

Aquatera Utilities Inc.

Non-Consolidated Financial Statements

December 31, 2017

Aquatera Utilities Inc.

December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Aquatera Utilities Inc.

We have audited the accompanying non-consolidated financial statements of Aquatera Utilities Inc., which comprise the non-consolidated statements of income and comprehensive income, financial position, changes in equity and cash flows and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated 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 non-consolidated 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 non-consolidated 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 non-consolidated financial statements present fairly, in all material respects, the financial position of Aquatera Utilities Inc. as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Fletcher Mudryk & LLP

Grande Prairie, Alberta
March 20, 2018

Chartered Professional Accountants

Aquatera Utilities Inc.

Non-Consolidated Statement of Income and Comprehensive Income

Year Ended December 31, 2017

	2017	2016
REVENUE		
Sale of services	\$ 50,866,890	\$ 47,689,512
Franchise fee revenue	3,705,704	3,605,805
Penalties	207,862	210,943
Other (Note 20)	2,637,751	2,524,632
	57,418,207	54,030,892
EXPENSES		
Salaries, wages and benefits (Note 21)	14,935,860	16,060,211
General, administrative and contracted services	11,548,361	10,485,073
Utilities	1,694,493	1,594,746
Major maintenance	404,094	252,162
Materials, goods and supplies	2,886,244	2,821,794
Depreciation	8,187,878	7,542,789
Franchise fees	3,705,704	3,605,805
	43,362,634	42,362,580
OPERATING INCOME	14,055,573	11,668,312
Other income (expenses)		
Recognition of deferred revenue for capital contributions	3,204,937	3,074,549
Interest income (Note 22)	1,443,806	1,507,267
Finance costs (Note 22)	(2,498,193)	(2,358,422)
Dividends declared (Note 22)	(3,799,616)	(3,667,107)
Fair value adjustment of interest rate swap (Note 22)	1,234,539	393,154
Gain on disposal of property, plant and equipment	65,568	25,454
Net subsidiary operations – 25 By 20 Holdings Inc. (Note 9)	(1,058,719)	(447,787)
	(1,407,678)	(1,472,892)
NET INCOME AND COMPREHENSIVE INCOME	\$ 12,647,895	\$ 10,195,420

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Non-Consolidated Statement of Financial Position

December 31, 2017

	2017	2016
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	\$ 21,207,919	\$ 23,687,897
Trade and other receivables (Note 5)	11,097,954	12,238,960
Deposit on building	2,369,287	-
Inventories (Note 6)	1,028,640	715,064
Investments maturing in one year (Note 7)	17,377,571	6,307,145
	53,081,371	42,949,066
Long-term investments (Note 7)	31,736,410	37,632,188
Due from subsidiary (Note 8)	5,057,253	3,559,675
Investment in subsidiary (Note 9)	100	100
Property, plant and equipment, net (Note 10)	299,819,767	291,003,231
	\$ 389,694,901	\$ 375,144,260
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 11)	\$ 4,763,624	\$ 4,855,558
Dividends payable	3,799,616	3,667,107
Deferred revenue (Note 12)	185,423	55,497
Current portion of other long-term liabilities (Note 13)	175,376	105,683
Customer deposits	2,178,369	1,932,154
Callable debt due in one year (Note 14)	4,531,745	4,195,154
	15,634,153	14,811,153
Callable debt due thereafter (Note 14)	63,378,977	68,518,768
	79,013,130	83,329,921
Deferred revenue of capital contributions (Note 12)	150,838,613	148,136,766
Provisions for landfill closure and other long-term liabilities (Note 13)	6,761,254	6,866,163
Deferred infrastructure charges (Note 15)	29,854,063	27,801,891
Preferred shares (Note 17)	123,226,704	80,531,902
	389,693,764	346,666,643
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Common shares (Note 17)	1,137	710
Retained earnings	-	28,476,907
	1,137	28,477,617
	\$ 389,694,901	\$ 375,144,260

ON BEHALF OF THE BOARD

_____, Director

_____, Director

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Non-Consolidated Statement of Changes in Equity

Year Ended December 31, 2017

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Equity attributable to the owners of the company</u>
Balance at December 31, 2016	\$ 710	\$ 28,476,907	\$ 28,477,617
Issuance of shares	427	-	427
Net income for the period	-	12,647,895	12,647,895
Stock dividends paid (Note 16)	-	(41,124,802)	(41,124,802)
Balance at December 31, 2017	\$ 1,137	\$ -	\$ 1,137

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Non-Consolidated Statement of Cash Flows

Year Ended December 31, 2017

	2017	2016
OPERATING ACTIVITIES		
Net income and comprehensive income	\$ 12,647,895	\$ 10,195,420
Reconciliation of net income to cash from operating activities		
Net finance costs including fair market value of interest rate swap	3,619,464	4,125,108
Depreciation	8,187,878	7,542,789
Recognition of deferred revenue for capital contributions	(3,204,937)	(3,074,549)
Gain on disposal of property, plant and equipment	(65,568)	(25,454)
Net subsidiary operations	1,058,719	447,787
	<u>22,243,451</u>	<u>19,211,101</u>
Changes in non-cash working capital		
Accounts receivable and bad debts	(1,228,281)	(2,599,027)
Inventory	(313,576)	(184,442)
Accounts payable and accrued liabilities	(91,933)	(3,276,273)
Customer deposits	246,215	153,937
Deferred revenue	129,926	(23,859)
Provisions - current	69,693	(315,707)
	<u>(1,187,956)</u>	<u>(6,245,371)</u>
Net cash flows from operating activities	<u>21,055,495</u>	<u>12,965,730</u>
INVESTING ACTIVITIES		
Property, plant and equipment purchases	(7,001,021)	(11,107,355)
Developer contributed assets	(3,221,899)	(9,060,992)
Construction in progress	(6,781,494)	(6,218,393)
Proceeds on disposal of property, plant and equipment	65,568	25,454
Loan to subsidiary	(2,556,296)	(217,418)
Capital contributions	5,906,784	14,109,053
Interest earned	1,443,805	1,507,267
Investment purchases	(9,011,794)	(18,784,957)
Maturity of investments	3,837,145	16,637,093
	<u>(17,319,202)</u>	<u>(13,110,248)</u>
Net cash used in investing activities	<u>(17,319,202)</u>	<u>(13,110,248)</u>
FINANCING ACTIVITIES		
Infrastructure charges collected	4,759,586	3,783,087
Infrastructure charges expended	(2,707,414)	(2,843,113)
Proceeds from callable debt financing	-	13,000,000
Repayment of callable debt	(3,568,661)	(2,793,229)
Change in non-current provisions	(350,751)	1,403,004
Issuance of shares	1,570,427	150,001
Dividends paid on preferred shares	(3,667,107)	(3,667,107)
Interest expense and bad debts	(2,252,351)	(2,123,167)
	<u>(6,216,271)</u>	<u>6,909,476</u>
Net cash flows from financing activities	<u>(6,216,271)</u>	<u>6,909,476</u>
Net cash increase (decrease) in cash and cash equivalents	<u>(2,479,978)</u>	<u>6,764,958</u>
Cash and cash equivalents at beginning of year	<u>23,687,897</u>	<u>16,922,939</u>
Cash and cash equivalents at end of year	<u>\$ 21,207,919</u>	<u>\$ 23,687,897</u>
Cash and cash equivalents consist of the following:		
Cash in banks and short-term guaranteed investment certificates	<u>\$ 21,207,919</u>	<u>\$ 23,687,897</u>

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Notes to Non-Consolidated Financial Statements

Year Ended December 31, 2017

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 has a wholly owned subsidiary, 25 By 20 Holdings Inc., which operates as a holding company for its own subsidiaries. 25 By 20 Holdings Inc. has a 100% interest in Sustainable Water Solutions Inc. (*formerly Watchorn Rentals Ltd.*), a water and wastewater treatment business, operating in Fairview, Alberta.

On December 1, 2017, 25 By 20 Holdings Inc. acquired a 100% interest in Advanced Trenchless Inc., a pipe relining business for industrial, municipal and commercial sectors, operating in Edmonton, Alberta.

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 non-consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These non-consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 20, 2017.

(b) Basis of measurement

The company’s non-consolidated 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 and the CIBC credit swap which is valued at fair value. Revenue and expenses are recognized in the period in which the transactions or events occurred that gave rise to the revenue and expenses and when 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 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 non-consolidated financial statements are presented in Canadian dollars, which is the company’s functional currency.

Aquatera Utilities Inc.

Notes to Non-Consolidated Financial Statements

Year Ended December 31, 2017

2. BASIS OF PRESENTATION (continued)

(e) Use of estimates and judgments

The preparation of the non-consolidated 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.

Significant estimates made by the company include the allowance for doubtful accounts, the useful life of property, plant and equipment, the provision for landfill closure and post-closure, any impairment losses on financial or non-financial assets and the fair value of interest rate swaps.

(f) Separate financial statements

The company has elected to prepare these separate non-consolidated financial statements as its only financial statements in accordance with IFRS 10.4(a) and are, thus, non-consolidated. The shareholders of the company prepare their financial statements in accordance with Canadian Public Sector Accounting Standards and account for their investments in the company on the modified equity basis in accordance with those standards. Their financial statements are available as follows:

City of Grande Prairie – www.cityofgp.com

County of Grande Prairie No. 1 – www.countygp.ab.ca

Town of Sexsmith – www.sexsmith.ca

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these non-consolidated 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 Inc., 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. Cumulative losses in excess of the company's investment in shares are applied to the loan receivable from the subsidiary. Intercorporate transactions and balances are not eliminated.

Aquatera Utilities Inc.

Notes to Non-Consolidated Financial Statements

Year Ended December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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	3 – 40 years
Equipment under finance lease	5 – 15 years
Vehicles and mobile equipment	5 – 15 years

Aquatera Utilities Inc.

Notes to Non-Consolidated Financial Statements

Year Ended December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

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.

(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 assets are not recognized in the statement of financial position.

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.

(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.

Aquatera Utilities Inc.

Notes to Non-Consolidated Financial Statements

Year Ended December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment (continued)

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.

Non-financial assets

The carrying amounts of the company's non-financial assets consisting of property, plant and equipment, inventory and its investment in 25 By 20 Holdings Inc. 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.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

Other long-term liabilities

Other long-term liabilities consist of contractor financing agreements payable for long-term construction projects not payable within the next fiscal year.

(j) Loans and borrowings

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

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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, changes in the fair market value of interest rate swap agreements, 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 long as it is municipally-owned and the revenue earned outside its geographical boundaries from non-municipal customers does not exceed 10% of net income before dividends.

The company's subsidiary, 25 By 20 Holdings Inc. and its subsidiaries, Sustainable Water Solutions Inc. (*formerly Watchorn Rentals Ltd.*) and Advanced Trenchless Inc. are subject to taxation on any taxable income each year, which is paid by each respective corporation.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 President of the Alberta Treasury Board and the Minister of Finance are the legal trustees and administrators of the Plan, which is governed 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.

(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.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 with the exception of the interest swap agreement as disclosed in Note 14.

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.

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, other long-term liabilities and preferred shares.

(p) Derivative financial instruments

The company recognizes interest rate swap agreements at fair market value in callable debt, to the extent that they have not been settled, with all changes in the fair value recorded in net income.

Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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.

(r) 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.

(s) New standards and interpretations not yet adopted

The company is currently assessing the impact of adopting the following applicable standards on the non-consolidated financial statements.

IFRS 9 financial instruments

The new standard issued in 2014 supersedes all previous versions. The standard amended classification of financial assets from a principle-based approach to a rules-based approach. It requires a single impairment model to be applied to all financial instruments, including the concept of expected loss that will require more timely recognition of impairment losses. The new standard is currently effective for financial years beginning on or after January 1, 2018. This change is not expected to have an impact on the company.

IFRS 15 revenue from contracts with customers

The new standard issued in 2015 supersedes all previous versions. The standard outlines a single comprehensive model for revenue recognition which reflects the terms of contracts for goods and services provided to customers as well as the expected consideration of those contracts. The new standard is currently effective for financial years beginning on or after January 1, 2018. This change is not expected to have an impact on the company.

IFRS 16 leases

The new standard issues in 2016 supersedes all previous versions. The standard effectively requires all leases, both operating and capital to be recorded as liabilities on the balance sheet. The new standard is currently effective for financial years beginning on or after January 1, 2019. At this time, the impact of this change to the company is still being determined.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

4. CASH

Cash consists of:

	2017	2016
Cash on hand	\$ 5,127	\$ 4,600
Cash in banks	21,202,792	23,683,297
Total cash	\$ 21,207,919	\$ 23,687,897

Cash in banks bears interest at 0.9% per annum.

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

	2017	2016
Dividends payable	\$ 3,799,616	\$ 3,667,107
Capital accounts payable	1,718,253	1,672,132
Other long-term liabilities - current	175,376	105,683
Trust liabilities		
Customer deposits	2,178,369	1,932,154
Deferred revenue	185,423	55,497
Deferred infrastructure charges	29,854,063	27,801,891
Working capital cash requirement (excess)	7,061,528	6,645,800
Internally restricted funds		
Capital expenditure funds	10,166,414	8,957,168
Business development funds	15,182,858	16,789,798
Total allocated cash	\$ 70,321,900	\$ 67,627,230

Held as follows:

Cash and cash equivalents	\$ 21,207,919	\$ 23,687,897
Investments maturing in one year	17,377,571	6,307,145
Long-term investments	31,736,410	37,632,188
	\$ 70,321,900	\$ 67,627,230

5. ACCOUNTS RECEIVABLE

	2017	2016
Trade receivables	\$ 4,597,867	\$ 4,549,164
Estimated unbilled accrual	2,066,001	1,781,494
Grants receivable	1,278,222	3,391,785
Accrued investment earnings	2,860,781	2,177,496
GST receivable	227,528	36,944
Other receivables	153,555	385,077
	11,183,954	12,321,960
Allowance for doubtful accounts	(86,000)	(83,000)
	\$ 11,097,954	\$ 12,238,960

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

6. INVENTORY

In 2017, inventory consumables recognized as materials, goods and supplies expense amounted to \$1,967,229 (2016 - \$2,449,326). In 2017, the write-down of inventories to net realizable value amounted to \$NIL (2016 - \$NIL).

7. LONG-TERM INVESTMENTS

	2017	2016
Investments	\$ 49,113,980	\$ 43,939,333
Investments maturing in one year	(17,377,571)	(6,307,145)
	\$ 31,736,410	\$ 37,632,188

Long-term investments consist of held-to-maturity fixed income investments, bear interest at rates between 1.1% and 4.1% and mature between March, 2018 and August, 2023.

8. DUE FROM SUBSIDIARY

	2017	2016
Loan	\$ 3,335,000	\$ 3,335,000
Advances	3,418,436	862,139
Cumulative investment losses applied (<i>Note 9</i>)	(1,696,183)	(637,464)
Balance at December 31, 2017	\$ 5,057,253	\$ 3,559,675

Loan to the company's subsidiary, 25 By 20 Holdings Inc., is unsecured, bears interest at 10% per annum 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 holds 100% of the voting share capital of 25 By 20 Holdings Inc., which was incorporated under the Alberta Business Corporations Act on December 19, 2013 and operates as a holding company for its own subsidiaries. 25 By 20 Holdings Inc. operates in Canada with its registered office located at 11101 – 104 Avenue, Grande Prairie, Alberta, Canada, T8V 8H6.

On January 2, 2014, 25 By 20 Holdings Inc. purchased a 90% interest in Sustainable Water Solutions Inc. (*formerly Watchorn Rentals Ltd.*), a privately-owned company incorporated under the Alberta Business Corporations Act, which operates a water and wastewater treatment business in Fairview, Alberta for \$1,968,469. Management intends to operate Sustainable Water Solutions Inc. as a subsidiary for the long-term. On June 19, 2017, 25 By 20 Holdings Inc. purchased the remaining 10% interest for \$117,000 and subsequently wrote down its investment to \$1,170,000.

On December 1, 2017, 25 By 20 Holdings Inc. purchased a 100% interest in Advanced Trenchless Inc., a privately-owned company incorporated under the Alberta Business Corporations Act, which operates a pipe relining business for industrial, municipal and commercial sectors in Edmonton, Alberta for \$1,578,497. Management intends to operate Advanced Trenchless Inc. as a subsidiary for the long-term.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

9. INVESTMENT IN SUBSIDIARY (continued)

25 By 20 Holdings Inc. records its investment in subsidiaries using the equity method, to match the accounting policy of the company.

	2017	2016
100 Class A common shares	\$ 100	\$ 100
Cumulative share of earnings (losses)	(1,696,183)	(637,464)
Cumulative losses applied to loan receivable from subsidiary (Note 8)	1,696,183	637,464
	<u>\$ 100</u>	<u>\$ 100</u>

The following is condensed financial information of 25 By 20 Holdings Inc. for the year ended December 31, 2017:

Results of financial performance

	2017	2016
Revenue	\$ 144,248	\$ 121,422
Expenses	(130,766)	(143,179)
Interest income – Sustainable Water Solutions Inc.	142,597	124,229
Interest expense – Aquatera Utilities Inc.	(176,982)	(373,971)
Write-down of investment in Sustainable Water Solutions Inc.	(999,560)	-
Net subsidiaries operations	(38,256)	(176,288)
Net income (loss)	<u>\$ (1,058,719)</u>	<u>\$ (447,787)</u>

Financial position

	2017	2016
ASSETS		
Current assets	\$ 427,770	\$ 266,885
Due from subsidiaries	2,245,821	1,416,572
Investment in subsidiaries (equity method)	2,710,241	2,052,560
	<u>\$ 5,383,832</u>	<u>\$ 3,736,017</u>
LIABILITIES		
Current liabilities	\$ 326,479	\$ 164,241
Due to Aquatera Utilities Inc.	6,753,436	4,209,140
	<u>7,079,915</u>	<u>4,373,381</u>
SHAREHOLDER'S DEFICIENCY		
Share capital	100	100
Retained earnings (deficit)	(1,696,183)	(637,464)
	<u>(1,696,083)</u>	<u>(637,364)</u>
	<u>\$ 5,383,832</u>	<u>\$ 3,736,017</u>

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

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, 2016	\$2,144,867	\$84,339,199	\$2,443,910	\$173,579,063	\$45,890,399	\$5,841,734	\$10,039,240	\$324,278,413
Additions	-	-	-	11,574,410	5,555,730	1,105,794	11,923,327	30,159,261
Disposals	-	-	-	-	-	(74,850)	-	(74,850)
Transfers to assets available for use	-	-	-	-	-	-	(13,154,847)	(13,154,847)
Balance at December 31, 2017	2,144,867	84,339,199	2,443,910	185,153,473	51,446,129	6,872,679	8,807,720	341,207,977
Accumulated depreciation								
Balance at December 31, 2016	-	(7,909,134)	(1,096,320)	(13,150,668)	(8,131,565)	(2,987,495)	-	(33,275,182)
Depreciation	-	(2,104,302)	(245,022)	(2,766,244)	(2,104,136)	(968,174)	-	(8,187,878)
Disposals	-	-	-	-	-	74,850	-	74,850
Balance at December 31, 2017	-	(10,013,436)	(1,341,342)	(15,916,912)	(10,235,701)	(3,880,819)	-	(41,388,210)
Carrying amounts								
At December 31, 2016	2,144,867	76,430,065	1,347,590	160,428,395	37,758,834	2,854,239	10,039,240	291,003,231
At December 31, 2017	\$2,144,867	\$74,325,763	\$1,102,568	\$169,236,561	\$41,210,428	\$2,991,860	\$8,807,720	\$299,819,767

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Borrowing costs capitalized during the year ended December 31, 2017 were \$NIL (2016 - \$NIL). To date, there has been no other borrowing on projects included in construction in progress.

There are no restrictions on assets.

Impairments

During the year ended December 31, 2017, the company performed a detailed analysis of existing property, plant and equipment and no impairments were found.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2017</u>	<u>2016</u>
Trade payables	\$ 2,189,243	\$ 2,030,420
Capital payables	1,718,253	1,672,132
Accrued employee benefits	856,128	1,153,006
	<u>\$ 4,763,624</u>	<u>\$ 4,885,558</u>

12. DEFERRED REVENUE AND DEFERRED REVENUE OF CAPITAL CONTRIBUTIONS

	<u>Current Deferrals</u>	<u>Developer Contributions</u>	<u>Government Grants and Infrastructure Charges</u>	<u>Total Long-term Deferred Revenue</u>
Balance at the beginning of year	\$ 55,497	\$ 57,314,812	\$ 90,821,954	\$ 148,136,766
Contributions received	191,851	3,221,899	2,684,885	5,906,784
Revenue recognized	(61,925)	(785,678)	(2,419,259)	(3,204,937)
Balance at December 31, 2017	185,423	59,751,033	91,087,580	150,838,613
Current	\$ 185,423	-	-	-
Non-current	-	\$ 59,751,033	\$ 91,087,050	\$ 150,838,613

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

13. PROVISIONS

	Sewer Trunk Oversizing Obligation	Landfill Closure and Post-Closure Liability	Other Long- Term Liabilities	Total
Balance at the beginning of year	\$ 105,683	\$ 5,463,159	\$ 1,403,004	\$ 6,971,846
Provisions made during the year	-	-	-	-
Provisions used during the year	(105,683)	-	(175,376)	(281,059)
Accretion of liability	-	245,843	-	245,843
Balance at December 31, 2017	-	5,709,002	1,227,628	6,936,630
Current	\$ -	\$ -	\$ 175,376	\$ 175,376
Non-current	\$ -	\$ 5,709,002	\$ 1,052,252	\$ 6,761,254

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 estimates the discounted amount of cash flow required to settle its decommissioning liability is approximately \$5,709,002 (2016 – \$5,463,159), calculated using inflation rates of 2.00% and a long-term discount rate of 4.50%.

The majority of closure costs are related to phase 1 and 2 of the landfill and are expected to occur in approximately 6 to 8 years dependent upon future usage rates. Annual post-closure costs are expected to extend 25 years beyond closure of the landfill in accordance with Alberta Environment regulations. The expected capacity remaining is 520,273 (2016 – 591,656) metric tonnes remaining with an annual estimated utilization of 72,332 metric tonnes. The current year liability and 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 30 years once all cells are completed.

Other long-term liabilities

The company has entered into a contractor financing agreement on a long-term construction project. Once the project is completed and its holdback is realized, the company will be required pay the balance of the liability in eight equal instalments on the anniversary of the holdback each year for eight years. The relevant holdback was released during the year and payments commenced on November 25, 2017.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

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.

	<u>2017</u>	<u>2016</u>
Due to the Town of Sexsmith	\$ 90,133	\$ 131,558
Due to the Federation of Canadian Municipalities	4,500,000	5,000,000
Due to RBC Royal Bank	17,909,197	19,336,433
Due to CIBC	44,800,000	46,400,000
Fair value adjustment of interest rate swap	611,392	1,845,931
	<u>67,910,722</u>	<u>72,713,922</u>
Loans and borrowings due in one year	<u>(4,531,745)</u>	<u>(4,195,154)</u>
	<u>\$ 63,378,977</u>	<u>\$ 68,518,768</u>

Due to the Town of Sexsmith

An 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.

Due to the Federation of Canadian Municipalities

A loan from the Federation of Canadian Municipalities is secured by a general security agreement and is repayable in semi-annual payments of \$250,000 plus interest at a rate of 3.75% per annum and matures in 2026. The Federation of Canadian Municipalities has agreed to subordinate its loan to the company's credit facilities with RBC Royal Bank and CIBC.

Bank loans

Bank loans from RBC Royal Bank are secured by a general security agreement and are repayable in monthly payments aggregating \$165,092 including interest at the bank prime rate of 2.70% per annum and mature in 2018, 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 repayable in monthly payments aggregating \$200,000 plus interest. \$28.8 million of the loans bear interest at CIBC prime rate subject to an interest rate swap agreement which exchanges the loan's floating rate for a fixed rate of 3.86% and expires December 31, 2024. The remaining \$16.0 million of the loan bears interest at the 30 day bankers' acceptance rate plus a 1.25% stamping fee.

As a condition of bank and Federation of Canadian Municipalities 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 0.35 to 1 (2016 – 0.40 to 1) and the fixed charge ratio is calculated at 2.59 to 1 (2016 – 1.98 to 1).

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

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

14. CALLABLE DEBT (continued)

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

Less than one year	\$ 4,531,745
Between one and five years	17,950,099
More than five years	45,428,878
	<u>\$ 67,910,722</u>

Fair value adjustment of interest rate swap

The company has recognized the effect of an interest rate swap agreement at fair market value, determined by the net present value of future cash flows of the difference between the agreed upon interest rate and current prevailing interest rates available to the company. The agreement settles December 31, 2024 and the amount will be adjusted each year based on current market interest rates at net present value and the effect recorded in profit and loss.

Credit facilities

The company has available bank credit facilities from RBC Royal Bank in the amount of \$1,200,000, all of which is unused at December 31, 2017 (December 31, 2016 - \$1,200,000 unused). 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 CIBC consisting of revolving demand facilities limited to \$2,000,000, all of which is unused at December 31, 2017 (December 31, 2016 - \$2,000,000 unused).

15. DEFERRED INFRASTRUCTURE CHARGES

	2017	2016
Balance at the beginning of year	\$ 27,801,891	\$ 26,861,917
Contributions received	4,759,586	3,783,087
Transfer to deferred revenue	(2,707,414)	(2,843,113)
Balance at the end of the year	\$ 29,854,063	\$ 27,801,891

16. STOCK DIVIDEND PAID

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 occurred December 31, 2017. The Class C common and Class H preferred shares issued on that date as follows:

	2017	2016
City of Grande Prairie		
30,337 Class C common and Class H preferred shares	\$ 30,337,371	\$ -
County of Grande Prairie No. 1		
7,447 Class C common and Class H preferred shares	7,446,714	-
Town of Sexsmith		
3,341 Class C common and Class H preferred shares	3,340,717	-
	<u>\$ 41,124,802</u>	<u>\$ -</u>

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

17. 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

The following common and preferred shares have been issued:

Common shares

	2017	2016
50,475 Class A shares (2016 - 48,905)	\$ 505	\$ 489
63,262 Class C shares (2016 - 22,137)	632	221
	<u>\$ 1,137</u>	<u>\$ 710</u>

Preferred shares

	2017	2016
48,008 Class D shares (2016 - 48,008)	\$ 48,006,836	\$ 48,006,836
2,453 Class F shares (2016 - 883)	2,453,266	883,266
72,768 Class H shares (2016 - 31,643)	72,766,602	31,641,800
	<u>\$ 123,226,704</u>	<u>\$ 80,531,902</u>

During the year, 1,570 Class A common shares and 1,570 Class F preferred shares were issued for \$16 and \$1,570,000 pursuant to asset transfers as disclosed in Note 18. 41,125 Class C common shares and 41,125 Class H preferred shares were issued for \$411 and \$41,124,802 pursuant to a stock dividend paid in the year as disclosed in Note 16.

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.

There is a dividend restriction on preferred shares issued in consideration for an asset transfer into the company such that dividends cannot be declared on these shares for two years from the date of any such asset transfer.

18. ASSET TRANSFER

On December 31, 2017, the City of Grande Prairie transferred water and sewer operations related to downtown infrastructure valued at \$1,570,000 to Aquatera Utilities Inc. in exchange for 1,570 Class A common and Class F preferred shares.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

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 2018 to the shareholders as follows:

City of Grande Prairie	\$ 1,808,050
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	\$ 185,797
Between one and five years	575,087
	<u>\$ 760,884</u>

20. OTHER REVENUE

	2017	2016
Service connections	\$ 51,452	\$ 206,600
Operator assistance	747,070	848,736
Infrastructure charge - engineering fees	269,320	223,140
Distribution and collection commercial services	723,989	690,103
Customer shut-off fees	252,933	265,427
Landfill gas sales and grants	308,233	97,896
Miscellaneous revenue and sales	284,754	192,730
	<u>\$ 2,637,751</u>	<u>\$2,524,632</u>

Some of the comparative figures have been reclassified to conform to the current year's presentation.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

21. EMPLOYEE BENEFITS

	<u>2017</u>	<u>2016</u>
Short-term benefits	\$ 13,281,408	\$ 13,918,819
Post-employment benefits	1,305,987	1,518,708
Termination benefits	348,465	908,727
Total employee benefits	\$ 14,935,860	\$ 16,060,211

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 253,862 people and 417 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 contribution to the LAPP of 11.39% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 15.84% on the excess.

Employees of the company are required to make current service contributions to the Plan of 10.39% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 14.84% on the excess.

Total current and past service contributions by the company to the LAPP in 2017 were \$1,235,165 (2016 - \$1,269,478). Total and past service contributions by the employees of the company to the LAPP in 2017 were \$1,139,153 (2016 - \$1,170,389).

At December 31, 2016, the Plan disclosed an actuarial deficiency of \$637 million (2015 - \$923 million).

LAPP has announced that member contribution rates will decrease by 1% in 2018

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

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 3.78% of pensionable payroll above the LAPP maximum pensionable earnings up to the year's maximum pensionable earnings of \$145,722 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 APEX are required to make current service contributions of 2.84% of pensionable payroll service above the APEX maximum pensionable earnings up to the year's maximum pensionable earnings of \$145,722 with no contributions on earnings above the maximum threshold.

Total current and past service contributions made by the company to APEX in 2017 were \$70,818 (2016 - \$60,110). Total current and past service contributions by the employees of the company to APEX in 2017 were \$53,207 (2016 - \$50,092).

At December 31, 2016, the APEX disclosed an actuarial deficiency of \$2,269,192 (2015 - surplus \$677,018).

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.

22. FINANCE INCOME AND FINANCE COSTS

	<u>2017</u>	<u>2016</u>
Interest income	<u>\$ (1,443,806)</u>	<u>\$ (1,507,267)</u>
Finance income	(1,443,806)	(1,507,267)
Interest expense	2,219,901	2,038,828
Fair value adjustment of interest rate swap (<i>Note 14</i>)	(1,234,539)	(393,154)
Accretion of provision	245,842	235,255
Dividends on preferred shares	3,799,616	3,667,107
Bad debts	32,450	84,339
Finance costs	5,063,270	5,632,375
Net finance costs recognized in net income	\$ 3,619,464	\$ 4,125,108

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

23. RELATED PARTY TRANSACTIONS

Transactions with related parties

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

	2017	2016
City of Grande Prairie (the majority shareholder)		
Sale of services	\$ 760,187	\$ 891,436
General, administrative and contracted services expense	1,872,228	90,602
Franchise fees expense	3,215,055	3,183,884
Special dividends declared	1,074,565	1,107,892
Regular dividends declared	1,808,050	1,608,050
Common shares issued	319	-
Preferred shares issued	31,907,371	-
	2017	2016
City of Grande Prairie (the majority shareholder)		
Trade receivables	\$ 189,125	\$ 3,283
Dividends payable	2,882,615	2,715,942
	2017	2016
County of Grande Prairie No. 1 (a minority shareholder)		
Sale of services	\$ 188,938	\$ 90,262
General, administrative and contracted services expense	271,436	262,073
Franchise fees expense	377,801	329,652
Special dividends declared	229,477	253,080
Regular dividends declared	398,100	398,100
Common shares issued	75	-
Preferred shares issued	7,446,714	-
	2017	2016
County of Grande Prairie No. 1 (a minority shareholder)		
Trade receivables	\$ 630	-
Trade payables	-	\$ 29,439
Dividends payable	627,577	651,180

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

23. RELATED PARTY TRANSACTIONS (continued)

	<u>2017</u>	<u>2016</u>
Town of Sexsmith (a minority shareholder)		
Sale of services	\$ 11,425	\$ 28,621
General, administrative and contracted services expense	207,231	176,684
Franchise fees expense	85,056	80,882
Interest expense	7,565	9,817
Special dividends declared	102,674	113,235
Regular dividends declared	186,750	186,750
Common shares issued	33	1
Preferred shares issued	3,340,717	150,000

	<u>2017</u>	<u>2016</u>
Town of Sexsmith (a minority shareholder)		
Trade receivables	\$ 301	\$ 189
Dividends payable	289,424	299,985

	<u>2017</u>	<u>2016</u>
25 By 20 Holdings Inc. (a 100% subsidiary)		
Interest revenue	\$ 175,669	\$ 373,971

Sustainable Water Solutions Inc. (formerly Watchorn Rentals Ltd., a 100% subsidiary of 25 By 20 Holdings Inc.)

No transactions occurred directly between Aquatera Utilities Inc. and Sustainable Water Solutions Inc.

Advanced Trenchless Inc. (a 100% subsidiary of 25 By 20 Holdings Inc.)

No transactions occurred directly between Aquatera Utilities Inc. and Advanced Trenchless Inc.

Transactions with key management personnel

Key management personnel compensation is comprised of:

	<u>2017</u>	<u>2016</u>
Short-term benefits	\$ 1,009,506	\$ 793,217
Post-employment and termination benefits	141,754	194,686
	<u>\$ 1,151,260</u>	<u>\$ 987,903</u>

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.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

24. SEGMENT DISCLOSURES

	Water	Wastewater	Solid Waste	2017
Revenue				
Sale of services	\$ 19,168,167	\$ 18,915,849	\$ 12,782,874	\$ 50,866,890
Franchise fee revenue	1,470,691	1,721,548	513,465	3,705,704
Penalties	86,764	83,808	37,260	207,862
Other	1,051,615	1,096,926	489,210	2,637,751
	<u>21,777,267</u>	<u>21,818,131</u>	<u>13,822,809</u>	<u>57,418,207</u>
Expenses				
Salaries, wages and benefits	6,175,525	5,552,192	3,208,143	14,935,860
General, administrative and contracted services	2,963,575	3,556,143	5,028,643	11,548,361
Utilities	908,771	730,886	54,836	1,694,493
Major maintenance	355,832	17,331	30,931	404,094
Materials, goods and supplies	1,839,633	584,433	462,178	2,886,244
Depreciation	2,759,568	4,296,465	1,131,845	8,187,878
Franchise fees	1,470,691	1,721,548	513,465	3,705,704
	<u>16,473,595</u>	<u>16,458,998</u>	<u>10,430,041</u>	<u>43,362,634</u>
Other items				
Recognition of deferred revenue for capital contributions	1,287,238	1,909,085	8,614	3,204,937
Net finance costs excluding dividends	68,458	68,458	43,236	180,152
Gain on disposal of property, plant and equipment	32,784	32,784	-	65,568
	<u>1,388,480</u>	<u>2,010,327</u>	<u>51,850</u>	<u>3,450,657</u>
	<u>\$ 6,692,152</u>	<u>\$ 7,369,460</u>	<u>\$ 3,444,618</u>	<u>17,506,230</u>
Net subsidiary operations – 25 By 20 Holdings Inc.				(1,058,719)
Dividends				(3,799,616)
Net income				<u>\$ 12,647,895</u>

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

24. SEGMENT DISCLOSURE (continued)

	Water	Wastewater	Solid Waste	2016
Revenue				
Sale of services	\$ 17,380,196	\$ 17,553,679	\$ 12,755,637	\$ 47,689,512
Franchise fee revenue	1,407,637	1,619,374	578,794	3,605,805
Penalties	87,095	84,686	39,162	210,943
Other	1,052,126	1,041,359	431,147	2,524,632
	<u>19,927,054</u>	<u>20,299,098</u>	<u>13,804,740</u>	<u>54,030,892</u>
Expenses				
Salaries, wages and benefits	6,563,854	6,083,955	3,412,402	16,060,211
General, administrative and contracted services	2,563,211	3,146,494	4,775,368	10,485,073
Utilities	902,045	629,187	63,514	1,594,746
Major maintenance	241,577	10,585	-	252,162
Materials, goods and supplies	1,498,386	817,224	506,184	2,821,794
Depreciation	2,569,139	3,873,714	1,099,936	7,542,789
Franchise fees	1,407,637	1,619,374	578,794	3,605,805
	<u>15,745,849</u>	<u>16,180,533</u>	<u>10,436,198</u>	<u>42,362,580</u>
Other items				
Recognition of deferred revenue for capital contributions	1,231,191	1,834,744	8,614	3,074,549
Net finance costs excluding dividends	(174,040)	(174,040)	(109,921)	(458,001)
Gain on disposal of property, plant and equipment	12,727	12,727	-	25,454
	<u>1,069,878</u>	<u>1,673,431</u>	<u>(101,307)</u>	<u>2,642,002</u>
	<u>\$ 5,251,083</u>	<u>\$ 5,791,996</u>	<u>\$ 3,267,235</u>	<u>14,310,314</u>
Net subsidiary operations – 25 By 20 Holdings Inc.				(447,787)
Dividends				(3,667,107)
Net income				<u>\$ 10,195,420</u>

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

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 (fair value)	Held to Maturity (amortized cost)	Loans and Receivables (amortized cost)	Other Financial Liabilities (amortized cost)	Financial Liabilities (fair value)	Total Carrying Amount	Fair Value
December 31, 2017							
Financial assets							
Cash	\$ -	\$ 21,207,919	\$ -	\$ -	\$ -	\$ 21,207,919	\$ 21,207,919
Trade and other receivables	-	-	11,097,954	-	-	11,097,954	11,097,954
Investments	-	49,113,981	-	-	-	49,113,981	52,203,875
Due from subsidiary	-	-	5,057,253	-	-	5,057,253	5,057,253
Financial liabilities							
Trade and other payables	-	-	-	4,763,624	-	4,763,624	4,763,624
Dividends payable	-	-	-	3,799,616	-	3,799,616	3,799,616
Bank loans	-	-	-	63,320,589	-	63,320,589	63,320,589
Sewer trunk oversizing payable	-	-	-	-	-	-	-
Other long-term liability	-	-	-	1,227,628	-	1,227,629	1,227,629
Sexsmith loan	-	-	-	90,133	-	90,133	90,133
Federation of Canadian Municipalities loan	-	-	-	4,500,000	-	4,500,000	4,500,000
Preferred shares	-	-	-	123,226,704	-	123,226,704	123,226,704
December 31, 2016							
Financial assets							
Cash	\$ -	\$ 23,687,897	\$ -	\$ -	\$ -	\$ 23,687,897	\$ 23,687,897
Trade and other receivables	-	-	12,238,960	-	-	12,238,960	12,238,960
Investments	-	43,939,333	-	-	-	43,939,333	44,336,806
Due from subsidiary	-	-	3,559,675	-	-	3,559,675	3,559,675
Financial liabilities							
Trade and other payables	-	-	-	4,855,558	-	4,855,558	4,855,558
Dividends payable	-	-	-	3,667,107	-	3,667,107	3,667,107
Bank loans	-	-	-	67,582,364	-	67,582,364	67,582,364
Sewer trunk oversizing payable	-	-	-	105,683	-	105,683	105,683
Other long-term liability	-	-	-	1,403,004	-	1,403,004	1,403,004
Sexsmith loans	-	-	-	131,558	-	131,558	131,558
Federation of Canadian Municipalities loan	-	-	-	5,000,000	-	5,000,000	5,000,000
Preferred shares	-	-	-	80,531,902	-	80,531,902	80,531,902

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

25. FINANCIAL INSTRUMENTS (continued)

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.

The fair value of term loans and borrowings 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 the interest swap agreement is valued by the CIBC to represent the present value of all future swap settlements.

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 F and Class H preferred shares are 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 holds an interest swap agreement with CIBC valued at fair market value at December 31, 2017.

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.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

25. FINANCIAL INSTRUMENTS (continued)

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.

	2017	2016
Trade receivables	\$ 4,597,867	\$ 4,549,164
Estimated unbilled accrual	2,066,001	1,781,494
Grants receivable	1,278,222	3,391,785
Accrued investment earnings	2,860,781	2,177,496
GST receivable	227,528	36,944
Other receivables	153,555	385,077
	11,183,954	12,321,960
Allowance for doubtful accounts	(86,000)	(83,000)
	\$ 11,097,954	\$ 12,238,960

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 \$1,092,402 that is past due as at December 31, 2017 (2016 - \$647,068).

At December 31, 2017, 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 receivables and the related impairment allowances are provided in the following table:

	December 31, 2017	Gross Impairment Allowance December 31, 2017	December 31, 2016	Gross Impairment Allowance December 31, 2016
Not past due	\$ 3,505,465	\$ -	\$ 3,902,096	\$ -
Past due 0-30 days	751,114	-	474,979	-
Past due 31-90 days	242,463	(43,000)	135,188	(46,099)
More than 91 days	98,825	(43,000)	36,901	(36,901)
	\$ 4,597,867	\$ (86,000)	\$ 4,549,164	\$ (83,000)

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

25. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

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

	2017	2016
Balance at the beginning of year	\$ 83,000	\$ 60,000
Impairment losses recognized	40,243	84,642
Amounts written off as uncollectable	(40,243)	(84,642)
Increase in allowance	3,000	23,000
	\$ 86,000	\$ 83,000

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.

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, 2017						
Accounts payable and accrued liabilities	\$ 4,763,624	\$ 4,763,624	\$ 4,763,624	\$ -	\$ -	-
Dividends payable	3,799,616	3,799,616	3,799,616	-	-	-
Loans and borrowings	67,910,722	67,299,330	4,531,745	8,928,146	9,021,953	44,817,486
Other long-term liabilities	1,227,628	1,227,628	175,376	350,752	350,752	350,748
Preferred shares	123,226,704	123,226,704	-	-	-	123,226,704
	\$ 200,928,294	\$ 200,316,902	\$ 13,270,361	\$ 9,278,898	\$ 9,372,705	\$ 168,394,938
December 31, 2016						
Accounts payable and accrued liabilities	\$ 4,855,558	\$ 4,855,558	\$ 4,855,558	\$ -	\$ -	-
Dividends payable	3,667,107	3,667,107	3,667,107	-	-	-
Loans and borrowings	72,713,922	70,867,991	4,195,154	8,547,946	8,668,212	49,456,679
Sewer trunk oversizing payable	105,683	105,683	105,683	-	-	-
Other long-term liabilities	1,403,004	1,403,004	-	350,751	350,751	701,502
Preferred shares	80,531,902	80,531,902	-	-	-	80,531,902
	\$ 163,277,176	\$ 161,431,244	\$ 12,823,502	\$ 8,898,697	\$ 9,018,963	\$ 130,690,083

It is not expected that the cash flows included in the maturity analysis will occur significantly earlier, or at significantly different amounts.

Aquatera Utilities Inc.

Notes to Financial Statements

Year Ended December 31, 2017

25. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

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 14. 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.

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 2018 totals \$50 million and the projection in five years is \$153 million. This will be funded through additional debt of \$38 million, \$22 million in contributions, \$31 million in cash, \$18 million in grants and use of infrastructure charges of \$44 million. Capital costs are based on engineering estimates developed in Master Plans and are refined as further design work occurs.

27. PRIOR YEAR COMPARATIVES

Some of the comparative figures have been regrouped to conform to the current year's presentation.