Financial Statements of

# 1538974 ALBERTA LTD.

And Independent Auditors’ Report thereon

Year ended December 31, 2020

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# INDEPENDENT AUDITORS' REPORT

To the Shareholder of 1538974 Alberta Ltd.

## *Opinion*

We have audited the financial statements of 1538974 Alberta Ltd. (the "Corporation"), which comprise:

- the statement of financial position as at December 31, 2020;
- the statement of operations and other comprehensive loss for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

## *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

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

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

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (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.

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.

### *Auditors' 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 auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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 auditors' 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 auditors' 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.

- 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.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
April 23, 2021

## 1538974 ALBERTA LTD.
Statement of Financial Position

December 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Accounts receivable (note 5) | $ 1,658,992 | $ 1,212,432 |
| Due from related party (note 12) | 192,787 | – |
| Goods and services tax receivable | 82,833 | 24,875 |
| Other current assets | 25 | 14,710 |
| | 1,934,637 | 1,252,017 |
| Restricted cash | 1,969,983 | 1,950,327 |
| Finance lease receivable (note 15) | 475,262 | 389,289 |
| ROU assets (note 15) | 287,543 | 455,119 |
| Property and equipment (note 6) | 110,667,647 | 106,461,909 |
| Intangible assets (note 7) | 4,547,315 | 4,802,493 |
| | $ 119,882,387 | $ 115,311,154 |
| **Liabilities and Shareholder's Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 8) | $ 2,202,059 | $ 1,328,899 |
| Due to related party (note 12) | – | 181,656 |
| Bank indebtedness (10) | 426,184 | 1,727,934 |
| Current portion of long-term debt (note 10) | 858,259 | 736,281 |
| Current portion of deferred revenue (note 9) | 286,972 | 181,681 |
| | 3,773,474 | 4,156,451 |
| Lease liability (note 15) | 419,774 | 461,320 |
| Derivative financial instruments (note 3) | 1,371,271 | 311,163 |
| Deferred revenue (note 9) | 15,008,316 | 7,907,010 |
| Long term debt (note 10) | 31,127,461 | 31,829,037 |
| | 51,700,296 | 44,664,981 |
| Shareholder's equity: | | |
| Share capital (note 13) | 49,271,751 | 49,271,751 |
| Contributed surplus | 13,252,479 | 13,252,479 |
| Retained earnings | 7,029,132 | 8,433,106 |
| Accumulated other comprehensive income | (1,371,271) | (311,163) |
| | 68,182,091 | 70,646,173 |
| Commitments and contingencies (note 16) | | |
| | $ 119,882,387 | $ 115,311,154 |

See accompanying notes to financial statements.

On behalf of the Board:

Director

Michelle Young Director

# 1538974 ALBERTA LTD.
Statement of Operations and Other Comprehensive Loss

Year ended December 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|---|---|---|
| Revenue: | | |
| Sale of goods | $ 2,462,845 | $ 2,273,610 |
| Provision of services | 10,510,074 | 10,529,446 |
| Development and offsite levies | 215,514 | 43,778 |
| Other revenue | 506,500 | 43,544 |
| Penalties and interest income | 118,663 | 149,963 |
| | 13,813,596 | 13,040,341 |
| Expenses: | | |
| Water supply and waste management charges | 4,510,257 | 4,073,733 |
| Contracted services | 5,248,187 | 4,012,894 |
| Amortization (notes 6 and 7) | 3,401,256 | 3,491,906 |
| Salaries, wages and benefits | 86,257 | 1,178,924 |
| Finance costs (note 11) | 853,145 | 1,286,537 |
| Materials, goods and supplies | 492,835 | 503,239 |
| General and administrative expenses | 247,086 | 353,531 |
| Other | 378,547 | 193,774 |
| | 15,217,570 | 15,094,538 |
| Net loss for the year | (1,403,974) | (2,054,197) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Cash flow hedges – interest rate swap | (849,655) | (389,415) |
| Cash flow hedges – interest rate swap reclassified from net loss | (210,453) | (62,768) |
| Net loss and total comprehensive loss | $ (2,464,082) | $ (2,506,380) |

See accompanying notes to financial statements.

# 1538974 ALBERTA LTD.

Statement of Changes in Equity

Year ended December 31, 2020, with comparative information for 2019

| | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income (loss) | Total equity |
|---|---|---|---|---|---|
| Balance at December 31, 2018 | $ 49,271,751 | $ 13,252,479 | $ 10,487,303 | $ 141,020 | $ 73,152,553 |
| Net loss for the year | – | – | (2,054,197) | – | (2,054,197) |
| Other comprehensive income | – | – | – | (452,183) | (452,183) |
| Balance at December 31, 2019 | 49,271,751 | 13,252,479 | 8,433,106 | (311,163) | 70,646,173 |
| Net loss for the year | – | – | (1,403,974) | – | (1,403,974) |
| Other comprehensive income | | | | (1,060,108) | (1,060,108) |
| Balance at December 31, 2020 | $ 49,271,751 | $ 13,252,479 | $ 7,029,132 | $ (1,371,771) | $ 68,182,091 |

See accompanying notes to financial statements.

## 1538974 ALBERTA LTD.

Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|---|---|---|
| Cash (used in) provided by | | |
| Operating: | | |
| Net income (loss) for the year | $ (1,403,974) | $ (2,054,197) |
| Reconciliation of net income (loss) to cash from (used in) operating: | | |
| Amortization (notes 6 and 7) | 3,401,256 | 3,491,906 |
| Finance costs | 1,066,468 | 1,346,811 |
| Deferred revenue recognized | (268,344) | (58,386) |
| (Gain) loss on disposal of property and equipment | 161,579 | 28,901 |
| Impairment loss | – | 84,899 |
| | 2,956,985 | 2,839,934 |
| Changes in non-cash working capital: | | |
| Accounts receivable | (446,560) | 250,728 |
| Due to (from) related party | (374,443) | 244,130 |
| Accounts payable and accrued liabilities | 873,160 | (1,440,273) |
| Other current assets | 14,685 | 25,203 |
| Goods and services tax receivable | (57,958) | 126,208 |
| | 8,884 | (794,004) |
| Deferred revenue (note 9) | 1,048,060 | 1,161,350 |
| | 1,056,944 | 367,346 |
| | 4,013,929 | 3,207,280 |
| Investing: | | |
| Purchase of property and equipment | (993,683) | (866,005) |
| Sale of property and equipment (note 6) | – | 6,497 |
| | (993,683) | (859,508) |
| Financing: | | |
| Interest paid (notes 6 and 11) | (1,066,468) | (1,339,933) |
| Repayment of long term debt (note 10) | (579,598) | (678,833) |
| Repayment of lease liability (note 15) | (179,494) | (155,878) |
| Proceeds from finance lease receivable (note 15) | 126,720 | 40,533 |
| | (1,698,840) | (2,134,111) |
| Increase in cash during the year | 1,321,406 | 213,661 |
| Cash – beginning of year | 222,393 | 8,732 |
| Cash – end of year | 1,543,799 | 222,393 |
| Supplementary information | | |
| Cash at bank (bank indebtedness) | (426,184) | (1,727,934) |
| Restricted cash | 1,969,983 | 1,950,327 |
| | $ 1,543,799 | $ 222,393 |

See accompanying notes to financial statements.

**Statutes of incorporation and nature of operations:**

1538974 Alberta Ltd. (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 105 Marina Road, Chestermere, Alberta, T1X 1V7.

**1. Basis of presentation:**

(a) 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, 2020 were approved and authorized for issuance by the Board of Directors on April 22, 2021.

(b) 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.

**1. Basis of presentation (continued):**

(c) 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.

(i) 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.

**1. Basis of presentation (continued):**

(d) Use of estimates and judgment (continued):

(ii) 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.

(iii) 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 fair value of the asset less cost to sell, 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.

(e) Functional and presentation currency:

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

**2. Significant accounting policies:**

(a) Financial instruments:

(i) Non-derivative financial instruments:

Financial assets are identified and classified as one of the following based on the business model used by the Corporation for managing those financial assets: at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss. Financial liabilities are classified as measured at fair value through profit or loss or at amortized cost.

**2. Significant accounting policies:**

(a) Financial instruments (continued):

(i) Non-derivative financial instruments (continued):

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.

The Corporation's non-derivative financial instruments are classified as follows:

<u>At amortized cost:</u>

Cash, restricted cash, due from related party and accounts receivable 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, due to related party and long-term debt 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 discounts and premiums, plus directly attributable transaction costs, if any. Subsequently, these liabilities are measured at amortized cost using the effective interest rate method.

**2. Significant accounting policies:**

(a) Financial instruments (continued):

(i) Non-derivative financial instruments (continued):

<u>At fair value through other comprehensive income:</u>

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. There were no financial assets held by the Corporation under this category for the year ended December 31, 2020.

<u>At fair value through profit or loss:</u>

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.

**2. Significant accounting policies:**

(a) Financial instruments (continued):

(i) Non-derivative financial instruments (continued):

Classification and measurement for each class of the Corporation's financial assets and financial liabilities is as follows:

- 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 2) and accounts receivable (Level 2) are classified at amortized cost.

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

(ii) 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. 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.

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.

**2. Significant accounting policies (continued):**

(a) Financial instruments (continued):

(iii) Derivative financial instruments (continued):

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

**2. Significant accounting policies (continued):**

(a) Financial instruments (continued):

(iii) Derivative financial instruments (continued):

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) Property and equipment:

Property and equipment are recorded at cost less accumulated amortization. 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 financing associated with 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.

**2. Significant accounting policies (continued):**

(c) Property and equipment (continued):

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 | 25 to 50 years straight-line method |
| Machinery and equipment | 5 to 20 years straight-line method |

(d) 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 |

**2. Significant accounting policies (continued):**

(e) 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.

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.

(f) 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.

**2. Significant accounting policies (continued):**

(f) Deferred revenue (continued):

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.

(g) 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.

(h) Income taxes:

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

**2. Significant accounting policies (continued):**

(i) Revenue recognition:

The Corporation recognizes revenue when control of a promised good is transferred to the customer or service has been rendered, collection of payment is reasonably assured, and the amount can be reasonably measured. 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.

(i) Sale of goods:

Revenue from the sale of goods is recognized upon delivery to the customer and collectability 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.

**2. Significant accounting policies (continued):**

(i) Revenue recognition (continued):

(ii) 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 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.

(iii) 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.

(iv) 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.

(j) 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.

**2. Significant accounting policies (continued):**

(k) Leases:

(i) As a lessee:

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

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Corporation has the right tot obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The Corporation has the right to direct the use of the asset. The corporation has the right to direct the use of the asset if either the Corporation has the right to operate the asset or the Corporation designed the asset in a way that predetermines how and for what purpose it will be used.

The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which compromises the lease liability plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The estimated useful life of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

**2. Significant accounting policies (continued):**

(k) Leases (continued):

(i) As a lessee (continued):

The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation’s incremental borrowing rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation’s estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation’s changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) As a lessor:

Leases in which the Corporation acts as the lessor are classified as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Assets held under finance leases are presented as a lease receivable on the statement of financial position equal to the Corporation’s net investment in the lease. Net investment in the lease is calculated using the present value of the minimum lease payments plus any initial direct costs. Differences between the carrying value of the assets held under finance leases and the net investment in the lease are recognized in the statement of operations.

Lease payments from operating leases as income on a straight-line basis.

## 3. Financial instruments:

The Corporation has classified its financial instruments, including their carrying values and fair values, as follows as at December 31, 2020:

| | December 31, 2020 Carrying value | Amortized Cost | FVTPL | FVOCI |
|---|---|---|---|---|
| **Non-derivative Financial Assets** | | | | |
| Restricted cash | $ 1,969,983 | $ 1,969,983 | $ – | $ – |
| Accounts receivable | 1,658,992 | 1,658,992 | – | – |
| Due from related party | 192,787 | 192,787 | – | – |
| | $ 3,821,762 | $ 3,821,762 | $ – | $ – |
| **Non-derivative Financial Liabilities** | | | | |
| Bank indebtedness | $ 426,184 | $ 426,184 | $ – | $ – |
| Accounts payable and accrued liabilities | 2,202,059 | 2,202,059 | – | – |
| Long term debt | 31,985,720 | 31,985,720 | – | – |
| | $ 34,613,963 | $ 34,613,963 | $ – | $ – |
| **Derivative Financial Liabilities** | | | | |
| Interest rate swaps | $ (1,371,271) | $ – | $ – | $ (1,371,271) |
| | $ (1,371,271) | $ – | $ – | $ (1,371,271) |

| | December 31, 2019 Carrying value | Amortized Cost | FVTPL | FVOCI |
|---|---|---|---|---|
| **Non-derivative Financial Assets** | | | | |
| Restricted cash | $ 1,950,327 | $ 1,950,327 | $ – | $ – |
| Accounts receivable | 1,212,432 | 1,212,432 | – | – |
| | $ 3,162,759 | $ 3,162,759 | $ – | $ – |
| **Non-derivative Financial Liabilities** | | | | |
| Bank indebtedness | $ 1,727,934 | $ 1,727,934 | $ – | $ – |
| Accounts payable and accrued liabilities | 1,328,899 | 1,328,899 | – | – |
| Due to related party | 181,656 | 181,656 | – | – |
| Long term debt | 32,565,318 | 32,565,318 | – | – |
| | $ 35,803,807 | $ 35,803,807 | $ – | $ – |
| **Derivative Financial Liabilities** | | | | |
| Interest rate swaps | $ (311,163) | $ – | $ – | $ (311,163) |
| | $ (311,163) | $ – | $ – | $ (311,163) |

**3. Financial instruments (continued):**

(a) 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:

(i) Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) 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

(iii) 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.

Fair value of derivative instruments related to interest rate swaps on the long-term debt are classified in Level 2 of the fair value hierarchy.

(b) Derivative financial instruments measured at fair value:

At December 31, 2020, 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 ("TD") 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, TD 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 $13.1 million (amortized) for both contracts as at December 31, 2020. The interest rate swaps have a contractual term of 20 years, maturing in 2037. The Corporation designates these derivatives as cash flow hedging instruments, the effective portion of changes in the fair value of these derivatives are recognized in OCI and accumulated in the statement of financial position.

## 4. 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 (bank indebtedness), restricted cash, and shareholder's equity less long-term debt:

| | 2020 | 2019 |
|---|---|---|
| Cash (bank indebtedness) | $ (426,184) | $ (1,727,934) |
| Restricted cash | 1,969,983 | 1,950,327 |
| Shareholder's equity | 68,182,091 | 70,646,173 |
| Long-term debt | (31,985,720) | (32,565,318) |
| | $ 37,740,170 | $ 38,303,248 |

Restricted cash is held in relation to offsite levy amounts received from the City of Chestermere and not available for immediate ordinary business use. Restricted cash is reported separately from cash on the statement of financial position.

## 5. Accounts receivable:

| | 2020 | 2019 |
|---|---|---|
| Accounts receivable and accrued revenue | $ 1,504,966 | $ 1,276,703 |
| Other receivables | 198,436 | 2,992 |
| Allowance for doubtful accounts | (44,410) | (67,263) |
| | $ 1,658,992 | $ 1,212,432 |

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

## 5. Accounts receivable (continued):

The aging of the Corporation's past-due receivables is detailed in the following table:

| | 2020 | 2019 |
|---|---|---|
| 31 to 60 days | $ 74,185 | $ 35,767 |
| 61 to 90 days | 116,708 | 82,779 |
| 91 to 120 days | 57,701 | 43,493 |
| Over 121 days | 171,105 | 76,562 |
| | $ 419,699 | $ 238,601 |

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

Accounts receivables 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 using a provision matrix approach.

## 6. Property and equipment:

| | Cost | Accumulated Depreciation | 2020 Net Book Value | 2019 Net Book Value |
|---|---|---|---|---|
| Land | $ 8,530,022 | $ – | $ 8,530,022 | $ 8,530,022 |
| Land improvements | 254,826 | 57,260 | 197,566 | 209,678 |
| Buildings | 4,573,148 | 1,067,470 | 3,505,678 | 3,670,473 |
| Engineered structures | 107,678,395 | 14,544,767 | 93,133,628 | 91,472,210 |
| Machinery and equipment | 3,291,281 | 1,233,596 | 2,057,685 | 2,230,782 |
| Construction in progress | 3,243,068 | – | 3,243,068 | 348,744 |
| | $ 127,570,740 | $ 16,903,093 | $ 110,667,647 | $ 106,461,909 |

Depreciation expense for the year amounted to $3,401,256 (2019 - $3,491,906), of which $3,309,033 (2019 - $3,329,827) was related to property and equipment.

## 7. Intangible assets:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Cost as at January 1 | $ | 6,501,960 | $ | 6,501,960 |
| Accumulated amortization | | | | |
| Balance as at January 1 | | 1,699,469 | | 1,444,291 |
| Amortization | | 255,176 | | 255,176 |
| Balance as at December 31 | | 1,954,645 | | 1,699,467 |
| Net book value | $ | 4,547,315 | $ | 4,802,493 |

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.

## 8. Accounts payable and accrued liabilities:

| | 2020 | 2019 |
|---|---|---|
| Trade accounts payable | $ 1,124,924 | $ 786,725 |
| Accrued liabilities | 1,053,573 | 518,043 |
| Accrued wages and benefits payable | 23,562 | 24,131 |
| | $ 2,202,059 | $ 1,328,899 |

## 9. Deferred revenue:

| | Water | Sewer | Storm | Solid Waste | 2020 Total | 2019 Total |
|---|---|---|---|---|---|---|
| Beginning of year | $ 2,588,295 | $ 1,208,675 | $ 3,852,032 | $ 439,689 | $ 8,088,691 | $ 3,062,575 |
| Amount collected during the year | 2,020,670 | 1,519,984 | 3,934,287 | - | 7,474,941 | 5,084,501 |
| Revenue recognized | (29,910) | (33,683) | (160,037) | (44,714) | (268,344) | (58,385) |
| End of year | $ 4,579,055 | $ 2,694,976 | $ 7,626,282 | $ 394,975 | $15,295,288 | $ 8,088,691 |
| Current portion | $ 35,143 | $ 35,951 | $ 171,164 | $ 44,714 | $ 286,972 | $ 181,681 |
| Non-current portion | 4,543,912 | 2,659,025 | 7,455,118 | 350,261 | 15,008,316 | 7,907,010 |
| | $ 4,579,055 | $ 2,694,976 | $ 7,626,282 | $ 394,975 | $15,295,288 | $ 8,088,691 |

During the year, the Corporation’s amount collected from the City of $7,474,941 is comprised of $6,426,880 in contributed assets and $1,048,060 in cash collected relating to offsite levy and permit fees.

## 10. Long-term debt:

| | 2020 | 2019 |
|---|---|---|
| TD bank loan (a) | $ 29,521,987 | $ 30,042,947 |
| Alberta Capital Finance Authority loan (b) | 1,909,306 | 1,967,944 |
| Loan from shareholder (c) | 554,427 | 554,427 |
| | 31,985,720 | 32,565,318 |
| Amounts payable within one year | (858,259) | (736,281) |
| | $ 31,127,461 | $ 31,829,037 |

Principal repayment terms are as follows:

| | |
|---|---|
| 2021 | $ 858,259 |
| 2022 | 1,398,785 |
| 2023 | 1,977,026 |
| 2024 | 1,446,537 |
| 2025 | 1,471,710 |
| Thereafter | 24,833,403 |
| | $ 31,985,720 |

(a) TD bank loans:

| | 2020 | 2019 |
|---|---|---|
| Balance as at January 1 | $ 30,042,947 | $ 30,607,317 |
| Interest expense | 943,235 | 1,155,475 |
| Repayments | (1,464,195) | (1,719,845) |
| Balance as at December 31 | $ 29,521,987 | $ 30,042,947 |

**10. Long-term debt (continued):**

(a) TD bank loans (continued):

The credit facilities from TD bank consist of a $4 million operating loan and $29.5 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. These credit facilities are guaranteed by the City in a separate Tri-party Agreement between the Corporation, the City, and TD Bank.

The operating loan is due on demand and has no contractual term. At December 31, 2020, the Corporation had $426,184 (2019 - $1.7 million) drawn on the operating line ($3.6 million available to be drawn; 2019 - $2.3 million), which has been classified as bank indebtedness.

The credit facilities drawn for the year ended December 31, 2020, as follows:

| | |
|---|---|
| Fixed interest rate swap loan | $ 6,952,896 |
| Fixed interest rate swap loan | 6,155,733 |
| Floating interest rate loan | 742,725 |
| Floating term facility loan | 6,991,446 |
| Floating term facility loan | 5,512,123 |
| Floating term facility loan | 3,167,064 |
| | $ 29,521,987 |

As at December 31, 2020, the two fixed interest rate swap loans are amortized over a 20 to 25-year period and amounts drawn are due in 2027. The interest rates are partially or completely hedged with interest rate swaps (note 4) with a range of 3.555% to 3.671% for the life of the facility.

As at December 31, 2020, the floating interest rate loan is amortized over a 25-year period, is due 2043. The loan is a floating bank prime rate loan.

As at December 31, 2020, the remaining three loans are floating bank prime rate term loans and have a contract period of 20 years from the time of the first principal repayment, with a 10-year optional exit strategy afterwards. The term facility loans have a floating interest rate and are interest only payments from 2017 to September 30 2021, at which time the loans will be converted to a traditional principal-interest payment loan with fixed rate that is planned to be paid over an amortization period of 22 years, at interest rates to be determined by the bank.

**10. Long-term debt (continued):**

(a) TD bank loans (continued):

The credit facilities are secured by a first charge on all of the Corporation's present and after acquired property and all other property, assets and undertakings. The TD bank has collateral of intangibles, deposits and credit balances, equipment, inventory securities and financial instruments as security for liabilities at December 31, 2020.

Under the terms of these credit facilities, the Corporation has both positive and negative covenants that are required to be met. Additionally, the credit facilities contain financial covenants that requires the Corporation to maintain a Total Debt to Capitalization Ratio of no greater than 0.50:1, and a Debt Service Coverage ratio of not less than 100%. The Corporation was in compliance with both covenants as of December 31, 2020.

(b) Alberta Capital Finance Authority loan:

| | 2020 | 2019 |
|---|---|---|
| Balance as at January 1 | $ 1,967,944 | $ 2,082,408 |
| Interest expense | 62,899 | 66,850 |
| Repayments | (121,537) | (181,314) |
| Balance as at December 31 | $ 1,909,306 | $ 1,967,944 |

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.

(c) Shareholder loan:

| | 2020 | 2019 |
|---|---|---|
| Balance as at December 31 | $ 554,427 | $ 554,427 |

**10. Long-term debt (continued):**

(c) Shareholder loan (continued):

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.

**11. Finance costs:**

| | 2020 | 2019 |
|---|---|---|
| ACFA loan assigned from the City | $ 62,899 | $ 66,850 |
| Shareholder loan | 13,528 | 13,528 |
| TD bank loans | 730,377 | 1,095,201 |
| TD operating loan interest | 32,715 | 94,756 |
| Lease interest | 13,626 | 16,202 |
| | $ 853,145 | $ 1,286,537 |

**12. Related party transactions:**

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

| | 2020 | 2019 |
|---|---|---|
| Due to/from the City | $ 192,787 | $ (181,656) |
| Shareholder loan (note 10 (c)) | (554,427) | (554,427) |
| Long-term debt – Alberta Capital Finance Authority loan assigned from the City (note 10 (b)) | (1,909,312) | (1,967,944) |

## 12. Related party transactions (continued):

Amounts due from the City include amounts receivable for the sale of goods and services and leased fleet and payable for the Transition Service Agreements and Recycle Center rental.

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.

| | | 2020 | | 2019 |
|---|---|---|---|---|
| City of Chestermere | | | | |
| Sale of goods and services | $ | 255,737 | $ | 168,498 |
| General and administrative expenses | | (150) | | (1,181,596) |
| Contracted Services (Transition Service Agreement) | | (2,626,620) | | (1,181,596) |
| Recycle centre rental | | (50,400) | | (48,000) |

During the year, the net amount collected by the City on behalf of the Corporation is $7,271,718 (2019 – $4,586,533), 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.

In 2019, the Corporation entered into subcontracted services with the City to provide ongoing staffing, management, operational and administrative support to the Corporation.

## 13. 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:

| | Number of Shares | | 2020 Total | Number of Shares | | 2019 Total |
|---|---|---|---|---|---|---|
| Class A common voting shares | 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.

**14. 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 2020 was $nil (2019 – $24,877). Contributions for current service are recorded as expenditures in the year in which they become due.

**15. Leases:**

(a) Leases as lessee:

The Corporation leases several properties and a piece of equipment. Information about leases for which the Corporation is a lessee is presented below.

(i) Right-of-use assets:

| | | Land and Buildings | | Equipment | | 2020 Total | | 2019 Total |
|---|---|---|---|---|---|---|---|---|
| Balance, beginning of year | $ | 440,904 | $ | 14,215 | $ | 455,119 | $ | 617,197 |
| Additions | | 50,067 | | 248,852 | | 298,919 | | – |
| Deletions | | (374,272) | | – | | (374,272) | | – |
| Depreciation for the year | | (66,631) | | (25,592) | | (92,223) | | (162,078) |
| Balance, end of year | $ | 50,068 | $ | 237,475 | $ | 287,543 | $ | 455,119 |

(ii) Amounts recognized in profit or loss:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Interest on lease liabilities | $ | 13,626 | $ | 16,202 |
| Expenses relating to short-term leases | | 944 | | 3,238 |

(iii) Amounts recognized in statement of cash flows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Total cash outflow | $ | 193,120 | $ | 172,080 |

## 15. Leases (continued):

(b) Leases as lessor:

In 2019, the Corporation leased out its fleet of garbage trucks to the City. These leases are classified as finance leases from a lessor perspective. During 2020, the Corporation recognized interest income on lease receivable of $6,435 (2019 - $2,096). The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

| | 2020 |
|---|---|
| Less than one year | $ 146,842 |
| One to two years | 132,906 |
| Two to three years | 97,769 |
| Three to four years | 37,055 |
| Four years to five years | 37,055 |
| More than five years | 37,055 |
| Total undiscounted lease receivable | 488,682 |
| Unearned finance income | (13,420) |
| Net investment in the lease | $ 475,262 |

## 16. Commitments and contingencies:

At December 31, 2020, the Corporation had the following commitments related to leases and service contracts:

| | |
|---|---|
| Less than one year | $ 3,897,718 |
| One to two years | 4,215,538 |
| Two to three years | 1,828,233 |
| Three to four years | 1,828,233 |
| Four years to five years | 1,828,233 |
| More than five years | 3,274,541 |
| | $ 16,872,496 |

The Corporation is party to disputes and legal matters in the normal course of operations. While the outcome of such matters is not determinable, the Corporation believes that the ultimate liability arising from these matters, if any, will not have a material impact on the financial statements.

**16. Commitments and contingencies (continued):**

In 2019, an action was brought against the Corporation claiming breach of contract and related damages with respect to the termination of a contract. The Corporation asserts it is not at fault in such claim and, accordingly, has filed a counterclaim in this matter. The outcome of the claims is not determinable and the ultimate amount of liability from these claims, if any, cannot be estimated reasonably. As such, no amount has been recognized on the Corporation's financial statements at December 31, 2020.

**17. 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.

(a) 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.

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 5).

## 17. Financial risks (continued):

(b) 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 $4,000,000 available by way of an overdraft facility and a further $29,521,930 under its term facilities. The operating line is not fully drawn as at December 31, 2020; however, the term facilities are fully drawn at December 31, 2020. As at December 31, 2020, the Corporation’s bank indebtedness totaled $426,184 (2019 – $1,727,934). The Corporation's financial debt, including bank indebtedness, net of cash and restricted cash is $31,300,129 (2019 – $32,342,925).

The following table shows the undiscounted maturities of financial liability-related cash flows (principal and interest).

| | 2021 | 2022-2024 | 2025 and Thereafter | 2020 Total |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 2,202,059 | $ – | $ – | $ 2,202,059 |
| Bank indebtedness | 426,184 | – | – | 426,184 |
| Long-term debt principal | 858,259 | 4,822,348 | 26,305,113 | 31,985,720 |
| Long-term debt interest | 970,902 | 2,579,886 | 6,753,771 | 10,304,559 |
| | $ 4,457,404 | $ 7,402,234 | $ 33,058,884 | $ 44,918,522 |

(c) Market risk:

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

(d) 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 TD bank to hedge its interest rate risk exposure (note 3). 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.

**17. Financial risks (continued):**

(e) 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 has finance lease receivable in U.S. dollars. The amounts denominated in U.S. dollars do not have a material impact on the business. The Corporation does not currently enter into forward contracts to mitigate this risk. Management does not believe the risk to be significant.

(f) 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.

There have been no changes to the Corporation’s risk exposure since 2019 except for the events described in note 18.

**18. COVID-19 Pandemic:**

On March 11, 2020, the World Health Organization declared the Novel Coronavirus (COVID-19) outbreak a pandemic. This has resulted in governments worldwide, including the Canadian and Alberta governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, closures of non-essential businesses, and physical distancing, have caused material disruption to businesses in Calgary, resulting in an economic slowdown.

The ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation’s future revenues, operating results and overall financial performance is not known at this time. As at the reporting date, the Corporation has determined that COVID-19 has had no impact on its contracts or agreements, the assessment of provisions and contingent liabilities, or the timing of revenue recognition. Management has assessed the financial impacts of the COVID-19 pandemic and did not identify any negative impacts on its financial statements as at December 31, 2020.

The Corporation continues to manage liquidity risk by forecasting and assessing cash flow requirements on an ongoing basis. As at December 31, 2020, the Corporation continues to meet its contractual obligations within normal payment terms and the Corporation’s exposure to credit risk remains largely unchanged.