Aquatera Utilities Inc.

Non-Consolidated Financial Statements

December 31, 2014

Aquatera Utilities Inc.
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FLETCHER MUDRYK & CO. LLP
CHARTERED ACCOUNTANTS

400 Windsor Court
9835-101 Avenue
Grande Prairie, Alberta
T8V 5V4

Phone: (780) 539-4110
Fax: (780) 532-1350
Email: info@fletchermudryk.com

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 statement of financial position as at December 31, 2014 and the non-consolidated 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 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, 2014 and the results of its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Fletcher Mudryk & Co.

Grande Prairie, Alberta
March 17, 2015

Chartered Accountants

Aquatera Utilities Inc.

Non-Consolidated Statement of Income and Comprehensive Income

Year Ended December 31, 2014

	2014	2013
REVENUE		
Sale of services	**$ 44,670,184**	$ 39,239,376
Franchise fee revenue	**3,278,237**	2,944,047
Penalties	**168,375**	155,469
Other *(Note 21)*	**2,410,257**	1,776,400
	50,527,053	44,115,292
EXPENSES		
Salaries, wages and benefits *(Note 22)*	**14,298,643**	13,162,472
General, administrative and contracted services	**10,048,052**	9,386,641
Utilities	**2,576,427**	2,659,790
Major maintenance	**280,370**	496,663
Materials, goods and supplies	**3,279,225**	3,419,003
Amortization	**5,297,909**	4,782,518
Franchise fees	**3,278,237**	2,944,047
	39,058,863	36,851,134
OPERATING INCOME	**11,468,190**	7,264,158
Other income (expenses)		
Recognition of deferred revenue for capital contributions	**2,268,007**	1,955,852
Interest income *(Note 23)*	**1,158,901**	740,346
Finance costs *(Note 23)*	**(744,722)**	(953,193)
Dividends declared *(Note 23)*	**(3,529,616)**	(3,527,000)
Fair value adjustment of interest rate swap *(Note 23)*	**(635,885)**	-
Gain (loss) on disposal of property, plant and equipment	**(93,475)**	408
Net subsidiary operations – 25 By 20 Holdings Inc. *(Note 9)*	**143,001**	-
	(1,433,789)	(1,783,587)
NET INCOME AND COMPREHENSIVE INCOME	**$ 10,034,401**	$ 5,480,571

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Non-Consolidated Statement of Financial Position

December 31, 2014

	2014	2013
ASSETS		
CURRENT		
Cash and cash equivalents *(Note 4)*	$ 28,609,181	$ 20,974,590
Trade and other receivables *(Note 5)*	6,605,090	5,770,398
Inventories *(Note 6)*	524,130	461,270
Investments maturing in one year *(Note 7)*	3,238,550	2,972,055
	38,976,951	30,178,313
Long-term investments *(Note 7)*	26,137,887	16,224,333
Due from subsidiary *(Note 8)*	3,335,000	2,800,000
Investment in subsidiary *(Note 9)*	143,101	100
Property, plant and equipment, net *(Note 10)*	235,623,694	191,911,082
	$ 304,216,633	$ 241,113,828
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities *(Note 11)*	$ 8,112,080	$ 4,997,233
Dividends payable	3,529,616	3,527,000
Deferred revenue *(Note 12)*	325,190	272,356
Current sewer trunk oversizing payable *(Note 13)*	303,991	914,728
Customer deposits	1,747,808	1,428,397
Callable debt due in one year *(Note 14)*	1,230,822	21,224,828
	15,249,507	32,364,542
Callable debt due thereafter *(Note 14)*	53,117,044	21,665,275
Other long-term liabilities *(Note 15)*	-	1,989,619
Deferred infrastructure charges *(Note 16)*	27,526,184	21,213,304
	95,892,735	77,232,740
Deferred revenue of capital contributions *(Note 12)*	116,904,147	83,603,665
Provisions for landfill closure and long-term sewer trunk oversizing *(Note 13)*	5,002,779	4,778,349
Stock dividend payable *(Note 17)*	-	22,136,784
Preferred shares *(Note 18)*	76,381,902	53,361,851
	294,181,563	241,113,389
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Common shares *(Note 18)*	669	439
Retained earnings	10,034,401	-
	10,035,070	439
	$ 304,216,633	$ 241,113,828

ON BEHALF OF THE BOARD

_______________, Director

_______________, Director

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Non-Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2014

	Share capital	Retained earnings	Equity attributable to the owners of the company
Balance at December 31, 2013	$ 439	$ -	$ 439
Issuance of shares	230	-	230
Net income for the period	**-**	**10,034,401**	**10,034,401**
Balance at December 31, 2014	**$ 669**	**$ 10,034,401**	**$ 10,035,070**

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Non-Consolidated Statement of Cash Flows

Year Ended December 31, 2014

	2014	2013
OPERATING ACTIVITIES		
Net income and comprehensive income	**$ 10,034,401**	$ 5,480,571
Reconciliation of net income to cash from operating activities		
Net finance costs	**3,751,322**	3,739,847
Depreciation and amortization	**5,297,909**	4,782,518
Recognition of deferred revenue for capital contributions	**(2,268,007)**	(1,955,852)
Gain on disposal of property, plant and equipment	**93,475**	(408)
	16,909,100	12,046,676
Changes in non-cash working capital		
Accounts receivable and bad debts	**(834,692)**	(1,153,316)
Inventory	**(62,860)**	(25,454)
Accounts payable and accrued liabilities	**3,114,846**	2,772,737
Dividends payable	**2,616**	-
Customer deposits	**319,411**	(179,270)
Deferred revenue	**52,834**	(5,410)
Provisions - current	**(610,737)**	492,886
	1,981,418	1,902,173
Net cash flows from operating activities	**18,890,518**	13,948,849
INVESTING ACTIVITIES		
Property, plant and equipment purchases	**(10,886,937)**	(1,325,822)
Developer contributed assets	**(19,311,477)**	(8,906,006)
Construction in progress	**(18,120,019)**	(25,425,526)
Proceeds on disposal of property, plant and equipment	**97,934**	408
Loan to subsidiary	**(535,000)**	(2,800,000)
Investment in subsidiary	**(143,001)**	(100)
Capital contributions	**35,568,489**	10,488,757
Interest earned	**1,158,901**	740,346
Investment purchases	**(13,152,104)**	(4,342,407)
Proceeds from sale of investments	**2,972,055**	631,445
Net cash used in investing activities	**(22,351,159)**	(30,938,905)
FINANCING ACTIVITIES		
Infrastructure charges collected	**8,587,515**	6,853,863
Infrastructure charges expended	**(2,274,635)**	(2,703,096)
Proceeds from callable debt financing	**12,000,000**	20,000,000
Repayment of callable debt	**(1,178,122)**	(1,083,125)
Change in non-current provisions	**224,431**	(629,246)
Other long-term liabilities	**(1,989,619)**	1,989,619
Regular dividends paid on preferred shares	**(3,529,616)**	(3,527,000)
Interest expense and accretion of landfill liability	**(744,722)**	(953,194)
Net cash flows from financing activities	**11,095,232**	19,947,821
Net cash increase in cash and cash equivalents	**7,634,591**	2,957,765
Cash and cash equivalents at beginning of year	**20,974,590**	18,016,825
Cash and cash equivalents at end of year	**$ 28,609,181**	$ 20,974,590

Cash and cash equivalents consist of the following:

Cash in banks and short-term guaranteed investment certificates	**$ 28,609,181**	$ 20,974,590

Please see accompanying notes to financial statements

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 17, 2015.

(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 and interest rate swap agreements which are 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 judgments

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.

2. BASIS OF PRESENTATION (continued)

(e) Use of estimates and judgments (continued)

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 the fair value of interest rate swaps.

(f) Separate Financial Statements

The company has elected to adopt the new version of IAS 27 (Separate Financial Statements) early for presentation of subsidiary operations. This new standard restores the option to use the equity method to account for investments in subsidiaries and associates in separate financial statements. In accordance with the section, the company has elected to prepare these separate financial statements as its only financial statements. This election is possible as the company has met the exemption in IFRS 10.4(a). The shareholders of the company prepare their financial statements in accordance with Canadian Public Sector Accounting Standards and account for their investment 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

This adoption had no impact on previous years' financial statements.

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 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. Intercorporate transactions and balances are not eliminated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(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 years - 15 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

Depreciation (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 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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment (continued)

Financial assets (continued)

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 or 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment (continued)

Non-financial assets (continued)

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.

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 charges 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Provisions (continued)

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.

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 it is municipally-owned and the income earned outside its geographical boundaries does not exceed 10% of net income before dividends.

The company's subsidiary, 25 By 20 Holdings Inc., and its subsidiary, Watchorn Rentals Ltd. are subject to taxation on their taxable income each year, and is paid by each respective corporation.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Non-derivative financial assets and liabilities

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.

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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(t) 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 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.

4. CASH

Cash consists of:

	2014	2013
Cash on hand	**$ 3,900**	$ 3,900
Cash in banks	**28,605,281**	14,770,690
Guaranteed investment certificates	**-**	6,200,000
Total cash	**$ 28,609,181**	$ 20,974,590

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

	2014	2013
Dividends payable	**$ 3,529,616**	$ 3,527,000
Capital accounts payable	**4,642,060**	1,455,670
Sewer trunk oversizing obligations - current	**303,991**	914,728
Restricted cash requirement	**222,745**	3,717,669
Working capital cash requirement	**5,856,388**	1,219,591
Capital expenditure funds	**6,769,279**	5,347,432
Business development funds	**7,285,102**	4,792,400
Total cash and cash equivalents	**$28,609,181**	$ 20,974,590

Cash in banks bears interest at 1.2% per annum.

5. ACCOUNTS RECEIVABLE

		2014		2013
Trade receivables	$	**3,131,039**	$	2,517,175
Estimated unbilled accrual		**1,941,567**		1,967,297
Accrued investment earnings		**1,152,969**		765,271
GST receivable		**130,891**		226,131
Other receivables		**308,624**		354,524
		6,665,090		5,830,398
Allowance for doubtful accounts		**(60,000)**		(60,000)
	$	**6,605,090**	$	5,770,398

6. INVENTORY

In 2014, inventory consumables recognized as materials, goods and supplies expense amounted to $2,675,391 (2013 - $2,416,434). In 2014, the write-down of inventories to net realizable value amounted to $NIL (2013 - $NIL).

7. LONG-TERM INVESTMENTS

		2014		2013
Investments	$	**29,376,437**	$	19,196,388
Investments maturing in one year		**(3,238,550)**		(2,972,055)
	$	**26,137,887**	$	16,224,333

Long-term investments consist of held-to-maturity fixed income investments and Canadian treasury bills, bear interest at rates between 1.5% and 8.9% and mature between April, 2015 and August, 2023.

8. DUE FROM SUBSIDIARY

		2014		2013
Loan	$	**3,000,000**	$	2,800,000
Advances		**335,000**		-
	$	**3,335,000**	$	2,800,000

Loan to the company's subsidiary, 25 By 20 Holdings Inc. is unsecured, bears interest of 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 under the Alberta Business Corporations Act on December 19, 2013 and operates as a holding company for its own subsidiaries. The 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 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 $1,968,469. Management intends to operate Watchorn Rentals Ltd. as a subsidiary for the long-term. The company's investment in 25 By 20 Holdings Inc., is recorded using the equity method and is calculated as follows:

	2014	2013
100 Class A common shares (100% ownership)	**$ 100**	$ 100
Cumulative share of earnings	**143,001**	-
Cumulative share of dividends received	**-**	-
	$ 143,101	$ 100

The following is condensed financial information of 25 By 20 Holdings Inc. for the year ended December 31, 2014:

Results of financial performance:

	2014	2013
Revenue	**$ 120,000**	$ -
Expenses	**(131,199)**	-
Interest income – Watchorn Rentals Ltd.	**91,203**	-
Interest expense – Aquatera Utilities Inc.	**(285,000)**	-
Net subsidiary operations – Watchorn Rentals Ltd.	**347,997**	-
Net income	**$ 143,001**	$ -

Financial position:

	2014	2013
ASSETS		
Current assets	**$ 634,781**	$ 2,800,100
Due from Watchorn Rentals Ltd.	**890,321**	-
Investment in Watchorn Rentals Ltd. *(equity method)*	**2,166,466**	-
	$ 3,691,568	$ 2,800,100
LIABILITIES		
Current liabilities	**$ 53,467**	**$ -**
Due to Aquatera Utilities Inc.	**3,335,000**	2,800,000
Holdback payable	**160,000**	-
	3,548,467	2,800,000
SHAREHOLDER'S EQUITY		
Share capital	**100**	100
Retained earnings	**143,001**	-
	143,101	100
	$ 3,691,568	$ 2,800,100

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, 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
Additions	-	105,436	195,418	29,143,657	896,945	740,454	20,447,321	51,529,232
Disposals	-	-	-	-	-	(277,250)	-	(277,250)
Transfers to property, plant and equipment	-	-	-	-	-	-	(2,327,302)	(2,327,302)
Balance at December 31, 2014	**2,220,275**	**32,241,955**	**2,413,348**	**138,122,522**	**23,649,302**	**3,589,892**	**51,540,549**	**253,777,844**
Amortization								
Balance at December 31, 2013	-	(3,166,209)	(330,498)	(5,001,266)	(3,279,188)	(1,164,921)	-	(12,942,082)
Amortization	-	(1,061,404)	(268,143)	(2,113,803)	(1,325,074)	(529,485)	-	(5,297,909)
Disposals	-	-	-	-	-	85,841	-	85,841
Balance at December 31, 2014	**-**	**(4,227,613)**	**(598,641)**	**(7,115,069)**	**(4,604,262)**	**(1,608,565)**	**-**	**(18,154,150)**
Carrying amounts								
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
At December 31, 2014	**$2,220,275**	**$28,014,342**	**$1,814,707**	**$131,007,453**	**$19,045,040**	**$1,981,327**	**$51,540,549**	**$235,623,694**

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Borrowing costs capitalized during the year ended December 31, 2014 were $720,112 (2013 - $171,732). 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, 2014, the company performed a detailed analysis of existing property, plant and equipment, and no impairments were found.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014	2013
Trade payables	**$ 2,641,373**	$ 2,709,438
Capital payables	**4,642,060**	1,455,670
Accrued employee benefits	**828,647**	832,125
	$ 8,112,080	$ 4,997,233

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	$ 272,356	$ 18,866,808	$ 64,736,857	$ 83,603,665
Contributions received	52,834	19,281,477	16,287,011	35,568,488
Revenue recognized	-	(306,731)	(1,961,276)	(2,268,007)
Balance at December 31, 2014	**325,190**	**37,841,554**	**79,062,592**	**116,904,147**
Current	**$ 325,190**	**-**	**-**	**-**
Non-current	**-**	**$ 37,841,554**	**$ 79,062,592**	**$ 116,904,147**

13. PROVISIONS

		Sewer Trunk Oversizing Obligation		Landfill Closure and Post-Closure Liability		Total
Balance at the beginning of year	$	914,728	$	4,778,349	$	5,693,077
Provisions made during the year		303,991		-		303,991
Provisions used during the year		(914,728)		-		(914,728)
Accretion of liability		-		224,430		224,430
Balance at December 31, 2013		**303,991**		**5,002,779**		**5,306,770**
Current	**$**	**303,991**	**$**	**-**	**$**	**303,991**
Non-current	**$**	**-**	**$**	**5,002,779**	**$**	**5,002,779**

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 estimates the discounted amount of cash flow required to settle its decommissioning liability is approximately $5,002,780 (2013 – $4,778,349), 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 9 to 11 years dependent upon future usage rates. Annual post-closure costs are expected to extend 25 years beyond closure of the landfill. The expected capacity remaining is 719,654 (2013 - 773,789) metric tonnes remaining with an annual estimated utilization of 68,066 metric tonnes. Current year capacity reflects 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 33 years once all cells are completed.

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.

	2014	2013
Due to the Town of Sexsmith	$ 207,773	$ 242,803
Due to RBC Royal Bank	21,504,208	22,647,300
Due to CIBC	32,000,000	20,000,000
Fair value adjustment of interest rate swap	635,885	-
	54,347,866	42,890,103
Loans and borrowings due in one year	(1,230,822)	(21,224,828)
	$ 53,117,044	$ 21,665,275

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 $153,702 including interest at the bank prime rate or at fixed rates ranging from 2.30% to 4.39% per annum and mature between 2015 and 2017, at which time the loans are expected to be renewed under similar terms.

Bank loan from CIBC is secured by a general security agreement and is repayable in interest-only payments of approximately $71,000 per month. The loan bears 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 interest only loan is expected to continue until completion of the Wastewater Treatment Plant Expansion Project when it will be converted to a 10 year fixed term agreement.

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 .39 to 1 (2013 – 0.36) and the fixed charge ratio is at 3.00 to 1 (2013 – 2.25 to 1).

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	$ 1,230,822
Between one and five years	10,489,239
More than five years	42,627,805
	$ 54,347,866

14. CALLABLE DEBT (continued)

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 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 the RBC bank in the amount of $1,200,000, all of which is unused at December 31, 2014 (December 31, 2013 - $1,200,000). 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, $32,000,000 of which is currently being used at December 31, 2014. 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

	2014	2013
Balance at the beginning of year	**$ 21,213,304**	$ 17,062,537
Contributions received	**8,535,787**	6,853,863
Transfer to deferred revenue	**(2,222,907)**	(2,703,096)
Balance at the end of the year	**$ 27,526,184**	$ 21,213,304

17. STOCK DIVIDEND PAYABLE

In accordance with the Unanimous Shareholders 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 on January 1, 2014 and thus a stock dividend was declared as payable on December 31, 2013. The Class H preferred shares to be issued were as follows:

	2014	2013
City of Grande Prairie - 16,234 Class C common shares and Class H preferred shares	**$ -**	$ 16,233,743
County of Grande Prairie No. 1 - 4,018 Class C common shares and Class H preferred shares	**-**	4,017,943
Town of Sexsmith - 1,885 Class C common shares and 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

The following common and preferred shares have been issued:

Common shares

	2014	2013
44,755 Class A shares (2013 - 43,872)	**$ 448**	$ 439
22,137 Class C shares (2013 - nil)	**221**	-
	$ 669	$ 439

Preferred shares

	2014	2013
43,858 Class D shares (2013 - 43,858)	**$ 43,856,836**	$ 43,856,835
883 Class F shares (2013 - nil)	**883,266**	-
31,643 Class H shares (2013 - 9,506)	**31,641,800**	9,505,016
	$ 76,381,902	$ 53,361,851

During the year, 883 Class A common shares and 883 Class F preferred shares were issued for $9 and $883,266 pursuant to asset transfers as disclosed in Note 19. 22,137 Class C common shares and 22,137 Class H preferred shares were issued pursuant to a stock dividend paid in the year as disclosed in Note 17.

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.

19. ASSET TRANSFER

On January 1, 2014, the County of Grande Prairie No. 1 transferred water and sewer operations primarily related to the County Sportsplex valued at $883,266 to Aquatera Utilities Inc. in exchange for 883 Class A common and Class F preferred shares.

20. 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 2015 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. Minimum lease payments are payable as follows:

Less than one year	$	**222,703**
Between one and five years		**725,495**
More than five years		**389,290**
	$	**1,337,448**

21. OTHER REVENUE

		2014		2013
Service connections	$	**564,399**	$	457,411
Operator assistance		**814,285**		588,766
Infrastructure charge - engineering fees		**257,376**		205,616
Distribution and collection commercial services		**417,100**		262,089
Customer shut-off fees		**152,590**		138,605
Miscellaneous revenue and sales		**204,507**		123,913
	$	**2,410,257**	$	1,776,400

22. EMPLOYEE BENEFITS

		2014		2013
Short-term benefits	$	**12,614,269**	$	11,878,534
Post-employment benefits		**1,462,955**		1,283,938
Termination benefits		**221,419**		-
Total employee benefits	$	**14,298,643**	$	13,162,472

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.

22. EMPLOYEE BENEFITS (continued)

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 230,534 people and 418 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 2014 were $1,188,535 (2013- $996,452). Total and past service contributions by the employees of the company to the LAPP in 2014 were $1,096,822 (2013 - $912,099).

At December 31, 2013, the Plan disclosed an actuarial deficiency of $4.9 billion (2012 - $5.0 billion).

LAPP has announced that member contribution rates will remain stable in 2015 while the government reviews pensions with possible legislative changes to occur in 2016.

(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 $140,945 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 $140,945 with no contributions on earnings above the maximum threshold.

Total current and past service contributions made by the company to APEX in 2014 were $64,726 (2013 - $58,214). Total current and past service contributions by the employees of the company to APEX in 2014 were $53,938 (2013 - $48,512).

At December 31, 2013, the APEX disclosed an actuarial surplus of $4,100,000 (2012 - $772,000 surplus).

22. EMPLOYEE BENEFITS (continued)

Post-employment benefits (continued)

(b) 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, 2014, the company has accrued $209,694 (2013 - $229,272) 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, 2014, current employees meeting all eligibility requirements held a sick time balance of $362,880 (2013 - $409,961).

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.

23. FINANCE INCOME AND FINANCE COSTS

	2014	2013
Interest income	**$ (1,158,901)**	$ (740,346)
Finance income	**(1,158,901)**	(740,346)
Interest expense	**475,896**	702,095
Accretion of provision	**224,430**	243,343
Bad debts	**44,396**	7,755
Dividends on preferred shares	**3,529,616**	3,527,000
Fair value adjustment of interest rate swap *(Note 14)*	**635,885**	-
Finance costs	**4,910,223**	4,480,193
Net finance costs recognized in net income	**$ 3,751,322**	$ 3,739,847

24. RELATED PARTY TRANSACTIONS

Transactions with related parties

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

City of Grande Prairie (the controlling shareholder)	2014	2013
Sale of services	$ 479,268	$ 395,473
General, administrative and contracted services expense	155,168	191,076
Franchise fees expense	2,904,385	2,628,960
Special dividends declared	1,004,565	1,029,250
Regular dividends declared	1,608,050	1,608,050
Common shares issued (16,234 Class C)	162	-
Preferred shares issued (16,234 Class H)	16,233,743	-

	December 31, 2014	December 31, 2013
Trade receivables	$ 38,500	$ -
Trade payables	358,872	623,152
Deposits	40,910	40,910
Dividends payable	2,612,615	2,637,300

County of Grande Prairie No. 1 (a minority shareholder)	2014	2013
Sale of services	$ 53,596	$ 47,050
General, administrative and contracted services expense	194,348	161,170
Franchise fees expense	298,485	251,479
Special dividends declared	229,477	205,300
Regular dividends declared	398,100	398,100
Common shares issued (883 Class A and 4,018 Class C)	49	-
Preferred shares issued (883 Class F and 4,018 Class H)	4,901,209	-

	December 31, 2014	December 31, 2013
Trade receivables	$ 809	$ 1,261
Trade payables	53,714	46,184
Dividends payable	627,577	603,400

24. RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties (continued)

Town of Sexsmith (a minority shareholder)	2014	2013
Sale of services	$ 13,673	$ 8,166
General, administrative and contracted services expense	215,960	222,865
Franchise fees expense	72,113	63,608
Interest expense	13,961	15,866
Special dividends declared	102,674	99,550
Regular dividends declared	186,750	186,750
Common shares issued (1,885 Class C)	19	-
Preferred shares issued (1,885 Class H)	1,885,098	-

	December 31, 2014	December 31, 2013
Trade receivables	$ 340	$ 397
Trade payables	12,568	15,247
Dividends	289,424	286,300

25 By 20 Holdings Inc. (a 100% subsidiary)	2014	2013
Sale of services	$ 130,966	$ -
Interest revenue	285,000	-

	December 31, 2014	December 31, 2013
Trade receivables	$ 45,067	$ -
Loan receivable	3,335,000	2,800,000

Watchorn Rentals Ltd. (a 90% subsidiary of 25 By 20 Holdings Inc.)

No transactions were recorded directly between Aquatera Utilities Inc. and Watchorn Rentals Ltd.

Transactions with key management personnel

Key management personnel compensation is comprised of:

	2014	2013
Short-term benefits	$ 778,838	$ 589,273
Post-employment benefits	76,804	71,950
	$ 855,642	$ 661,223

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.

25. SEGMENT DISCLOSURES

	Water	Wastewater	Solid Waste	**2014**
Revenue				
Sale of services	$ 16,830,010	$ 16,923,231	$ 10,916,943	**$ 44,670,184**
Franchise fee revenue	1,339,272	1,540,135	398,830	**3,278,237**
Penalties	69,563	67,724	31,088	**168,375**
Other	991,981	992,144	426,132	**2,410,257**
	19,230,826	19,523,234	11,772,993	**50,527,053**
Expenses				
Salaries, wages and benefits	5,871,359	5,160,703	3,266,581	**14,298,643**
General, administrative and contracted services	2,595,378	3,066,165	4,386,509	**10,048,052**
Utilities	1,471,276	1,026,722	78,429	**2,576,427**
Major maintenance	166,727	113,643	-	**280,370**
Materials, goods and supplies	1,783,883	919,710	575,632	**3,279,225**
Depreciation, amortization and impairments	2,152,794	2,292,664	852,451	**5,297,909**
Franchise fees	1,339,272	1,540,135	398,830	**3,278,237**
	15,380,689	14,119,742	9,558,432	**39,058,863**
Other items				
Recognition of deferred revenue for capital contributions	1,029,601	1,229,145	9,261	**2,268,007**
Net finance costs excluding dividends	(176,589)	(146,558)	101,441	**(221,706)**
Gain on disposal of property, plant and equipment	-	-	(93,475)	**(93,475)**
	853,012	1,082,587	17,227	**1,952,826**
	$ 4,703,149	$ 6,486,079	$ 2,231,788	**13,421,016**
Net subsidiary operations – 25 By 20 Holdings Inc.				**143,001**
Dividends				**(3,529,616)**
Net income				**$ 10,034,401**

25. SEGMENT DISCLOSURE (continued)

	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**
	16,681,338	16,522,656	10,911,297	**44,115,292**
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**
	14,616,325	12,895,303	9,339,506	**36,851,134**
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**
	985,593	1,112,382	(354,562)	**1,743,413**
	$ 3,050,606	$ 4,739,735	$ 1,217,229	**9,007,571**
Dividends				**(3,527,000)**
Net income				**$ 5,480,571**

26. 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.

December 31, 2014	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**
Financial assets							
Cash	$ -	$ 28,609,181	$ -	$ -	$ -	**$ 28,609,181**	**$28,609,181**
Trade and other receivables	-	-	6,605,090	-	-	**6,605,090**	**6,605,090**
Investments	-	29,376,437	-	-	-	**29,376,437**	**31,070,768**
Due from subsidiary	-	-	3,335,000	-	-	**3,335,000**	**3,335,000**
Financial liabilities							
Trade and other payables	-	-	-	8,112,080	-	**8,112,080**	**8,112,080**
Dividends payable	-	-	-	3,529,616	-	**3,529,616**	**3,529,616**
Sewer trunk oversizing payable	-	-	-	303,991	-	**303,991**	**303,991**
Bank loans	-	-	-	54,140,093	-	**54,140,093**	**54,140,093**
Sexsmith loan	-	-	-	207,773	-	**207,773**	**207,773**
Preferred shares	$ -	$ -	$ -	$ 76,381,902	$ -	**$76,381,902**	**$76,381,902**

December 31, 2013	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**
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**
Due from subsidiary	-	-	2,800,000	-	-	**2,800,000**	**2,800,000**
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**
Sewer trunk oversizing payable	-	-	-	914,728	-	**914,728**	**914,728**
Bank loans	-	-	-	42,647,300	-	**42,647,300**	**42,647,300**
Sexsmith loans	-	-	-	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**

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.

26. FINANCIAL INSTRUMENTS (continued)

Determination of fair values (continued)

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 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 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 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, 2014. The company held no financial instruments recognized at fair value at December 31, 2013.

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.

26. 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.

	2014	2013
Trade and other receivables	**$ 6,605,090**	$ 5,770,398

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 $596,030 that is past due as at December 31, 2014 (2013 - $556,004).

At December 31, 2014, 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, 2014	**Gross Impairment Allowance December 31, 2014**	December 31, 2013	Gross Impairment Allowance December 31, 2013
Not past due	**$ 5,951,577**	**$ -**	$ 5,274,394	$ -
Past due 0-30 days	**534,654**	**-**	378,031	-
Past due 31-90 days	**65,392**	**(10,000)**	159,622	(50,000)
More than 91 days	**53,467**	**(50,000)**	18,351	(10,000)
	$ 6,665,090	**$ (60,000)**	$ 5,830,398	$ (60,000)

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

	2014	2013
Balance at the beginning of year	**$ 60,000**	$ 102,000
Impairment losses recognized	**44,396**	49,755
Amounts written off as uncollectable	**(44,396)**	(49,755)
Impairment losses reversed	**-**	(42,000)
	$ 60,000	$ 60,000

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

26. FINANCIAL INSTRUMENTS (continued)

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, 2014						
Accounts payable and accrued liabilities	**$ 8,112,080**	**$ 8,112,080**	$ 8,112,080	$ -	$ -	$ -
Dividends payable	**3,529,616**	**3,529,616**	3,529,616	-	-	-
Loans and borrowings	**54,347,866**	**54,347,866**	1,230,822	5,021,961	5,467,278	42,627,805
Preferred shares	**76,381,902**	**76,381,902**	-	-	-	76,381,902
	$ 142,371,464	**$ 142,371,464**	$ 12,872,518	$ 5,021 961	$ 5,467,278	$ 119,009,707
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 dividends 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

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

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 20.

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.

27. 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 2015 totals $40 million and the projection in five years is $151 million. This will be funded through additional debt of $47 million, $25 million in contributions, $17 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.