rate of 4.50%. The change in estimate was based on more recent information and will be applied prospectively.

The majority of closure costs are expected to occur in approximately 10 to 12 years dependent upon future usage rates. Annual post-closure costs are expected to extend 25 years beyond closure of the landfill. The study revised the expected capacity to 773,789 (2012 - 1,435,317) metric tonnes remaining with an annual estimated utilization of 68,066 metric tonnes. Current year capacity reflect phases 1 and 2 of a 5 phase plan with a total capacity of approximately 3.6 million metric tonnes and a total lifespan of approximately 34 years once all cells are completed. The 2012 capacity was calculated based on a different configuration of landfill cells.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

14. CALLABLE DEBT

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings consisting of demand loans which are measured at amortized cost.

	2013	2012
Due to the Town of Sexsmith	\$ 242,802	\$ 275,925
Due to RBC Royal Bank	22,647,300	23,697,303
Due to CIBC	20,000,000	-
	<u>42,890,102</u>	<u>23,973,228</u>
Loans and borrowings due in one year	(21,224,828)	(1,085,742)
	<u>\$ 21,665,275</u>	<u>\$ 22,887,486</u>

Due to the Town of Sexsmith

Alberta Capital Finance Authority debenture, secured by the Town of Sexsmith, is repayable in annual instalments of \$48,990 including interest at a rate of 5.75% per annum and matures in 2019. The Company's obligation to the Town of Sexsmith equals the Town's obligation pursuant to the debenture.

Bank loans

Bank loans from RBC Royal Bank are secured by a general security agreement and are repayable in monthly payments aggregating \$153,217 including interest at the bank prime rate or at fixed rates ranging from 2.30% to 5.75% per annum and mature between 2014 and 2016, at which time the loans are expected to be renewed under similar terms.

Bank loans from CIBC are secured by a general security agreement and are currently structured as a monthly Bankers' Acceptance with monthly payments of approximately \$41,000 including interest at the bank prime rate which is currently at 2.52% per annum. The Bankers' Acceptance will be converted to a long term loan by the end of 2014 as draws on the credit facility reach capacity for the funding of the Wastewater Treatment Plant Expansion Project.

As a condition of bank financing, the Company is subject to restrictive bank covenants, whereby it is required to maintain a funded debt to total capital ratio not exceeding 0.5 to 1 and maintain a fixed charge coverage ratio to not be less than 1.25 to 1. The Company is in compliance with these ratios, as understood by management. The funded debt to total capital ratio is calculated at .36 to 1 (2012 - 0.26) and the fixed charge ratio is at 6.40 to 1 (2012 - 6.58).

The effective interest rate of each loan currently equals the actual interest rate attached to the loan.

Principal repayment terms of loans and borrowings if renewed at similar terms are follows:

Less than one year	\$ 21,224,828
Between one and five years	5,289,529
More than five years	<u>16,375,745</u>
	<u>\$ 42,890,102</u>

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

14. CALLABLE DEBT (continued)

Credit facilities

The Company has available bank credit facilities from the RBC bank in the amount of \$1,200,000, all of which is unused at December 31, 2013 (December 31, 2012 - \$1,150,000). These facilities consist of revolving demand facilities limited to \$200,000 and a revolving lease line of credit limited to \$1,000,000.

The Company has available bank facilities from the CIBC bank in the amount of \$52,000,000, \$20,000,000 of which is currently being used at December 31, 2013. These facilities consist of revolving demand facilities limited to \$2,000,000 and an installment loan of credit limited to \$50,000,000.

15. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of holdbacks and contractor retention accounts for long-term construction projects not scheduled to be completed within the next fiscal year.

16. DEFERRED INFRASTRUCTURE CHARGES

	2013	2012
Balance at the beginning of year	\$ 17,062,537	\$ 10,776,232
Contributions received	6,853,863	7,907,182
Transfer to deferred revenue	(2,703,096)	(1,620,877)
Balance at the end of the year	\$ 21,213,304	\$ 17,062,537

17. STOCK DIVIDEND PAYABLE

In accordance with the unanimous shareholder agreement, a preferred share stock dividend is declared prior to any asset transfer to the company, effectively distributing preferred shares and not cash, equal to the retained earnings of the company to the existing shareholders based on their issued common shares. An asset transfer is scheduled for January 1, 2014 as disclosed in Note 27. The Class H preferred shares to be issued subsequent to year-end are as follows:

	2013	2012
City of Grande Prairie - 16,234 Class H preferred shares	\$ 16,233,743	\$ -
County of Grande Prairie No. 1 - 4,018 Class H preferred shares	4,017,904	-
Town of Sexsmith - 1,885 Class H preferred shares	1,885,098	-
	\$ 22,136,784	\$ -

18. SHARE CAPITAL

The following common and preferred shares have been authorized:

Unlimited	Class A voting common shares
Unlimited	Class B voting common shares
Unlimited	Class C voting common shares
Unlimited	Class D non-cumulative, redeemable, retractable, non-voting preferred shares
Unlimited	Class E non-cumulative, redeemable, retractable, non-voting preferred shares
Unlimited	Class F non-cumulative, redeemable, retractable, non-voting preferred shares
Unlimited	Class G non-cumulative, redeemable, retractable, non-voting preferred shares
Unlimited	Class H non-cumulative, redeemable, retractable, non-voting preferred shares
Unlimited	Class I non-cumulative, redeemable, retractable, non-voting preferred shares

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

18. SHARE CAPITAL (continued)

The following common and preferred shares have been issued

Common shares

	2013	2012
43,872 Class A shares	\$ 439	\$ 439

Preferred shares

	2013	2012
43,858 Class D shares	\$ 43,856,835	\$ 43,856,835
9,506 Class H shares	9,505,016	9,505,016
	<u>\$ 53,361,851</u>	<u>\$ 53,361,851</u>

The holders of redeemable preferred shares are entitled to receive dividends in accordance with the Unanimous Shareholders Agreement. Redeemable preferred shares do not carry the right to vote. All shares rank equally with regard to the Company's residual assets, except that holders of redeemable preferred shares participate only to the extent of the face value of the shares. The redeemable preferred shares are classified as financial liabilities (see Note 25). As no amounts are expected to be redeemed in the next fiscal year and the fact that the Company would not be able to fund any redemption request, the shares are presented as a long-term liability.

19. COMMITMENTS

(a) Dividends

In accordance with the Unanimous Shareholders Agreement, the Company has committed to pay annual non-cumulative dividends on the outstanding Class D preferred shares, subject to the dividends not putting the company in violation of its bank covenants as discussed in Note 14. A dividend will become payable in 2014 to the shareholders as follows:

City of Grande Prairie	\$ 1,608,050
County of Grande Prairie No. 1	398,100
Town of Sexsmith	186,750

(b) Premises lease

The Company leases office space under an operating lease which expires in 2021 with the option of two future five-year renewals. Lease payments are payable as follows:

Less than one year	\$ 222,703
Between one and five years	707,800
More than five years	575,088
	<u>\$ 1,450,990</u>

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

20. OTHER REVENUE

	2013	2012
Service connections	\$ 457,411	\$ 332,696
Operator assistance	588,766	246,474
Infrastructure charge - engineering fees	205,616	-
Distribution and collection commercial services	262,089	218,789
Customer shut-off fees	138,605	143,949
Miscellaneous revenue and sales	123,913	171,512
	<u>\$ 1,776,400</u>	<u>\$ 1,113,420</u>

21. EMPLOYEE BENEFITS

	2013	2012
Short-term benefits	\$ 11,878,534	\$ 10,518,152
Post-employment benefits	1,283,938	1,062,226
Total employee benefits	<u>\$ 13,162,472</u>	<u>\$ 11,580,378</u>

Short-term benefits

Short-term benefits consist of wages and salaries paid or payable to employees, accrued vacation, and other benefits paid or payable within 12 months.

Post-employment benefits

a. Local Authorities Pension Plan

Employees of the Company participate in the Local Authorities Pension Plan ("LAPP"), which is covered by the Public Sector Pension Plans Act. The LAPP serves 223,643 people and 428 employers. It is financed by employer and employee contributions and investment earnings of the LAPP fund.

Contributions for current service are recorded as expenditures in the year in which they become due.

The Company is required to make current service contributions to the LAPP of 10.43% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 14.47% on the excess.

Employees of the Company are required to make current service contributions to the Plan of 9.43% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.47% on the excess.

Total current and past service contributions by the Company to the LAPP in 2013 were \$996,452 (2012- \$827,227). Total and past service contributions by the employees of the Company to the LAPP in 2013 were \$912,099 (2012 - \$752,903).

At December 31, 2012, the Plan disclosed an actuarial deficiency of \$5.0 billion (2011 - \$4.6 billion).

LAPP has announced that member contribution rates will increase in 2014 to 10.39% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 14.84% on the excess and employer contribution rates will increase in 2014 to 11.39% and of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 15.84% on the excess.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

21. EMPLOYEE BENEFITS (continued)

Post-employment benefits (continued)

b. APEX Supplementary Pension Plan

Eligible employees may also elect to participate in the voluntary APEX Supplementary Pension Plan ("APEX") offered through the Alberta Urban Municipalities Association, which is covered by the Public Sector Pensions Plans Act. It is funded by employer and employee contributions and investment earnings of the APEX fund.

The Company is required to make current service contributions to the APEX of 3.00% of pensionable payroll above the LAPP maximum pensionable earnings up to the year's maximum pensionable earnings of \$134,834 for employees who have elected to participate in the APEX. No contributions are required on earnings above the maximum threshold.

Employees electing to participate in the LAPP are required to make current service contributions of 2.50% of pensionable payroll service above the LAPP maximum pensionable earnings up to the year's maximum pensionable earnings of \$134,834 with no contributions on earnings above the maximum threshold.

Total current and past service contributions made by the Company to APEX in 2013 were \$58,214 (2012 - \$48,325). Total current and past service contributions by the employees of the Company to APEX in 2013 were \$48,512 (2012 - \$40,270).

At December 31, 2012, the APEX disclosed an actuarial surplus of \$772,000 (2011 - \$241,000 deficit).

c. Sick Bank Accrual

Under terms of an agreement reached with the union representing certain employees of the Company, the Company is required to pay qualifying employees an amount equal to 75% of their accrued sick time balance if, upon retirement, the employee is older than 55 years of age and has a minimum of 15 years of service with the Company. Management has extended this benefit to all employees of the Company, including those that are not within the scope of the union agreement. At January 1, 2011, the agreement was amended such that, for employees who commenced employment with the Company subsequent to January 1, 2001, the benefit is an amount equal to 40% of their accrued sick time balance. The other conditions required to be met were not amended.

At December 31, 2013, the Company has accrued \$229,272 (2012 - \$186,674) for expenses related to this agreement, which is included in the accrued employee benefits balance within accounts payable. Estimated costs equal the sum of the discounted future cash flows discounted at the historical average long-term borrowing rate of 4.5%, based on a probability analysis of all eligibility factors.

At December 31, 2013, current employees meeting all eligibility requirements held a sick time balance of \$409,961 (2012 - \$424,239).

Termination benefits

Termination benefits consist of retirement allowances payable to employees for which there is an irrevocable documented plan in place for the termination of an employee's service.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

22. FINANCE INCOME AND FINANCE COSTS

	2013	2012
Interest income	\$ (740,346)	\$ (828,656)
Finance income	(740,346)	(828,656)
Interest expense	702,095	860,069
Accretion of provision	243,343	216,812
Dividends on preferred shares	3,527,000	3,527,000
Bad debts	7,755	85,833
Finance costs	4,480,193	4,689,714
Net finance costs recognized in net income	\$ 3,739,847	\$ 3,861,058

23. RELATED PARTY TRANSACTIONS

Transactions with related parties

The following is a summary of the Company's related party transactions and balances:

	2013	2012
City of Grande Prairie (the controlling shareholder)		
Sale of services	\$ 395,473	\$ 401,754
General, administrative and contracted services expense	191,076	357,045
Franchise fees expense	2,628,960	2,504,453
Special dividends declared	1,029,250	1,029,250
Regular dividends declared	\$ 1,608,050	\$ 1,608,050

	December 31, 2013	December 31, 2012
Trade receivables	\$ -	\$ 27,213
Trade payables	623,152	116,056
Deposits	40,910	204,552
Dividends payable	\$ 2,637,300	\$ 2,637,300

	2013	2012
County of Grande Prairie No. 1 (a minority shareholder)		
Sale of services	\$ 47,050	\$ 52,854
General, administrative and contracted services expense	161,170	150,897
Franchise fees expense	251,479	227,405
Special dividends declared	205,300	205,300
Regular dividends declared	\$ 398,100	\$ 398,100

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

23. RELATED PARTY TRANSACTIONS (continued)

	December 31, 2013	December 31, 2012
County of Grande Prairie No. 1 (a minority shareholder)		
Trade receivables	\$ 1,261	\$ 137
Trade payables	46,184	26,733
Dividends payable	\$ 603,400	\$ 603,400

	2013	2012
Town of Sexsmith (a minority shareholder)		
Sale of services	\$ 8,166	\$ 361
General, administrative and contracted services expense	222,865	265,497
Franchise fees expense	63,608	61,495
Interest expense	15,866	17,667
Special dividends declared	99,550	99,550
Regular dividends declared	\$ 186,750	\$ 186,750

	December 31, 2013	December 31, 2012
Trade receivables	\$ 397	\$ -
Trade payables	15,247	21,381
Dividends	\$ 286,300	\$ 286,300

These transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Transactions with key management personnel

Key management personnel compensation is comprised of:

	2013	2012
Short-term benefits	\$ 589,273	\$ 649,240
Post-employment benefits	71,950	46,582
	\$ 661,223	\$ 695,822

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

24. SEGMENT DISCLOSURES

	Water	Wastewater	Solid Waste	2013
Revenue				
Sale of services	\$ 14,650,731	\$ 14,387,551	\$ 10,201,095	\$ 39,239,376
Franchise fee revenue	1,207,046	1,336,524	400,478	2,944,047
Penalties	65,377	60,350	29,741	155,469
Other	758,184	738,231	279,983	1,776,400
	<u>16,681,338</u>	<u>16,522,656</u>	<u>10,911,297</u>	<u>44,115,292</u>
Expenses				
Salaries, wages and benefits	5,342,055	4,749,192	3,071,225	13,162,472
General, administrative and contracted services	2,691,938	2,455,608	4,239,095	9,386,641
Utilities	1,432,664	1,116,891	110,234	2,659,790
Major maintenance	131,907	223,781	140,975	496,663
Materials, goods and supplies	1,928,032	847,983	642,988	3,419,003
Depreciation, amortization and impairments	1,882,683	2,165,324	734,511	4,782,518
Franchise fees	1,207,046	1,336,524	400,478	2,944,047
	<u>14,616,325</u>	<u>12,895,303</u>	<u>9,339,506</u>	<u>36,851,134</u>
Other items				
Recognition of deferred revenue for capital contributions	814,925	1,131,666	9,261	1,955,852
Net finance costs excluding dividends	170,513	(19,439)	(363,921)	(212,847)
Gain on disposal of property, plant and equipment	155	155	98	408
	<u>985,593</u>	<u>1,112,382</u>	<u>(354,562)</u>	<u>1,743,413</u>
	<u>3,050,606</u>	<u>4,739,736</u>	<u>1,217,229</u>	<u>9,007,571</u>
Dividends				<u>3,527,000</u>
Net income				<u>\$ 5,480,571</u>

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

24. SEGMENT DISCLOSURE (continued)

	Water	Wastewater	Solid Waste	2012
Revenue				
Sale of services	\$ 13,959,514	\$ 13,277,404	\$ 9,917,794	\$ 37,154,712
Franchise fee revenue	1,168,333	1,241,644	383,076	2,793,053
Penalties	63,818	57,024	27,615	148,457
Other	479,215	455,838	178,367	1,109,570
	<u>15,670,880</u>	<u>15,031,910</u>	<u>10,506,852</u>	<u>41,209,642</u>
Expenses				
Salaries, wages and benefits	4,692,709	4,201,711	2,685,958	11,580,378
General, administrative and contracted services	2,148,717	2,386,029	4,480,191	9,014,937
Utilities	1,429,021	1,068,547	77,074	2,574,642
Major maintenance	50,276	86,883	13,330	150,489
Materials, goods and supplies	1,466,454	819,617	712,217	2,998,288
Depreciation, amortization and impairments	1,688,570	1,940,508	710,268	4,339,346
Franchise fees	1,168,333	1,241,644	383,076	2,793,053
	<u>12,644,080</u>	<u>11,744,939</u>	<u>9,062,114</u>	<u>33,451,133</u>
Other items				
Recognition of deferred revenue for capital contributions	772,432	1,072,713	9,198	1,854,343
Net finance costs excluding dividends	104,447	(86,895)	(351,610)	(334,058)
Gain on disposal of property, plant and equipment	6,847	5,657	12,706	25,210
	<u>883,726</u>	<u>991,475</u>	<u>(329,706)</u>	<u>1,545,495</u>
	<u>3,910,526</u>	<u>4,278,446</u>	<u>1,115,032</u>	<u>9,304,004</u>
Dividends				<u>3,527,000</u>
Net income				<u>\$ 5,777,004</u>

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

25. FINANCIAL INSTRUMENTS

Categories of financial instruments

The classification of the Company's financial instruments, as well as their carrying amounts and fair values, are shown in the tables below.

	Fair Value through Profit or Loss	Held to Maturity	Loans and Receivables	Other Financial Liabilities	Financial Liabilities	Total carrying amount	Fair value
	(fair value)	(amortized cost)	(amortized cost)	(amortized cost)	(fair value)		
December 31, 2013							
Financial assets							
Cash	\$ -	\$ 20,974,590	\$ -	\$ -	\$ -	\$ 20,974,590	\$ 20,974,590
Trade and other receivables	-	-	5,770,398	-	-	5,770,398	5,770,398
Investments	-	19,196,388	-	-	-	19,196,388	20,082,094
Financial liabilities							
Trade and other payables	-	-	-	4,997,233	-	4,997,233	4,997,233
Dividends payable	-	-	-	3,527,000	-	3,527,000	3,527,000
Bank loans	-	-	-	42,647,300	-	42,647,300	42,647,300
Sexsmith loan	-	-	-	242,802	-	242,802	242,802
Other long-term liabilities	-	-	-	1,989,619	-	1,989,619	1,989,619
Stock dividend payable	-	-	-	22,136,784	-	22,136,784	22,136,784
Preferred shares	\$ -	\$ -	\$ -	\$ 53,361,851	\$ -	\$ 53,361,851	\$ 53,361,851

	Fair Value through Profit or Loss	Held to Maturity	Loans and Receivables	Other Financial Liabilities	Financial Liabilities	Total carrying amount	Fair value
	(fair value)	(amortized cost)	(amortized cost)	(amortized cost)	(fair value)		
December 31, 2012							
Financial assets							
Cash	\$ -	\$ 18,016,825	\$ -	\$ -	\$ -	\$ 18,016,825	\$ 18,016,825
Trade and other receivables	-	-	4,617,082	-	-	4,617,082	4,617,082
Investments	-	15,485,426	-	-	-	15,485,426	16,374,520
Financial liabilities							
Trade and other payables	-	-	-	2,224,496	-	2,224,496	2,224,496
Dividends payable	-	-	-	25,663,784	-	25,663,784	25,663,784
RBC loans	-	-	-	23,697,303	-	23,697,303	23,697,303
Sexsmith loans	-	-	-	275,925	-	275,925	275,925
Preferred shares	\$ -	\$ -	\$ -	\$ 53,361,851	\$ -	\$ 53,361,851	\$ 53,361,851

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following assumptions and methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

For cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, their fair values approximate their carrying values due to the immediate or short-term maturities of these instruments.

The fair value of the investments approximates their carrying value as the interest rates are consistent with current rates available to the Company in the investment market for such investment instruments. The estimated fair value is disclosed above.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

25. FINANCIAL INSTRUMENTS (continued)

Determination of fair values (continued)

The fair value of loans and borrowings and finance lease liabilities approximates the carrying value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms.

The fair value of Class D preferred shares approximates the fair value as the shares are carried at the fixed redemption value and bear 5% dividend rights in accordance with the terms of the Unanimous Shareholders Agreement.

The fair value of the Class H preferred shares is less than the carrying value, as the amounts bear no fixed dividend rate. The amount is likely insignificant and it has been assumed that fair value approximates carrying value.

Fair value measurements

The Company had no financial instruments recognized at fair value at December 31, 2013 or December 31, 2012.

Financial risk management

The Company is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, liquidity risk and market risk. The risks related to the Company's financial instruments are discussed below.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Company's Audit and Risk Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Credit risk

Credit risk arises from the potential that a customer will fail to perform its obligations. The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2013	2012
Trade and other receivables	<u>\$ 5,770,398</u>	<u>\$ 4,617,082</u>
	<u>\$ 5,770,398</u>	<u>\$ 4,617,082</u>

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

25. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company conducts regular reviews of its existing customers' credit performance. New customers are required to pay a deposit which may be applied against any future unpaid amounts. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Company has a significant number of customers which minimizes concentration of credit risk. No one customer makes up a significant portion of either revenue or the trade receivables balance at year-end.

Amounts are considered past due when payment has not been received in accordance with a customer agreement, which is typically 30 days. The trade receivable balances include \$556,004 that is past due as at December 31, 2013 (2012 - \$555,461).

At December 31, 2013, there are no financial assets that the Company deems to be impaired or that are past due according to their terms and conditions, for which allowances have not been recorded. Aging of trade and other receivables and the related impairment allowances are provided in the following table:

	December 31, 2013	Gross Impairment Allowance December 31, 2013	December 31, 2012	Gross Impairment Allowance December 31, 2012
Not past due	\$ 5,274,394	\$ -	\$ 4,061,621	\$ -
Past due 0-30 days	378,031	-	396,379	-
Past due 31-90 days	159,622	(50,000)	97,070	(50,000)
More than 91 days	18,351	(10,000)	62,012	(52,000)
	<u>\$ 5,770,398</u>	<u>\$ (60,000)</u>	<u>\$ 4,617,082</u>	<u>\$ (102,000)</u>

The movement in the allowance for doubtful accounts in respect of accounts receivable during the year was as follows:

	2013	2012
Balance at the beginning of year	\$ 102,000	\$ 102,000
Impairment losses recognized	49,755	85,834
Amounts written off as uncollectable	(49,755)	(85,834)
Impairment losses reversed	(42,000)	-
	<u>\$ 60,000</u>	<u>\$ 102,000</u>

There are no impairments in respect to the held-to-maturity investments during the year.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity risk management is to maintain sufficient amounts of cash and cash equivalents, and authorized credit facilities, to fulfill obligations associated with financial liabilities. To manage liquidity risk, the Company prepares budgets and cash forecasts, and monitors its performance against these. Management also monitors cash and working capital efficiency given current sales levels and seasonal variability. The Company measures and monitors its liquidity risk by regularly evaluating its cash inflows and outflows under expected conditions through cash flow reporting such that it anticipates certain funding mismatches and ensures the cash management of the business within certain tolerable levels. These cash flow forecasts are reviewed on regular basis by management. The Company mitigates liquidity risk through continuous monitoring of its credit facilities and the diversification of its funding sources, both in the short-term as well as the long-term.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

25. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

The following table presents the contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flow	Under 1 year	Between 2 - 3 years	Between 4 - 5 years	More than 5 years
December 31, 2013						
Accounts payable and accrued liabilities	\$ 4,997,233	\$ 4,997,233	\$ 4,997,233	\$ -	\$ -	\$ -
Dividends payable	3,527,000	3,527,000	3,527,000	-	-	-
Loans and borrowings	42,890,102	42,890,102	21,224,828	2,565,112	2,724,417	16,375,745
Other long-term liabilities	1,989,619	1,989,619	-	1,989,619	-	-
Stock dividend payable	22,136,784	22,136,784	-	-	-	22,136,784
Preferred shares	53,361,851	53,361,851	-	-	-	53,361,851
	\$ 128,902,589	\$ 128,902,589	\$ 29,749,061	\$ 4,554,731	\$ 2,724,417	\$ 91,874,380
December 31, 2012						
Accounts payable and accrued liabilities	\$ 2,224,496	\$ 2,224,496	\$ 2,224,496	\$ -	\$ -	\$ -
Dividends payable	3,527,000	3,527,000	3,527,000	-	-	-
Loans and borrowings	23,973,228	23,973,228	1,085,742	2,309,255	2,509,296	18,068,935
Preferred shares	53,361,851	53,361,851	-	-	-	53,361,851
	\$ 83,086,575	\$ 83,086,575	\$ 6,837,238	\$ 2,309,255	\$ 2,509,296	\$ 71,430,786

It is not expected that the cash flows included in the maturity analysis will occur significantly earlier, or at significantly different amounts with the exception the transfer of the \$20 million CIBC bankers' acceptance to a long term loan in 2014.

The Company's trade payables are all current and due within 75 days of the statement of financial position date. The Company's future obligations under operating leases are discussed in Note 19.

The Company's loans and borrowings are further discussed in Note 14.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of interest rate risk and currency risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk as a result of the issuance of variable rate debt, as disclosed in Note 11. Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is not exposed to significant foreign currency exchange risk.

Sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets or financial liabilities at fair value through profit or loss; therefore, a change in interest rates at the reporting date would not affect profit or loss.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2013

26. CAPITAL MANAGEMENT

The capital structure of the Company includes cash, shareholders' equity and loans and borrowings. The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern; and
- to provide a stable low risk return to shareholders on capital investments.

The Company manages the capital structure and makes adjustments based on planned expenditures for property, plant and equipment acquisitions and construction, including transfers of assets from municipalities.

The approved Capital Budget for 2014 totals \$31 million and the projection in five years is \$102 million. This will be funded through additional debt of \$33 million, \$12 million in contributions, \$16 million in cash, \$18 million in grants, and use of infrastructure charges of \$23 million. Capital costs are based on engineering estimates developed in Master Plans and are refined as further design work occurs.

27. SUBSEQUENT EVENTS

The following events occurred subsequent to the fiscal year-end:

On January 2, 2014, the Company's subsidiary, 25 By 20 Holdings Inc., purchased a 90% interest in Watchorn Rentals Ltd., a privately-owned company incorporated under the Alberta Business Corporations Act, which operates a water and wastewater treatment business based in Fairview, Alberta for \$2,565,000. Management intends to operate Watchorn Rentals Ltd. as a subsidiary for the long-term.

On January 1, 2014, the County of Grande Prairie No. 1 transferred water and wastewater assets to Aquatera Utilities Inc. in exchange for share capital.