Aquatera Utilities Inc.

Non-Consolidated Financial Statements

December 31, 2015

Aquatera Utilities Inc.

December 31, 2015

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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 statement of financial position as at December 31, 2015 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, 2015 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 22, 2016

Chartered Accountants

Aquatera Utilities Inc.

Non-Consolidated Statement of Income and Comprehensive Income

Year Ended December 31, 2015

	2015	2014
REVENUE		
Sale of services	**$ 47,341,470**	$ 44,670,184
Franchise fee revenue	**3,547,346**	3,278,237
Penalties	**189,206**	168,375
Other *(Note 19)*	**2,407,074**	2,410,257
	53,485,096	50,527,053
EXPENSES		
Salaries, wages and benefits *(Note 20)*	**15,778,113**	14,298,643
General, administrative and contracted services	**10,833,427**	10,048,052
Utilities	**2,190,198**	2,576,427
Major maintenance	**951,002**	280,370
Materials, goods and supplies	**3,373,091**	3,279,225
Depreciation	**6,368,154**	5,297,909
Franchise fees	**3,547,346**	3,278,237
	43,041,331	39,058,863
OPERATING INCOME	**10,443,765**	11,468,190
Other income (expenses)		
Recognition of deferred revenue for capital contributions	**2,689,110**	2,268,007
Interest income *(Note 21)*	**1,449,662**	1,158,901
Finance costs *(Note 21)*	**(756,807)**	(744,722)
Dividends declared *(Note 21)*	**(3,667,107)**	(3,529,616)
Fair value adjustment of interest rate swap *(Note 21)*	**(1,603,200)**	(635,885)
Gain (loss) on disposal of property, plant and equipment	**24,341**	(93,475)
Net subsidiary operations – 25 By 20 Holdings Inc. *(Note 9)*	**(332,678)**	143,001
	(2,196,679)	(1,433,789)
NET INCOME AND COMPREHENSIVE INCOME	**$ 8,247,086**	$ 10,034,401

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Non-Consolidated Statement of Financial Position

December 31, 2015

	2015	2014
ASSETS		
CURRENT		
Cash and cash equivalents *(Note 4)*	$ 16,922,939	$ 28,609,181
Trade and other receivables *(Note 5)*	9,639,933	6,605,090
Inventories *(Note 6)*	530,622	524,130
Investments maturing in one year *(Note 7)*	16,637,093	3,238,550
	43,730,587	38,976,951
Long-term investments *(Note 7)*	25,154,376	26,137,887
Due from subsidiary *(Note 8)*	3,790,044	3,335,000
Investment in subsidiary *(Note 9)*	100	143,101
Property, plant and equipment, net *(Note 10)*	272,159,280	235,623,694
	$ 344,834,387	$ 304,216,633
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities *(Note 11)*	$ 8,131,831	$ 8,112,080
Dividends payable	3,667,107	3,529,616
Deferred revenue *(Note 12)*	79,356	325,190
Current sewer trunk oversizing payable *(Note 13)*	421,390	303,991
Customer deposits	1,778,217	1,747,808
Callable debt due in one year *(Note 14)*	2,882,930	1,230,822
	16,960,831	15,249,507
Callable debt due thereafter *(Note 14)*	60,017,375	53,117,044
Deferred infrastructure charges *(Note 15)*	26,861,917	27,526,184
	103,840,123	95,892,735
Deferred revenue of capital contributions *(Note 12)*	137,102,262	116,904,147
Provisions for landfill closure and long-term sewer trunk oversizing *(Note 13)*	5,227,904	5,002,779
Preferred shares *(Note 16)*	80,381,902	76,381,902
	326,552,191	294,181,563
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Common shares *(Note 16)*	709	669
Retained earnings	18,281,487	10,034,401
	18,282,196	10,035,070
	$ 344,834,387	$ 304,216,633

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, 2015

	Share capital	Retained earnings	Equity attributable to the owners of the Company
Balance at December 31, 2014	$ 669	$ 10,034,401	$ 10,035,070
Issuance of shares	40	-	40
Net income for the period	**-**	**8,247,086**	**8,247,086**
Balance at December 31, 2015	**$ 709**	**$ 18,281,487**	**$ 18,282,196**

Please see accompanying notes to financial statements

Aquatera Utilities Inc.

Non-Consolidated Statement of Cash Flows

Year Ended December 31, 2015

	2015	2014
OPERATING ACTIVITIES		
Net income and comprehensive income	**$ 8,247,086**	$ 10,034,401
Reconciliation of net income to cash from operating activities		
Net finance costs including fair market value of interest rate swap	**4,577,452**	3,751,322
Depreciation	**6,368,154**	5,297,909
Recognition of deferred revenue for capital contributions	**(2,689,110)**	(2,268,007)
Gain on disposal of property, plant and equipment	**(24,341)**	93,475
	16,479,241	16,909,100
Changes in non-cash working capital		
Accounts receivable and bad debts	**(3,034,843)**	(834,692)
Inventory	**(6,492)**	(62,860)
Accounts payable and accrued liabilities	**19,754**	3,114,846
Dividends payable	**137,491**	2,616
Customer deposits	**30,409**	319,411
Deferred revenue	**(245,834)**	52,834
Provisions - current	**117,399**	(610,737)
	(2,982,116)	1,981,418
Net cash flows from operating activities	**13,497,125**	18,890,518
INVESTING ACTIVITIES		
Property, plant and equipment purchases	**(20,289,954)**	(10,886,937)
Developer contributed assets	**(11,472,090)**	(19,311,477)
Construction in progress	**(11,217,107)**	(18,120,019)
Proceeds on disposal of property, plant and equipment	**99,749**	97,934
Loan to subsidiary	**(455,044)**	(535,000)
Investment in subsidiary	**143,001**	(143,001)
Capital contributions	**22,887,225**	35,568,489
Interest earned	**1,449,662**	1,158,901
Investment purchases	**(15,653,529)**	(13,152,104)
Maturity of investments	**3,238,497**	2,972,055
Net cash used in investing activities	**(31,269,590)**	(22,351,159)
FINANCING ACTIVITIES		
Infrastructure charges collected	**6,461,048**	8,587,515
Infrastructure charges expended	**(7,125,315)**	(2,274,635)
Proceeds from callable debt financing	**8,000,000**	12,000,000
Repayment of callable debt	**(1,050,761)**	(1,178,122)
Change in non-current provisions	**225,125**	224,431
Other long-term liabilities	**-**	(1,989,619)
Issuance of shares	**4,000,040**	-
Regular dividends paid on preferred shares	**(3,667,107)**	(3,529,616)
Interest expense and accretion of landfill liability	**(756,807)**	(744,722)
Net cash flows from financing activities	**6,086,223**	11,095,232
Net cash increase (decrease) in cash and cash equivalents	**(11,686,242)**	7,634,591
Cash and cash equivalents at beginning of year	**28,609,181**	20,974,590
Cash and cash equivalents at end of year	**$ 16,922,939**	$ 28,609,181

Cash and cash equivalents consist of the following:

Cash in banks and short-term guaranteed investment certificates	**$ 16,922,939**	$ 28,609,181

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 has a wholly owned subsidiary 25 By 20 Holdings Inc. which operates as a holding company for its own subsidiaries. 25 By 20 Holdings has a 90% interest in Watchorn Rentals Ltd., a water and wastewater treatment business in Fairview, 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 22, 2016.

(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 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 non-consolidated financial statements are presented in Canadian dollars, which is the company's functional currency.

(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.

2. BASIS OF PRESENTATION (continued)

(e) Use of estimates and judgments (continued)

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 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.

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 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.

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 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.

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)*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 subsidiary, Watchorn Rentals Ltd. are subject to taxation on any taxable income each year, which is paid by each respective corporation.

(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.

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.

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. 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.

IFRS 15 revenue from contracts with customers

The new standard issued in 2015 supercedes 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, 2017.

4. CASH

Cash consists of:

	2015	2014
Cash on hand	**$ 4,500**	$ 3,900
Cash in banks	**16,918,439**	28,605,291
Total cash	**$ 16,922,939**	$ 28,609,181

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:

	2015	2014
Dividends payable	**$ 3,667,107**	$ 3,529,616
Capital accounts payable	**4,723,251**	4,642,060
Sewer trunk oversizing obligations - current	**421,390**	303,991
Restricted cash requirement	**2,799,056**	222,745
Working capital cash requirement (excess)	**6,578,667**	5,856,388
Capital expenditure funds	**2,574,529**	6,769,279
Business development funds	**6,566,727**	7,285,102
Total allocated cash	**$ 27,330,727**	$ 28,609,181

Held as follows:

	2015	2014
Cash and cash equivalents	**$ 16,922,939**	$ 28,609,181
Long-term investments	**10,407,788**	-
	$ 27,330,727	$ 28,609,181

5. ACCOUNTS RECEIVABLE

	2015	2014
Trade receivables	**$ 3,104,273**	$ 3,131,039
Estimated unbilled accrual	**2,022,450**	1,941,567
Grants receivable	**1,480,000**	-
Accrued investment earnings	**1,757,412**	1,152,969
GST receivable	**861,200**	130,891
Other receivables	**474,598**	308,624
	9,699,933	6,665,090
Allowance for doubtful accounts	**(60,000)**	(60,000)
	$ 9,639,933	$ 6,605,090

6. INVENTORY

In 2015, inventory consumables recognized as materials, goods and supplies expense amounted to $1,731,324 (2014 - $2,675,391). In 2015, the write-down of inventories to net realizable value amounted to $NIL (2014 - $NIL).

7. LONG-TERM INVESTMENTS

		2015		2014
Investments	**$**	**41,791,469**	$	29,376,437
Investments maturing in one year		**(16,637,093)**		(3,238,550)
	$	**25,154,376**	$	26,137,887

Long-term investments consist of held-to-maturity fixed income investments, bear interest at rates between 1.4% and 8.9% and mature between March, 2016 and August, 2023.

8. DUE FROM SUBSIDIARY

		2015		2014
Loan	**$**	**3,335,000**	$	3,000,000
Advances		**644,721**		335,000
Cumulative investment losses applied *(Note 9)*		**(189,677)**		-
	$	**3,790,044**	$	3,335,000

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 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 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:

		2015		2014
100 Class A common shares	**$**	**100**	$	100
Cumulative share of earnings (losses)		**(189,677)**		143,001
Losses applied to loan receivable from subsidiary *(Note 8)*		**189,677**		-
Cumulative share of dividends received		**-**		-
	$	**100**	$	143,101

9. INVESTMENT IN SUBSIDIARY (continued)

The following is condensed financial information of 25 By 20 Holdings Inc. for the year ended December 31, 2015:

Results of financial performance

	2015	2014
Revenue	**$ 123,337**	$ 120,000
Expenses	**(251,706)**	(131,199)
Interest income – Watchorn Rentals Ltd.	**114,406**	91,203
Interest expense – Aquatera Utilities Inc.	**(333,500)**	(285,000)
Net subsidiary operations – Watchorn Rentals Ltd.	**14,785**	347,997
Net Income (loss)	**$ (332,678)**	$ 143,001

Financial position

	2015	2014
ASSETS		
Current assets	**$ 491,506**	$ 634,781
Due from Watchorn Rentals Ltd.	**1,242,289**	890,321
Investment in Watchorn Rentals Ltd. *(equity method)*	**2,216,349**	2,166,466
	$ 3,950,144	$ 3,691,568
LIABILITIES		
Current liabilities	**$ -**	$ 53,467
Due to Aquatera Utilities Inc.	**3,979,721**	3,335,000
Holdback payable	**160,000**	160,000
	4,139,721	3,548,467
SHAREHOLDER'S DEFICIENCY		
Share capital	**100**	100
Retained earnings (deficit)	**(189,677)**	143,001
	(189,577)	143,101
	$ 3,950,144	$ 3,691,568

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, 2014	$2,220,275	$32,241,955	$2,413,348	$138,122,522	$23,649,302	$3,589,892	$51,540,549	$253,777,843
Additions	-	51,718,584	30,562	11,921,893	18,407,691	662,341	31,302,526	114,133,556
Disposals	(75,409)	-	-	-	-	-	-	(75,409)
Transfers to property, plant and equipment	-	-	-	-	-	-	(71,064,446)	(70,682,178)
Balance at December 31, 2015	**2,144,867**	**83,960,540**	**2,443,910**	**150,044,415**	**42,056,993**	**4,252,233**	**11,778,629**	**296,681,587**
Accumulated depreciation								
Balance at December 31, 2014	-	(4,227,613)	(598,641)	(7,115,069)	(4,604,262)	(1,608,565)	-	(18,154,150)
Depreciation	-	(1,576,518)	(252,657)	(2,324,034)	(1,593,728)	(621,219)	-	(6,368,157)
Disposals	-	-	-	-	-	-	-	-
Balance at December 31, 2015	**-**	**(5,804,131)**	**(851,298)**	**(9,439,103)**	**(6,197,990)**	**(2,229,785)**	**-**	**(24,522,306)**
Carrying amounts								
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
At December 31, 2015	**$2,144,867**	**$78,156,409**	**$1,592,612**	**$140,605,312**	**$35,859,003**	**$2,022,448**	**$11,778,629**	**$272,159,280**

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Borrowing costs capitalized during the year ended December 31, 2015 were $1,436,857 (2014 - $720,112). All borrowing costs that were being incurred for the Waste Water Treatment Plant expansion are now capitalized as part of the project's value. 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, 2015, the company performed a detailed analysis of existing property, plant and equipment and no impairments were found.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015	2014
Trade payables	**$ 2,430,633**	$ 2,641,373
Capital payables	**4,723,251**	4,642,060
Accrued employee benefits	**977,947**	828,647
	$ 8,131,831	$ 8,112,080

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	$ 325,190	$ 37,841,554	$ 79,062,592	$ 116,904,147
Contributions received	28,066	11,745,990	11,141,235	22,887,225
Revenue recognized	273,900	(620,423)	(2,068,687)	(2,689,110)
Balance at December 31, 2015	**79,356**	**48,967,121**	**88,135,140**	**137,102,262**
Current	**$ 79,356**	**-**	**-**	**-**
Non-current	**-**	**$ 48,967,121**	**$ 88,135,140**	**$ 137,102,262**

13. PROVISIONS

	Sewer Trunk Oversizing Obligation	Landfill Closure and Post-Closure Liability	Total
Balance at the beginning of year	$ 303,991	$ 5,002,779	$ 5,306,770
Provisions made during the year	421,390	-	421,390
Provisions used during the year	(303,991)	-	(303,991)
Accretion of liability	-	225,125	225,125
Balance at December 31, 2015	**421,390**	**5,227,904**	**5,649,294**
Current	**$ 421,390**	**$ -**	**$ 421,390**
Non-current	**$ -**	**$ 5,227,904**	**$ 5,227,904**

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 $5,227,904 (2014 – $5,002,780), 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 8 to 10 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 660,062 (2014 – 719,654) metric tonnes remaining with an annual estimated utilization of 68,066 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 32 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.

	2015	2014
Due to the Town of Sexsmith	$ **170,731**	$ 207,773
Due to RBC Royal Bank	**20,490,489**	21,504,208
Due to CIBC	**40,000,000**	32,000,000
Fair value adjustment of interest rate swap	**2,239,085**	635,885
	62,900,305	54,347,866
Loans and borrowings due in one year	**(2,882,930)**	(1,230,822)
	$ **60,017,375**	$ 53,117,044

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 $138,510 including interest at the bank prime rate or at fixed rates ranging from 2.30% to 4.39% per annum and mature between 2016 and 2017, 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 $133,333 plus interest and $166,667 plus interest starting January 1, 2017. $32.0 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 $8.0 million of the loan bears interest at the bank prime rate plus a 1.25% stamping fee.

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 0.43 to 1 (2014 – 0.39 to 1) and the fixed charge ratio is at 2.25 to 1 (2014 – 3.00 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 as follows:

Less than one year	$ **2,882,930**
Between one and five years	**13,435,973**
More than five years	**46,581,402**
	$ **62,900,305**

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 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 the RBC bank in the amount of $1,200,000, all of which is unused at December 31, 2015 (December 31, 2014 - $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 the CIBC bank in the amount of $52,000,000, $40,000,000 of which is currently being used at December 31, 2015 (December 31, 2014 - $32,000,000). These facilities consist of revolving demand facilities limited to $2,000,000 and an installment loan of credit limited to $50,000,000.

15. DEFERRED INFRASTRUCTURE CHARGES

	2015	2014
Balance at the beginning of year	**$ 27,526,184**	$ 21,213,304
Contributions received	**6,461,048**	8,535,787
Transfer to deferred revenue	**(7,125,315)**	(2,222,907)
Balance at the end of the year	**$ 26,861,917**	$ 27,526,184

16. 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

	2015	2014
48,755 Class A shares (2014 - 44,755)	**$ 488**	$ 448
22,137 Class C shares (2014 - 22,137)	**221**	221
	$ 709	$ 669

Preferred shares

	2015	2014
47,858 Class D shares (2014 - 43,858)	**$ 47,856,836**	$ 43,856,836
883 Class F shares (2014 - 883)	**883,266**	883,266
31,643 Class H shares (2014 - 31,643)	**31,641,800**	31,641,800
	$ 80,381,902	$ 76,381,902

During the year, 4,000 Class A common shares and 4,000 Class D preferred shares were issued for $4,000,000 pursuant to a cash transfer 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 24). 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.

17. CASH TRANSFER

On December 10, 2015, the City of Grande Prairie transferred $4,000,000 of cash to Aquatera Utilities Inc. in exchange for 4,000 Class A common and 4,000 Class D preferred shares.

18. 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 2016 to the shareholders as follows:

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

(b) Premises lease

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

Less than one year	**$**	**176,950**
Between one and five years		**743,190**
More than five years		**194,645**
	$	**1,114,785**

19. OTHER REVENUE

		2015		2014
Service connections	**$**	**420,002**	$	564,399
Operator assistance		**804,202**		814,285
Infrastructure charge - engineering fees		**387,663**		257,376
Distribution and collection commercial services		**354,528**		417,100
Customer shut-off fees		**175,010**		152,590
Miscellaneous revenue and sales		**265,884**		204,507
	$	**2,407,074**	$	2,410,257

20. EMPLOYEE BENEFITS

	2015	2014
Short-term benefits	**$ 13,956,125**	$ 12,614,269
Post-employment benefits	**1,677,278**	1,462,955
Termination benefits	**144,710**	221,419
Total employee benefits	**$ 15,778,113**	$ 14,298,643

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 237,612 people and 423 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 2015 were $1,328,204 (2014 - $1,188,535). Total and past service contributions by the employees of the company to the LAPP in 2015 were $1,226,244 (2014 - $1,096,822).

At December 31, 2014, the Plan disclosed an actuarial deficiency of $2.4 billion (2013 - $4.9 billion).

LAPP has announced that member contribution rates will remain stable in 2016 while the government reviews pensions with possible legislative changes to occur in 2017.

20. EMPLOYEE BENEFITS (continued)

Post-employment benefits (continued)

b. APEX Supplementary Pension Plan

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

The company is required to make current service contributions to the APEX of 3.00% of pensionable payroll above the LAPP maximum pensionable earnings up to the year's maximum pensionable earnings of $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 APEX are required to make current service contributions of 2.50% of pensionable payroll service above the APEX 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 2015 were $65,590 (2014 - $64,726). Total current and past service contributions by the employees of the company to APEX in 2015 were $54,658 (2014 - $53,938).

At December 31, 2014, the APEX disclosed an actuarial surplus of $6.1 million (2013 - $4.1 million).

c. Sick Bank Accrual

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

At December 31, 2015, the company has accrued $283,484 (2014 - $209,694) 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, 2015, current employees meeting all eligibility requirements held a sick time balance of $378,956 (2014 - $362,880).

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.

21. FINANCE INCOME AND FINANCE COSTS

	2015	2014
Interest income	**$ (1,449,662)**	$ (1,158,901)
Finance income	**(1,449,662)**	(1,158,901)
Interest expense	**463,807**	475,896
Fair value adjustment of interest rate swap *(Note 14)*	**1,603,200**	635,885
Accretion of provision	**225,125**	224,430
Dividends on preferred shares	**3,667,107**	3,529,616
Bad debts	**67,875**	44,396
Finance costs	**6,027,114**	4,910,223
Net finance costs recognized in net income	**$ 4,577,452**	$ 3,751,322

22. RELATED PARTY TRANSACTIONS

Transactions with related parties

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

	2015	2014
City of Grande Prairie (the controlling shareholder)		
Sale of services	**$ 535,922**	$ 479,268
General, administrative and contracted services expense	**279,486**	155,168
Franchise fees expense	**3,178,519**	2,904,385
Special dividends declared	**1,107,892**	1,004,565
Regular dividends declared	**1,608,050**	1,608,050
Common shares issued – 4,000 Class A (2014 – 16,234 Class C)	**40**	162
Preferred shares issued – 4,000 Class D (2014 – 16,234 Class H)	**4,000,000**	16,233,743

	December 31, 2015	December 31, 2014
Trade receivables	**$ 135,908**	$ 38,500
Trade payables	**311,097**	358,872
Deposits payable	**40,910**	40,910
Dividends payable	**2,715,942**	2,612,615

22. RELATED PARTY TRANSACTIONS (continued)

	2015	2014
County of Grande Prairie No. 1 (a minority shareholder)		
Sale of services	**$ 67,509**	$ 53,596
General, administrative and contracted services expense	**230,304**	194,348
Franchise fees expense	**328,794**	298,485
Special dividends declared	**253,080**	229,477
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

County of Grande Prairie No. 1 (a minority shareholder)	December 31, 2015	December 31, 2014
Trade receivables	**$ -**	$ 809
Trade payables	**54,010**	53,714
Dividends payable	**651,180**	627,577

	2015	2014
Town of Sexsmith (a minority shareholder)		
Sale of services	**$ 28,297**	$ 13,673
General, administrative and contracted services expense	**217,608**	215,960
Franchise fees expense	**77,949**	72,113
Interest expense	**11,947**	13,961
Special dividends declared	**113,235**	102,674
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, 2015	December 31, 2014
Town of Sexsmith (a minority shareholder)		
Trade receivables	**$ 183**	$ 340
Trade payables	**14,280**	12,568
Dividends payable	**299,985**	289,424

	2015	2014
25 By 20 Holdings Inc. (a 100% subsidiary)		
Sale of services	**$ 198,870**	$ 130,996
Interest revenue	**333,500**	285,000

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

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

22. RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel

Key management personnel compensation is comprised of:

	2015	2014
Short-term benefits	**$ 809,566**	$ 778,838
Post-employment benefits	**80,147**	76,804
	$ 889,713	$ 855,642

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.

23. SEGMENT DISCLOSURES

	Water	Wastewater	Solid Waste	**2015**
Revenue				
Sale of services	$ 17,290,702	$ 17,570,420	$ 12,480,348	**$ 47,341,470**
Franchise fee revenue	1,403,873	1,605,710	537,763	**3,547,346**
Penalties	77,977	75,988	35,241	**189,206**
Other	986,336	946,981	473,757	**2,407,074**
	19,758,888	20,199,099	13,527,109	**53,485,096**
Expenses				
Salaries, wages and benefits	6,294,008	5,718,418	3,765,687	**15,778,113**
General, administrative and contracted services	2,911,614	2,912,100	5,009,713	**10,833,427**
Utilities	1,319,436	804,666	66,096	**2,190,198**
Major maintenance	179,906	760,351	10,745	**951,002**
Materials, goods and supplies	1,831,813	896,641	644,637	**3,373,091**
Depreciation	2,311,040	3,020,541	1,036,573	**6,368,154**
Franchise fees	1,403,873	1,605,710	537,763	**3,547,346**
	16,251,690	15,718,427	11,071,214	**43,041,331**
Other items				
Recognition of deferred revenue for capital contributions	1,166,000	1,499,011	24,099	**2,689,110**
Net finance costs excluding dividends	(222,356)	(288,992)	(398,997)	**(910,345)**
Gain on disposal of property, plant and equipment	22,901	810	630	**24,341**
	966,545	1,210,829	(374,268)	**1,803,106**
	$ 4,473,743	$ 5,691,501	$ 2,081,627	**$ 12,246,871**
Net subsidiary operations – 25 By 20 Holdings Inc.				**(332,678)**
Dividends				**(3,667,107)**
Net income				**$ 8,247,086**

23. SEGMENT DISCLOSURE (continued)

	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	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 income (costs) excluding dividends	(176,589)	(146,558)	101,441	**(221,706)**
Loss 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

24. 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, 2015	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	$ -	$ 16,922,939	$ -	$ -	$ -	**$ 16,922,939**	**$ 16,922,939**
Trade and other receivables	-	-	9,639,933	-	-	**9,639,933**	**9,639,933**
Investments	-	41,791,469	-	-	-	**41,791,469**	**42,412,720**
Due from subsidiary	-	-	3,790,044			**3,790,044**	**3,790,044**
Financial liabilities							
Trade and other payables	-	-	-	8,131,831	-	**8,131,831**	**8,131,831**
Dividends payable	-	-	-	3,667,107	-	**3,667,107**	**3,667,107**
Bank loans	-	-	-	62,729,574	-	**62,729,574**	**62,729,574**
Sewer Trunk oversizing payable				421,390		**421,390**	**421,390**
Sexsmith loan	-	-	-	170,731	-	**170,731**	**170,731**
Preferred shares	$ -	$ -	$ -	$ 80,381,902	$ -	**$ 80,381,902**	**$ 80,381,902**

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**	**29,917,799**
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**
Bank loans	-	-	-	54,140,093	-	**54,140,093**	**54,140,093**
Sewer Trunk oversizing payable				303,991		**303,991**	**303,991**
Sexsmith loans	-	-	-	207,773	-	**207,773**	**207,773**
Preferred shares	$ -	$ -	$ -	$ 76,381,902	$ -	**$ 76,381,902**	**$ 76,381,902**

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.

24. FINANCIAL INSTRUMENTS (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 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, 2015.

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.

24. 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.

	2015	2014
Trade receivables	$ 3,104,273	$ 3,131,039
Estimated unbilled accrual	2,022,450	1,941,567
Grants receivable	1,480,000	-
Accrued investment earnings	1,757,412	1,152,969
GST receivable	861,200	130,891
Other receivables	474,598	308,624
	9,699,933	6,665,090
Allowance for doubtful accounts	(60,000)	(60,000)
	$ 9,639,933	$ 6,605,090

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 $640,754 that is past due as at December 31, 2015 (2014 - $608,085).

At December 31, 2015, 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, 2015	Gross Impairment Allowance December 31, 2015	December 31, 2014	Gross Impairment Allowance December 31, 2014
Not past due	$ 2,463,519	$ -	$ 2,522,954	$ -
Past due 0-30 days	535,133	-	534,654	-
Past due 31-90 days	74,193	(30,000)	65,392	(55,000)
More than 91 days	31,428	(30,000)	8,039	(5,000)
	$ 3,104,273	$ (60,000)	$ 3,131,039	$ (60,000)

24. 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:

	2015	2014
Balance at the beginning of year	$ 60,000	$ 60,000
Impairment losses recognized	67,875	44, 396
Amounts written off as uncollectable	(67,875)	(44,396)
	$ 60,000	$ 60,000

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, 2015						
Accounts payable and accrued liabilities	$ 8,131,831	$ 8,131,831	$ 8,131,831	$ -	$ -	$ -
Dividends payable	3,667,107	3,667,107	3,667,107	-	-	-
Loans and borrowings	62,900,305	60,661,220	2,882,930	6,663,668	6,772,305	44,342,317
Sewer trunk oversizing payable	421,390	421,390	421,390	-	-	-
Preferred shares	80,381,902	80,381,902	-	-	-	80,381,902
	$ 155,502,535	$ 153,263,450	$ 15,103,258	$ 6,663,668	$ 6,772,305	$ 124,724,219
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	53,711,981	1,313,516	4,169,666	5,113,508	43,115,291
Sewer trunk oversizing payable	303,991	303,991	303,991	-	-	-
Preferred shares	76,381,902	76,381,902	-	-	-	76,381,902
	$ 142,675,455	$ 142,039,570	$ 13,259,203	$ 4,169,666	$ 5,113,508	$ 119,496,927

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.

24. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

The company's future obligations under operating leases are discussed in Note 18.

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.

25. 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 2016 totals $87 million and the projection in five years is $177 million. This will be funded through additional debt of $48 million, $28 million in contributions, $32 million in cash, $22 million in grants, and use of infrastructure charges of $47 million. Capital costs are based on engineering estimates developed in Master Plans and are refined as further design work occurs.