Chestermere Utilities Incorporated

Financial Statements
December 31, 2018 and 2017
(expressed in Canadian dollars)

Independent auditor's report

To the Shareholder of Chestermere Utilities Incorporated

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Chestermere Utilities Incorporated (the Corporation) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Corporation's financial statements comprise:

- the statements of financial position as at December 31, 2018 and 2017;
- the statements of operations and comprehensive income (loss) for the years then ended;
- the statements of changes in equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 28, 2019

Chestermere Utilities Incorporated

Statements of Financial Position

As at December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018 $	2017 $
Assets		
Current assets		
Cash (note 7)	-	4,470,826
Restricted cash (note 7)	1,917,295	1,896,249
Due from related party (note 16)	62,474	656,516
Accounts receivable (note 8)	1,463,160	1,447,662
Inventory (note 9)	3,780	34,507
Goods and services tax receivable	151,083	504,728
Prepaid expenses	36,133	35,125
	3,633,925	9,045,613
Derivative financial instruments (note 5)	141,020	75,819
Property and equipment (note 10)	105,144,374	98,159,661
Intangible assets (note 11)	5,057,669	4,194,622
	113,976,988	111,475,715
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	2,609,145	9,580,418
Bank indebtedness (note 7)	1,908,563	-
Current portion of long-term debt (note 14)	587,662	1,121,722
Current portion of deferred revenue (note 13)	40,652	103,073
	5,146,022	10,805,213
Deferred revenue (note 13)	3,021,923	1,080,023
Long-term debt (note 14)	32,656,490	25,637,408
	40,824,435	37,522,644
Shareholder's Equity		
Share capital (note 17)	49,271,751	49,271,751
Contributed surplus (note 17)	13,252,479	13,252,479
Retained earnings	10,487,303	11,353,022
Accumulated other comprehensive income	141,020	75,819
	73,152,553	73,953,071
	113,976,988	111,475,715

Commitments and contingencies (note 19)

Approved by the Board of Directors

______________________________ Director ______________________________ Director

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

Chestermere Utilities Incorporated

Statements of Operations and Comprehensive Income (Loss)

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018 $	2017 $
Revenue		
Sale of goods (note 22)	2,524,445	2,560,635
Provision of services (note 22)	10,759,081	10,657,220
Development and offsite levies (note 22)	25,397	3,767,777
Other revenue (note 22)	358,025	301,628
Penalties and interest income (note 22)	214,716	292,237
	13,881,664	17,579,497
Expenses		
Water supply and waste management charges	4,310,402	4,071,372
Contracted services	3,144,158	3,200,830
Amortization (notes 10 and 11)	2,600,408	2,272,313
Salaries, wages and benefits	2,283,713	1,819,592
Finance costs (note 15)	790,883	257,141
Materials, goods and supplies	707,385	1,097,994
General and administrative expenses	636,887	623,071
Other	183,435	405,871
	14,657,271	13,748,184
Net income (loss) for the year	(775,607)	3,831,313
Items that may be reclassified to profit or loss		
Available-for-sale investments reclassified to net income	-	(66,215)
Cash flow hedges – interest rate swap	156,065	233,844
Cash flow hedges – interest rate swap reclassified from net income (loss)	(90,864)	(158,025)
Total comprehensive income (loss)	(710,406)	3,840,917

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

Chestermere Utilities Incorporated

Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	Share capital $	Contributed surplus $	Retained earnings $	Accumulated other comprehensive income (loss) $	Total equity $
Balance – January 1, 2017	49,271,751	13,252,479	7,521,709	66,215	70,112,154
Net income for the year	-	-	3,831,313	-	3,831,313
Other comprehensive income	-	-	-	9,604	9,604
Balance – December 31, 2017	49,271,751	13,252,479	11,353,022	75,819	73,953,071
Impact of changes in accounting policies (note 2)	-	-	(90,112)	-	(90,112)
Adjusted balance – December 31, 2017	49,271,751	13,252,479	11,262,910	75,819	73,862,959
Net income (loss) for the year	-	-	(775,607)	-	(775,607)
Other comprehensive income	-	-	-	65,201	65,201
Balance – December 31, 2018	49,271,751	13,252,479	10,487,303	141,020	73,152,553

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

Chestermere Utilities Incorporated

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018 $	2017 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	(775,607)	3,831,313
Reconciliation of net income (loss) to cash from (used in) operating activities		
Amortization (notes 10 and 11)	2,600,408	2,272,313
Finance costs	881,747	415,167
Contributed assets (notes 2 and 22)	-	(3,726,418)
Deferred revenue recognized	(26,916)	-
Gain on sale of property and equipment	(14,401)	-
Loss on disposal of property and equipment	10,093	50,122
	2,675,324	2,842,497
Change in non-cash working capital		
Accounts receivable	(15,498)	(80,183)
Due from related party	594,042	(693,430)
Inventory	30,727	22,160
Accounts payable and accrued liabilities	(8,315,011)	1,406,058
Prepaid expenses	(1,006)	3,709
Goods and services tax receivable	353,645	(453,654)
	(7,353,101)	204,660
Contributions received	721,364	228,340
	(6,631,737)	433,000
	(3,956,413)	3,275,497
Investing activities		
Purchase of property and equipment	(7,808,238)	(9,489,577)
Sale of property and equipment (note 10)	28,750	-
Sale of investments (note 5)	-	1,342,919
	(7,779,488)	(8,146,658)
Financing activities		
Interest paid (notes 10 and 15)	(1,107,463)	(646,047)
Proceeds on issuance of long-term debt (note 14)	7,052,127	9,483,061
Repayment of long-term debt (note 14)	(567,106)	(535,452)
	5,377,558	8,301,562
Increase (decrease) in cash during the year	(6,358,343)	3,430,401
Cash – Beginning of year	6,367,075	2,936,674
Cash – End of year	8,732	6,367,075
Supplementary information		
Cash at bank (bank indebtedness) (note 7)	(1,908,563)	4,470,826
Restricted cash (note 7)	1,917,295	1,896,249
	8,732	6,367,075

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, storm water, solid waste collection, organics 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, 2018 were approved and authorized for issuance by the Board of Directors on March 28, 2019.

Basis of measurement

These financial statements have been prepared under the historical cost convention except for derivative financial instruments recorded at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting.

Changes in significant accounting policies

The Corporation adopted new accounting standards and amendments to various accounting standards effective January 1, 2018, which resulted in changes to these financial statements. The changes from adoption of the new and revised standards are summarized below.

The Corporation adopted IFRS 9, Financial Instruments (“IFRS 9”), which replaces IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), which replaces IAS 11, Construction Contracts and IAS 18, Revenue and related interpretations, using the modified retrospective approach with the cumulative effect of any adjustments recognized in the opening balance of retained earnings as of January 1, 2018. The comparative information has not been restated and continues to be reported under previous accounting standards. The Corporation’s updated accounting policies resulting from implementation of the new standards, along with analysis of the changes from the previous accounting policies, are set out in note 3.

(expressed in Canadian dollars)

Use of estimates and judgment

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 ongoing 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.

- 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.

  Certain assets are contributed by customers or developers, or are constructed using non-refundable cash contributions from customers or developers. Non-refundable contributions, which are used to provide ongoing goods or services to customers, are recorded as deferred revenue. The deferred revenue is initially recorded at the fair value of contributed assets, or the amount of cash contributions received, and is recognized as revenue on a straight-line basis over the estimated lives of the contracts with the customers. Where contracts with customers are perpetual and the related contributed asset is used to provide ongoing goods or services to customers, the life of the contract is estimated to be equivalent to the economical useful life of the asset to which the contribution relates. Based on this, management applies judgment to determine the amount of revenue to recognize in relation to the estimated useful life of the asset to which the contribution relates.

- Useful lives of long-lived assets

  Property and equipment and limited life intangible assets are amortized over their estimated useful lives. Useful lives are determined based 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 lives of intangible assets arising from contractual or other legal rights shall not exceed the period of the contractual or legal rights, but may be shorter depending on the period over which the Corporation expects to use the asset. 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

(expressed in Canadian dollars)

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

- Non-derivative financial instruments

  Financial assets are identified and classified based on the business model used by the Corporation for managing those financial assets, as one of the following: at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss. Prior to January 1, 2018, financial assets were identified and classified as one of the following: measured at fair value through profit or loss, loans and receivables or available-for-sale financial assets. Non-derivative financial assets that were not classified in any of the above categories were designated as available-for-sale financial assets. Financial liabilities continue to be classified as measured at fair value through profit or loss or at amortized cost, as there is no change in classification of financial liabilities under IFRS 9.

  Financial assets and financial liabilities are presented on a net basis when the Company has a legally enforceable right to offset the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

  - At amortized cost

    Cash, restricted cash, due from related party and accounts receivable, except for derivative assets, are classified as financial assets measured at amortized cost. These financial assets are recognized initially at fair value plus directly attributable transaction costs, if any. After initial recognition, they are measured at amortized cost when they are held for collection of cash flows, where those cash flows solely represent payments of principal and interest using the effective interest method less any impairment. The effective interest method calculates the amortized cost of a financial asset and allocates the finance income over the term of the financial asset using an effective interest rate. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset, or a shorter period when appropriate, to the gross carrying amount of the financial asset.

    The Corporation's bank indebtedness, accounts payable and accrued liabilities and long-term debt, except for derivative liabilities, are classified as financial liabilities measured at amortized cost and recognized on the date at which the Corporation becomes a party to the contractual arrangement. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire. Financial liabilities are initially recognized at fair value including

(expressed in Canadian dollars)

discounts and premiums, plus directly attributable transaction costs, if any. Subsequently, these liabilities are measured at amortized cost using the effective interest rate method.

- At fair value through other comprehensive income

  Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows solely represent payments of principal and interest, are classified as financial assets at fair value through other comprehensive income. These financial assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income, except for the recognition of impairment losses, reversal of impairment losses, interest income and foreign exchange gains and losses, which are recognized in net income. On de-recognition of the financial asset, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to net income. Interest income from these financial assets is recognized as other income using the effective interest rate method.

- At fair value through profit or loss

  Financial instruments at fair value through profit or loss include instruments that are designated as financial instruments at fair value through profit or loss or those financial instruments that do not meet the criteria for classification under any other category.

  Upon initial recognition, directly attributable transaction costs are recognized in net income (loss) as incurred. Changes in fair value of financial instruments measured at fair value through profit or loss are recognized in net income (loss).

  The financial instruments of the Corporation that are recorded at fair value have been classified into levels using a fair value hierarchy. A Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets or liabilities. A Level 2 valuation is based upon inputs other than quoted prices included in Level 1 that are observable for the instruments either directly or indirectly. A Level 3 valuation for the assets and liabilities are not based on observable market data.

  Classification and measurement for each class of the Corporation's financial assets and financial liabilities up to December 31, 2017 and subsequent to adoption of IFRS 9 effective January 1, 2018, is as follows:

  - Before adoption of IFRS 9

    - Measured at fair value

      Derivative financial instruments (Level 2) were classified as fair value through profit or loss.

(expressed in Canadian dollars)

- Measured at amortized cost

  Cash (Level 1), restricted cash (Level 1), due from related party (Level 3) and accounts receivable (Level 3) were classified as loans and receivables.

  Accounts payable and accrued liabilities (Level 3) and long-term debt (Level 2) were classified as other financial liabilities.

- Subsequent to adoption of IFRS 9

  - Measured at fair value

    Derivative financial instruments (Level 2) are classified at fair value through profit or loss.

  - Measured at amortized cost

    Cash (Level 1), restricted cash (Level 1), due from related party (Level 3) and accounts receivable (Level 3) are classified at amortized cost.

    Accounts payable and accrued liabilities (Level 3), bank indebtedness (Level 2) and long-term debt (Level 2) are classified at amortized cost.

- Impairment of financial assets

  The Corporation uses the expected credit loss ("ECL") model for calculating impairment and recognizes ECL as a loss allowance for financial assets measured at amortized cost or at fair value through other comprehensive income. At each reporting date, the Corporation measures the loss allowance for financial assets, except for accounts receivable without a significant financing component, at an amount equal to the lifetime ECL to determine if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Corporation measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

  For accounts receivable without a significant financing component, the Corporation applies the simplified approach and uses a provision matrix, which is based on the Corporation's historical credit loss experience for accounts receivable, current market conditions and future expectations, to estimate and recognize the lifetime ECL. Accounts receivable that are not assessed for impairment individually are assessed for impairment on a collective basis taking into consideration the unique risk factors associated with each customer group.

  Prior to January 1, 2018, the Corporation was using objective evidence as the criteria to recognize impairment losses on financial assets. On implementation of IFRS 9 effective January 1, 2018, the Corporation changed the criteria for recognition of an impairment loss to utilize the ECL model as described above, which resulted in no adjustment in the opening balance of retained earnings.

(expressed in Canadian dollars)

- 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.

- Derivative financial instruments

  The Corporation uses risk management techniques to reduce its exposure to movements in interest rates. These include the use of derivative financial instruments such as interest rate swaps. Such instruments may be used to establish fixed interest rates for borrowings. Embedded derivatives are separated from the host contract and accounted for as a derivative if certain criteria are met.

  Interest rates swaps are used by the Corporation to manage interest rate risks associated with long-term loans and borrowings and result in securing fixed interest rates over the term of the loans and borrowings against the floating interest rate.

  All derivative financial instruments are measured at fair value. The gain or loss that results from changes in fair value of the derivative is recognized in earnings immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in earnings depends on the hedging relationship.

  Where the Corporation elects to apply hedge accounting, the Corporation documents the relationship between the derivative and the hedged item at inception of the hedge, based on the Corporation's risk management policies. A qualitative assessment of the effectiveness of the hedging relationship is performed at each reporting period if both the critical terms of the hedging relationship and the economic relationship between the hedged item and hedging instrument continue to remain the same or similar. If the mismatch in terms is significant, a quantitative assessment may be required. Ineffectiveness, if any, is measured at the end of each reporting period.

  The Corporation enters into interest rate swaps to offset the risk of volatility in the variable cash flows arising from a recognized asset or liability. The effective portion of changes in fair value of the derivative is recognized in other comprehensive income (OCI), whereas the ineffective portion is recognized in earnings immediately. The cumulative gain or loss in accumulated other comprehensive income ("AOCI") is transferred to earnings when the hedged item affects earnings. If the Corporation discontinues hedge accounting, the cumulative gain or loss in AOCI is transferred to earnings at the same time as the hedged item affects earnings. The amount in AOCI is immediately transferred to earnings if the hedged item is derecognized.

  The fair value of derivative financial instruments reflects changes in the interest rates. Fair value is determined based on exchange or over-the-counter price quotations by reference to bid or asking price, as appropriate, in active markets. Fair value amounts reflect management's best estimates using external readily observable market data, such as interest rates. It is possible that the

(expressed in Canadian dollars)

assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Contracts settled net in cash or in another financial asset are classified as derivatives, unless they meet the Corporation's own use requirements.

b) Cash, restricted cash and bank indebtedness

Cash includes 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.

Restricted cash is not readily accessible for use in operations and is reported separately from cash on the statement of financial position.

Amounts drawn on the Corporation's operating line are reflected as bank indebtedness.

c) Inventories

Inventories consist of water meter and 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, and other costs included in bringing the inventories to their present condition and location. Inventories are classified as current assets.

d) Property and equipment

Property and equipment are recorded at cost less accumulated amortization 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 are 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 have been contributed as part of the 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 deferred revenue. Once in service, contributed assets are recognized in revenue over the useful life of the related asset to which the contribution relates.

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 and methods for the principal categories of property and equipment are shown in the table below:

Land improvements	15 to 25 years straight-line method
Buildings	25 to 50 years straight-line method
Engineering structures	45 to 50 years straight-line method
Machinery and equipment	5 to 40 years straight-line method
Vehicles	3 to 10 years straight-line method

e) Intangible assets

The Corporation's identifiable intangible assets are considered to have a limited life and therefore are stated at cost less accumulated amortization.

Amortization is provided on limited life intangible assets on a straight-line basis over their estimated useful lives. Intangible assets arising from contractual rights are amortized over the period of the contractual rights. The amortization period and method for the Corporation's intangible assets is set out in the table below:

Intangible assets	20 to 50 years straight-line method

f) Impairment of non-financial assets

At the end of each reporting period, management assesses the carrying amounts of property and equipment and intangible 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.

The 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.

(expressed in Canadian dollars)

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.

g) Deferred revenue

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

Certain assets are contributed or constructed using non-refundable cash contributions from customers. Non-refundable customer contributions, which are used to provide ongoing goods or services to customers, are recorded as deferred revenue. The deferred revenue is initially recorded at the fair value of contributed assets, or the amount of cash contributions received, and is recognized as revenue on a straight-line basis over the estimated lives of the contracts with the customers. Where contracts with customers are perpetual and the related contributed asset is used to provide ongoing goods or services to customers, the life of the contract is estimated to be equivalent to the economical useful life of the asset to which the contribution relates.

Certain assets are acquired or constructed using non-refundable government grants. Government grants are recorded as deferred revenue and are recognized as revenue on a straight-line basis over the estimated economic useful lives of the assets to which they relate.

Certain assets are contributed by developers or constructed using non-refundable cash contributions from developers. The Corporation records these contributions as deferred revenue, at the fair value of the contributed assets or the amount of cash contribution received, and recognizes revenue on a straight-line basis over the estimated economic useful lives of the assets to which the contribution relates.

h) 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

(expressed in Canadian dollars)

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.

i) Income taxes

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

j) Revenue recognition

Effective January 1, 2018, the Corporation recognizes revenue when it transfers control over a promised good or service, a performance obligation under the contract, to a customer and where the Corporation is entitled to consideration resulting from completion of the performance obligation. Depending on the terms of the contract with the customer, revenue recognition can occur at a point in time or over time. When a performance obligation is satisfied, revenue is measured at the transaction price that is allocated to that performance obligation. For contracts where non-cash consideration is received, revenue is recognized and measured at the fair value of the non-cash consideration.

Revenue is classified as sale of goods, provision of services, development and offsite levies, penalties and interest income and other revenue depending on the nature of each distinct performance obligation.

- Sale of goods

  Revenue from the sale of goods is recognized upon delivery to the customer and collectibility is reasonably assured. 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.

  The contracts with customers for the supply of water goods consist primarily of perpetual contracts that are effective until terminated by the customer or the Corporation. The Corporation provides a series of distinct goods, which are simultaneously received and consumed by the customers. Each of the performance obligations is satisfied over time using the output method for recognition of revenue, i.e. the units of each good supplied to the customer.

  Revenues are calculated based on the customer’s usage of the goods during the period, at the applicable rates as per the terms of the respective contracts. Customers are generally billed on a monthly basis and payment is generally due within 30 days of billing the customer.

- Provision of services

  The contracts with customers for wastewater treatment and other services consist primarily of perpetual contracts that are effective until terminated by the customer or the Corporation. The Corporation provides a series of distinct services, which are simultaneously received and consumed by

(expressed in Canadian dollars)

the customers. Each of the performance obligations is satisfied over time using the output method for recognition of revenue, i.e. quantifiable services rendered to the customer.

Revenues are calculated based on the services provided to the customer during the period, at the applicable rates as per the terms of the respective contracts. These revenues include an estimate of the value of services provided to the customers in the reporting period and billed subsequent to the reporting period. Customers are billed generally within a month and payment is generally due within 30 days of billing the customer.

- Development and offsite levies

  Certain assets are contributed or constructed using non-refundable contributions from developers and customers. Contributions received are recorded as deferred revenue and recognized in revenue on a straight-line basis over the estimated economic useful lives of the assets to which the contribution relates.

- Penalties and interest income

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

- IFRS 15 implementation impact

  Prior to January 1, 2018, revenue was recognized to the extent that it was probable that economic benefits would flow to the Corporation for the provision of goods or services and when the revenue could be reliably measured. Revenues were measured at the fair value of the consideration received or to be received, excluding discounts, rebates and sales taxes or duty.

  The implementation of IFRS 15 effective January 1, 2018, resulted in a $90,112 adjustment to the opening balance of retained earnings and deferred revenue.

  The implementation of IFRS 15 had an impact on the accounting policies with respect to contributions from customers and developers for development and offsite levies. Prior to January 1, 2018, contributions from both customers and developers were initially recorded as revenue, when the risks and rewards of ownership were transferred to the Corporation. On implementation of IFRS 15, contributions received from customers and developers where the Corporation has an ongoing performance obligation are presented as deferred revenue when received and subsequently recognized as revenue as described in note 3(g).

k) 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.

(expressed in Canadian dollars)

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.

IFRS 16, Leases ("IFRS 16"), 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, Leases. The effective date for IFRS 16 is on or after January 1, 2019. 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 first half of 2019.

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.

5 Financial instruments

Fair values

The Corporation has classified the 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.

				2018
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Derivative financial instruments – interest rate swaps	-	141,020	-	141,020

(expressed in Canadian dollars)

				2017
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Derivative financial instruments – interest rate swaps	-	75,819	-	75,819

No transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments recognized at fair value during the years ended December 31, 2018 and 2017.

The fair value of the Corporation's long-term debt approximates its 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.

The fair value of the Corporation's derivatives financial instruments, which comprise interest rate swaps, approximates their carrying value. Fair values approximate the amount that the Corporation would have either paid or received to settle the interest rate swap contracts.

Derivative financial instruments measured at fair value

At December 31, 2018, the Corporation had two interest rate swaps outstanding for the purpose of limiting interest rate risk exposure on the variable future cash flows of long-term debt with its lender, Toronto Dominion bank.

The Corporation manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Under these swaps, the Corporation agrees with the counterparty, Toronto Dominion bank, to exchange at monthly intervals, the difference between fixed contract rates, ranging from 3.555% and 3.671%, and floating rate interest amounts calculated by reference to the agreed notional principal amounts, which approximate $14 million (amortized) for both contracts as at December 31, 2018. The interest rate swaps have a contractual term of 20 years, maturing in 2037. The balance sheet classification and fair value of the Corporation's interest rate swaps are as follows:

(expressed in Canadian dollars)

	Interest rate swaps subject to hedge accounting $	Total fair value of derivatives $
Recurring fair value measurement – December 31, 2018		
Derivative financial instruments – asset	141,020	141,020
Recurring fair value measurement – December 31, 2017		
Derivative financial instruments – assets	75,819	75,819

6 Capital management

The objective of managing the Corporation's capital is to ensure the Corporation effectively achieves its goals and the 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, restricted cash, bank indebtedness and shareholder's equity less long-term debt:

	2018 $	2017 $
Cash (bank indebtedness)	(1,908,563)	4,470,826
Restricted cash	1,917,295	1,896,249
Shareholder's equity	73,152,553	73,953,071
Long-term debt	(33,244,152)	(26,759,130)
	39,917,133	53,561,016

The Corporation is in compliance with all of the financial covenants as established in its long-term debt agreements (note 14).

7 Cash, restricted cash and bank indebtedness

	2018 $	2017 $
Cash at bank (bank indebtedness)	(1,908,563)	4,470,826
Restricted cash at bank	1,917,295	1,896,249
	8,732	6,367,075

(expressed in Canadian dollars)

8 Accounts receivable

	2018 $	2017 $
Accounts receivable and accrued revenue	1,569,319	1,522,093
Other receivables	42,694	125,872
Allowance for doubtful accounts	(148,853)	(200,303)
	1,463,160	1,447,662

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 $666,205 (2017 – $721,540). Of these past due receivables, management has determined an allowance for doubtful accounts of $148,853 (2017 – $200,303). The aging of these receivables is detailed in the following table:

	2018 $	2017 $
31 to 60 days	293,488	255,663
61 to 90 days	109,176	107,349
91 to 120 days	67,487	63,752
Over 121 days	196,054	294,776
	666,205	721,540

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

Accounts and other receivables consist primarily of amounts due from retail customers, represented by a diversified customer base. As a result, credit losses are generally low and the Corporation provides for an allowance for lifetime ECL.

The Corporation calculates the ECL on accounts receivable using a provision matrix approach, which is based on the Corporation's historical credit loss experience and current economic conditions for accounts receivable, to estimate the ECL. At December 31, 2018, the provision matrix specifies fixed provision rates, ranging from 10% to 60%, depending on the number of days that an account receivable is due or past due. The total ECL at December 31, 2018 is $148,853 (2017 – $200,303).

9 Inventory

	2018 $	2017 $
Water meters and water meter parts	3,780	34,507

(expressed in Canadian dollars)

The total amount of inventory recognized as expense during the year was $16,454 (2017 – $169,169). No inventory writedowns were recognized in the year ended December 31, 2018. No reversals of previous writedowns were recorded in the year ended December 31, 2018.

(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, 2018	5,046,202	246,565	2,738,727	73,552,294	1,933,579	604,611	22,853,119	106,975,097
Additions	-	8,261	1,816,472	27,846,006	634,168	283,000	8,918,688	39,506,595
Transfers	-	-	-	-	-	-	(30,141,140)	(30,141,140)
Disposals	-	-	-	(24,419)	-	(48,500)	-	(72,919)
	5,046,202	254,826	4,555,199	101,373,881	2,567,747	839,111	1,630,667	116,267,633
Accumulated amortization								
Balance – January 1, 2018	-	21,236	592,038	7,462,291	510,928	228,943	-	8,815,436
Depreciation	-	11,801	146,140	1,924,830	195,919	77,610	-	2,356,300
Disposals	-	-	-	(4,827)	-	(43,650)	-	(48,477)
Balance – December 31, 2018	-	33,037	738,178	9,382,294	706,847	262,903	-	11,123,259
Net book value	5,046,202	221,789	3,817,021	91,991,587	1,860,900	576,208	1,630,667	105,144,374

	Land $	Land improvements $	Buildings $	Engineered structures $	Machinery and equipment $	Vehicles $	Construction in-progress $	Total $
Cost								
Balance – January 1, 2017	4,918,722	74,323	1,954,004	67,127,990	850,860	539,280	11,268,560	86,733,739
Additions	127,480	172,242	784,723	6,497,209	1,082,719	65,331	16,237,256	24,966,960
Transfers	-	-	-	-	-	-	(4,652,697)	(4,652,697)
Disposals	-	-	-	(72,905)	-	-	-	(72,905)
	5,046,202	246,565	2,738,727	73,552,294	1,933,579	604,611	22,853,119	106,975,097
Accumulated amortization								
Balance – January 1, 2017	-	9,538	464,290	5,852,577	333,226	139,309	-	6,798,940
Depreciation	-	11,698	127,748	1,632,497	177,702	89,634	-	2,039,279
Disposals	-	-	-	(22,783)	-	-	-	(22,783)
Balance – December 31, 2017	-	21,236	592,038	7,462,291	510,928	228,943	-	8,815,436
Net book value	5,046,202	225,329	2,146,689	66,090,003	1,422,651	375,668	22,853,119	98,159,661

During the year, the Corporation capitalized $250,149 of borrowing costs incurred on the construction of qualifying assets (2017 – $230,882).

(expressed in Canadian dollars)

11 Intangible assets

	2018 $	2017 $
Cost		
Balance – January 1	5,394,805	5,394,805
Transfers from property and equipment	1,107,155	-
Balance – December 31	6,501,960	5,394,805
Accumulated amortization		
Balance – January 1	1,200,183	967,149
Amortization	244,108	233,034
Balance – December 31	1,444,291	1,200,183
Net book value	5,057,669	4,194,622

The Corporation has constructed property and equipment which was contributed to the City of Calgary ("Calgary") as part of the terms of a development agreement with Calgary. The Corporation has entered into a long-term servicing agreement with Calgary and the constructed assets are used by Calgary to deliver utility water services to the City. When legal title to the assets transferred to Calgary, the Corporation reclassified related costs and recognized an intangible asset arising from its contractual right to use and benefit from the constructed asset over the term of its servicing agreement with Calgary. The intangible asset was recorded by the Corporation at cost less amounts contributed by Calgary under the terms of the development agreement.

The Corporation has constructed property and equipment which was contributed to Rocky View County ("Rocky View") as part of the terms of Road Right of Way Access agreement with Rocky View. The Corporation has entered into a long-term agreement with Rocky View and constructed assets in order to gain access to the road right of way. When legal title to the assets transferred to Rocky View, the Corporation reclassified related costs and recognized an intangible asset arising from its contractual right to gain access to and benefit from the road right of way access. The intangible asset was recorded by the Corporation at cost.

Cost includes expenditures that are directly attributable to the construction of the asset such as materials, labor, borrowing costs and contracted services.

12 Accounts payable and accrued liabilities

	2018 $	2017 $
Trade accounts payable	2,146,126	8,820,693
Accrued liabilities	324,552	599,597
Accrued wages and benefits payable	138,467	160,128
	2,609,145	9,580,418

(expressed in Canadian dollars)

13 Deferred revenue

	2018				2017			
	Water $	Sewer $	Storm $	Total $	Water $	Sewer $	Storm $	Total $
Beginning of period – January 1	1,055,892	113,417	13,787	1,183,096	886,201	68,555	-	954,756
Impact of changes in accounting policies (note 2)	84,284	5,828	-	90,112	-	-	-	-
Amount collected during the year	930,257	731,407	153,514	1,815,178	169,691	44,862	13,787	228,340
Revenue recognized	(10,571)	(13,374)	(1,866)	(25,811)	-	-	-	-
End of year – December 31	2,059,862	837,278	165,435	3,062,575	1,055,892	113,417	13,787	1,183,096
Current portion	14,472	23,108	3,072	40,652	-	103,073	-	103,073
Non-current portion	2,045,390	814,170	162,363	3,021,923	1,055,892	10,344	13,787	1,080,023
Total	2,059,862	837,278	165,435	3,062,575	1,055,892	113,417	13,787	1,183,096

The implementation of IFRS 15, effective January 1, 2018, resulted in a $90,112 adjustment to the opening balance of retained earnings and deferred revenue.

The implementation of IFRS 15 had an impact on the accounting policies with respect to contributions from customers and developers for development and offsite levies. Prior to January 1, 2018, contributions from both customers and developers were initially recorded as revenue, when the risks and rewards of ownership were transferred to the Corporation. On implementation of IFRS 15, contributions received from customers and developers where the Corporation has an ongoing performance obligation are presented as deferred revenue when received and subsequently recognized as revenue as described in note 3(g).

14 Long-term debt

	2018 $	2017 $
Alberta Capital Finance Authority loan assigned from the City	2,082,408	2,193,237
Loan from shareholder	554,427	554,427
Toronto Dominion bank loans	30,607,317	24,011,466
	33,244,152	26,759,130
Amounts payable within one year	(587,662)	(1,121,722)
	32,656,490	25,637,408

(expressed in Canadian dollars)

Principal repayment terms are as follows:

	$
2019	587,662
2020	1,475,634
2021	1,291,873
2022	1,314,513
Thereafter	28,574,470
	33,244,152

Alberta Capital Finance Authority loan

	2018 $	2017 $
Balance – January 1	2,193,237	2,300,547
Interest expense	70,133	74,033
Repayments	(180,962)	(181,343)
Balance – December 31	2,082,408	2,193,237

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.

Shareholder loan

	2018 $	2017 $
Balance – January 1 and December 31	554,427	554,427

The loan from shareholder (City of Chestermere) is a 5-year, unsecured, non-interest bearing promissory note. On May 7, 2018, the Corporation received an extension on the loan from the shareholder beginning January 1, 2019 and expiring on December 31, 2023. Interest will be charged at an annual compounding rate of 2.44%. It will be at the discretion of the Corporation whether any interest will be paid in a given year. The entire balance owed will be repayable as a lump sum at the end of the term.

(expressed in Canadian dollars)

Toronto Dominion bank loans

	2018 $	2017 $
Balance – January 1	24,011,466	14,956,547
Additions	7,052,177	9,483,061
Interest expense	1,055,977	413,990
Repayments	(1,512,303)	(842,132)
Balance – December 31	30,607,317	24,011,466

The credit facilities from the Toronto Dominion bank consists of a $6 million operating loan and $30.6 million committed reducing term facility. These credit facilities were obtained in order to refinance the Corporation's term debt and termination costs with EPCOR, finance water and sanitary infrastructure projects and general corporate purposes.

The operating loan is due on demand and has no contractual term. At December 31, 2018, the Corporation had $1.9 million drawn on the operating line ($4.1 million available to be drawn), which has been classified as bank indebtedness.

The term facilities drawn for the year ended December 31, 2018, as follows:

	$
Fixed interest rate loan	6,699,992
Fixed interest rate loan	7,372,087
Floating term facility loan	7,068,558
Floating term facility loan	3,800,000
Floating term facility loan	3,167,057
Floating term facility loan	787,500
Floating term facility loan	1,712,123
	30,607,317

Fixed interest rates has been partially or completely hedged with interest rate swaps (note 5). At December 31, 2018, the amounts drawn on these term facilities are due 2027. The fixed rate interest for the loans ranges from 3.555% to 3.671% over the life of the arrangement.

The remaining loans drawn are floating bank prime rate term loans. The loans have a contractual term of 20 years. The term facility loans are interest only from 2017 to mid 2019. Once the loans are converted from floating to a fixed rate product, monthly payments of principal and interest are to be paid over the contract period.

The credit facility is secured by a first charge on all of the Corporation’s present and after acquired property and all other property, assets and undertakings.

(expressed in Canadian dollars)

The Toronto Dominion bank has collateral of intangibles, deposits and credit balances, equipment, inventory securities and financial instruments as security for liabilities at December 31, 2018.

During the year, the Corporation capitalized $250,149 of borrowing costs incurred on Toronto Dominion bank loans obtained for the purposes of constructing qualifying assets (2017 – $230,882) (note 10).

15 Finance costs

	2018 $	2017 $
Alberta Capital Finance Authority loan assigned from the City	70,133	74,033
Toronto Dominion bank loans	715,014	183,108
Toronto Dominion operating loan interest	5,736	-
	790,883	257,141

16 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 years are as follows:

	2018 $	2017 $
Due from related party	62,474	656,516
Shareholder loan (note 14)	(554,427)	(554,427)
Long-term debt – Alberta Capital Finance Authority loan assigned from the City (note 14)	(2,082,408)	(2,193,237)

Amounts due from a related party include an amount receivable of $62,474 (2017 – $656,516) for the Alberta Community Resilience Program Grant regarding Westmere Pond Upgrade and sales of goods and services (recycle center rental and employee benefits).

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:

	2018 $	2017 $
Compensation of key management personnel		
Short-term and termination employee benefits	674,336	488,009

(expressed in Canadian dollars)

	2018 $	2017 $
City of Chestermere		
Sales of goods and services	135,240	146,122
General and administrative expenses	(22,175)	(34,535)
Recycle center rental	(48,000)	(48,000)

During the year, the net amount collected by the City of Chestermere on behalf of the Corporation is $2,399,322 (2017 – $3,883,229), which primarily relates to contributed assets resulting from development and offsite levies received, which will be recognized in revenue over the estimated useful life of the assets to which the contributions relate.

17 Share capital

Authorized

Unlimited number of Class A common voting shares

Issued

The carrying value of Class A common voting shares issued is as follows:

	2018		2017	
	Number	Total $	Number	Total $
Class A common voting shares				
Balance – January 1	56,050,123	49,271,751	56,050,123	49,271,751
Balance – December 31	56,050,123	49,271,751	56,050,123	49,271,751

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, redeemable preferred shares of 56,050,023 were issued to the City as consideration for assets transferred to the Corporation. The preferred shares were redeemable and retractable on demand. The City initially waived its right to retract the shares until December 31, 2020.

For financial reporting purposes, the preferred shares were 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.

On December 21, 2016, the Class G preferred shares were exchanged for Class A common voting shares. The accreted book value of the preferred shares on the date of exchange was transferred to the Class A common voting shares, which is the deemed value of the preferred shares on the date of exchange.

(expressed in Canadian dollars)

18 Employee benefits

The Corporation matches contributions made by employees ranging from 3% to 7% of employee earnings for defined contribution pension plans or group RRSP's. The total current service contribution by the Corporation in 2018 was $72,385 (2017 – $66,974). Contributions for current service are recorded as expenditures in the year in which they become due.

19 Commitments and contingencies

At December 31, 2018, the Corporation had the following commitments:

	$
No later than one year	4,194,170
Later than one year and no later than five years	14,847,234
Later than five years	7,385,938
	26,427,342

The Corporation is party to disputes and legal matters in the normal course of operations. The Corporation believes that the ultimate liability arising from these matters will have no material impact on the financial statements.

20 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, restricted cash, accounts receivable, due from related party, goods and services tax receivable and derivative financial instruments. The large number and diversity of customers minimizes the credit risk of any one individual customer. In order to mitigate credit risk for past due accounts receivable, the Corporation has established an internal collections process. Cash and restricted cash is deposited with a Canadian chartered bank. The Corporation considers the credit risk associated with the due from related party to be insignificant. The Corporation's interest rate swap counterparty is a Canadian chartered bank, which the Corporation considers to be creditworthy.

(expressed in Canadian dollars)

During the year, the Corporation recognized ECL as expense in profit or loss account relating to customer amounts that the Corporation determined may not be fully collectible (note 8).

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 $6,000,000 available by way of an overdraft facility and a further $31,491,735 under its term facilities. The operating line is not fully drawn as at December 31, 2018; however, the term facilities are fully drawn at December 31, 2018. As at December 31, 2018, the Corporation's bank indebtedness totaled $1,908,563 (2017 – $4,470,826 in cash). The Corporation's financial debt, including bank indebtedness, net of cash and restricted cash is $31,326,844 (2017 – $20,392,055). The following table shows the undiscounted maturities of financial liability-related cash flows (principal and interest).

				2018
	2019 $	2020 – 2022 $	2023 and thereafter $	Total $
Accounts payable and accrued liabilities	2,609,145	-	-	2,609,145
Bank indebtedness	1,908,563	-	-	1,908,563
Long-term debt – principal	554,427	4,115,203	28,574,470	33,244,100
Long-term debt – interest	1,222,628	3,471,217	10,633,307	15,327,152
	6,294,763	7,586,420	39,207,777	53,088,960

				2017
	2018 $	2019 – 2021 $	2022 and thereafter $	Total $
Accounts payable and accrued liabilities	9,580,418	-	-	9,580,418
Long-term debt – principal	1,338,345	3,249,056	21,636,278	26,223,679
Long-term debt – interest	904,989	2,500,466	6,796,050	10,201,505
	11,823,752	5,749,522	28,432,328	46,005,602

Market risk

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

(expressed in Canadian dollars)

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 the Alberta Capital Finance Authority. In addition, the Corporation has entered into interest rate swap arrangements with Toronto Dominion bank to hedge its interest rate risk exposure (note 5). Except for cash, restricted cash, bank indebtedness and long-term debt not subject to interest rate swaps, 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.

21 Supplemental information

The following table provides a reconciliation of cash flows arising from financing activities:

	Current portion of long-term debt $	Long-term debt $
As at December 31, 2017	1,121,722	25,637,408
Changes from financing cash flows		
Issuance of long-term debt	33,045	7,019,082
Interest payable	1,107,464	-
Repayment of long-term debt	(567,106)	-
Interest paid	(1,107,463)	-
As at December 31, 2018	587,662	32,656,490

(expressed in Canadian dollars)

22 Revenue

	2018 $	2017 $
Sale of goods	2,524,445	2,560,635
Provision of services	10,759,081	10,657,220
Development and offsite levies	25,397	3,767,777
Other revenue	358,025	301,628
Penalties and interest income	214,716	292,237
	13,881,664	17,579,497

Sale of goods

Includes sale of water and sale of recyclable materials from the recycle depot.

Sale of services

Includes wastewater treatment, stormwater management, curbside collection services and recycle depot operations.

Development and offsite levies

Include IFRS 15 revenue recognition of offsite levies and contributed assets.

Other revenue

Primarily consists of lifecycle fund revenue.

Penalties and interest income

Penalties charged to customers for overdue accounts from the sale of goods and provision of services and interest revenue earned on investments.