

AQUATERA UTILITIES INC.
Non-Consolidated Financial Statements
December 31, 2021

AQUATERA UTILITIES INC.
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Year Ended December 31, 2021

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

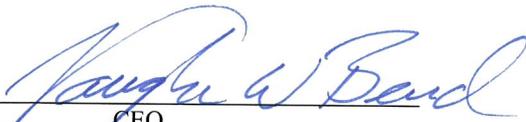
Management is responsible for the preparation and fair presentation of the non-consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial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

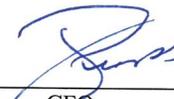
The integrity and reliability of Aquatera Utilities Inc.'s reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. These systems are designed to provide reasonable assurance that the financial 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 23, 2022

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, 2021, 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, 2021 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 Moody & LLP

Grande Prairie, Alberta
March 23, 2022

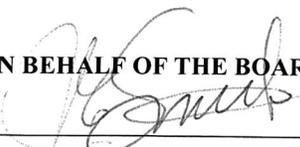
Chartered Professional Accountants



AQUATERA UTILITIES INC.
Non-Consolidated Statement of Financial Position
December 31, 2021

	2021	2020
ASSETS		
CURRENT		
Cash and cash equivalents <i>(Note 4)</i>	\$ 12,998,525	\$ 22,074,386
Trade and other receivables <i>(Note 5)</i>	22,245,016	16,434,552
Inventory and work in progress <i>(Note 6)</i>	1,498,620	1,237,432
Investments maturing in one year <i>(Note 7)</i>	12,274,672	18,417,458
	49,016,833	58,163,828
LONG-TERM INVESTMENTS <i>(Note 7)</i>	44,666,665	41,602,977
DUE FROM SUBSIDIARY <i>(Note 8)</i>	1,066,362	1,186,456
INVESTMENT IN SUBSIDIARY <i>(Note 9)</i>	100	100
PROPERTY, PLANT AND EQUIPMENT, NET <i>(Note 10)</i>	389,169,613	363,849,945
	\$ 483,919,573	\$ 464,803,306
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities <i>(Note 11)</i>	\$ 10,516,127	\$ 4,901,175
Dividends payable	4,543,821	4,368,344
Deferred revenue	193,175	287,695
Current portion of other long-term liabilities <i>(Note 12)</i>	175,376	175,376
Customer deposits	2,079,684	1,879,285
Callable debt due in one year <i>(Note 13)</i>	4,547,031	4,689,075
	22,055,214	16,300,950
Callable debt due thereafter <i>(Note 13)</i>	47,504,778	66,451,817
	69,559,992	82,752,767
DEFERRED REVENUE OF CAPITAL CONTRIBUTIONS <i>(Note 14)</i>	206,380,979	192,235,187
PROVISIONS FOR LANDFILL CLOSURE AND OTHER LONG-TERM LIABILITIES <i>(Note 12)</i>	6,080,193	6,589,998
DEFERRED INFRASTRUCTURE CHARGES <i>(Note 15)</i>	21,702,577	20,868,850
STOCK DIVIDEND PAYABLE <i>(Note 16)</i>	14,973,661	11,874,725
PREFERRED SHARES <i>(Note 17)</i>	165,220,614	150,480,368
	483,918,016	464,801,895
CONTINGENT LIABILITY <i>(Note 28)</i>		
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
COMMON SHARES <i>(Note 17)</i>	1,557	1,411
	\$ 483,919,573	\$ 464,803,306

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, 2021

	2021	2020
REVENUE		
Sale of services	\$ 55,401,451	\$ 53,484,056
Franchise fees	4,120,275	4,058,635
Other (Note 20)	4,475,728	3,982,346
	<u>63,997,454</u>	<u>61,525,037</u>
EXPENSES		
Salaries, wages and benefits (Note 21)	16,853,996	16,295,815
General, administrative and contracted services	10,967,491	10,053,518
Utilities	3,022,762	2,053,091
Major maintenance	267,614	258,214
Materials, goods and supplies	3,029,682	3,345,658
Depreciation	10,636,428	10,292,652
Franchise fees	4,120,275	4,058,635
	<u>48,898,248</u>	<u>46,357,583</u>
OPERATING INCOME	<u>15,099,206</u>	<u>15,167,454</u>
Other income (expenses)		
Recognition of deferred revenue for capital contributions	3,907,947	3,816,402
Interest income (Note 22)	1,453,168	2,104,002
Finance costs (Note 22)	(1,795,276)	(2,107,091)
Dividends declared (Note 22)	(4,543,821)	(4,368,344)
Fair value adjustment of interest rate swap (Note 22)	1,039,385	(976,761)
Loss on disposal of property, plant and equipment	(106,591)	(114,252)
Net subsidiary operations - 25 By 20 Holdings Inc. (Note 9)	(80,357)	(1,443,487)
Impairment loss on building	-	(203,198)
	<u>(125,545)</u>	<u>(3,292,729)</u>
NET INCOME AND COMPREHENSIVE INCOME	<u>14,973,661</u>	<u>11,874,725</u>
RETAINED EARNINGS - BEGINNING OF YEAR	-	-
Stock dividend (Note 16)	<u>(14,973,661)</u>	<u>(11,874,725)</u>
RETAINED EARNINGS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

Please see accompanying notes to financial statements

AQUATERA UTILITIES INC.
Non-Consolidated Statement of Cash Flows
Year Ended December 31, 2021

	2021	2020
OPERATING ACTIVITIES		
Net income and comprehensive income	\$ 14,973,661	\$ 11,874,725
Reconciliation to cash from (used in) operating activities:		
Net finance costs including fair market value of interest rate swap (Note 22)	3,846,544	5,348,194
Depreciation of property, plant and equipment	10,636,428	10,292,652
Recognition of deferred revenue for capital contributions	(3,907,947)	(3,816,402)
Loss on disposal of property, plant and equipment	106,591	114,252
Impairment loss on building	-	203,198
Net subsidiary operations - 25 By 20 Holdings Inc.	80,357	1,443,487
	<u>25,735,634</u>	<u>25,460,106</u>
Changes in non-cash working capital:		
Trade and other receivables	(5,810,464)	(581,190)
Inventory	(261,188)	(22,963)
Accounts payable and accrued liabilities	5,614,948	(1,480,551)
Deferred revenue	(94,520)	161,099
Customer deposits	200,399	169,741
	<u>(350,825)</u>	<u>(1,753,864)</u>
Cash from operating activities	<u>25,384,809</u>	<u>23,706,242</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(13,503,305)	(11,254,327)
Construction in progress	(20,120,290)	(8,147,310)
Proceeds on disposal of property, plant and equipment	134,442	495,572
Capital contributions	17,853,739	8,793,538
Advances from subsidiary	39,737	234,515
Interest earned	1,453,168	2,104,002
Investment purchases	(12,559,719)	(14,442,091)
Maturity of investments	15,638,816	13,222,432
	<u>(11,063,412)</u>	<u>(8,993,669)</u>
Cash used by investing activities	<u>(11,063,412)</u>	<u>(8,993,669)</u>
FINANCING ACTIVITIES		
Infrastructure charges collected	2,269,527	2,190,688
Infrastructure charges expended	(1,435,800)	(5,476,947)
Repayment of callable debt	(18,115,937)	(4,607,525)
Changes in non-current provisions	(175,376)	(175,376)
Issuance of shares	150	108
Dividends paid on preferred shares	(4,368,344)	(4,500,218)
Interest expense and bad debts	(1,571,478)	(1,859,694)
	<u>(23,397,258)</u>	<u>(14,428,964)</u>
Cash used by financing activities	<u>(23,397,258)</u>	<u>(14,428,964)</u>
INCREASE (DECREASE) IN CASH	(9,075,861)	283,609
CASH - BEGINNING OF YEAR	<u>22,074,386</u>	<u>21,790,777</u>
CASH - END OF YEAR (Note 4)	\$ 12,998,525	\$ 22,074,386

Please see accompanying notes to financial statements

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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 and investments. During the year, 25 By 20 Holdings Inc.'s two subsidiary companies, Advanced Trenchless Inc. and Sustainable Water Solutions Inc., wound up their net assets into 25 By 20 Holdings Inc., pursuant to Section 88(1) of the Income Tax Act and dissolved thereafter. 25 By 20 Holdings Inc. currently has no active operations conducted within the company and has no further subsidiaries.

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 23, 2022.

(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, certain investments subject to market price fluctuations and the CIBC interest rate swap, which are recorded at fair value through profit or loss. 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.

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AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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, carbon dioxide equivalent (CO₂e) offsets revenue and the fair value of interest rate swaps. Information about criteria and assumptions used in making these judgments is included in the specific notes that follow related to these areas.

(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.

Work in progress consists of supplies and labour costs related to contracting work that have not been included in progress billings and is valued at the lower of cost and net realizable value, with cost being determined on a specific project basis.

(continues)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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

At inception of a contract, the company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

The company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the future lease payments under the contract, discounted using the interest rate implicit in the lease contract. Where the implicit rate cannot be readily determined, the company uses the incremental borrowing rate.

Lease payments include fixed payments, including in-substance fixed payments, variable lease payments that depend on an index or a rate, the exercise price under a purchase option or optional renewal period that the company is reasonably certain to exercise and penalties for early termination of a lease unless the company is reasonably certain not to terminate early. The lease liability is remeasured to reflect any reassessments or lease modifications.

The company has elected not to recognize right-of-use assets and lease liabilities for lease contracts where the total term of the respective lease contract is less than or equal to 12 months or for low value lease contracts. The company recognizes the payments relating to such leases (including principal and interest associated with these leases) as an expense on a straight-line basis over the lease term.

(continues)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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

(g) Service concession arrangements

Service concession arrangements are contracts between the company and government entities and can involve the design, build, finance, operation and maintenance of public infrastructure in which the government entity controls the services provided by the company and significant residual interest in the infrastructure.

Service concession arrangements entered into by the company are classified financial assets. Financial assets arise when it has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement. The financial asset is measured at the fair value of consideration received or receivable.

(h) Impairment

Financial assets

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

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

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

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

An impairment loss in respect 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.

(continues)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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

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.

(i) 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.

(continues)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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

(j) 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.

(k) Loans and borrowings

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

(l) Revenue recognition

Revenue from customers is recognized once the company's performance obligations have been satisfied and the product or service is delivered to the customer. Revenue is measured at the transaction price agreed to between the parties for each performance obligation and when collection is probable. For contracts where non-cash consideration is received, revenue is measured at fair value when determinable.

Sale of services

Revenues from the sale of water and other services are recognized upon delivery or provision of the services to the customer. The company provides a series of distinct services, which are simultaneously received and consumed by the customers. Customers are generally billed on a monthly basis based on the usage at the applicable rates set by the company each year and payment is due within 30 days of billing. These revenues include an estimate of the value of services consumed by customers in the year but billed subsequent to year-end.

Franchise fees

Franchise fee revenue is recognized on this same basis and as part of the same billing process as sale of services. Franchise fees are collected from customers on behalf of the municipality in which the goods or services were provided in accordance with franchise agreements between the company and the municipal shareholders.

Penalties

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

(continues)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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

Other revenue

Other revenue as per *Note 20* is recognized as noted above other than landfill gas sales, which are based on contracts for the sale of carbon dioxide equivalent (CO₂e) offsets produced at the company's landfill based on an agreed upon price per tonne. Revenue is recognized once the tonnes produced are determinable based on internal estimates each year. The amount is verified by an independent review in accordance with the Standard for Greenhouse Gas Verification and any adjustments at the time of verification are recognized in the period when any adjustments become known. The amount also consists of energy sold which is generated through the company's landfill gas to energy project which is recognized consistent with the company's general revenue recognition policies.

(m) 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*).

(n) 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. is subject to taxation on any taxable income each year.

(o) Employee future benefits

Pension plans

Selected employees of the company are members of the Local Authorities Pension Plan ("LAPP"), a multi-employer defined benefit pension plan. The President of the Alberta Treasury Board and the Minister of Finance are the legal trustees and administrators of the Plan, which is governed by a Board of Trustees. Since the plan is a multi-employer plan, it is accounted for as a defined contribution plan and, accordingly, the company does not recognize its share of any plan surplus or deficit.

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

Other long-term employee benefits

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

(continues)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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

Short-term employee benefits

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

(p) Non-derivative financial assets and liabilities

Non-derivative financial assets and liabilities are comprised of financial assets or liabilities at amortized cost, at fair value through other comprehensive income or profit or loss.

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.

Amortized cost

Cash and cash equivalents, trade and other receivables and certain long-term investments are classified as financial assets measured at amortized cost. These 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 when they are held for collection of cash flows using the effective interest method, less any impairment losses.

The company recognizes all financial liabilities initially at fair value on the trade date at which the company becomes a party to the contractual provisions of the instrument, 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.

Financial assets or liabilities through other comprehensive income

The company does not currently have any financial assets or liabilities at fair value through other comprehensive income.

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 certain investments as disclosed in *Note 7* that are subject to market price fluctuation and the interest swap agreement as disclosed in *Note 13*.

(q) 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.

(continues)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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

(r) 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.

(s) Segment reporting

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

(t) New standards and interpretations not yet adopted

A number of new standards or amendments have been issued effective for periods beginning on or after January 1, 2022. These changes are not expected to have a significant impact on the company.

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

4. CASH

	2021	2020
Cash on hand	\$ 4,748	\$ 4,618
Cash in banks	12,993,777	22,069,768
	\$ 12,998,525	\$ 22,074,386

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:

Dividends payable	\$ 4,543,821	\$ 4,368,344
Capital accounts payable	6,260,888	1,572,565
Other long-term liabilities - current	175,376	175,376
Trust liabilities		
Customer deposits	2,079,684	1,879,285
Deferred revenue	193,175	287,695
Deferred infrastructure charges	21,702,577	20,868,850
Working capital cash requirement (excess)	8,243,654	7,577,742
Internally Restricted Funds		
Capital expenditure funds	3,496,990	23,082,245
Growth funds	17,514,254	16,218,847
Landfill liability	5,729,443	6,063,872
Total allocated cash	\$ 69,939,862	\$ 82,094,821

Held as follows:

Cash and cash equivalents	\$ 12,998,525	\$ 22,074,386
Investments maturing in one year	12,274,672	18,417,458
Long-term investments	44,666,665	41,602,977
	\$ 69,939,862	\$ 82,094,821

5. TRADE AND OTHER RECEIVABLES

	2021	2020
Trade accounts receivable	\$ 4,150,525	\$ 4,874,038
Estimated unbilled accrual	2,209,329	2,009,114
Grants receivable	9,346,621	3,221,498
Accrued investment earnings	3,803,587	3,810,512
GST receivable	540,431	315,585
Other receivables	2,228,523	2,273,805
	22,279,016	16,504,552
Allowance for doubtful accounts	(34,000)	(70,000)
	\$ 22,245,016	\$ 16,434,552

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

6. INVENTORY AND WORK IN PROGRESS

In 2021, inventory consumables recognized as materials, goods and supplies expense amounted to \$1,006,045 (2020 - \$1,232,689). In 2021, the write-down of inventories to net realizable value amounted to \$NIL (2020 - \$NIL).

7. LONG-TERM INVESTMENTS

	2021	2020
Investments at amortized cost	\$ 53,935,477	\$ 60,020,435
Investments at fair value	3,005,860	-
Investments maturing in one year	(12,274,672)	(18,417,458)
	\$ 44,666,665	\$ 41,602,977

Investments at amortized cost consist of held to maturity fixed income investments, bear interest at rates between 0.85% and 3.37% and mature between June, 2022 and December, 2026.

Investments at fair value include ETF funds recorded at fair value through profit and loss.

8. DUE FROM SUBSIDIARY

	2021	2020
Loan	\$ 3,335,000	\$ 3,335,000
Advances	5,201,699	5,241,436
Cumulative investment losses applied (<i>Note 9</i>)	(7,470,337)	(7,389,980)
	\$ 1,066,362	\$ 1,186,456

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 no interest will be charged for the 2021 fiscal year and repayment of the loan will not be demanded in the next fiscal year.

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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 operated a water and wastewater treatment business in Fairview, Alberta for \$1,968,469. 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. During 2020, Sustainable Water Solutions Inc. ceased operations and began liquidating all operating assets. During 2021, Sustainable Water Solutions Inc. wound up into 25 by 20 Holdings Inc. under Section 88 (1) of the Income Tax Act.

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 operated a pipe relining business for industrial, municipal and commercial sectors in Edmonton, Alberta for \$1,578,497. During 2019, Advanced Trenchless Inc. ceased operations and began liquidating operating assets. During 2021, Advanced Trenchless Inc. wound up into 25 by 20 Holdings Inc. under Section 88 (1) of the Income Tax Act.

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

	2021	2020
Investment in subsidiary	\$ 100	\$ 100
Cumulative share of earnings (losses)	(7,470,337)	(7,389,980)
Cumulative losses applied to loan receivable from subsidiary (<i>Note 8</i>)	7,470,337	7,389,980
	\$ 100	\$ 100

The following is condensed financial information of 25 By 20 Holdings Inc. for the year ended December 31, 2021:

Results of financial performance

Revenue	\$ 659	\$ 132,521
Expenses	(8,067)	(248,415)
Interest income - subsidiaries	-	86,512
Interest expense - Aquatera Utilities Inc.	-	(312,024)
Write-down of advances to subsidiaries	-	(739,399)
Net subsidiary operations	(72,949)	(362,682)
Net income (loss)	\$ (80,357)	\$ (1,443,487)

(continues)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

9. INVESTMENT IN SUBSIDIARY *(continued)*

Financial position

ASSETS			
Current assets	\$	1,094,468	\$ 39,896
Due from subsidiaries		-	1,151,073
Investment in subsidiaries (equity method)		-	86
Property, plant and equipment		<u>2,484</u>	<u>-</u>
	\$	<u>1,096,952</u>	\$ <u>1,191,055</u>
LIABILITIES			
Current liabilities	\$	19,182	\$ 44,236
Due to Aquatera Utilities Inc.		<u>8,548,007</u>	<u>8,536,699</u>
		<u>8,567,189</u>	<u>8,580,935</u>
SHAREHOLDER'S DEFICIENCY			
Share capital		100	100
Retained earnings (deficit)		<u>(7,470,337)</u>	<u>(7,389,980)</u>
		<u>(7,470,237)</u>	<u>(7,389,880)</u>
	\$	<u>1,096,952</u>	\$ <u>1,191,055</u>

10. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation	2021 Net book value	2020 Net book value
Land	\$ 2,146,277	\$ -	\$ 2,146,277	\$ 2,146,277
Buildings	89,944,607	18,760,277	71,184,330	73,276,846
Leasehold improvements	2,533,379	2,347,896	185,483	437,876
Engineering structures	259,317,979	29,544,904	229,773,075	222,995,053
Equipment	69,536,812	21,178,667	48,358,145	48,733,040
Vehicles and mobile equipment	10,693,684	7,619,812	3,073,872	3,190,888
Construction in progress	33,133,670	-	33,133,670	11,587,492
Right-of-use assets - building	3,035,955	1,721,194	1,314,761	1,482,473
	<u>\$ 470,342,363</u>	<u>\$ 81,172,750</u>	<u>\$ 389,169,613</u>	<u>\$ 363,849,945</u>

Borrowing costs capitalized during the year ended December 31, 2021 were \$NIL (2020 - \$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, 2021, the company performed a detailed analysis of existing property, plant and equipment and no impairments were found.

See *Schedule 1* for additional information.

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021	2020
Trade payables	\$ 3,069,027	\$ 2,295,721
Capital payables	6,260,888	1,572,565
Accrued employee benefits	1,186,212	1,032,889
	\$ 10,516,127	\$ 4,901,175

12. PROVISIONS

	Landfill Closure and Post-Closure Liability	Other Long- Term Liabilities	Total
Balance at the beginning of year	\$ 6,063,872	\$ 701,502	\$ 6,765,374
Provisions during the year	-	(175,376)	(175,376)
Prospective change in estimate	(491,987)	-	(491,987)
Accretion of liability	157,558	-	157,558
Balance at December 31, 2021	5,729,443	526,126	6,255,569
Current	-	175,376	175,376
Non-current	5,729,443	350,750	6,080,193

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 \$491,987. 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 \$5,729,443 (2020 – \$6,063,872), calculated using long-term 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 ten 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 649,203 (2020 – 719,777) metric tonnes remaining with an annual estimated utilization of 64,920 metric tonnes. The current year liability and capacity reflect cells 1 - 9 with a total further capacity of approximately 7.5 million metric tonnes and a total lifespan of approximately 50 years once cells 10 - 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.

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

13. CALLABLE DEBT

	2021	2020
Due to the Federation of Canadian Municipalities	\$ 2,500,000	\$ 3,000,000
Due to RBC Royal Bank	12,229,021	27,241,890
Due to CIBC	35,333,320	37,733,323
Fair value adjustment of interest rate swap	555,587	1,594,972
Lease liability	1,433,881	1,570,707
	52,051,809	71,140,892
Loans and borrowings due in one year	(4,547,031)	(4,689,075)
	\$ 47,504,778	\$ 66,451,817

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

Less than one year	\$ 4,547,031
Between one and five years	18,806,402
More than five years	28,698,376
	\$ 52,051,809

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. The loans bear interest at the RBC Royal Bank prime rate and mature in 2029.

Bank loans from CIBC are secured by a general security agreement and are repayable in monthly payments aggregating \$200,000 plus interest. \$22.4 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 \$12.9 million of the loans bear interest at the 30 day bankers' acceptance rate plus a 0.70% 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 0.24 to 1 (2020 – 0.32 to 1) and the fixed charge ratio is calculated at 2.51 to 1 (2020 – 2.32 to 1).

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

(continues)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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 consisting of revolving demand facilities limited to \$30.0 million, all of which is unused at December 31, 2021 (2020 - \$16.5 million unused).

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, 2021 (2020 - \$2,000,000 unused).

Lease liability

The company has recognized a lease liability in regards to their corporate head office lease, effective January 1, 2019. The 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 4.4% per annum and matures in 2031.

The company has recognized a lease liability in regards to a warehouse lease, effective January 1, 2019. The 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 \$4,333 plus interest at an implied rate of 4.4% per annum and matures in 2024.

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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	\$ 74,132,802	\$ 118,102,385	\$ 192,235,187
Contributions received	200,000	17,853,739	18,053,739
Revenue recognized	(748,280)	(3,159,667)	(3,907,947)
Balance at December 31, 2021	\$ 73,584,522	\$ 132,796,457	\$ 206,380,979

	Developer Contributions	Government Grants and Infrastructure Charges	Total Deferred Revenue of Capital Contributions
Balance at the beginning of the year	\$ 65,137,775	\$ 114,386,725	\$ 179,524,500
Contributions received	9,741,973	6,785,116	16,527,089
Revenue recognized	(746,946)	(3,069,456)	(3,816,402)
Balance at December 31, 2020	\$ 74,132,802	\$ 118,102,385	\$ 192,235,187

15. DEFERRED INFRASTRUCTURE CHARGES

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	\$ 20,868,850	\$ 24,155,109
Contributions received	2,269,527	2,190,688
Transfer to deferred revenue	(1,435,800)	(5,476,947)
	\$ 21,702,577	\$ 20,868,850

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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. Asset transfers occurred effective December 31, 2021. 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.

	2021	2020
City of Grande Prairie		
10,775 Class C common shares and Class H preferred shares	\$ 10,775,053	\$ 8,658,798
County of Grande Prairie No. 1		
2,882 Class C common shares and Class H preferred shares	2,882,300	2,169,868
Town of Sexsmith		
1,256 Class C common shares and Class H preferred shares	1,255,772	1,009,148
Town of Wembley		
61 Class C common shares and Class I preferred shares	60,536	36,911
	\$ 14,973,661	\$ 11,874,725

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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

	2021	2020
The following common and preferred shares have been issued:		
Common shares		
58,733 Class A shares (2020 - 55,868)	\$ 587	\$ 559
555 Class B shares (2020 - 555)	6	6
96,442 Class C shares (2020 - 84,568)	964	846
	\$ 1,557	\$ 1,411
 Preferred shares		
48,008 Class D shares (2020 - 48,008)	\$ 48,006,836	\$ 48,006,836
555 Class E shares (2020 - 555)	554,473	554,473
10,712 Class F shares (2020 - 7,846)	10,711,631	7,846,109
105,871 Class H shares (2020 - 94,046)	105,883,396	94,045,583
77 Class I shares (2020 - 27)	64,278	27,367
	\$ 165,220,614	\$ 150,480,368

During the year, 2,866 Class A common shares and 2,866 Class F preferred shares were issued for \$2,865,522 pursuant to asset transfers disclosed in *Note 18*.

The holders of redeemable Class D and E 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.

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
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18. ASSET TRANSFERS

Effective December 31, 2021, the City of Grande Prairie contributed water and wastewater infrastructure assets valued at \$1,213,033 and \$928,941 respectively for a total value of \$2,141,974 to the company in exchange for 2,142 Class A common and Class F preferred shares.

Effective December 31, 2021, the County of Grande Prairie contributed water and wastewater infrastructure assets valued at \$389,524 and \$334,024 respectively for a total value of \$723,548 to the company in exchange for 724 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 and E 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 2022 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
Town of Wembley	20,230

20. OTHER REVENUE

	2021	2020
Service connections	\$ 575,161	\$ 376,010
Operator assistance	1,176,515	782,409
Infrastructure charge - engineering fees	219,406	212,184
Distribution and collection commercial services	257,254	206,422
Customer shut-off fees	310,286	237,439
Landfill gas sales	1,894,449	1,534,666
Miscellaneous revenues and sales	42,657	95,376
Equipment rent and contract revenue	-	537,840
	\$ 4,475,728	\$ 3,982,346

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
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21. EMPLOYEE BENEFITS

	2021	2020
Salaries, wages and short-term benefits	\$ 15,246,760	\$ 14,413,287
Post-employment benefits	1,295,891	1,280,538
Termination benefits	311,345	601,990
	\$ 16,853,996	\$ 16,295,815

(a) Salaries, wages and 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 twelve 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 275,863 people and 433 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 2021 were \$1,221,549 (2020 - \$1,199,828). Total current and past service contributions by the employees of the company to the LAPP in 2021 were \$1,107,963 (2020 - \$1,089,136).

At December 31, 2020, the Plan disclosed an actuarial surplus of \$5.0 billion (2019 - \$7.9 billion).

Effective January 1, 2022, member contribution rates will be reduced to 7.45% of pensionable earnings up to the year's maximum pensionable earnings and 11.80% thereafter for employees and to 8.45% of pensionable earnings up to the year's maximum pensionable earnings and 12.80% thereafter for employers.

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 3.85% of pensionable payroll above the LAPP maximum pensionable earnings up to the year’s maximum pensionable earnings of \$162,278 for employees who have elected to participate in the APEX. No contributions are required on earnings above the maximum threshold.

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AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

21. EMPLOYEE BENEFITS *(continued)*

Employees electing to participate in the APEX are required to make current service contributions of 2.61% of pensionable payroll service above the APEX maximum pensionable earnings up to the year's maximum pensionable earnings of \$162,278 with no contributions on earnings above the maximum threshold.

Total current and past service contributions by the company to APEX in 2021 were \$74,342 (2020 - \$80,709). Total current and past service contributions by the employees of the company to APEX in 2021 were \$50,398 (2020 - \$54,756).

At December 31, 2020, the APEX disclosed an actuarial deficiency of \$2,624,114 (2019 - \$605,073).

APEX has announced that member contribution rates will remain the same in 2022.

(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

	2021	2020
Interest income	\$ (1,453,168)	\$ (2,104,002)
Finance income	(1,453,168)	(2,104,002)
Interest expense	1,555,277	1,737,629
Accretion of provision	157,558	175,664
Unwinding of discount on right-of-use assets	66,240	71,733
Dividend declared	4,543,821	4,368,344
Fair value adjustment of interest rate swap	(1,039,385)	976,761
Bad debts	16,201	122,065
Finance costs	5,299,712	7,452,196
Net finance costs recognized in net income	\$ 3,846,544	\$ 5,348,194

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

23. RELATED PARTY TRANSACTIONS

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

	2021	2020
City of Grande Prairie (the majority shareholder)		
Sale of services	\$ 499,629	\$ 542,056
Franchise fees expense	3,423,817	3,141,921
Special dividends declared	1,577,842	1,486,036
Regular dividends declared	1,808,050	1,808,050
Common shares issued	87	64
Preferred shares issued	8,658,798	6,420,421
Trade receivables	5,844	86,721
Trade payables	828,472	255,240
Dividends payable	3,385,892	3,294,086
Stock dividend payable	10,775,053	8,658,798
County of Grande Prairie No. 1 (a minority shareholder)		
Sale of services	\$ 133,995	\$ 325,871
General, administrative and contracted services expense	298,811	312,227
Franchise fees expense	163,109	280,917
Special dividends declared	366,728	326,216
Regular dividends declared	398,100	398,100
Common shares issued	22	34
Preferred shares issued	2,167,529	3,384,692
Trade receivables	-	171,804
Trade payables	30,890	48,440
Dividends payable	764,828	724,316
Stock dividend payable	2,882,300	2,169,868
Town of Sexsmith (a minority shareholder)		
Sale of services	\$ 27,948	\$ 20,829
General, administrative and contracted services expense	217,446	216,814
Franchise fees expense	104,750	98,885
Special dividends declared	172,423	155,692
Regular dividends declared	194,250	194,250
Common shares issued	10	7
Preferred shares issued	1,009,148	719,785
Trade payables	52,519	25,485
Dividends payable	366,673	349,942
Stock dividend payable	1,255,772	1,009,148

(continues)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

23. RELATED PARTY TRANSACTIONS *(continued)*

	2021	2020
Town of Wembley (a minority shareholder)		
Sale of services	\$ 7,679	\$ 15,063
General, administrative and contracted services expense	139,445	135,831
Franchise fees expense	59,952	57,304
Special dividends declared	6,178	-
Regular dividends declared	20,230	-
Common shares issued	4	2
Preferred shares issued	36,911	177,238
Trade payables	35,761	14,064
Dividends payable	26,428	-
Stock dividend payable	60,536	36,911
25 By 20 Holdings Inc. (a 100% subsidiary)		
Interest revenue	\$ -	\$ 312,018
Trade receivables	-	39,737
Sustainable Water Solutions Inc. (a 100% subsidiary of 25 By 20 Holdings Inc.)		
Equipment rent and contract revenue	\$ -	\$ 537,840
Subcontract	-	62,713
Trade receivables	-	-
Purchase of equipment	-	58,587
Transactions with key management personnel		
Salaries, wages and short-term benefits	\$ 1,151,611	\$ 1,074,915
Post-employment and termination benefits	96,345	369,740
	\$ 1,247,956	\$ 1,444,655

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

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

24. SEGMENTED DISCLOSURE

	Water	Wastewater	Solid Waste	2021
Revenue				
Sales of service	\$ 20,345,505	\$ 21,918,357	\$ 13,137,589	\$ 55,401,451
Franchise fees	1,624,260	1,999,518	496,497	4,120,275
Other	1,082,981	1,364,457	2,028,290	4,475,728
	<u>23,052,746</u>	<u>25,282,332</u>	<u>15,662,376</u>	<u>63,997,454</u>
Expenses				
Salaries, wages and benefits	6,811,573	6,315,986	3,726,437	16,853,996
General administrative and contracted services	2,265,176	3,440,193	5,262,122	10,967,491
Utilities	810,006	1,869,673	343,083	3,022,762
Major maintenance	18,992	248,622	-	267,614
Materials, goods and supplies	1,565,155	1,052,054	412,473	3,029,682
Depreciation	3,857,673	5,628,163	1,150,592	10,636,428
Franchise fees	1,624,259	1,999,518	496,498	4,120,275
	<u>16,952,834</u>	<u>20,554,209</u>	<u>11,391,205</u>	<u>48,898,248</u>
Other items				
Recognition of deferred revenue for capital contributions	1,679,826	2,184,329	43,792	3,907,947
Net finance costs excluding dividends	264,965	264,965	167,347	697,277
Gain (loss) on disposal of property, plant and equipment	(54,220)	(54,220)	1,849	(106,591)
	<u>1,890,571</u>	<u>2,395,074</u>	<u>212,988</u>	<u>4,498,633</u>
Net income	<u>\$ 7,990,483</u>	<u>\$ 7,123,197</u>	<u>\$ 4,484,159</u>	<u>19,597,839</u>
Net subsidiary operations				(80,357)
- 25 By 20 Holdings Inc.				(4,543,821)
Dividends				<u>\$ 14,973,661</u>

(continues)

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

24. SEGMENTED DISCLOSURE *(continued)*

	Water	Wastewater	Solid Waste	2020
Revenue				
Sale of services	\$ 18,909,275	\$ 21,230,797	\$ 13,343,984	\$ 53,484,056
Franchise fees	1,575,917	1,940,798	541,920	4,058,635
Other	1,113,086	1,202,360	1,666,900	3,982,346
	<u>21,598,278</u>	<u>24,373,955</u>	<u>15,552,804</u>	<u>61,525,037</u>
Expenses				
Salaries, wages and benefits	6,711,829	5,967,571	3,616,415	16,295,815
General administrative and contracted services	2,335,254	2,455,960	5,262,304	10,053,518
Utilities	588,002	1,231,290	233,799	2,053,091
Major maintenance	-	258,214	-	258,214
Materials, goods and supplies	1,882,587	1,000,919	462,152	3,345,658
Depreciation	3,734,670	5,517,470	1,040,512	10,292,652
Franchise fees	1,575,917	1,940,798	541,920	4,058,635
	<u>16,828,259</u>	<u>18,372,222</u>	<u>11,157,102</u>	<u>46,357,583</u>
Other items				
Recognition of deferred revenue for capital contributions	1,681,651	2,102,966	31,785	3,816,402
Net finance costs excluding dividends	(372,343)	(372,343)	(235,164)	(979,850)
Gain on disposal of property, plant and equipment	(85,827)	(85,827)	57,402	(114,252)
Impairment loss on financial assets	(77,215)	(77,215)	(48,768)	(203,198)
	<u>1,146,266</u>	<u>1,567,581</u>	<u>(194,745)</u>	<u>2,519,102</u>
Net income	<u>\$ 5,916,285</u>	<u>\$ 7,569,314</u>	<u>\$ 4,200,957</u>	<u>17,686,556</u>
Net subsidiary operations				(1,443,487)
- 25 By 20 Holdings Inc.				(4,368,344)
Dividends				<u>(4,368,344)</u>
				<u>\$ 11,874,725</u>

AQUATERA UTILITIES INC.
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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, 2021	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	-	12,998,525	-	-	-	12,998,525	12,998,525
Trade and other receivables	-	-	22,245,016	-	-	22,245,016	22,245,016
Investments	3,005,860	53,935,477	-	-	-	56,941,337	56,941,337
Due from subsidiary	-	-	1,066,362	-	-	1,066,362	1,066,362
Financial liabilities							
Trade and other payables	-	-	-	10,516,127	-	10,516,127	10,516,127
Dividends payable	-	-	-	4,543,821	-	4,543,821	4,543,821
Bank loans	-	-	-	47,562,341	555,587	48,117,928	48,117,928
Other long-term liability	-	-	-	526,126	-	526,126	526,126
Lease liability	-	-	-	1,433,881	-	1,433,881	1,433,881
Federation of Canadian Municipalities loan	-	-	-	2,500,000	-	2,500,000	2,500,000
Stock dividend payable	-	-	-	14,973,661	-	14,973,661	14,973,661
Preferred shares	-	-	-	165,220,614	-	165,220,614	165,220,614

December 31, 2020	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	-	22,074,386	-	-	-	22,074,386	22,074,386
Trade and other receivables	-	-	16,434,552	-	-	16,434,552	16,434,552
Investments	-	60,020,435	-	-	-	60,020,435	60,020,435
Due from subsidiary	-	-	1,186,456	-	-	1,186,456	1,186,456
Financial liabilities							
Trade and other payables	-	-	-	4,901,175	-	4,901,175	4,901,175
Dividends payable	-	-	-	4,368,344	-	4,368,344	4,368,344
Bank loans	-	-	-	64,975,213	1,594,972	66,570,185	66,570,185
Other long-term liability	-	-	-	701,502	-	701,502	701,502
Lease liability	-	-	-	1,570,707	-	1,570,707	1,570,707
Federation of Canadian Municipalities loan	-	-	-	3,000,000	-	3,000,000	3,000,000
Stock dividend payable	-	-	-	11,874,725	-	11,874,725	11,874,725
Preferred shares	-	-	-	150,480,368	-	150,480,368	150,480,368

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AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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 at amortized cost 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 and E 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, H and I 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 certain investments in ETF funds and these investments have been recorded at fair value through profit or loss.

The company holds an interest rate swap agreement with CIBC valued at fair market value at December 31, 2021.

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.

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AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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.

	2021	2020
Trade accounts receivable	\$ 4,150,525	\$ 4,874,038
Estimated unbilled accrual	2,209,329	2,009,114
Grants receivable	9,346,621	3,221,498
Accrued investment earnings	3,803,587	3,810,512
GST receivable	540,431	315,585
Other receivables	2,228,523	2,273,805
	22,279,016	16,504,552
Allowance for doubtful accounts	(34,000)	(70,000)
	\$ 22,245,016	\$ 16,434,552

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 \$811,014 that is past due as at December 31, 2021 (2020 - \$925,525).

At December 31, 2021, 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, 2021	Gross Impairment Allowance December 31, 2021	December 31, 2020	Gross Impairment Allowance December 31, 2020
Not past due	3,339,511	-	3,948,513	-
Past due 0-30 days	582,532	-	568,757	-
Past due 31-90 days	111,802	17,000	111,630	35,000
More than 91 days	116,680	17,000	245,138	35,000
	4,150,525	34,000	4,874,038	70,000

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AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

25. FINANCIAL INSTRUMENTS *(continued)*

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

	2021	2020
Balance at the beginning of year	\$ 70,000	\$ 46,000
Impairment losses recognized	(16,201)	(122,065)
Amounts written off as uncollectible	16,201	122,065
Increase (decrease) in allowance	(36,000)	24,000
	\$ 34,000	\$ 70,000

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.

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AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

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, 2021						
Accounts payable and accrued liabilities	10,516,127	10,516,127	10,516,127	-	-	-
Dividends payable	4,543,821	4,543,821	4,543,821	-	-	-
Loans and borrowings	52,051,809	51,496,222	4,547,031	9,112,315	9,138,500	28,698,376
Other long-term liabilities	526,126	526,126	175,376	350,750	-	-
Stock dividend payable	14,973,661	14,973,661	-	-	-	14,973,661
Preferred shares	165,220,614	165,220,614	-	-	-	165,220,614
	247,832,158	247,276,571	19,782,355	9,463,065	9,138,500	208,892,651
December 31, 2020						
Accounts payable and accrued liabilities	4,901,175	4,901,175	4,901,175	-	-	-
Dividends payable	4,368,344	4,368,344	4,368,344	-	-	-
Loans and borrowings	71,140,892	69,545,920	4,689,075	9,395,623	9,181,737	46,279,485
Other long-term liabilities	701,502	701,502	175,376	350,750	175,376	-
Stock dividend payable	11,874,725	11,874,725	-	-	-	11,874,725
Preferred shares	150,480,368	150,480,368	-	-	-	150,480,368
	234,467,006	241,872,034	14,133,970	9,746,373	9,357,113	208,634,578

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(f)*.

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

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AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

25. FINANCIAL INSTRUMENTS (*continued*)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of interest rate risk and currency risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company is exposed to interest rate risk as a result of the issuance of variable rate debt, as disclosed in *Note 13*. Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates.

The company is not directly exposed to significant foreign currency exchange risk.

Interest rate risk

The interest rate risk related to investment portfolios is managed by investing in fixed rate investments. The sensitivity rate is determined using the historical annualized standard deviation for the total portfolio over a five-year period as determined by the company's investment advisors. If interest rates or market prices increase or decrease by 0.63%, and all other variables are held constant, the potential impact to the company would be approximately \$339,793.

Interest rate risk on long-term debt is managed through fixed rate, variable rate interest based on the 30 day bankers' acceptance rate and an interest rate swap agreement. If interest rates increased by 1.0%, and all other variables are held constant, the potential impact to the company would be \$514,962.

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

26. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	December 31, 2020	Issued or received	Adjustments/ Repayments	December 31, 2021
Federation of Canadian Municipalities	3,000,000	-	(500,000)	2,500,000
RBC	27,241,890	-	(15,012,869)	12,229,021
CIBC	37,733,323	-	(2,400,003)	35,333,320
Fair value adjustment of interest rate swap	1,594,972	-	(1,039,385)	555,587
Lease liabilities	1,570,707	-	(136,826)	1,433,881
Total long-term debt (including current portion)	71,140,892	-	(19,089,083)	52,051,809
Deferred infrastructure charges	20,868,850	3,891,308	(3,057,581)	21,702,577

	December 31, 2019	Issued or received	Adjustments/ Repayments	December 31, 2020
Federation of Canadian Municipalities	3,500,000	-	(500,000)	3,000,000
RBC	28,754,758	-	(1,512,868)	27,241,890
CIBC	40,133,327	-	(2,400,004)	37,733,323
Fair value adjustment of interest rate swap	618,211	976,761		1,594,972
Lease liabilities	1,693,624	-	(122,917)	1,570,707
Total long-term debt (including current portion)	74,699,920	976,761	(4,535,789)	71,140,892
Deferred infrastructure charges	24,155,109	2,190,688	(5,476,947)	20,868,850

27. CAPITAL MANAGEMENT

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

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

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

The approved Capital Budget for 2022 totals \$31 million and the projection in five years is \$117 million. This will be funded through additional debt of \$56 million, \$7 million in contributions, \$2 million in business development funds, grants of \$5 million, \$22 million in cash and use of infrastructure charges of \$25 million. Capital costs are based on engineering estimates developed in Master Plans and are refined as further design work occurs.

AQUATERA UTILITIES INC.
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2021

28. 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.

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
Year Ended December 31, 2021

(Schedule 1)

	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, 2020	\$ 2,146,277	\$ 89,814,472	\$ 2,533,379	\$ 248,691,185	\$ 66,894,023	\$ 9,785,614	\$ 11,587,492	\$ 3,035,955	\$ 434,488,397
Additions	-	130,135	-	11,118,782	2,975,192	918,830	33,623,594	-	48,766,533
Disposals	-	-	-	(491,988)	(332,403)	(10,760)	-	-	(835,151)
Transfer to assets available for use	-	-	-	-	-	-	(12,077,416)	-	(12,077,416)
Balance at December 31, 2021	2,146,277	89,944,607	2,533,379	259,317,979	69,536,812	10,693,684	33,133,670	3,035,955	470,342,363
Accumulated depreciation									
Balance at December 31, 2020	-	(16,537,626)	(2,095,503)	(25,696,132)	(18,160,983)	(6,594,726)	-	(1,553,482)	(70,638,452)
Depreciation for year	-	(2,222,651)	(252,393)	(3,848,772)	(3,109,054)	(1,035,846)	-	(167,712)	(10,636,428)
Disposals	-	-	-	-	91,370	10,760	-	-	102,130
Balance at December 31, 2021	-	(18,760,277)	(2,347,896)	(29,544,904)	(21,178,667)	(7,619,812)	-	(1,721,194)	(81,172,750)
Net book value at December 31, 2021	\$ 2,146,277	\$ 71,184,330	\$ 185,483	\$ 229,773,075	\$ 48,358,145	\$ 3,073,872	\$ 33,133,670	\$ 1,314,761	\$ 389,169,613
Net book value at December 31, 2020	\$ 2,146,277	\$ 73,276,846	\$ 437,876	\$ 222,995,053	\$ 48,733,040	\$ 3,190,888	\$ 11,587,492	\$ 1,482,473	\$ 363,489,945

Please see accompanying notes to financial statements