2014 ANNUAL REPORT TO THE COMMUNITY

12/31/2014

Chestermere Utilities Incorporated

Curbside composting & recycling services were approved by City Council in November 2014.

These enhanced services for residents of Chestermere will begin in the spring of 2015.

2014 Annual Report To The Community

ESTABLISHING THE FOUNDATION

OUR MISSION

CUI delivers safe, reliable and efficient utility products and services to our customers and the communities we operate in.

OUR VISION

CUI will be an innovative and cost competitive provider of quality utility solutions and services for municipalities and is committed to sustainable practices. We will lead through our strong fiscal management and outstanding service delivery.

MESSAGE FROM THE BOARD CHAIR

On behalf of the Board, I am pleased to present the Annual Report for 2014.

2014 was a transitional year for CUI. Our focus shifted from building a solid foundation from which to move ahead, to setting the stage to accommodate the anticipated growth of Chestermere; to providing additional services to Chestermere residents; and to developing and expanding our business beyond the boundaries of Chestermere.

Within Chestermere, CUI completed the Great Plains Sanitary Trunk Line, began construction of Lift Station 13, improved our recycling facility, and with the support of Council, established the Life Cycle fund – thereby ensuring the long term sustainability of our infrastructure.

CUI fully met the 2010 mandate established by City Council when the decision was taken to create the corporation. CUI did not achieve its success in 2014 on the backs of the residents of Chestermere – flowing through only those costs which were not in our control or that we could not mitigate. CUI will continue to look for cost saving measures and will pass these savings onto the residents of Chestermere, either directly or through improved services without implementing additional costs. One example being the savings realized by locating and fixing significant water leaks in the infrastructure. This accomplishment will, in part, fund the Life Cycle Fund. Savings created by reduced tipping fees for solid waste will pay the operating costs of a proposed curbside recycling program. CUI was able to avoid utility rate increases in 2015 by carefully controlling costs.

Looking forward to 2015, CUI will move aggressively within our market area to identify and secure new business opportunities. While CUI can operate anywhere within the Province of Alberta, we see our immediate business prospects to be within a 240 kilometre radius of Chestermere. CUI has developed and demonstrated its competency in the public utility space – demonstrating the efficiencies and municipal advantage to be gained with a dedicated utility.

From a management perspective, the search for a new CEO is underway. CUI is looking for an individual with proven leadership skills and extensive experience in business development. The "fit" required to move CUI forward.

The Board of CUI continues to evolve. We will seek two new members early in 2015. The skill sets we are looking for include: business development, marketing, and legal experience. We are looking to bring aboard experienced Directors who are financially literate and familiar with municipally owned subsidiaries. The Board will endeavor to diversify the Board in terms of gender, experience and education.

I want to thank the citizens of Chestermere, our customers for their continued support and suggestions. And, I want to thank the management and staff of CUI for their commitment to CUI and their continuing efforts to improve customer care and service. I also want to thank City Council, who acting as the shareholder's representative have provided support and guidance to the company and my colleagues on the Board for their continued dedication and wise council.

Respectfully Submitted,

Gord Lowe

Gord Lowe
Chairman of the Board

In November 2014, City Council approved a new utility fee item called the Lifecycle Fund to proactively address failing infrastructure and the potential for infrastructure deficit. Through implementation of the Lifecycle Fund, Chestermere Council and CUI are working together to ensure the sustainable future of our community by setting aside for the eventual replacement of infrastructure.

MESSAGE FROM THE PRESIDENT & COO

2014 has proven to be another successful year for CUI and we have achieved many major goals to be proud of.

This past year we focused on identifying water losses and making the necessary repairs. Although our water infrastructure system is relatively new compared to many other jurisdictions, and most of our main lines are constructed of plastic with a long useful life, the service connections do pose some problems. In some of the older parts of Chestermere, the service connections use copper lines and the soil conditions have been accelerating the deterioration of those connections. Several leaks were detected and subsequent repairs completed in the Cove area and along East Chestermere Drive. Our leak detection program is proving successful and the results will benefit all.

During much of 2014, CUI and the City of Chestermere have been in negotiations with the City of Calgary for the water and wastewater services received from Calgary. We now have a twenty year supply agreement with a four year pricing arrangement. This is good news for Chestermere.

Combining the successful negotiations with the City of Calgary and plugging those water leaks has resulted in a zero rate increase to our customers for 2015!

One of the most significant items CUI is facing is the proactive management of our infrastructure as it ages. This is a major issue nearly all communities throughout North America are currently facing. CUI and our Shareholder have taken a huge step to address this issue sooner than later. In November, City Council saw fit to allow CUI to begin setting funds aside for the eventual replacement of these important water, wastewater and storm infrastructure. The cost to our residential customers is minimal: only $3.56 each month. This Life Cycle Fund is segregated and is regularly reported upon. By taking this proactive step forward to effectively plan for the communities future needs, is absolutely a feather in our cap. It makes good business sense for everyone.

2014 was a year that also tested our water supply resources. July and August brought some of the hottest sustained temperatures on record and very little rainfall. We saw an unprecedented increase in water consumption during this time, but we did not need to invoke

any water restrictions. Our operating system and reservoir storage proved more than capable of handling the massive increased demands.

I would like to congratulate all our staff for their contributions of another successful year. Highlights from 2014 include some very major projects such as Project Management of the City's Anniversary Park renovation, overseeing completion of a new wastewater trunk line, streamlining the billing process, and improving the storm water systems. I am proud to say that our staff is working very hard to supply a great service to the community. I would also like to thank our Board of Directors for their support and guidance in all our endeavors. I'm looking forward to 2015 and continuing our good work with such a great team.

Ray MacIntosh
President & Chief Operating Officer

Management toured the City of Calgary's Reservoir Water Treatment Center in the spring of 2014. This award-winning facility is the safe source of our water.

BOARD OF DIRECTORS

as of December 31, 2014

Kelsey Johnson
Chairman

Gord Lowe
Vice Chairman

Andy Edeburn
Director

Stu Hutchison
Director

Chris Steeves
Director

CUI MANAGEMENT

Ray MacIntosh
COO & President

Donna McCallum
Operations Manager

Milton Ferretti
Senior Project Manager

Tammy Botsford
Office Manager & Executive Assistant

How to reach us:

For more information about Chestermere Utilities Incorporated and its services, visit our website at www.cuinc.ca, contact Customer Service at 403-207-7CUI(7284), email us at utilities@cuinc.ca, fax us at 587-349-3415, or write us at #403, 320 West Creek Drive, Chestermere, Alberta T1X 0P7.

You can also follow us via Twitter at @CUI_Utilities or Facebook at facebook.com/CUINCdotca.

Our Governance

Our Board of Directors includes members from the public who are elected unanimously by our shareholder. In 2014, our Board composition transitioned to a majority of independent Directors.

As of December 31, 2014, our Board of Directors included:

Kelsey Johnson, Chair
Gord Lowe, Vice-Chair
Andy Edeburn
Stu Hutchison
Christopher Steeves

Board Committees and their members (as of December 31, 2014):

Board Committee	Board members
Finance and Audit Committee	Gord Lowe (Chair), Stu Hutchison, Kelsey Johnson
Human Resource and Compensation Committee	Andy Edeburn (Chair), Kelsey Johnson, Chris Steeves
Governance Committee	Kelsey Johnson (Chair), Andy Edeburn, Gord Lowe, Stu Hutchison, Chris Steeves

Register of Board Meeting Attendance:
January 2014 – December 2014

Board Member	Feb 25	Mar 25	Apr 24	Apr 29	Jun 24	Aug 12	Aug 27	Sept 23	Oct 21	Nov 19	Dec 16
Catherine Connolly	◆	◆	◆	◆	◆	Term ended					
Kelsey Johnson	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Gord Lowe	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Andy Edeburn	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Chris Steeves	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Stu Hutchison	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆

Register of Finance Audit Committee Attendance: January 2014 – December 2014

Board Member	Feb 19	Apr 8	May 23	Jul 22	Sept 16	Oct 14	Nov 12
Catherine Connolly	◆	◆	◆	Term ended	–	–	–
Gord Lowe	◆	◆	◆	◆	◆	◆	◆
Kelsey Johnson	◆	◆	◆	R	◆	◆	◆
Stu Hutchison	◆	◆	◆	◆	◆	R	◆

Register of Human Resource and Compensation Committee Attendance: January 2014– December 2014

Board Member	January 14	April 16	August 25	October 16
Andy Edeburn	◆	◆	◆	◆
Kelsey Johnson	◆	◆	◆	◆
Chris Steeves	◆	◆	◆	◆

OUR VALUES

1. **Leadership** – we act on our principles

2. **Staff** – we help our employees be the best they can be so that together we will succeed

3. **Customers** – we are committed to our customers

4. **Health and Safety** – we provide a safe work environment for all people "on the job"

5. **Integrity** – we are accountable for everything we do

Report of the Audit and Finance Committee

The Board of Directors is responsible for overseeing Management's performance of its responsibilities for financial reporting and internal control. The Board exercises this responsibility with the assistance of the Audit and Finance Committee of the Board. The Audit and Finance Committee is currently comprised of Chair Gord Lowe and Director Stu Hutchison.

The Committee reviews the annual financial statements, considers the appropriateness of accounting policies and assesses the overall quality of the financial reporting. The Committee also reviews and makes recommendations to the Board regarding financial matters and oversees the process that Management has in place to identify reporting risks.

The Committee recommends to the Board the auditors to be appointed by the shareholders and approves in advance fees for the auditor's services. PricewaterhouseCoopers LLP was appointed by the shareholders as the independent auditor in 2014 to conduct an examination and express their opinion on the financial statements. The Auditor's Report outlines the auditor's opinion and the scope of their examination. The services provided by the independent auditor are restricted to the audit of the consolidated financial statements, and audit-related and financial risk services.

The Committee reviews and approves the terms of engagement of the independent auditor, the scope and plan for the external audit and reviews with the auditor the results of the audit and the Auditor's Report. The auditor reports to the Committee. The Committee also discusses with the auditor their independence from Management and Chestermere Utilities Incorporated and receives written confirmation of their independence.

Management and the auditor attend Committee meetings and each is provided with the opportunity to meet privately with the Committee. The Committee met 7 times in 2014.

Gord Lowe
Chairman of the Finance and Audit Committee
April 1, 2014

Report of the Human Resource and Compensation Committee

On the behalf of the Board of directors, the role of the Human Resource and Compensation Committee (HRCC) is to provide oversight and guidance to management on the effective administration of human resources. In 2014, the Committee consisted of Chair Andy Edeburn, Director Chris Steeves, and they met as a Committee 4 times.

The Committee reviews and recommends to the Board the approval of the remuneration for the CEO and remuneration recommendations for management positions and reviews and approves compensation ranges for all staff as recommended by the CEO. The committee is actively searching for a new CEO as the position has been vacant from July to present. In 2014, the CEO's salary was $99,923. The HRCC evaluates and recommends to the Board for approval, the CEO's annual performance plan; as well as any other human resources incentives suggested by the CEO, or the Board. The HRCC also provides oversight and guidance to the Board on compensation levels for staff; reviews the succession plan for staff and management; and undertakes such other duties as may be assigned by the Board of Directors.

Andy Edeburn
Chairman of the Human Resource and Compensation Committee
April 1, 2014

Principles

1) *We will be the best employer we can be.*

2) *We will provide the best customer services possible.*

3) *We will be environmentally responsible and a leader in environmental standards.*

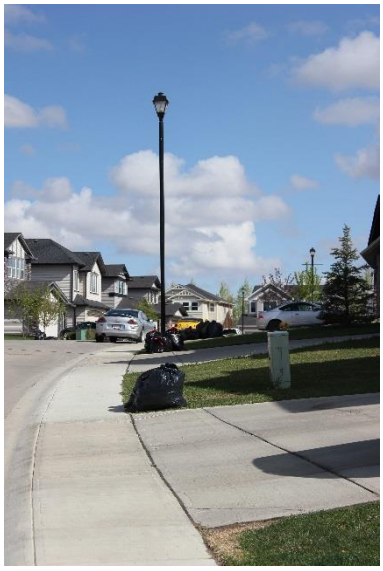
4) *We will identify and implement best practices which are cost effective in all that we do.*

5) *We will be effective communicators.*

6) *We will be fiscally responsible and transparent to our customers and our shareholders.*

7) *We will expand our business by applying good business practices.*

Solid Waste & Recycling



- In 2014, the average Chestermere household sent 63 kg of solid waste into the Calgary landfill. The per capita tonnage of how much garbage Chestermere produces, has held steady for the past three years.
- The Recycle Depot continued to be a great resource for our residents. We adjusted the hours of operation to remain the same throughout the year, more acceptable items and enhanced services were added to the Depot.
- We held two highly successful Recycle and Waste Roundups in 2014, offering residents the opportunity to bring in their old paint, household hazardous waste products, electronics and even their old documents needing shredding. During these events, we collected food items for CUI's local Charity of Choice, the Chestermere & Area Food Bank.
- Recycled items brought to the depot in 2014 included:
  - 2000+ tires
  - 2.32 tonnes of metal and tin
  - Over 172 tonnes of paper products, including 70 tonnes of cardboard, 10 tonnes of boxboard, 22 tonnes of mixed paper and 70 tonnes of newspaper!
  - Plastics (including bags and 1-7 categories) totaled over 10 metric tonnes being diverted from the landfill.

Water

- The number of customer accounts increased by approximately 12%, including both residential and commercial.
- Utility rates increased approximately 15%, keeping in line with the City of Calgary's cost increases for water, sewer and landfill charges.

- In 2014, we experienced one of the hottest summers on record and yet, the total volume of water consumed over the year decreased by approximately 6% per capita compared to 2013 volume levels.
- Major initiatives were undertaken to detect leaks and breaks in the water lines, resulting in savings of approximately $300,000 annually in unbillable water and sewer costs.

Wastewater (Sewer)

- We broke ground on Lift Station 13's construction. This new pump station will allow the City to continue its strong growth, capable of handling an additional 37,000 people.

Stormwater

- All grit and oil separators (these protect the storm water quality entering the lake) were inspected.
- Over 3500 storm catch basins were cleaned throughout the City. This task resulted in ZERO overland flooding related emergency calls in 2014.
- One hazardous spill was detected on private property. The spill was successfully contained and cleaned quickly. All applicable environmental and Company protocols and safety procedures were strictly adhered to in this incidence.

A Recap of 2014 As We Look Ahead to Our Future

CUI focused its efforts in 2014 on our core strategic areas of:

- Service excellence
- Leadership in the community
- Growing our business
- Being a great place to Work
- Internal operations

These areas will continue to drive our company forward. 2014 marked the beginning of a five year period of significant infrastructure spending. Three major projects will be paid for by developers through off-site levies.

The projects include:

- New wastewater pumping station and force main to return waste to Calgary – Lift Station 13 — $18.5 million
- New wastewater line from existing pumping station to the new pumping station – Lift Station 4 — $ 4.7 million
- New water reservoir in the northwest area (Waterbridge) — $14.0 million

CUI's strategies for 2015, and subsequent years, are to:

i) position itself as a responsible employer with a positive work culture,
ii) deliver excellent service in its core business areas,
iii) act as a leader in the community, and
iv) pursue growth in both regulated and non-regulated business.

Audited Financial Statements

Management's Responsibility for Financial Reporting

The preparation and presentation of the consolidated financial statements and the overall quality of financial reporting are the responsibility of Management of Chestermere Utilities Incorporated. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and include estimates that are based on Management's best judgments. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management is responsible for installing and maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of consolidated financial statements. Management believes that the system of internal controls operated effectively in 2014.

Ray MacIntosh
President and Chief Operating Officer

April 1, 2015

Chestermere Utilities Incorporated

Financial Statements
December 31, 2014
(expressed in Canadian dollars)

March 30, 2015

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, 2014 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.

PricewaterhouseCoopers LLP
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T: +1 403 509 7500, F: +1 403 781 1825

"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, 2014 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 Accountants

Chestermere Utilities Incorporated

Statement of Financial Position

As at December 31, 2014

(expressed in Canadian dollars)

	2014 $	2013 $
Assets		
Current assets		
Cash and cash equivalents (note 7)	4,878,652	6,077,737
Investments (note 5)	1,346,845	-
Accounts receivable (note 8)	1,491,868	1,407,666
Due from related party (note 15)	159,516	274,004
Inventory (note 9)	72,418	70,627
Goods and services tax receivable	166,080	27,877
Prepaid expenses	14,466	3,244
	8,129,845	7,861,155
Property and equipment (note 10)	68,541,329	64,518,045
	76,671,174	72,379,200
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	2,758,392	2,057,564
Current portion of long-term debt (note 13)	337,928	344,261
	3,096,320	2,401,825
Deferred revenue (note 12)	1,117,753	53,472
Long-term debt (note 13)	8,605,341	8,939,441
Preferred shares (note 16)	52,573,929	50,917,580
	65,393,343	62,312,318
Shareholder's Equity		
Share capital (note 16)	100	100
Contributed surplus (note 16)	6,736,608	6,736,608
Retained earnings	4,530,229	3,330,174
Accumulated other comprehensive income	10,894	-
	11,277,831	10,066,882
	76,671,174	72,379,200
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, 2014

(expressed in Canadian dollars)

	2014 $	2013 $
Revenue		
Sale of goods and services (note 15)	9,041,955	7,257,625
Development and offsite levies	4,397,270	3,944,255
Penalties and interest income	256,520	113,056
	13,695,745	11,314,936
Expenses		
Water supply, storm water and waste management charges	2,982,719	3,371,630
Contracted services	3,523,703	2,457,704
Amortization (note 10)	1,287,152	1,219,806
Salaries, wages, and benefits (note 15)	1,209,327	1,122,092
Financing costs (note 14)	2,256,657	2,183,500
Materials, goods and supplies	641,603	583,097
General and administrative expenses (note 15)	575,073	364,074
Other	19,456	38,972
	12,495,690	11,340,875
Net income (loss) for the year	1,200,055	(25,939)
Items that may be reclassified to profit or loss		
Unrealized gains on investments	10,894	-
Total comprehensive income (loss)	1,210,949	(25,939)

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, 2014

(expressed in Canadian dollars)

	Share Capital $	Contributed Surplus $	Retained earnings $	Accumulated other comprehensive income $	Total equity $
Balance – January 1, 2013	100	6,736,608	3,356,113	-	3,356,213
Net loss for the year	-	-	(25,939)	-	(25,939)
Balance – December 31, 2013	100	6,736,608	3,330,174	-	3,330,274
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	4,541,223

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

Chestermere Utilities Incorporated

Statement of Cash Flows

For the year ended December 31, 2014

(expressed in Canadian dollars)

	2014 $	2013 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	1,200,055	(25,939)
Items not affecting cash		
Amortization of property and equipment (note 10)	1,287,152	1,219,806
Finance costs (note 14)	2,256,657	2,183,500
Contributed assets	(3,746,287)	(2,634,422)
	997,577	742,945
Change in non-cash working capital		
Accounts receivable	(84,203)	(315,215)
Due from related party	114,488	1,195,345
Inventory	(1,791)	5,948
Accounts payable and accrued liabilities	700,828	1,747,523
Prepaid expenses	(11,222)	398
Goods and services tax receivable	(138,203)	62,556
Deferred revenue	1,064,281	(799,626)
	1,644,178	1,896,929
	2,641,755	2,639,874
Investing activities		
Additions to property and equipment (note 10)	(1,564,149)	(204,004)
Investment purchases	(1,335,950)	-
	(2,900,099)	(204,004)
Financing activities		
Long-term debt	-	2,650,000
Interest paid	(600,308)	(579,335)
Repayment of long-term debt	(340,433)	(299,022)
	(940,741)	1,771,643
(Decrease) increase in cash and cash equivalents	(1,199,085)	4,207,513
Cash and cash equivalents – Beginning of year	6,077,737	1,870,224
Cash and cash equivalents – End of year	4,878,652	6,077,737

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, 2014 were approved and authorized for issuance by the Board of Directors on March 30, 2015.

Basis of measurement

These financial statements have been prepared under the historical cost convention except for available for sale investments and preferred shares classified as liabilities. 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, 2014 (2013 – $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)

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, 2014 or 2013.

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.

Sale of goods

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.

Provision of services

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.

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.

n) Accounting standards and amendments effective for the first time

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. The following new standards and amendments were made in accordance with the applicable transitional provisions, but have not had a material impact on the Corporation:

- IAS 32: *Financial Instruments: Presentation*
- IAS 36: *Impairment of Assets*
- IFRIC 21: *Levies*

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. The standards which the Corporation anticipates will have a material effect on the financial statements or note disclosures are described 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 2017 and earlier application is permitted. The Corporation is assessing the impact of IFRS 15.

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.

				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, 2013.

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.

	2014 $
Balance – Beginning of year	-
Purchases	1,023,101
Sales	-
Net transfers in	-
Realized gains	-
Unrealized gains	982
Balance – End of year	1,024,083

The fair value of cash and cash equivalents, accounts receivable, due 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.

(expressed in Canadian dollars)

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 by the City as at December 31, 2013. A waiver was received by the City on April 15, 2013, waiving the right to retract the shares until December 31, 2016, and as such the preferred shares issued have been classified as a non-current liability on the statement of financial position as at December 31, 2014 and 2013. On April 15, 2013, the preferred shares were recorded at fair value, based on the present value of the redemption amount. Fair values are determined using interest rates for the same or similar issues. The Corporation's preferred shares are classified in Level 2 of the fair value hierarchy.

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 shareholders equity and long-term debt (excluding preferred shares):

	2014 $	2013 $
Cash and cash equivalents	4,878,652	6,077,737
Investments	1,346,845	-
Shareholder's equity	11,277,831	10,066,883
Long-term debt	(8,943,269)	(9,283,702)
	8,560,059	6,860,918

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

(expressed in Canadian dollars)

7 Cash and cash equivalents

	2014 $	2013 $
Short-term investments	175,796	5,000,000
Cash at bank	4,702,856	1,077,737
	4,878,652	6,077,737

8 Accounts receivable

	2014 $	2013 $
Utilities accounts receivable	1,484,598	1,315,111
Other receivables	7,270	92,555
	1,491,868	1,407,666

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 $282,937 (2013 – $175,239). The aging of these receivables is detailed in the following table:

	2014 $	2013 $
61 to 90 days	183,473	108,623
91 to 120 days	38,941	24,229
121 to 150 days	12,275	6,026
Over 150 days	48,248	36,361
	282,937	175,239

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

The Corporation has not set up any allowance for doubtful accounts in the current or prior year as all accounts are considered to be collectible. 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.

(expressed in Canadian dollars)

9 Inventory

	2014 $	2013 $
Water meters	72,418	70,627

The total amount of inventory recognized as expense during the year was $244,581 (2013 – $230,523). No inventory write-downs were recognized in the year ended December 31, 2014 . No reversals of previous write-downs were recorded in the year ended December 31, 2014.

At December 31, 2014, 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, 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	-	1,287,152
Balance – December 31, 2014	-	3,483	271,142	3,139,647	184,031	25,263	-	3,623,565
Net book value	4,524,364	70,840	1,682,862	58,759,507	293,420	86,991	3,123,345	68,541,330

	Land $	Land improvements $	Buildings $	Engineered structures $	Machinery and equipment $	Vehicles $	Construction in-progress $	Total $
Cost								
Balance – January 1, 2013	3,480,055	4,323	1,370,800	50,451,797	445,974	112,254	8,150,829	64,016,032
Additions	630,699	-	-	2,079,445	10,709	-	117,573	2,838,426
Transfers	-	-	-	6,581,437	-	-	(6,581,437)	-
Balance – December 31, 2013	4,110,754	4,323	1,370,800	59,112,679	456,683	112,254	1,686,965	66,854,458
Accumulated amortization								
Balance – January 1, 2013	-	228	89,660	952,908	65,390	8,421	-	1,116,607
Amortization for the year	-	227	84,909	1,061,789	64,460	8,421	-	1,219,806
Balance – December 31, 2013	-	455	174,569	2,014,697	129,850	16,842	-	2,336,413
Net book value	4,110,754	3,868	1,196,231	57,097,982	326,833	95,412	1,686,965	64,518,045

(expressed in Canadian dollars)

11 Accounts payable and accrued liabilities

	2014 $	2013 $
Trade accounts payable	1,703,564	769,762
Accrued liabilities	895,469	1,139,388
Accrued wages and benefits payable	159,359	148,414
	2,758,392	2,057,564

12 Deferred revenue

	2014			2013		
	Water $	Sewer $	Total $	Water $	Sewer $	Total $
Beginning of period – January 1	53,472	-	53,472	783,274	69,824	853,098
Amount collected during the year	263,988	839,283	1,103,271	555,285	-	555,285
Revenue recognized	(33,036)	(5,954)	(38,990)	(1,285,087)	(69,824)	(1,354,911)
End of year – December 31	284,424	833,329	1,117,753	53,472	-	53,472

13 Long-term debt

	2014 $	2013 $
EPCOR Amortization Fund assigned from the City	5,883,789	6,126,813
Alberta Capital Finance Authority loan assigned from the City	2,505,053	2,602,462
Loan from shareholder	554,427	554,427
	8,943,269	9,283,702
Amounts payable within one year	(337,928)	(344,261)
	8,605,341	8,939,441

(expressed in Canadian dollars)

Principal repayment terms are as follows:

	$
2015	337,928
2016	878,511
2017	322,542
2018	317,523
2019	312,955
Thereafter	6,773,810

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, 2013. 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, 2016.

14 Finance cost

	2014 $	2013 $
EPCOR Amortization Fund assigned from the City	516,549	532,986
Alberta Capital Finance Authority loan assigned from the City	83,759	46,349
Accretion of the liability portion of redeemable preference shares (notes 5 and 17)	1,656,349	1,604,165
	2,256,657	2,183,500

(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:

	2014 $	2013 $
Due from related party	159,516	274,004
Long-term debt (note 13)	(8,943,269)	(9,283,702)
Preference shares (notes 5 and 17)	(52,573,929)	(50,917,580)

Amounts due from related party include an amount receivable of $159,516 (2013 – $274,004) 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:

	2014 $	2013 $
City of Chestermere		
Sales of goods and services	865,540	685,149
General and administrative expenses	466,883	522,779
Office space rental	6,000	14,000
Utilities receivable transferred prior to collection	176,762	103,934
Offsite levies	637,436	3,078,572
Contributed property and equipment	2,580,135	2,634,422
Compensation of key management personnel		
Salaries and other short-term employee benefits	281,080	366,029
Directors – meeting fees	68,250	67,875
	5,082,086	7,472,760

Key management personnel comprise members of management and the Board of Directors, a total of eight individuals (2013 – eight individuals).

(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

	2014 $	2013 $
100 Class "A" common voting shares	100	100
56,050,023 Class "G" preferred, non-cumulative, redeemable, retractable, non-voting shares	52,573,929	50,917,580
	52,574,029	50,917,680

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

	2014 $	2013 $
56,050,023 Class "G" preferred, non-cumulative, redeemable, retractable, non-voting shares	52,573,929	50,917,580

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 January 1, 2012, the Corporation issued the Class "G" redeemable preferred shares amounting to $56,050,023 to the City as consideration for assets transferred to the Corporation (note 15). On April 15, 2013, the City waived its right to retract the shares until December 31, 2016, and as such the preferred shares have been classified as a non-current liability on the statement of financial position at its fair value on that date. 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 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 2014 was $47,062 (2013 – $47,321).

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 2015 when the asset will be transferred to the City of Calgary.

Office lease commitment

At December 31, 2014, the Corporation had a 10 year operating lease commitment for office space in the following amounts:

	$
No later than one year	130,962
Later than one year and no later than 5 years	663,481
Later than 5 years	347,588
	1,142,031

(expressed in Canadian dollars)

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.

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, 2014. As at December 31, 2014, the Corporation's available cash totaled $4,878,652 (2013 – $6,077,737). The Corporation's net financial debt net of cash and cash equivalents is $4,064,617 (2013 – $ 3,205,965). The following table shows the undiscounted maturities of financial liability-related cash flows (principal and interest).

				2014
	1 year $	1 -3 years $	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)

				2013
	1 year $	1 - 3 years $	Thereafter $	Total $
Accounts payable and accrued liabilities	2,057,564	-	-	2,057,564
Long-term debt – principal	344,261	1,538,985	7,400,456	9,283,702
Long-term debt – interest	600,423	1,954,268	4,836,075	7,390,766
Preferred shares	-	56,050,023	-	56,050,023
	3,002,248	59,543,276	12,236,531	74,782,055

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.

(expressed 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, 2014, 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 $67,342. In practice, the actual trading results may differ, and the difference could be material.