# AQUATERA UTILITIES INC.

## Non-Consolidated Financial Statements

## December 31, 2019

**AQUATERA UTILITIES INC.**

**Index to Non-Consolidated Financial Statements**

**Year Ended December 31, 2019**

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation and fair presentation of the 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.

The non-consolidated financial statements of Aquatera Utilities Inc. have been prepared in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These non-consolidated financial statements include certain amounts based on management's estimates and judgments. Management has determined such amounts based on a reasonable basis in order to ensure that the non-consolidated financial statements are presented fairly in all material respects.

The integrity and reliability of Aquatera Utilities Inc.'s reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. These systems are designed to provide reasonable assurance that the financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the non-consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board and meets periodically with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. Following its review of the non-consolidated financial statements and discussions with the auditors, the Audit Committee reports to the Board of Directors prior to its approval of the non-consolidated financial statements. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The non-consolidated financial statements have been audited on behalf of the shareholders by Fletcher Mudryk LLP, in accordance with International Financial Reporting Standards.

CEO

CFO

Grande Prairie, Alberta
March 25, 2020

FLETCHER MUDRYK LLP
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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Aquatera Utilities Inc.

*Opinion*

We have audited the non-consolidated financial statements of Aquatera Utilities Inc., which comprise the non-consolidated statement of financial position as at December 31, 2019, and the non-consolidated statements of income and comprehensive income and changes in equity and cash flows for the year then ended, and notes to the non-consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2019 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Non-consolidated Financial Statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the non-consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Responsibilities of Management and Those Charged with Governance for the Non-consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the 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.

In preparing the non-consolidated financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

*(continues)*

*Auditors' Responsibilities for the Audit of the Non-consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Fletcher Mudryk LLP

Grande Prairie, Alberta
March 25, 2020

Chartered Professional Accountants

## AQUATERA UTILITIES INC.
## Non-Consolidated Statement of Financial Position
## December 31, 2019

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Cash and cash equivalents *(Note 4)* | **$ 21,790,777** | $ 21,974,223 |
| Trade and other receivables *(Note 5)* | **15,853,362** | 21,128,719 |
| Inventory *(Note 6)* | **1,214,469** | 1,074,907 |
| Investments maturing in one year *(Note 7)* | **12,107,924** | 11,251,882 |
| | **50,966,532** | 55,429,731 |
| LONG-TERM INVESTMENTS *(Note 7)* | **46,692,852** | 46,446,140 |
| DUE FROM SUBSIDIARY *(Note 8)* | **2,864,458** | 5,137,854 |
| INVESTMENT IN SUBSIDIARY *(Note 9)* | **100** | 100 |
| PROPERTY, PLANT AND EQUIPMENT, NET *(Note 10)* | **345,812,008** | 324,046,693 |
| | **$ 446,335,950** | $ 431,060,518 |
| **LIABILITIES** | | |
| CURRENT | | |
| Accounts payable and accrued liabilities *(Note 11)* | **$ 6,381,726** | $ 8,825,003 |
| Dividends payable | **4,500,218** | 4,397,638 |
| Deferred revenue | **126,596** | 170,209 |
| Current portion of other long-term liabilities *(Note 12)* | **175,376** | 175,376 |
| Customer deposits | **1,709,544** | 2,311,918 |
| Callable debt due in one year *(Note 13)* | **4,683,570** | 3,959,199 |
| | **17,577,030** | 19,839,343 |
| Callable debt due thereafter *(Note 13)* | **70,016,353** | 73,325,190 |
| | **87,593,383** | 93,164,533 |
| DEFERRED REVENUE OF CAPITAL CONTRIBUTIONS *(Note 14)* | **179,524,500** | 164,466,591 |
| PROVISIONS FOR LANDFILL CLOSURE AND OTHER LONG-TERM LIABILITIES *(Note 12)* | **6,589,710** | 6,842,784 |
| DEFERRED INFRASTRUCTURE CHARGES *(Note 15)* | **24,155,109** | 28,968,909 |
| STOCK DIVIDEND PAYABLE *(Note 16)* | **8,693,714** | 12,612,635 |
| PREFERRED SHARES *(Note 17)* | **139,778,231** | 125,003,912 |
| | **446,334,647** | 431,059,364 |
| CONTINGENT LIABILITY *(Note 27)* | | |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | |
| COMMON SHARES *(Note 17)* | **1,303** | 1,154 |
| | **$ 446,335,950** | $ 431,060,518 |

**ON BEHALF OF THE BOARD**

_______________ *Director* _______________ *Director*

***Please see accompanying notes to financial statements***

# AQUATERA UTILITIES INC.
## Non-Consolidated Statement of Income and Comprehensive Income and Changes in Equity
## Year Ended December 31, 2019

| | 2019 | 2018 |
|---|---|---|
| **REVENUE** | | |
| Sale of services | **$ 54,424,649** | $ 53,475,664 |
| Franchise fee | **4,004,853** | 3,926,285 |
| Penalties | **206,375** | 212,482 |
| Other *(Note 20)* | **4,667,267** | 5,599,766 |
| | **63,303,144** | 63,214,197 |
| **EXPENSES** | | |
| Salaries, wages and benefits *(Note 21)* | **17,486,972** | 16,831,549 |
| General, administrative and contracted services | **12,034,045** | 10,638,038 |
| Utilities | **2,113,166** | 1,895,784 |
| Major maintenance | **771,252** | 1,116,476 |
| Materials, goods and supplies | **4,172,585** | 4,112,531 |
| Depreciation | **9,501,281** | 8,780,668 |
| Franchise fees | **4,004,853** | 3,926,285 |
| | **50,084,154** | 47,301,331 |
| **OPERATING INCOME** | **13,218,990** | 15,912,866 |
| Other income (expenses) | | |
| Recognition of deferred revenue for capital contributions | **3,501,656** | 3,261,699 |
| Interest income *(Note 22)* | **2,468,035** | 1,755,133 |
| Finance costs *(Note 22)* | **(2,946,290)** | (2,770,546) |
| Dividends declared *(Note 22)* | **(4,500,218)** | (4,397,638) |
| Fair value adjustment of interest rate swap *(Note 22)* | **(181,106)** | 174,287 |
| Gain (loss) on disposal of property, plant and equipment | **(33,731)** | 93,522 |
| Net subsidiary operations - 25 By 20 Holdings Inc. *(Note 9)* | **(2,833,622)** | (1,416,688) |
| | **(4,525,276)** | (3,300,231) |
| **NET INCOME AND COMPREHENSIVE INCOME** | **8,693,714** | 12,612,635 |
| RETAINED EARNINGS - BEGINNING OF YEAR | **-** | - |
| Stock dividend *(Note 16)* | **(8,693,714)** | (12,612,635) |
| **RETAINED EARNINGS - END OF YEAR** | **$ -** | $ - |

***Please see accompanying notes to financial statements***

# AQUATERA UTILITIES INC.
## Non-Consolidated Statement of Cash Flows
## Year Ended December 31, 2019

| | 2019 | 2018 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income and comprehensive income | $ **8,693,714** | $ 12,612,635 |
| Reconciliation to cash from (used in) operating activities: | | |
| Net finance costs including fair market value of interest rate swap *(Note 22)* | **5,159,579** | 5,238,764 |
| Depreciation of property, plant and equipment | **9,501,281** | 8,780,668 |
| Recognition of deferred revenue for capital contributions | **(3,501,656)** | (3,261,699) |
| Loss (gain) on disposal of property, plant and equipment | **33,731** | (93,522) |
| Net subsidiary operations - 25 By 20 Holdings Inc. | **2,833,622** | 1,416,688 |
| | **22,720,271** | 24,693,534 |
| Changes in non-cash working capital: | | |
| Trade and other receivables | **5,275,357** | (10,030,765) |
| Deposit on building | **-** | 2,369,287 |
| Inventory | **(139,562)** | (46,267) |
| Accounts payable and accrued liabilities | **(2,443,277)** | 4,061,379 |
| Deferred revenue | **(43,613)** | (15,214) |
| Customer deposits | **(602,374)** | 133,549 |
| | **2,046,531** | (3,528,031) |
| Cash from operating activities | **24,766,802** | 21,165,503 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | **(16,291,023)** | (12,988,680) |
| Developer contributed assets | **(5,408,789)** | (1,586,088) |
| Construction in progress | **(8,063,621)** | (18,438,450) |
| Proceeds on disposal of property, plant and equipment | **32,777** | 99,147 |
| Capital contributions | **18,559,565** | 16,889,677 |
| Loan to subsidiary | **(560,226)** | (1,497,289) |
| Interest earned | **2,468,035** | 1,755,133 |
| Investment purchases | **(25,584,149)** | (35,853,194) |
| Maturity of investments | **24,481,396** | 27,269,152 |
| Cash used by investing activities | **(10,366,035)** | (24,350,592) |
| **FINANCING ACTIVITIES** | | |
| Infrastructure charges collected | **5,075,030** | 5,572,530 |
| Infrastructure charges expended | **(9,888,830)** | (6,457,684) |
| Proceeds from callable debt financing | **-** | 13,500,000 |
| Repayment of callable debt | **(4,653,851)** | (3,952,046) |
| Changes in non-current provisions | **(175,375)** | (175,375) |
| Issuance of shares | **2,161,834** | 1,777,225 |
| Dividends paid on preferred shares | **(4,397,638)** | (3,799,616) |
| Interest expense and bad debts | **(2,705,383)** | (2,513,641) |
| Cash from (used by) financing activities | **(14,584,213)** | 3,951,393 |
| **INCREASE (DECREASE) IN CASH** | **(183,446)** | 766,304 |
| CASH - BEGINNING OF YEAR | **21,974,223** | 21,207,919 |
| **CASH - END OF YEAR** *(Note 4)* | **$ 21,790,777** | $ 21,974,223 |

***Please see accompanying notes to financial statements***

1. REPORTING ENTITY

The company provides water, wastewater and solid waste services to residents and commercial customers of the City of Grande Prairie, the Town of Sexsmith, the Town of Wembley and to residents residing in specific service areas within the County of Grande Prairie No. 1.

The company has a wholly owned subsidiary, 25 By 20 Holdings Inc., which operates as a holding company for its own subsidiaries. 25 By 20 Holdings Inc. has a 100% interest in Sustainable Water Solutions Inc., a water and wastewater treatment business in Fairview, Alberta and has a 100% interest in Advanced Trenchless Inc., a pipe relining business for industrial, municipal and commercial sectors, operating in Edmonton, Alberta. During the year, Advanced Trenchless Inc. ceased operations and liquidated operating assets.

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, the Town of Sexsmith and the Town of Wembley.

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 25, 2020.

**(b) Basis of measurement**

The company's non-consolidated financial statements are prepared on the historical cost basis except for the landfill closure and post-closure liability which is based on the present value of future cash flows and the CIBC credit swap which is valued at fair value. Revenue and expenses are recognized in the period in which the transactions or events occurred that gave rise to the revenue and expenses and when a liability is incurred.

**(c) Additional IFRS financial measure**

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

**(d) Functional and presentation currency**

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

*(continues)*

2. BASIS OF PRESENTATION *(continued)*

**(e) Use of estimates and judgments**

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

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

Significant estimates made by the company include the allowance for doubtful accounts, the useful life of property, plant and equipment, the provision for landfill closure and post-closure 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). 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
Town of Wembley – www.wembley.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.

*(continues)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**(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.

**(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 and 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 year they become 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.

*(continues)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The range of estimated useful lives used is as follows:

| | |
|---|---|
| Engineering structures | 60 – 75 years |
| Buildings | 50 years |
| Leasehold improvements | Terms of lease |
| Equipment | 3 – 40 years |
| Equipment under finance lease | 5 – 15 years |
| Vehicles and mobile equipment | 5 – 15 years |
| Right-of-use assets | Terms of lease |

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment.

**(e) Capitalized borrowing costs**

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

**(f) Leased assets**

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

Other leases are operating leases and the assets are not recognized in the statement of financial position.

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

**(g) Impairment**

**Financial assets**

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

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

*(continues)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(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.

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.

*(continues)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**(h) Deferred revenue**

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

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

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

**Other long-term liabilities**

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

**(j) Loans and borrowings**

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

*(continues)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**(k) Revenue recognition**

**Goods and services**

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

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

**Penalties**

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

**Other income**

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

**(l) Finance income and finance costs**

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

Finance costs comprise interest expense on borrowings, changes in the fair market value of interest rate swap agreements, accretion of provisions, dividends on preferred shares classified as liabilities and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net income using the effective interest method (Note 13).

**(m) Income taxes**

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

The company's subsidiary, 25 By 20 Holdings Inc. and its subsidiaries, Sustainable Water Solutions Inc. and Advanced Trenchless Inc. 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.

*(continues)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**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.

**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 13.

**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.

*(continues)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Other financial liabilities**

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

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

**(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.

*(continues)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**(s) New standards and interpretations adopted**

**IFRS 16 leases**

The new standard came into effect for financial years beginning on or after January 1, 2019. The standard recognizes right-of-use assets and lease liabilities on the statement of financial position initially measured at the present value of unavoidable future lease payments. The standard was adopted using the modified retrospective approach with no cumulative adjustment recognized in opening retained earnings as at January 1, 2019.

The comparative information has not been restated and continues to be reported under the IAS 17 accounting standard.

**(t) New standards and interpretations not yet adopted**

A number of new standards or amendments have been issued effective for periods beginning on or after January 1, 2020. These changes are not expected to have a significant impact on the company.

## 4. CASH

| | 2019 | 2018 |
|---|---|---|
| Cash on hand | **$ 4,618** | $ 4,617 |
| Cash in banks | **21,786,159** | 21,969,606 |
| **Total cash** | **$ 21,790,777** | $ 21,974,223 |

Cash in banks bears interest at 0.9% per annum.

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

| | 2019 | 2018 |
|---|---|---|
| Dividends payable | **$ 4,500,218** | $ 4,397,638 |
| Capital accounts payable | **1,718,027** | 5,563,759 |
| Other long-term liabilities - current | **175,376** | 175,376 |
| Trust liabilities | | |
| Customer deposits | **1,709,544** | 2,311,918 |
| Deferred revenue | **126,596** | 170,209 |
| Deferred infrastructure charges | **24,155,109** | 28,968,909 |
| Working capital cash requirement (excess) | **7,786,303** | 1,707,926 |
| Debt | **6,650,000** | 8,500,000 |
| Internally Restricted Funds | | |
| Capital expenditure funds | **12,247,282** | 8,445,399 |
| Business development funds | **15,634,890** | 13,465,204 |
| Landfill liability | **5,888,208** | 5,965,907 |
| **Total allocated cash** | **$ 80,591,553** | $ 79,672,245 |

**Held as follows:**

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | **$ 21,790,777** | $ 21,974,223 |
| Investments maturing in one year | **12,107,924** | 11,251,882 |
| Long-term investments | **46,692,852** | 46,446,140 |
| | **$ 80,591,553** | $ 79,672,245 |

## 5. TRADE AND OTHER RECEIVABLES

| | 2019 | 2018 |
|---|---|---|
| Trade accounts receivable | **$ 3,760,290** | $ 3,975,014 |
| Estimated unbilled accrual | **2,145,791** | 2,038,264 |
| Grants receivable | **3,394,544** | 10,086,477 |
| Accrued investment earnings | **3,514,319** | 2,920,221 |
| GST receivable | **247,439** | 235,078 |
| Other receivables | **2,836,979** | 1,898,665 |
| | **15,899,362** | 21,153,719 |
| Allowance for doubtful accounts | **(46,000)** | (25,000) |
| | **$ 15,853,362** | $ 21,128,719 |

## 6. INVENTORY

In 2019, inventory consumables recognized as materials, goods and supplies expense amounted to $1,314,495 (2018 - $1,715,420). In 2019, the write-down of inventories to net realizable value amounted to $NIL (2018 - $NIL).

## 7. LONG-TERM INVESTMENTS

| | **2019** | 2018 |
|---|---|---|
| Investments | **$ 58,800,776** | $ 57,698,022 |
| Investments maturing in one year | **(12,107,924)** | (11,251,882) |
| | **$ 46,692,852** | $ 46,446,140 |

Long-term investments consist of held to maturity fixed income investments, bear interest at rates between 1.65% and 4.10% and mature between January, 2020 and July, 2024.

## 8. DUE FROM SUBSIDIARY

| | **2019** | 2018 |
|---|---|---|
| Loan | **$ 3,335,000** | $ 3,335,000 |
| Advances | **5,475,951** | 4,915,725 |
| Cumulative investment losses applied *(Note 9)* | **(5,946,493)** | (3,112,871) |
| | **$ 2,864,458** | $ 5,137,854 |

Loan to the company's subsidiary, 25 By 20 Holdings Inc., is unsecured, bears interest at 10% per annum and has no fixed terms of repayment. The company's Board of Directors have indicated that repayment of the loan will not be demanded in the next fiscal year.

## 9. INVESTMENT IN SUBSIDIARY

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

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

On December 1, 2017, 25 By 20 Holdings Inc. purchased a 100% interest in Advanced Trenchless Inc., a privately-owned company incorporated under the Alberta Business Corporations Act, which operates a pipe relining business for industrial, municipal and commercial sectors in Edmonton, Alberta for $1,578,497. During the year, Advanced Trenchless Inc. ceased operations and liquidated all operating assets.

*(continues)*

9. INVESTMENT IN SUBSIDIARY *(continued)*

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

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Investment in subsidiary | **$** | **100** | $ | 100 |
| Cumulative share of earnings (losses) | | **(5,946,493)** | | (3,112,871) |
| Cumulative losses applied to loan receivable from subsidiary *(Note 8)* | | **5,946,493** | | 3,112,871 |
| | **$** | **100** | $ | 100 |

The following is condensed financial information of 25 By 20 Holdings Inc. for the year ended December 31, 2019:

**Results of financial performance**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Revenue | **$** | **357,503** | $ | 494,339 |
| Expenses | | **(622,781)** | | (477,159) |
| Interest income - subsidiaries | | **290,302** | | 252,766 |
| Interest expense - Aquatera Utilities Inc. | | **(323,061)** | | (284,425) |
| Write-down of advances to Advanced Trenchless Inc. | | **(1,057,560)** | | - |
| Net subsidiary operations | | **(1,478,025)** | | (1,402,209) |
| Net income (loss) | **$** | **(2,833,622)** | $ | (1,416,688) |

**Financial position**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | **$** | **66,350** | $ | 307,890 |
| Due from subsidiaries | | **1,781,849** | | 3,491,500 |
| Investment in subsidiaries (equity method) | | **621,751** | | 1,183,027 |
| | **$** | **2,469,950** | $ | 4,982,417 |
| **LIABILITIES** | | | | |
| Current liabilities | **$** | **6,107** | $ | 6,428 |
| Due to Aquatera Utilities Inc. | | **8,410,236** | | 8,088,760 |
| | | **8,416,343** | | 8,095,188 |
| **SHAREHOLDER'S DEFICIENCY** | | | | |
| Share capital | | **100** | | 100 |
| Retained earnings (deficit) | | **(5,946,493)** | | (3,112,871) |
| | | **(5,946,393)** | | (3,112,771) |
| | **$** | **2,469,950** | $ | 4,982,417 |

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Cost | Accumulated depreciation | **2019 Net book value** | 2018 Net book value |
|---|---|---|---|---|
| Land | $ 2,146,277 | $ - | **$ 2,146,277** | $ 2,144,867 |
| Buildings | 89,286,917 | 14,323,969 | **74,962,948** | 74,810,294 |
| Leasehold improvements | 2,501,448 | 1,843,136 | **658,312** | 909,079 |
| Engineering structures | 227,419,836 | 22,101,763 | **205,318,073** | 176,709,455 |
| Equipment | 61,965,003 | 15,349,173 | **46,615,830** | 41,990,481 |
| Vehicles and mobile equipment | 9,006,238 | 5,495,905 | **3,510,333** | 2,438,202 |
| Construction in progress | 10,950,049 | - | **10,950,049** | 25,044,315 |
| Right-of-use assets | 3,035,955 | 1,385,769 | **1,650,186** | - |
| | $ 406,311,723 | $ 60,499,715 | **$ 345,812,008** | $ 324,046,693 |

Borrowing costs capitalized during the year ended December 31, 2019 were $NIL (2018 - $NIL). To date, there has been no other borrowing on projects included in construction in progress.

There are no restrictions on assets.

During the year ended December 31, 2019, the company performed a detailed analysis of existing property, plant and equipment and no impairments were found.

See *Schedule 1* for additional information.

## 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **2019** | 2018 |
|---|---|---|
| Trade payables | **$ 3,792,543** | $ 3,061,036 |
| Capital payables | **1,718,027** | 4,781,504 |
| Accrued employee benefits | **871,156** | 982,463 |
| | **$ 6,381,726** | $ 8,825,003 |

12. PROVISIONS

| | Landfill Closure and Post-Closure Liability | Other Long-Term Liabilities | Total |
|---|---|---|---|
| Balance at the beginning of year | $ 5,965,907 | $ 1,052,253 | $ 7,018,160 |
| Provisions made during the year | - | (175,375) | (175,375) |
| Prospective change in estimate | (248,229) | - | (248,229) |
| Accretion of liability | 170,530 | - | 170,530 |
| **Balance at December 31, 2019** | 5,888,208 | 876,878 | 6,765,086 |
| Current | - | 175,376 | 175,376 |
| Non-current | 5,888,208 | 701,502 | 6,589,710 |

**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. During the year, based on a re-evaluation of the company's asset retirement obligation and related decommissioning liability, the company recorded a change in estimate to these amounts of $248,229 as of January 1, 2019. This change in estimate was recorded prospectively based on the change in circumstances noted during the year.

The company estimates the discounted amount of cash flow required to settle its decommissioning liability is approximately $5,888,208 (2018 – $5,965,907), calculated using inflation rates of 2.00% and a long-term discount rate of 5.00%.

The majority of closure costs are related to cells 1 - 9 of the landfill and are expected to occur in approximately eight 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 365,326 (2018 – 448,529) metric tonnes remaining with an annual estimated utilization of 83,203 metric tonnes. The current year liability and capacity reflect cells 1 - 9 with a total capacity of approximately 3.6 million metric tonnes and a total lifespan of approximately 50 years once cells 1 - 17 are completed.

**Other long-term liabilities**

The company has entered into a contractor financing agreement on a long-term construction project. The company is required pay the balance of the liability in eight equal instalments on the anniversary of the holdback each year for eight years. Payments commenced on November 25, 2017 and bear no interest.

13. CALLABLE DEBT

| | 2019 | 2018 |
|---|---|---|
| Due to the Town of Sexsmith | **$ -** | $ 46,326 |
| Due to the Federation of Canadian Municipalities | **3,500,000** | 4,000,000 |
| Due to RBC Royal Bank | **28,754,758** | 30,267,627 |
| Due to CIBC | **40,133,327** | 42,533,331 |
| Fair value adjustment of interest rate swap | **618,211** | 437,105 |
| Right-of-use lease liability | **1,693,627** | - |
| | **74,699,923** | 77,284,389 |
| Loans and borrowings due in one year | **(4,683,570)** | (3,959,199) |
| | **$ 70,016,353** | $ 73,325,190 |

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

| | |
|---|---|
| Less than one year | $ 4,683,570 |
| Between one and five years | 18,791,771 |
| More than five years | 51,224,582 |
| | $ 74,699,923 |

**Due to the Federation of Canadian Municipalities**

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

**Bank loans**

Bank loans from RBC Royal Bank are secured by a general security agreement and unlimited guarantees from the company's subsidiaries and are repayable in monthly payments aggregating $126,072 plus interest. $15.3 million of the loans bear interest at the bankers' acceptance rate of 3.95% plus a 0.70% stamping fee and mature in 2029. The remaining $13.5 million of the loans bear interest at the 30 day bankers' acceptance rate plus a 0.70% stamping fee.

Bank loans from CIBC are secured by a general security agreement and are repayable in monthly payments aggregating $200,000 plus interest. $25.6 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 $14.5 million of the loans bear interest at the 30 day bankers' acceptance rate plus a 1.25% stamping fee.

As a condition of RBC Royal Bank and Federation of Canadian Municipalities financing, the company is subject to restrictive bank covenants, whereby it is required to maintain a funded debt to total capital ratio not exceeding 0.5 to 1 and maintain a fixed charge coverage ratio to not be less than 1.25 to 1. The company is in compliance with these ratios, as understood by management. The funded debt to total capital ratio is calculated at 0.35 to 1 (2018 – 0.36 to 1) and the fixed charge ratio is calculated at 1.85 to 1 (2018 – 2.29 to 1).

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

*(continues)*

13. 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 RBC Royal Bank in the amount of $1,200,000, all of which is unused at December 31, 2019 (2018 - $1,200,000 unused). These facilities consist of revolving demand facilities limited to $200,000 and a revolving lease line of credit limited to $1,000,000.

The company has available bank facilities from CIBC consisting of revolving demand facilities limited to $2,000,000, all of which is unused at December 31, 2019 (2018 - $2,000,000 unused).

**Right-of-use lease liability**

The company has recognized a right-of-use lease liability with the change of accounting standard to IFRS 16, effective January 1, 2019. The right-of-use lease is initially recognized at net present value of future cash flows for the term of the lease and is repayable in monthly payments of $16,221 plus interest at an implied rate of 5.00% per annum and matures in 2030.

14. DEFERRED REVENUE OF CAPITAL CONTRIBUTIONS

| | Developer Contributions | Government Grants and Infrastructure Charges | Total Deferred Revenue of Capital Contributions |
|---|---|---|---|
| Balance at the beginning of the year | $ 60,540,869 | $ 103,925,722 | $ 164,466,591 |
| Contributions received | 5,408,789 | 13,150,776 | 18,559,565 |
| Revenue recognized | (811,883) | (2,689,773) | (3,501,656) |
| **Balance at December 31, 2019** | **$ 65,137,775** | **$ 114,386,725** | **$ 179,524,500** |

| | Developer Contributions | Government Grants and Infrastructure Charges | Total Deferred Revenue of Capital Contributions |
|---|---|---|---|
| Balance at the beginning of the year | $ 59,751,033 | $ 91,087,580 | $ 150,838,613 |
| Contributions received | 1,586,088 | 15,303,589 | 16,889,677 |
| Revenue recognized | (796,252) | (2,465,447) | (3,261,699) |
| Balance at December 31, 2018 | $ 60,540,869 | $ 103,925,722 | $ 164,466,591 |

## 15. DEFERRED INFRASTRUCTURE CHARGES

| | 2019 | 2018 |
|---|---|---|
| Balance at the beginning of the year | **$ 28,968,909** | $ 29,854,063 |
| Contributions received | **5,075,030** | 5,572,530 |
| Transfer to deferred revenue | **(9,888,830)** | (6,457,684) |
| | **$ 24,155,109** | $ 28,968,909 |

## 16. STOCK DIVIDEND PAYABLE

In accordance with the Unanimous Shareholders Agreement, a preferred share stock dividend is declared prior to any cash contribution or asset transfer to the company, effectively distributing common and preferred shares and not cash, equal to the retained earnings of the company to the existing shareholders based on their common shares. Cash contributions and asset transfers occurred effective December 31, 2019. As the stock dividend is paid via share issuance on the day following the year-end in accordance with the Unanimous Shareholders Agreement, the amounts have been excluded from current liabilities to ensure consistent treatment with all other preferred shares issues by the company.

| | 2019 | 2018 |
|---|---|---|
| City of Grande Prairie | | |
| 6,420 Class C common shares and Class H preferred shares | **$ 6,420,421** | $ 9,349,831 |
| County of Grande Prairie No. 1 | | |
| 1,526 Class C common shares and Class H preferred shares | **1,526,141** | 2,252,347 |
| Town of Sexsmith | | |
| 720 Class C common shares and Class H preferred shares | **719,785** | 1,010,457 |
| Town of Wembley | | |
| 27 Class C common shares and Class I preferred shares | **27,367** | - |
| | **$ 8,693,714** | $ 12,612,635 |

17. SHARE CAPITAL

Authorized:

| | |
|---|---|
| Unlimited | Class A voting common shares |
| Unlimited | Class B common shares with restricted voting rights |
| Unlimited | Class C common shares with restricted voting rights |
| 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 share |
| Unlimited | Class H non-cumulative, redeemable, retractable, non-voting preferred shares |
| Unlimited | Class I non-cumulative, redeemable, retractable, non-voting preferred shares |

| | | 2019 | 2018 |
|---|---|---|---|
| The following common and preferred shares have been issued: | | | |
| **Common shares** | | | |
| 54,009 | Class A shares (2018 - 52,252) | **$ 540** | $ 522 |
| 405 | Class B shares (2018 - NIL) | **4** | - |
| 75,875 | Class C shares (2018 - 63,262) | **759** | 632 |
| | | **$ 1,303** | $ 1,154 |
| **Preferred shares** | | | |
| 48,008 | Class D shares (2018 - 48,008) | **$ 48,006,836** | $ 48,006,836 |
| 405 | Class E shares (2018 - NIL) | **404,602** | - |
| 5,987 | Class F shares (2018 - 4,230) | **5,987,558** | 4,230,475 |
| 85,380 | Class H shares (2018 - 72,768) | **85,379,235** | 72,766,601 |
| | | **$ 139,778,231** | $ 125,003,912 |

During the year, 1,757 Class A common shares and 1,757 Class F preferred shares were issued for $1,757,083 and 405 Class B common shares and 405 Class E preferred shares for $404,602 pursuant to asset and cash transfers disclosed in Note 18.

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 a cash or asset transfer into the company such that dividends cannot be declared on these shares for two years from the effective date of any such asset transfer.

The company corrected its prior year balances in share capital to recognize that the shares issued as part of stock dividends paid by the company are not issued until the day following the year-end.

18. ASSET TRANSFERS

On January 1, 2019, the Town of Wembley transferred its water infrastructure assets with a net value of $404,602 to the company in exchange for 405 Class B common and Class E preferred shares. In addition, on January 1, 2020, 150 Class B common and Class E preferred shares were issued for wastewater infrastructure assets with a net value of $149,871.

On December 31, 2019, the County of Grande Prairie contributed cash in the amount of $1,131,456 and water operations valued at $175,627 to the company in exchange for 1,307 Class A common and Class F preferred shares.

On December 31, 2019, the Town of Sexsmith contributed cash in the amount of $450,000 to the company in exchange for 450 Class A common and Class F preferred shares.

19. COMMITMENTS

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 13.

A dividend will become payable in 2020 to the shareholders as follows:

| | |
|---|---|
| City of Grande Prairie | **$ 1,808,050** |
| County of Grande Prairie No. 1 | **398,100** |
| Town of Sexsmith | **194,250** |

20. OTHER REVENUE

| | **2019** | 2018 |
|---|---|---|
| Service connections | **$ 498,116** | $ 420,354 |
| Operator assistance | **953,703** | 889,919 |
| Infrastructure charge - engineering fees | **271,150** | 302,929 |
| Distribution and collection commercial services | **454,338** | 848,151 |
| Customer shut-off fees | **287,786** | 272,579 |
| Landfill gas sales and grants | **1,250,419** | 2,014,554 |
| Miscellaneous revenues and sales | **173,035** | 302,280 |
| Equipment rent and contract revenue | **778,720** | 549,000 |
| | **$ 4,667,267** | $ 5,599,766 |

21. EMPLOYEE BENEFITS

| | **2019** | 2018 |
|---|---|---|
| Short-term benefits | **$ 14,969,416** | $ 15,097,135 |
| Post-employment benefits | **1,461,280** | 1,445,200 |
| Termination benefits | **1,056,276** | 289,214 |
| | **$ 17,486,972** | $ 16,831,549 |

**(a) 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.

**(b) Post-employment benefits**

**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 265,813 people and 421 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 9.39% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.84% on the excess.

Employees of the company are required to make current service contributions to the Plan of 8.39% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 12.84% on the excess.

Total current and past service contributions by the company to the LAPP in 2019 were $1,183,531 (2018 - $1,220,761). Total current and past service contributions by the employees of the company to the LAPP in 2019 were $1,064,550 (2018 - $1,118,429).

At December 31, 2018, the Plan disclosed an actuarial surplus of $3.50 billion (2017 - $4.84 billion).

LAPP has announced that member contribution rates will remain the same in 2020.

**APEX Supplementary Pension Plan**

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

The company is required to make current service contributions to the APEX of 3.78% of pensionable payroll above the LAPP maximum pensionable earnings up to the year's maximum pensionable earnings of $147,222 for employees who have elected to participate in the APEX. No contributions are required on earnings above the maximum threshold.

*(continues)*

21. EMPLOYEE BENEFITS *(continued)*

Employees electing to participate in the APEX are required to make current service contributions of 2.84% of pensionable payroll service above the APEX maximum pensionable earnings up to the year's maximum pensionable earnings of $147,222 with no contributions on earnings above the maximum threshold.

Total current and past service contributions by the company to APEX in 2019 were $90,472 (2018 - $101,259). Total current and past service contributions by the employees of the company to APEX in 2019 were $67,973 (2018 - $76,078).

At December 31, 2018, the APEX disclosed an actuarial deficiency of $7,899,642 (2017 - $2,370,293).

APEX has announced that employer member contribution rates will increase by 0.07% and employee contribution rates will decrease by 0.23%.

**(c) Termination benefits**

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

22. FINANCE INCOME AND FINANCE COSTS

| | **2019** | 2018 |
|---|---|---|
| Interest income | **$ (2,468,035)** | $ (1,755,133) |
| **Finance income** | **(2,468,035)** | (1,755,133) |
| Interest expense | **2,642,969** | 2,520,793 |
| Accretion of provision | **170,530** | 256,905 |
| Unwinding of discount on right-of-use assets | **70,377** | - |
| Dividend payable | **4,500,218** | 4,397,638 |
| Fair value adjustment of interest rate swap | **181,106** | (174,287) |
| Bad debts (recovered) | **62,414** | (7,152) |
| **Finance costs** | **7,627,614** | 6,993,897 |
| **Net finance costs recognized in net income** | **$ 5,159,579** | $ 5,238,764 |

23. RELATED PARTY TRANSACTIONS

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

| | | **2019** | | 2018 |
|---|---|---|---|---|
| **City of Grande Prairie (the majority shareholder)** | | | | |
| Sale of services | **$** | **590,110** | $ | 890,334 |
| Franchise fees expense | | **3,371,252** | | 3,403,065 |
| Special dividends declared | | **1,590,015** | | 1,522,813 |
| Regular dividends declared | | **1,808,050** | | 1,808,050 |
| Common shares issued | | **94** | | 13 |
| Preferred shares issued | | **9,349,830** | | 1,257,780 |
| Trade receivables | | **944** | | 39,089 |
| Trade payables | | **224,459** | | 205,785 |
| Dividends payable | | **3,398,065** | | 3,330,863 |
| Stock dividend payable | | **6,420,421** | | 9,349,831 |
| **County of Grande Prairie No. 1 (a minority shareholder)** | | | | |
| Sale of services | **$** | **217,517** | $ | 251,400 |
| General, administrative and contracted services expense | | **368,259** | | 315,739 |
| Franchise fees expense | | **255,280** | | 295,019 |
| Special dividends declared | | **350,341** | | 325,201 |
| Regular dividends declared | | **398,100** | | 398,100 |
| Common shares issued | | **36** | | - |
| Preferred shares issued | | **3,559,430** | | - |
| Trade receivables | | **323,525** | | 591 |
| Trade payables | | **42,807** | | 45,607 |
| Dividends payable | | **748,441** | | 723,301 |
| Stock dividend payable | | **1,526,141** | | 2,252,347 |
| **Town of Sexsmith (a minority shareholder)** | | | | |
| Sale of services | **$** | **27,414** | $ | 8,870 |
| General, administrative and contracted services expense | | **222,352** | | 186,822 |
| Franchise fees expense | | **93,164** | | 89,753 |
| Interest expense | | **-** | | 5,183 |
| Special dividends declared | | **159,462** | | 149,224 |
| Regular dividends declared | | **194,250** | | 194,250 |
| Common shares issued | | **15** | | 5 |
| Preferred shares issued | | **1,460,456** | | 519,429 |
| Trade receivables | | **-** | | 606 |
| Trade payables | | **28,583** | | 21,188 |
| Dividends payable | | **353,712** | | 343,474 |
| Stock dividend payable | | **719,785** | | 1,010,457 |
| **Town of Wembley (a minority shareholder)** | | | | |
| Common shares issued | **$** | **4** | $ | - |
| Preferred shares issued | | **405** | | - |
| Stock dividend payable | | **27,367** | | - |
| Trade payables | | **33,210** | | - |

*(continues)*

23. RELATED PARTY TRANSACTIONS *(continued)*

| | **2019** | 2018 |
|---|---|---|
| **25 By 20 Holdings Inc. (a 100% subsidiary)** | | |
| Interest revenue | **$ 322,784** | $ 276,650 |
| **Sustainable Water Solutions Inc.** | | |
| **(a 100% subsidiary of 25 By 20 Holdings Inc.)** | | |
| Equipment rent and contract revenue | **$ 778,720** | $ 450,202 |
| Subcontract | **64,436** | - |
| Trade receivables | **77,190** | - |
| Purchase of equipment | **-** | 59,470 |
| **Advanced Trenchless Inc.** | | |
| **( a 100% subsidiary of 25 By 20 Holdings Inc.)** | | |
| Building rental revenue | **$ 104,178** | $ 135,980 |
| Subcontract | **193,628** | - |
| Purchase of equipment | **51,400** | - |
| **Transactions with key management personnel** | | |
| Key management personnel compensation is comprised of: | | |
| Short-term benefits | **$ 1,186,326** | $ 927,714 |
| Post-employment and termination benefits | **817,827** | 233,345 |
| | **$ 2,004,153** | $ 1,161,059 |

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.

24. SEGMENTED DISCLOSURE

| | Water | Wastewater | Solid Waste | **2019** |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales of service | $ 19,874,807 | $ 21,391,813 | $ 13,158,029 | **$ 54,424,649** |
| Franchise fees | 1,569,536 | 1,892,903 | 542,414 | **4,004,853** |
| Penalties | 87,331 | 83,444 | 35,600 | **206,375** |
| Other | 1,582,374 | 1,666,146 | 1,418,747 | **4,667,267** |
| | 23,114,048 | 25,034,306 | 15,154,790 | **63,303,144** |
| **Expenses** | | | | |
| Salaries, wages and benefits | 7,281,488 | 6,560,588 | 3,644,896 | **17,486,972** |
| General administrative and contracted services | 2,817,504 | 3,609,569 | 5,606,972 | **12,034,045** |
| Utilities | 527,572 | 1,352,586 | 233,008 | **2,113,166** |
| Major maintenance | 173,658 | 538,419 | 59,175 | **771,252** |
| Materials, goods and supplies | 1,905,933 | 1,590,393 | 676,259 | **4,172,585** |
| Depreciation | 3,126,283 | 5,116,199 | 1,258,799 | **9,501,281** |
| Franchise fees | 1,569,536 | 1,892,903 | 542,414 | **4,004,853** |
| | 17,401,974 | 20,660,657 | 12,021,523 | **50,084,154** |
| **Other items** | | | | |
| Recognition of deferred revenue for capital contributions | 1,472,415 | 1,994,481 | 34,760 | **3,501,656** |
| Net finance costs excluding dividends | (250,557) | (250,557) | (158,247) | **(659,361)** |
| Gain (loss) on disposal of property, plant and equipment | (1,148) | 510 | (33,093) | **(33,731)** |
| | 1,220,710 | 1,744,434 | (156,580) | **2,808,564** |
| **Net income** | $ 6,932,784 | $ 6,118,083 | $ 2,976,687 | **16,027,554** |
| Net subsidiary operations - 25 By 20 Holdings Inc. | | | | **(2,833,622)** |
| Dividends | | | | **(4,500,218)** |
| | | | | **$ 8,693,714** |

*(continues)*

24. SEGMENTED DISCLOSURE *(continued)*

| | Water | Wastewater | Solid Waste | 2018 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sale of services | $ 19,793,507 | $ 20,520,630 | $ 13,161,527 | $ 53,475,664 |
| Franchise fees | 1,539,777 | 1,841,024 | 545,484 | 3,926,285 |
| Penalties | 88,902 | 87,342 | 36,238 | 212,482 |
| Other | 1,725,566 | 1,656,604 | 2,217,596 | 5,599,766 |
| | 23,147,752 | 24,105,600 | 15,960,845 | 63,214,197 |
| **Expenses** | | | | |
| Salaries, wages and benefits | 7,033,907 | 6,347,394 | 3,450,248 | 16,831,549 |
| General administrative and contracted services | 2,695,332 | 2,596,611 | 5,346,095 | 10,638,038 |
| Utilities | 441,142 | 1,244,027 | 210,615 | 1,895,784 |
| Major maintenance | 424,261 | 424,261 | 267,954 | 1,116,476 |
| Materials, goods and supplies | 2,028,901 | 1,202,605 | 881,025 | 4,112,531 |
| Depreciation | 2,968,802 | 4,663,523 | 1,148,343 | 8,780,668 |
| Franchise fees | 1,539,777 | 1,841,024 | 545,484 | 3,926,285 |
| | 17,132,122 | 18,319,445 | 11,849,764 | 47,301,331 |
| **Other items** | | | | |
| Recognition of deferred revenue for capital contributions | 1,371,192 | 1,855,712 | 34,795 | 3,261,699 |
| Net finance costs excluding dividends | (319,628) | (319,628) | (201,870) | (841,126) |
| Gain on disposal of property, plant and equipment | - | 58,005 | 35,517 | 93,522 |
| | 1,051,564 | 1,594,089 | (131,558) | 2,514,095 |
| **Net income** | $ 7,067,194 | $ 7,380,244 | $ 3,979,523 | 18,426,961 |
| Net subsidiary operations - 25 By 20 Holdings Inc. | | | | (1,416,688) |
| Dividends | | | | (4,397,638) |
| | | | | $ 12,612,635 |

25. FINANCIAL INSTRUMENTS

**Categories of financial instruments**

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

| December 31, 2019 | 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 | - | 21,790,777 | - | - | - | **21,790,777** | **21,790,777** |
| Trade and other receivables | - | - | 15,853,362 | - | - | **15,853,362** | **15,853,362** |
| Investments | - | 58,800,776 | - | - | - | **58,800,776** | **62,562,398** |
| Due from subsidiary | - | - | 2,864,458 | - | - | **2,864,458** | **2,864,458** |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | - | - | - | 6,381,726 | - | **6,381,726** | **6,381,726** |
| Dividends payable | - | - | - | 4,500,218 | - | **4,500,218** | **4,500,218** |
| Bank loans | - | - | - | 69,506,297 | - | **69,506,297** | **69,506,297** |
| Other long-term liability | - | - | - | 876,878 | - | **876,878** | **876,878** |
| Right-of-use assets lease liability | - | - | - | 1,693,627 | - | **1,693,627** | **1,693,627** |
| Sexsmith loan | - | - | - | - | - | **-** | **-** |
| Federation of Canadian Municipalities loan | - | - | - | 3,500,000 | - | **3,500,000** | **3,500,000** |
| Stock dividend payable | - | - | - | 8,693,714 | - | **8,693,714** | **8,693,714** |
| Preferred shares | - | - | - | 139,778,231 | - | **139,778,231** | **139,778,231** |

| December 31, 2018 | 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 | - | 21,974,223 | - | - | - | **21,974,223** | **21,974,223** |
| Trade and other receivables | - | - | 21,128,719 | - | - | **21,128,719** | **21,128,719** |
| Investments | - | 57,698,022 | - | - | - | **57,698,022** | **60,614,079** |
| Due from subsidiary | - | - | 5,137,854 | - | - | **5,137,854** | **5,137,854** |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | - | - | - | 8,825,003 | - | **8,825,003** | **8,825,003** |
| Dividends payable | - | - | - | 4,397,638 | - | **4,397,638** | **4,397,638** |
| Bank loans | - | - | - | 73,238,063 | - | **73,238,063** | **73,238,063** |
| Other long-term liability | - | - | - | 1,052,253 | - | **1,052,253** | **1,052,253** |
| Sexsmith loans | - | - | - | 46,326 | - | **46,326** | **46,326** |
| Federation of Canadian Municipalities loan | - | - | - | 4,000,000 | - | **4,000,000** | **4,000,000** |
| Stock dividend payable | - | - | - | 12,612,635 | - | **12,612,635** | **12,612,635** |
| Preferred shares | - | - | - | 125,003,912 | - | **125,003,912** | **125,003,912** |

*(continues)*

25. FINANCIAL INSTRUMENTS *(continued)*

**Determination of fair values**

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

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

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

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

The fair value of the interest rate 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, 2019.

**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.

*(continues)*

25. FINANCIAL INSTRUMENTS *(continued)*

### Credit risk

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

| | **2019** | 2018 |
|---|---|---|
| Trade accounts receivable | **$ 3,760,291** | $ 3,975,014 |
| Estimated unbilled accrual | **2,145,791** | 2,038,264 |
| Grants receivable | **3,394,544** | 10,086,477 |
| Accrued investment earnings | **3,514,319** | 2,920,221 |
| GST receivable | **247,439** | 235,078 |
| Other receivables | **2,836,978** | 1,898,665 |
| | **15,899,362** | 21,153,719 |
| Allowance for doubtful accounts | **(46,000)** | (25,000) |
| | **$ 15,853,362** | $ 21,153,719 |

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 $903,660 that is past due as at December 31, 2019 (2018 - $1,290,510).

At December 31, 2019, 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, 2019 | Gross Impairment Allowance December 31, 2019 | December 31, 2018 | Gross Impairment Allowance December 31, 2018 |
|---|---|---|---|---|
| Not past due | **2,856,631** | **-** | 2,954,515 | - |
| Past due 0-30 days | **602,241** | **-** | 786,473 | - |
| Past due 31-90 days | **165,812** | **- 23,000** | 145,279 | - 12,500 |
| More than 91 days | **135,607** | **- 23,000** | 88,747 | - 12,500 |
| | **3,760,291** | **- 46,000** | 3,975,014 | - 25,000 |

*(continues)*

25. FINANCIAL INSTRUMENTS *(continued)*

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

| | **2019** | 2018 |
|---|---|---|
| Balance at the beginning of year | **$ 25,000** | $ 86,000 |
| Impairment losses recognized | **(62,414)** | 7,152 |
| Amounts written off as uncollectible | **62,414** | (7,152) |
| Increase (decrease) in allowance | **21,000** | (61,000) |
| | **$ 46,000** | $ 25,000 |

**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.

*(continues)*

25. FINANCIAL INSTRUMENTS *(continued)*

The following table presents the contractual maturities of financial liabilities:

| | Carrying amount | Contractual cash flow | Under 1 year | Between 2 - 3 years | Between 4 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | |
| Accounts payable and accrued liabilities | **6,381,726** | **6,381,726** | 6,381,726 | - | - | - |
| Dividends payable | **4,500,218** | **4,500,218** | 4,500,218 | - | - | - |
| Loans and borrowings | **74,699,923** | **74,081,712** | 4,683,570 | 9,383,890 | 9,407,881 | 50,606,371 |
| Other long-term liabilities | **876,878** | **876,878** | 175,376 | 350,751 | 350,751 | - |
| Stock dividend payable | **8,693,714** | **8,693,714** | - | - | - | 8,693,714 |
| Preferred shares | **139,778,231** | **139,778,231** | - | - | - | 139,778,231 |
| | **234,930,690** | **234,312,479** | **15,740,890** | **9,734,641** | **9,758,632** | **199,078,316** |
| **December 31, 2018** | | | | | | |
| Accounts payable and accrued liabilities | **8,825,003** | **8,825,003** | 8,825,003 | - | - | - |
| Dividends payable | **4,397,638** | **4,397,638** | 4,397,638 | - | - | - |
| Loans and borrowings | **77,284,389** | **76,847,284** | 3,959,199 | 9,121,325 | 9,121,325 | 54,645,435 |
| Other long-term liabilities | **1,052,253** | **1,052,253** | 175,376 | 350,751 | 350,751 | 175,375 |
| Stock dividend payable | **12,612,635** | **12,612,635** | - | - | - | 12,612,635 |
| Preferred shares | **125,003,912** | **125,003,912** | - | - | - | 125,003,912 |
| | **229,175,830** | **228,738,725** | **17,357,216** | **9,472,076** | **9,472,076** | **192,437,357** |

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.

The company's future obligations under operating leases are discussed in Note 3.

The company's loans and borrowings are further discussed in Note 13.

### 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. Aquatera Utilities Inc. is exposed to interest rate risk as a result of the issuance of variable rate debt, as disclosed in Note 13. Currency risk is the risk to Aquatera Utilities Inc.'s earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. Aquatera Utilities Inc. is not directly exposed to significant foreign currency exchange risk.

## 26. CAPITAL MANAGEMENT

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

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

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

The approved Capital Budget for 2020 totals $15 million and the projection in five years is $137 million. This will be funded through additional debt of $46 million, $12 million in contributions, $2 million in business development funds, $26 million in cash, use of infrastructure charges of $36 million and undetermined funding of $15 million. Capital costs are based on engineering estimates developed in Master Plans and are refined as further design work occurs.

## 27. CONTINGENT LIABILITY

The company has been named as a defendant in a lawsuit related to waterline construction activity by one of its contractors. Based on the opinion of management and through consultation with legal counsel, the amount cannot be currently determined but any liability is likely to be insignificant to the company. The ultimate settlement will be recorded in the period in which it becomes known.

## 28. SUBSEQUENT EVENTS

On March 11, 2020, COVID-19 was declared a global pandemic. There has been a significant financial impact to the local, national and global economies. The overall impact on the company's operations is uncertain and management is currently taking measures to protect its operations and mitigate the market and credit risks that have arisen.

## 29. COMPARATIVE FIGURES

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

**AQUATERA UTILITIES INC.**
**Non-Consolidated Property, Plant and Equipment** *(Schedule 1)*
**Year Ended December 31, 2019**

| | Land | Buildings | Leasehold Improvements | Engineering Structures | Equipment | Vehicles and Mobile Equipment | Construction in Progress | Right-of-use assets | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | | | | |
| Balance at December 31, 2018 | $ 2,144,867 | $ 86,951,030 | $ 2,501,448 | $ 195,612,989 | $ 54,654,365 | $ 7,236,687 | $ 25,044,315 | $ - | $ 374,145,701 |
| Assets recognized on implementation of IFRS 16 | - | - | - | - | - | - | - | 3,035,955 | 3,035,955 |
| Adjusted balance at January 1, 2019 | 2,144,867 | 86,951,030 | 2,501,448 | 195,612,989 | 54,654,365 | 7,236,687 | 25,044,315 | 3,035,955 | 377,181,656 |
| Additions | 1,410 | 2,335,887 | - | 31,806,847 | 7,310,638 | 2,154,688 | 17,275,023 | - | 60,884,493 |
| Disposals | - | - | - | - | - | (385,137) | - | - | (385,137) |
| Transfer to assets available for use | - | - | - | - | - | - | (31,369,289) | - | (31,369,289) |
| **Balance at December 31, 2019** | 2,146,277 | 89,286,917 | 2,501,448 | 227,419,836 | 61,965,003 | 9,006,238 | 10,950,049 | 3,035,955 | 406,311,723 |
| **Accumulated depreciation** | | | | | | | | | |
| Balance at December 31, 2018 | - | (12,140,736) | (1,592,369) | (18,903,534) | (12,663,884) | (4,798,485) | - | - | (50,099,008) |
| Assets recognized on implementation of IFRS 16 | - | - | - | - | - | - | - | (1,218,056) | (1,218,056) |
| Adjusted balance at January 1, 2019 | - | (12,140,736) | (1,592,369) | (18,903,534) | (12,663,884) | (4,798,485) | - | (1,218,056) | (51,317,064) |
| Depreciation for year | - | (2,183,233) | (250,767) | (3,198,229) | (2,685,289) | (1,016,050) | - | (167,713) | (9,501,281) |
| Disposals | - | - | - | - | - | 318,630 | - | - | 318,630 |
| **Balance at December 31, 2019** | - | (14,323,969) | (1,843,136) | (22,101,763) | (15,349,173) | (5,495,905) | - | (1,385,769) | (60,499,715) |
| **At December 31, 2019** | **$ 2,146,277** | **$ 74,962,948** | **$ 658,312** | **$ 205,318,073** | **$ 46,615,830** | **$ 3,510,333** | **$ 10,950,049** | **$ 1,650,186** | **$ 345,812,008** |
| At December 31, 2018 | $ 2,144,867 | $ 74,810,294 | $ 909,079 | $ 176,709,455 | $ 41,990,481 | $ 2,438,202 | $ 25,044,315 | $ - | $ 324,046,693 |

***Please see accompanying notes to financial statements***