Chestermere Utilities Incorporated

Financial Statements
December 31, 2015
(expressed in Canadian dollars)

March 21, 2016

Independent Auditor's Report

To the Shareholder of
Chestermere Utilities Incorporated

We have audited the accompanying financial statements of Chestermere Utilities Incorporated, which comprise the statement of financial position as at December 31, 2015 and the statements of operations and comprehensive income (loss), changes in equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Chestermere Utilities Incorporated as at December 31, 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Chestermere Utilities Incorporated

Statement of Financial Position

As at December 31, 2015

(expressed in Canadian dollars)

	2015 $	2014 $
Assets		
Current assets		
Cash and cash equivalents (note 7)	3,235,788	4,878,652
Investments (note 5)	1,342,750	1,346,845
Accounts receivable (note 8)	1,668,082	1,491,868
Due from related party (note 15)	-	159,516
Inventory (note 9)	72,356	72,418
Goods and services tax receivable	93,543	166,080
Prepaid expenses	34,821	14,466
	6,447,340	8,129,845
Property and equipment (note 10)	78,542,974	68,541,329
	84,990,314	76,671,174
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	7,237,492	2,758,392
Current portion of long-term debt (note 13)	332,098	337,928
Due to related party (note 15)	241,550	-
	7,811,140	3,096,320
Deferred revenue (note 12)	1,707,183	1,117,753
Long-term debt (note 13)	8,277,186	8,605,341
Preferred shares (note 16)	47,759,789	52,573,929
	65,555,298	65,393,343
Shareholder's Equity		
Share capital (note 16)	100	100
Contributed surplus (note 16)	13,252,479	6,736,608
Retained earnings	6,182,563	4,530,229
Accumulated other comprehensive (loss) income	(126)	10,894
	19,435,016	11,277,831
	84,990,314	76,671,174

Commitments (note 18)

Approved by the Board of Directors

Director

Director

The accompanying notes are an integral part of these financial statements.

Chestermere Utilities Incorporated

Statement of Operations and Comprehensive Income (Loss)

For the year ended December 31, 2015

(expressed in Canadian dollars)

	2015 $	2014 $
Revenue		
Sale of goods and services (note 15)	9,568,048	9,041,955
Development and offsite levies	6,185,341	4,397,270
Penalties and interest income	255,625	256,520
	16,009,014	13,695,745
Expenses		
Water supply and waste management charges	3,905,881	2,982,719
Contracted services	3,646,859	3,523,703
Amortization (note 10)	1,751,756	1,287,152
Salaries, wages, and benefits (note 15)	1,500,666	1,209,327
Financing costs (note 14)	2,282,530	2,256,657
Materials, goods and supplies	668,194	641,603
General and administrative expenses (note 15)	499,577	575,073
Other	101,217	19,456
	14,356,680	12,495,690
Net income for the year	1,652,334	1,200,055
Item that may be reclassified to profit or loss		
Unrealized (loss) gain on investments	(11,020)	10,894
Total comprehensive income	1,641,314	1,210,949

The accompanying notes are an integral part of these financial statements.

Chestermere Utilities Incorporated

Statement of Changes in Equity

For the year ended December 31, 2015

(expressed in Canadian dollars)

	Share Capital $	Contributed Surplus $	Retained earnings $	Accumulated other comprehensive income (loss) $	Total equity $
Balance – January 1, 2014	100	6,736,608	3,330,174	-	10,066,882
Net income for the year	-	-	1,200,055	-	1,200,055
Other comprehensive income	-	-	-	10,894	10,894
Balance – December 31, 2014	100	6,736,608	4,530,229	10,894	11,277,831
Net income for the year	-	-	1,652,334	-	1,652,334
Other comprehensive loss	-	-	-	(11,020)	(11,020)
Equity portion of redeemable preferred shares	-	6,515,871	-	-	6,515,871
Balance – December 31, 2015	100	13,252,479	6,182,563	(126)	19,435,016

The accompanying notes are an integral part of these financial statements.

Chestermere Utilities Incorporated

Statement of Cash Flows

For the year ended December 31, 2015

(expressed in Canadian dollars)

	2015 $	2014 $
Cash provided by (used in)		
Operating activities		
Net income for the year	1,652,334	1,200,055
Items not affecting cash		
Amortization of property and equipment (note 10)	1,751,756	1,287,152
Finance costs (note 14)	2,282,530	2,256,657
Contributed assets	(5,312,946)	(3,746,287)
	373,674	997,577
Change in non-cash working capital		
Accounts receivable	(176,214)	(84,203)
Due to/from related party	401,066	114,488
Inventory	62	(1,791)
Accounts payable and accrued liabilities	(646,830)	700,828
Prepaid expenses	(20,355)	(11,222)
Goods and services tax receivable	72,537	(138,203)
Deferred revenue	589,430	1,064,281
	219,696	1,644,178
	593,370	2,641,755
Investing activities		
Purchase of property and equipment (note 10)	(1,301,845)	(1,564,149)
Sales of property and equipment	(12,679)	-
Investment purchases	(6,925)	(1,335,950)
	(1,321,449)	(2,900,099)
Financing activities		
Interest paid	(580,800)	(600,308)
Repayment of long-term debt	(333,985)	(340,433)
	(914,785)	(940,741)
Decrease in cash and cash equivalents	(1,642,864)	(1,199,085)
Cash and cash equivalents – Beginning of year	4,878,652	6,077,737
Cash and cash equivalents – End of year	3,235,788	4,878,652

The accompanying notes are an integral part of these financial statements.

(expressed in Canadian dollars)

1 Statutes of incorporation and nature of operations

Chestermere Utilities Incorporated (the "Corporation") is a government business enterprise which was incorporated on May 27, 2010 under the Business Corporations Act (Alberta). On August 23, 2011, the Corporation issued 100 Class A Common voting shares to the City of Chestermere (the "City") making the Corporation wholly owned by the City of Chestermere. The Corporation provides water, wastewater, stormwater, solid waste collection and recycling services to the City of Chestermere. The head office, principal address, and records office of the Corporation is located at #403, 320 West Creek Drive, Chestermere, Alberta, T1X 0P7.

2 Basis of presentation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The financial statements of the Corporation for the year ended December 31, 2015 were approved and authorized for issuance by the Board of Directors on March 15, 2016.

Basis of measurement

These financial statements have been prepared under the historical cost convention except for available for sale investments and preferred shares recorded at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting.

Comparative Figures

Certain comparative figures presented have been reclassified to conform to current year presentation.

Use of estimates and judgement

Management makes judgments, estimates and assumptions that affect the application of policies and reported amounts of revenues, expenses, assets and liabilities, as well as the disclosure of contingent assets and liabilities. Such estimates mainly relate to unsettled transactions and events at the date of the financial statements. Facts and circumstances may change and actual results could differ from those estimates. Management uses judgment and currently available information to make these estimates and these estimates are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The following outlines the significant judgments and estimates made by the Corporation.

(expressed in Canadian dollars)

Revenue recognition

The estimate of usage not yet billed, which is included in revenues from the sale of water and other services is based on an assessment of unbilled services supplied to customers. This estimate is from the date of the last meter reading using historical consumption patterns. Management applies judgment to measure and value the estimated consumption.

The Corporation applies the percentage of completion accounting policy for revenue recognition. The estimation of percentage of completion of development projects in order to determine the amount of revenue to recognize is based on the attainment of critical milestones pre-set at the commencement of each project. Based on this, management applies judgment to determine the amount of revenue to recognize in relation to the stage of completion of each project at each reporting date.

Useful lives of property and equipment

Significant components of property and equipment are amortized over their estimated useful lives. Useful lives are determined on current facts and past experience, and consider the anticipated physical life of the asset, existing long-term agreements and contracts, current and forecasted demand and the potential for technological obsolescence. Useful life estimates are reviewed on a regular basis; however, actual lives may differ from the estimates.

Impairment of long-lived assets

If indicators of impairment exist for an asset or cash generating unit ("CGU") to which an asset belongs, an estimate of the recoverable amount is made to determine whether an impairment loss is to be recognized. The calculations used to determine the recoverable amounts include assumptions, such as the price for which the asset could be obtained or the future cash flows that will be produced by the asset or group of assets, discounted using an appropriate rate. Subsequent changes to these estimates or assumptions may significantly impact the carrying value of the assets within the respective CGU.

Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

3 Significant accounting policies

a) Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

(expressed in Canadian dollars)

At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i) Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. There are no instruments held by the Corporation classified in this category.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of net income in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position date, which is classified as non-current.

ii) Available-for-sale investments

Financial instruments classified as available for sale are measured at fair value using quoted prices in an active market.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of it within twelve months.

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities of greater than twelve months after the end of the reporting periods, which are classified as non-current liabilities. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost using the effective interest rate method less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and Includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(expressed in Canadian dollars)

iv) Financial liabilities

Financial liabilities at amortized cost include the Corporation's accounts payable and accrued liabilities, long-term debt and preferred shares issued. Transaction costs on financial liabilities other than those classified as fair value through profit or loss are treated as part of the carrying value of the liability. Transaction costs for liabilities at fair value through profit or loss are expensed as incurred.

v) Impairment of financial assets

The Corporation assesses at the end of each reporting date whether there are indicators of impairment present for financial assets other than financial assets at fair value through profit or loss.

A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

An impairment loss in respect of a financial asset carried at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted using the instrument's original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset that was previously recognized in profit or loss, is removed from equity and recognized in the statement of net income.

The Corporation has not recognized any impairment of financial assets for the year ended December 31, 2015 (2014 – $nil).

vi) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to either settle on a net basis or to realize the assets and settle the liabilities simultaneously.

vii) Derecognition of financial instruments

Financial assets are derecognized when the right to receive cash flows from the financial assets has expired or been transferred and the Corporation has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the obligation is discharged, cancelled, or expired.

(expressed in Canadian dollars)

viii) Settlement

The Corporation applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting means recognizing an asset on the day it is received by the Corporation and recognizing the disposal of an asset on the day it is delivered by the Corporation. Any gain or loss on disposal is also recognized on that day.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term investments, such as money market deposits or similar type instruments, with an original maturity of three months or less.

c) Investments

Investments include available-for-sale investments and are recorded at fair market value using quoted prices in an active market. The change in fair market value is recorded as other comprehensive income.

d) Inventories

Inventories consist of water meter parts inventories which are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of inventories comprises all costs of purchase, costs of conversion and other costs included in bringing the inventories to their present condition and location.

e) Property and equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses and include capitalized interest incurred during construction on qualified assets. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset such as materials, labor, borrowing costs and contracted services. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. A gain or loss arising from the derecognition of an asset is recorded in earnings when the asset is derecognized.

Major overhaul costs are capitalized and depreciated on a straight-line basis to the next major overhaul. Other repair and maintenance costs are charged to earnings during the period in which they are incurred.

Interest on the funding attributable to qualifying assets is capitalized during construction and is depreciated as part of the total cost over the useful life of the asset. Capitalized interest is calculated using the effective interest rate method based on specified rates for specific borrowings and a weighted average rate for general borrowings. Interest capitalization commences when borrowing costs and expenditures are incurred at the onset of construction on assets of substantial duration. Interest capitalization ceases when construction of the asset is substantially complete.

(expressed in Canadian dollars)

Government grants are recorded net of the carrying amount of the asset once the property and equipment is acquired or constructed and ready for use. The grant is recognized in profit or loss on a systematic basis over the life of a depreciable asset as a reduced amortization expense.

The Corporation has received contributed property and equipment from the City which has been contributed as part of terms of development agreements. As the assets relate to delivery of utility services, the City has then transferred the assets to the Corporation. These assets are recorded by the Corporation at the exchange amount, which is the amount of consideration established and agreed by the related parties, as either revenue or deferred revenue.

Depreciation is provided on assets primarily on a straight-line basis over their estimated useful lives. No depreciation is provided on land and construction work-in-progress. Depreciation periods for the principal categories of property and equipment are shown in the table below:

	Years	Method
Land improvement	15 – 25	Straight-line method
Building	25 – 50	Straight-line method
Engineering structures	45 – 50	Straight-line method
Machinery and equipment	5 – 40	Straight-line method
Vehicles	10	Straight-line method

f) Impairment of non-financial assets

At the end of each reporting period, management assesses the carrying amounts of long-lived assets for indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. Where fair value less costs of disposal is not reliably available, value in use is used as the recoverable amount.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings.

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset's recoverable amount since the last impairment was recognized is warranted. Where an impairment charge is subsequently reversed, the carrying amount of the asset (or CGU) is increased to the revised recoverable amount to the extent that it does not exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods. A reversal of an impairment charge is recognized immediately in earnings. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(expressed in Canadian dollars)

g) Impairment of financial assets

Available-for-sale investments

At the end of each reporting period, management assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Investments classified in the available-for-sale category are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring a decline in value, the Corporation takes into account many facts specific to each investment and all the factors that could indicate that there has been impairment. Factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer will enter bankruptcy or a restructuring, and the disappearance of an active market for the financial asset in question. Management also uses its judgment to determine when to recognize an impairment loss.

For equity investments classified in the available-for-sale category, the objective evidence would also include a significant or prolonged decline in the fair value below cost. When evidence of impairment exists, the cumulative loss (the difference between acquisition cost and current fair value, less any impairment loss previously recognized) is transferred out of Other Comprehensive Income, in equity, and recognized in the Statement of Operations. Impairment losses on equity securities are not reversed through the Statement of Operations, and increases in fair value occurring subsequent to impairment are recorded directly in Other Comprehensive Income, in equity. Any impairment loss on securities previously impaired is directly recognized in the Statement of Operations.

h) Deferred revenue

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

Certain assets may be acquired or constructed using non-repayable government grants or contributions from developers or customers. Contributions received towards construction of an item of property and equipment which are used to provide ongoing service to customers are recorded as deferred revenue and recognized in net income in reference to the stage of completion of the construction at the end of the reporting period.

Government grants are recognized initially as deferred revenue at fair value when there is reasonable assurance that they will be received and the Corporation will comply with the conditions associated with the grant. Grants that compensate the Corporation for expenses incurred are recognized in net income on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Corporation for the cost of an item of property and equipment are recognized in net income once the item of property and equipment is acquired or constructed and ready for use.

(expressed in Canadian dollars)

i) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risk and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The increase in the obligation due to the passage of time is recognized as finance expense. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that the reimbursement will be received and the amount receivable can be measured reliably. No such provisions existed at December 31, 2015 or 2014.

j) Income taxes

The Corporation is exempt from income taxation under Section 149 (1) (d.5) of the Income Tax Act.

k) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Corporation for the provision of goods or services and where the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or to be received.

Revenue from the sale of water is recognized upon delivery or provision of the services to the customer. These revenues include an estimate of the value of water consumed by customers, to the end of each period but billed subsequent to the reporting period.

Revenues from the sale of other goods are recognized when the products have been delivered and collectability is reasonably assured.

Revenues from the provision of wastewater treatment and other services are recognized over the period in which the service is performed and collectability is reasonably assured.

Certain additions to property and equipment are made with the assistance of non-refundable cash contributions from developers and customers. Contributions received towards construction of an item of property and equipment are recorded as deferred revenue and recognized in revenue by reference to the stage of completion of the construction at the end of the reporting period.

(expressed in Canadian dollars)

The delivery or provision of services to the customer is completed when the Corporation no longer has effective control over the goods sold or services provided, when the amount of revenue can be measured reliably, when it is probable that the economic benefits associated with the transaction will flow to the Corporation, and when costs incurred or to be incurred in respect of the transaction can be measured reliably and recovery is reasonably assured.

Penalties and interest income include revenue from penalties and interest charged to customers for overdue accounts from the sale of goods and services.

l) Related party transactions

Transactions with related parties are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

m) Preferred shares

Preferred shares are classified as equity if it is non-redeemable, or redeemable only at the Corporation's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Preferred shares are classified as a liability if it is redeemable on a specific date or at the option of the shareholder, or if the dividend payments are not discretionary. Dividends thereon are recognized as a financing expense in profit or loss as accrued.

4 Accounting standards and interpretations not yet applied

Certain new or amended standards or interpretations issued by the IASB or IFRIC do not have to be adopted in the current period. As a result, the Corporation has not early adopted these standards or interpretations. Those that may be relevant to the Corporation are set out below.

(expressed in Canadian dollars)

IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in Other Comprehensive Income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Corporation is assessing the impact of IFRS 9.

IFRS 15, *Revenue from Contracts with Customers*, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, *Revenue* and IAS 11, *Construction Contracts* and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Corporation is assessing the impact of IFRS 15.

IFRS 16, Leases, specifies that lessees are to recognize leases that were traditionally recorded as operating leases in a similar way to finance leases under existing IAS 17. The effective date for IFRS 16 is on or after January 1, 2019, with early adoption permitted if IFRS 15 *"Revenue from Contracts with Customers"* has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. A formal assessment of the transitional implication to the Corporation will be completed in the future.

There are no other standards or interpretations issued, but not yet effective, that the Corporation anticipates will have a material effect on the financial statements once adopted.

(expressed in Canadian dollars)

5 Financial instruments

Fair values

The Corporation has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

	2015			
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Available for sale investments	289,634	1,053,116	-	1,342,750

	2014			
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Available for sale investments	322,762	1,024,083	-	1,346,845

No transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments recognized at fair value during the year ended December 31, 2015.

(expressed in Canadian dollars)

The following table provides a reconciliation of fair value measurements changes in Level 2 financial instruments, which pertains to the Corporation's pooled fund investments.

	$
Balance – Beginning of year	1,024,083
Unrealized gains	29,033
Balance – End of year	1,053,116

The fair value of cash and cash equivalents, accounts receivable, due (to) from related party, and accounts payable and accrued liabilities approximates carrying value due to the short-term nature of the financial instruments.

The fair value of the Company's non-derivative financial instruments, which include long-term debt and preferred shares, approximate their carrying value.

Long-term debt is recorded at amortized cost. Fair values are determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Corporation's current borrowing rate for similar borrowing arrangements. Fair value of long-term debt at initial recognition was classified in Level 2 of the fair value hierarchy.

On January 1, 2012, redeemable preferred shares of $56,050,023 were issued to the City as consideration for assets transferred to the Corporation (note 15). The preferred shares were redeemable and retractable on demand initially by the City as at December 31, 2014. A waiver was received by the City on April 15, 2013, waiving the right to retract the shares until December 31, 2016. On April 15, 2013, the preferred shares were recorded at fair value, based on the present value of the redemption amount. On December 14, 2015, the City further extended the waiver period to December 31, 2020. On December 14, 2015, the preferred shares' existing fair value was deemed to qualify as an extinguishment and a new fair market value was established. The difference in fair value is recorded as contributed surplus.

(expressed in Canadian dollars)

6 Capital management

The objective of managing the Corporation's equity is to ensure the Corporation effectively achieves its goals and objectives for which it has been established, while remaining a going concern. In order to ensure the Corporation achieves its goals and objectives, management has in place a planning and budgeting process that is reviewed on an ongoing basis. The Corporation sets the amount of capital in proportion to risk. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets.

The Corporation defines capital as the aggregate total of cash and cash equivalents less shareholder's equity and long-term debt (excluding preferred shares):

	2015 $	2014 $
Cash and cash equivalents	3,235,788	4,878,652
Investments	1,342,750	1,346,845
Shareholder's equity	19,485,719	11,277,831
Long-term debt	(8,277,186)	(8,943,269)
	15,787,071	8,560,059

The Corporation is in compliance with all of the financial covenants as established in its long term debt agreements.

7 Cash and cash equivalents

	2015 $	2014 $
Short-term investments	212,837	175,796
Cash at bank	3,022,951	4,702,856
	3,235,788	4,878,652

(expressed in Canadian dollars)

8 Accounts receivable

	2015 $	2014 $
Utilities accounts receivable	1,709,729	1,484,598
Other receivables	9,057	7,270
Allowance for doubtful accounts	(50,704)	-
	1,668,082	1,491,868

All amounts are due in the short-term. The carrying amounts are a reasonable approximation of their fair value.

The carrying amount of the Corporation's past due receivables is $345,886 (2014 – $282,937). The aging of these receivables is detailed in the following table:

	2015 $	2014 $
61 to 90 days	207,369	183,473
91 to 120 days	59,482	38,941
121 to 150 days	18,265	12,275
Over 150 days	60,770	48,248
	345,886	282,937

The Corporation does not hold any collateral in respect of these receivables.

The Corporation has an agreement in place between the Corporation and the City which allows for past due utility accounts to be transferred to the City to be collected from customers through property taxes.

In situations where the City of Chestermere has had land title changes on past due receivables, these amounts have been included in the allowance for doubtful accounts and have been transferred to a collection agency.

9 Inventory

	2015 $	2014 $
Water meters	72,356	72,418

The total amount of inventory recognized as expense during the year was $280,275 (2014 – $244,581). No inventory write-downs were recognized in the year ended December 31, 2015 . No reversals of previous write-downs were recorded in the year ended December 31, 2015.

At December 31, 2015, no inventories were pledged as security for liabilities.

(expressed in Canadian dollars)

10 Property and equipment

	Land $	Land improvements $	Buildings $	Engineered structures $	Machinery and equipment $	Vehicles $	Construction in-progress $	Total $
Cost								
Balance – January 1, 2015	4,524,364	74,323	1,954,004	61,899,154	477,451	112,254	3,123,345	72,164,895
Additions	1,038	-	-	5,261,411	298,760	277,026	5,935,070	11,773,305
Disposals	-	-	-	-	(32,583)	-	-	(32,583)
Balance – December 31, 2015	4,525,402	74,323	1,954,004	67,160,565	743,628	389,280	9,058,415	83,905,617
Accumulated amortization								
Balance – January 1, 2015	-	3,483	271,142	3,139,647	184,031	25,263	-	3,623,566
Amortization for the year	-	3,028	96,574	1,531,697	76,934	43,523	-	1,751,756
Disposals	-	-	-	-	(12,679)	-		(12,679)
Balance – December 31, 2015	-	6,511	367,716	4,671,344	248,286	68,786	-	5,362,643
Net book value	4,525,402	67,812	1,586,288	62,489,221	495,342	320,494	9,058,415	78,542,974

	Land $	Land improvements $	Buildings $	Engineered structures $	Machinery and equipment $	Vehicles $	Construction in-progress $	Total $
Cost								
Balance – January 1, 2014	4,110,754	4,323	1,370,800	59,112,680	456,683	112,254	1,686,965	66,854,459
Additions	413,610	14,000	583,204	2,786,474	20,768	-	1,492,380	5,310,436
Transfers	-	56,000	-	-	-	-	(56,000)	-
Balance – December 31, 2014	4,524,364	74,323	1,954,004	61,899,154	477,451	112,254	3,123,345	72,164,895
Accumulated amortization								
Balance – January 1, 2014	-	455	174,569	2,014,697	129,850	16,842	-	2,336,413
Amortization for the year	-	3,028	96,573	1,124,950	54,181	8,421	-	1,287,153
Balance – December 31, 2014	-	3,483	271,142	3,139,647	184,031	25,263	-	3,623,566
Net book value	4,524,364	70,840	1,682,862	58,759,507	293,420	86,991	3,123,345	68,541,329

(expressed in Canadian dollars)

11 Accounts payable and accrued liabilities

	2015 $	2014 $
Trade accounts payable	1,531,042	1,703,564
Accrued liabilities	5,503,400	895,469
Accrued wages and benefits payable	203,050	159,359
	7,237,492	2,758,392

12 Deferred revenue

	2015			2014		
	Water $	Sewer $	Total $	Water $	Sewer $	Total $
Beginning of period – January 1	284,424	833,329	1,117,753	53,472	-	53,472
Amount collected during the year	561,516	77,941	639,457	263,988	839,283	1,103,271
Revenue recognized	(42,282)	(7,745)	(50,027)	(33,036)	(5,954)	(38,990)
End of year – December 31	803,658	903,525	1,707,183	284,424	833,329	1,117,753

13 Long-term debt

	2015 $	2014 $
EPCOR Amortization Fund assigned from the City	5,650,407	5,883,789
Alberta Capital Finance Authority loan assigned from the City	2,404,450	2,505,053
Loan from shareholder	554,427	554,427
	8,609,284	8,943,269
Amounts payable within one year	(332,098)	(337,928)
	8,277,186	8,605,341

(expressed in Canadian dollars)

Principal repayment terms are as follows:

	$
2016	332,098
2017	322,542
2018	871,950
2019	312,956
Thereafter	6,769,739

The EPCOR Amortization Fund consists of a long-term financing arrangement between the City of Chestermere and EPCOR for the water reservoir and water line tie-in projects. The term of this financing is over 20 years with payments to include principal and interest. The loan agreement with EPCOR is held in the City of Chestermere's name; however, the balance of this debt was assigned from the City of Chestermere to the Corporation as per the transfer agreement effective January 1, 2012. Refer to note 15.

Principal payments are calculated based on an annual rate of 4.00% of the declining balance. Interest is calculated utilizing a 65:35 debt to equity capital structure, a 6.02% cost of debt, and a 9.77% return on equity value, based on the average 30 Year Canada Long Bond since October 4, 2006 of 4.27%, which results in a weighted average cost of capital of 7.33%. The loan is unsecured and matures on June 1, 2029.

The Alberta Capital Finance Authority (ACFA) loan is a 20 year, unsecured loan arrangement between the City of Chestermere and ACFA with payments to include principal and interest. The loan agreement with ACFA is held in the City of Chestermere's name but was assigned from the City of Chestermere to the Corporation to enable the Corporation to meet various capital needs. The loan carries a fixed interest rate of 3.253% per annum. There are no covenants specified in the loan agreement and the loan matures on June 17, 2033.

The loan from shareholder is a five year, unsecured, non-interest bearing promissory note payable which was payable on demand as at December 31, 2014. However, on April 15, 2013, the Corporation received a waiver from the City of Chestermere, waiving the right to retract the loan until December 31, 2018.

14 Finance cost

	2015 $	2014 $
EPCOR Amortization Fund assigned from the City	500,263	516,549
Alberta Capital Finance Authority loan assigned from the City	80,536	83,759
Accretion of the liability portion of redeemable preference shares (notes 5 and 17)	1,701,731	1,656,349
	2,282,530	2,256,657

(expressed in Canadian dollars)

15 Related party transactions

The Corporation is a wholly owned subsidiary of the City of Chestermere. Related party balances with the City at the end of the year are as follows:

	2015 $	2014 $
Due (to) from related party	(241,550)	159,516
Long-term debt (note 13)	(8,609,284)	(8,943,269)
Preferred shares (notes 5 and 16)	(47,759,789)	(52,573,929)

Amounts due from related party include an amount payable of $241,550 (2014 – receivable of $159,516) for collections transferred to the City and for utility services performed but not yet collected, which is unsecured, non-interest bearing and repayable on demand.

Transactions and balances with the City are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

The following transactions occurred between related parties:

	2015 $	2014 $
Compensation of key management personnel		
Short-term employee benefits	200,958	224,895
Post-employment benefits	-	-
Other long-term benefits	25,000	22,500
Termination benefits	23,077	-
	249,035	247,395

Included in the current year short-term employee benefits is $187,253 relating to the Chief Executive Officer. Included in 2014 is $169,599 that related to the Chief Operating Officer.

	2015 $	2014 $
City of Chestermere		
Sales of goods and services	157,439	226,808
General and administrative expenses	51,715	19,365
Office space rental	6,000	6,000
	215,154	252,173

During the year, the net amount collected by the City of Chestermere on behalf of the Corporation is $6,702,953 (2014 – $3,302,192).

(expressed in Canadian dollars)

16 Share capital

Authorized

Unlimited number of Class "A" common voting shares
Unlimited number of Class "B" common voting shares
Unlimited number of Class "D" common non-voting shares
Unlimited number of Class "E" common non-voting shares
Unlimited number of Class "F" common non-voting shares
Unlimited number of Class "G" preferred, non-cumulative, redeemable, retractable, non-voting shares
Unlimited number of Class "H" preferred, non-cumulative, redeemable, retractable, non-voting shares
Unlimited number of Class "I" preferred, non-cumulative, redeemable, retractable, non-voting shares

Issued

	2015 $	2014 $
100 Class "A" common voting shares	100	100
56,050,023 Class "G" preferred, non-cumulative, redeemable, retractable, non-voting shares	47,759,789	52,573,929
	47,759,889	52,574,029

The carrying value of retractable preferred shares issued, which are classified as liabilities, is as follows:

	2015 $	2014 $
56,050,023 Class "G" preferred, non-cumulative, redeemable, retractable, non-voting shares	47,759,789	52,573,929

Common shares issued all have the same rights in respect to the distribution of dividends and the repayment of capital. Each share entitles the holder to vote at all of the meetings of the shareholders of the Corporation except meetings at which only holders of a specified class of shares are, by the provisions of the Business Corporations Act, entitled to vote.

On April 15, 2013, the City initially waived its right to retract the shares until December 31, 2016 (from December 31, 2014) and on December 14, 2015 the City extended the waiver period to December 31, 2020.

The fair value of the liability component was calculated as the present value of the preferred shares discounted at the Corporation's current borrowing rate for borrowing arrangements with similar terms of 3.253% for the period from the date of waiver to the expected remaining life of the preferred shares.

For financial reporting purposes, the preferred shares are considered to have both a debt and equity component. The equity component was calculated as the issue price of the preferred shares less the fair value of the liability component. As a result an equity component of $6,736,608 was recorded initially in contributed surplus and in 2015 an additional $6,515,871 was recorded in contributed surplus.

(expressed in Canadian dollars)

17 Employee benefits

Employees of the Corporation participate in the Alberta Communities Pension Plan ("ACPP"), which is a defined contribution plan operated by the Alberta Municipal Services Corporation. The ACPP is financed by employer and employee contributions and investment earnings of the ACPP fund.

Contributions for current service are recorded as expenditures in the year in which they become due.

The Corporation matches contributions made by employees ranging from 3% to 7% of employee earnings. The total current service contribution by the Corporation to ACPP in 2015 was $45,388 (2014 – $47,062).

18 Commitments

Great Plains Sanitary Trunk Extension

The Corporation entered into an agreement with the City of Calgary in 2012 to fund the construction of the Great Plains Trunk Line extension for the purpose of connecting the sewer line which runs from the City of Calgary to the City. The agreement specifies that once the Final Acceptance Certificate is issued the Corporation will transfer ownership of the asset to the City of Calgary and the asset will be fully owned and maintained by the City of Calgary. Since the asset is related to sewer infrastructure, the costs incurred to completion, net of a contribution of $1,100,000 received from the City of Calgary upon completion of the project in 2013, have been recorded as property and equipment of the Corporation until 2016 when the asset will be transferred to the City of Calgary.

Commitments

At December 31, 2015, the Corporation had the following commitments:

	$
No later than one year	4,044,316
Later than one year and no later than 5 years	11,759,288
Later than 5 years	11,678,898
	27,482,502

19 Financial risks

The Corporation has exposure to the following risks from its use of financial instruments: liquidity risk, market risk, credit risk, and interest rate risk. This note presents information about the Corporation's exposure to each of these risks and the Corporation's objectives, policies and processes for managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and monitors risk management activities. The Corporation identifies and analyzes the risks faced by the Corporation and may utilize financial instruments to mitigate these risks.

(expressed in Canadian dollars)

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets at hand at the statement of financial position date. The Corporation is subject to credit risk with respect to cash and cash equivalents, investments, accounts receivables, due from related party and good and services tax receivable. The large number and diversity of customers minimizes the credit risk of any one individual customer. In addition, the Corporation is able to mitigate credit risk through its ability to transfer past due utilities receivable balances to the City, which can then be collected from customers through payment of property taxes. Cash is deposited with a Canadian chartered bank.

Liquidity risk

The Corporation's funding is provided in the form of long-term borrowings and short term credit facilities, which provide adequate resources to meet its financial obligations as they come due. The Corporation has a $7,200,000 facility, which is undrawn at December 31, 2015. As at December 31, 2015, the Corporation's available cash totaled $3,235,788 (2014 – $4,878,652). The Corporation's net financial debt net of cash and cash equivalents is $5,373,495 (2014 – $4,064,617). The following table shows the undiscounted maturities of financial liability-related cash flows (principal and interest).

				2015
	2016 $	2017 – 2019 $	2020 and thereafter $	Total $
Accounts payable and accrued liabilities	7,237,492	-	-	7,237,492
Long-term debt – principal	332,098	1,507,448	6,769,739	8,609,285
Long-term debt – interest	561,494	1,567,505	4,162,283	6,291,282
Preferred shares	-	-	56,050,023	56,050,023
	8,131,084	3,074,953	66,982,045	78,188,082

				2014
	2015 $	2016 – 2018 $	2019 and thereafter $	Total $
Accounts payable and accrued liabilities	2,758,392	-	-	2,758,392
Long-term debt – principal	337,928	1,518,576	7,086,765	8,943,269
Long-term debt – interest	580,942	1,649,761	4,289,842	6,520,545
Preferred shares	-	56,050,023	-	56,050,023
	3,677,262	59,218,360	11,376,607	74,272,229

(expressed in Canadian dollars)

Market risk

The Corporation is exposed to risks from changes in interest rates and market prices that affect its financial liabilities and financial assets.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Corporation manages exposure through its normal operating and financing activities. The Corporation is not currently exposed to interest rate risk as it has fixed interest rate long-term financing with EPCOR and Alberta Capital Finance Authority. Except for cash and cash equivalents, all other assets and liabilities of the Corporation are not interest rate sensitive.

Currency risk

Currency risk is the risk that variation in exchange rates between the Canadian dollar and foreign currencies will affect the Corporation's operations and financial results. The Corporation is not exposed to foreign currency risk because all assets and liabilities and the associated revenue and expenses are denominated in Canadian dollars.

Other price risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Corporation attempts to moderate this risk through the careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk of loss resulting from financial instruments is equivalent to their fair value.

The Corporation is exposed to other price risk from its investment in equity securities. As at December 31, 2015, had the prices on the respective stock exchanges for these securities increased or decreased by 5%, with all other variables held constant, Investments would have increased or decreased by approximately $67,138. In practice, the actual trading results may differ, and the difference could be material.