PEACE HILLS UTILITIES INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2024

METRIX GROUP LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Peace Hills Utilities Inc.

Qualified Opinion

We have audited the financial statements of Peace Hills Utilities Inc. (the Company), which comprise the statement of financial position as at December 31, 2024 and the statements of net income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects on comparative information of the matters described in the *Basis for Qualified Opinion*, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

IFRS 16, Leases, requires the recognition of a right-of-use asset and a lease liability at the commencement date. The Company has not performed an assessment of their lease agreements to identify the cost attributable to the right-of-use asset or lease liability as of December 31, 2024 and we were not able to satisfy ourselves concerning those assets or liabilities by alternate means. Consequently, we were not able to determine whether any adjustments would be necessary to non-current assets, current and non-current liabilities, retained earnings, expenses or net income for the period ended December 31, 2024.

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 report. We are independent of the Company 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 those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

(continues)

Auditors' Responsibilities for the Audit of the 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 it 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 Company's internal control.
- Evaluate the appropriateness of accounting policies and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 or our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

METRIX GROUP LLP

Chartered Professional Accountants

Edmonton, Alberta
June 16, 2025

Peace Hills Utilities Inc.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of Peace Hills Utilities Inc. is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. The responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibility for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of the financial statements.

The Board of Directors of Peace Hills Utilities Inc. is composed entirely of individuals who are neither management nor employees of the Company. The Board of Directors have the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters, and financial reporting issues. The Board of Directors are also responsible for the appointment of the Company's external auditors.

Metrix Group LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board of Directors to audit the financial statements and report directly to them. The external auditors have full and free access to and meet periodically and separately with the internal audit staff, other management staff, and the Finance Audit and Risk Committee of the Board and management to discuss their audit findings.

Wetaskiwin, Alberta
June 16, 2025 [redacted]

Sue Howard
President

PEACE HILLS UTILITIES INC.
Statement of Financial Position
As at December 31, 2024

		2024	2023 (Note 20)
ASSETS			
CURRENT			
Cash		$ 4,152,899	$ 6,635,345
Trade and other receivables	(Note 5)	3,317,269	1,810,093
Due from the City of Wetaskiwin	(Note 16)	6,061,238	8,991,979
		13,531,406	17,437,417
PORTFOLIO INVESTMENTS	(Note 7)	17,420,097	-
INVESTMENT IN PEACE HILLS MUNICIPAL INVESTMENT LP	(Note 8)	1,904,320	1,508,229
RIGHT TO CHARGE INTANGIBLE ASSET	(Note 9)	49,786,498	-
		82,642,321	18,945,646
LIABILITIES			
CURRENT			
Trades payable and accrued liabilities		1,429,267	614,492
Deposit liabilities		107,576	166,359
Current portion of service concession liability	(Note 10)	287,210	-
Deferred revenue	(Note 11)	11,834,478	43,546
Due to the City of Wetaskiwin	(Note 16)	-	5,585,527
		13,658,531	6,409,924
SERVICE CONCESSION LIABILITY	(Note 10)	50,359,093	-
DEFERRED CAPITAL CONTRIBUTIONS	(Note 12)	3,782,519	-
		67,800,143	6,409,924
SHAREHOLDER'S EQUITY			
Share capital	(Note 14)	10	10
Contributed surplus		4,547,742	4,547,742
Retained earnings	(Note 15)	10,294,426	7,987,970
		14,842,178	12,535,722
		$ 82,642,321	$ 18,945,646

ON BEHALF OF THE BOARD:

[redacted]
Director

[redacted]
Director

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

PEACE HILLS UTILITIES INC.

Statement of Net Income and Other Comprehensive Income

For The Year Ended December 31, 2024

		2024	2023
REVENUE			
Sale of water	(*Note 16*)	**$ 6,076,215**	$ 5,526,175
Provision of wastewater services	(*Note 16*)	**4,675,260**	4,208,597
Penalties on late payments		**466,233**	348,157
Other revenues		**105,596**	7,531
Sale of bulk water		**55,239**	92,049
		11,378,543	10,182,509
OPERATING EXPENSES			
Subcontract services		**4,007,706**	4,075,153
Amortization of right to charge intangible asset	(*Note 9*)	**1,131,511**	-
Utilities		**536,061**	579,893
Administrative fees	(*Note 16*)	**540,861**	506,400
Fleet rentals	(*Note 16*)	**150,370**	130,875
Professional fees		**61,909**	103,456
Facility, repair and maintenance		**69,136**	90,665
Office charges		**26**	9
Impairment loss (recovery)	(*Note 6*)	**(231,451)**	1,031,519
		6,266,129	6,517,970
OPERATING INCOME		**5,112,414**	3,664,539
OTHER INCOME (EXPENSES)			
Share of comprehensive income of Peace Hills Municipal Investment LP	(*Note* 8)	**396,091**	791,131
Amortization of deferred capital contributions	(*Note* 12)	**85,966**	-
Finance income	(*Note* 13)	**(2,526)**	224,961
Interest on concession liability	(*Note* 10)	**(3,596,779)**	-
		(3,117,248)	1,016,092
NET INCOME AND COMPREHENSIVE INCOME		**$ 1,995,166**	$ 4,680,631

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

PEACE HILLS UTILITIES INC.
Statement of Changes in Equity
For The Year Ended December 31, 2024

	Share Capital	Contributed Surplus	Retained Earnings	**Total**
Balance, December 31, 2023	$ 10	$ 4,547,742	$ 7,987,970	**$ 12,535,722**
Net income and comprehensive income	-	-	1,995,166	**1,995,166**
Contributed surplus	-	1,251,751	-	**1,251,751**
Transfers to reserves	-	(1,251,751)	1,251,751	**-**
Dividends declared	-	-	(940,461)	**(940,461)**
Balance, December 31, 2024	**$ 10**	**$ 4,547,742**	**$ 10,294,426**	**$ 14,842,178**
Balance, December 31, 2022	$ 10	$ 4,547,742	$ 4,007,339	**$ 8,555,091**
Net income and comprehensive income	-	-	4,680,631	**4,680,631**
Dividends declared	-	-	(700,000)	**(700,000)**
Balance, December 31, 2023	**$ 10**	**$ 4,547,742**	**$ 7,987,970**	**$ 12,535,722**

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

PEACE HILLS UTILITIES INC.

Statement of Cash Flows

Years ended December 31, 2024

	2024	2023
OPERATING ACTIVITIES		
Operating income	**$ 5,112,414**	$ 3,664,539
Non-cash items included in operating income:		
Amortization of right to charge intangible asset	**1,131,511**	-
Changes in non-working capital balances:		
Trade and other receivables	**(1,507,176)**	(409,928)
Trades payable and accrued liabilities	**814,775**	219,810
Deposit liabilities	**(58,783)**	17,890
Deferred revenue	**11,790,932**	(3,894)
	17,283,673	3,488,417
INVESTING ACTIVITIES		
Grant funding used debt repayment	**3,868,485**	-
Interest income	**377,265**	224,961
Acquisition of intangible assets	**(50,918,009)**	-
Purchase of portfolio investments	**(17,799,888)**	-
Amounts advanced to related parties	**(2,654,786)**	1,977,625
	(67,126,933)	2,202,586
FINANCING ACTIVITIES		
Establishment of service concession liability	**50,918,009**	-
Repayment of service concession liability	**(271,706)**	-
Interest on concession liability	**(3,596,779)**	-
Dividends paid	**(940,461)**	(700,000)
Capital contributions from the City of Wetaskiwin	**1,251,751**	-
	47,360,814	(700,000)
Net increase in cash	**(2,482,446)**	4,991,003
Cash, Beginning of Year	**6,635,345**	1,644,342
Cash, End of Year	**$ 4,152,899**	$ 6,635,345

1. NATURE OF OPERATIONS

Peace Hills Utilities Inc. (the Company) was incorporated under the *Business Corporations Act* of the Province of Alberta on March 8, 2022. The Company's primary purpose is to provide water and wastewater services to the residents of the City of Wetaskiwin.

The Company's registered office and principal place of business is:

4705 50 Avenue
Wetaskiwin, Alberta
T9A 2E9

The Company has significant control of a subsidiary, Peace Hills Municipal Investment Limited Partnership, which was established to design, construct, finance, and maintain the Wetaskiwin Wastewater Treatment Plant Project.

The common shares of the Company are wholly owned by the City of Wetaskiwin.

2. BASIS OF PRESENTATION

a) *Statement of compliance*

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

The financial statements were authorized for issue by the Board of Directors on June 16, 2025.

b) *Basis of measurement*

The financial statements have been prepared using the historical cost basis. The significant accounting policies are outlined in Note 3.

c) *Functional currency*

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies have been applied consistently to all periods presented in these financial statements.

a) *Investments in associates and joint ventures*

The equity method of accounting is used to account for the investments in associates and joint ventures in which the Company has an ownership interest which results in it having significant influence to participate in the financial and operating policy decisions of the investee but not control. Under this method, the investment is initially recorded at cost and is adjusted thereafter for the post-acquisition change in the Company's share of net assets of the investee.

(CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) *Investments in associates and joint ventures (continued)*

The carrying value of the investment accounted for using the equity method are based on the initial investment in these companies adjusted for the Company's share of profit or loss of the investee which is deemed to be a reasonable estimate of fair value. As these investments are not publicly traded it is not possible to determine what the actual trading value might be should a sale occur.

For additional information on the Company's investments in associates and joint ventures see Note 8.

b) *Revenue recognition*

Revenue is measured based on the value of the expected consideration in a contract with a customer and excludes sales taxes and other amounts collected on behalf of third parties. Revenue is recognized when control of a product or service is transferred to a customer. When the right to consideration from a customer corresponds directly with the value to the customer of the products and services transferred to date, revenue is recognized in the amount to which the Company has the right to invoice.

Revenue is classified as sale of water and bulk water, provision of services for wastewater treatment, penalties, interest income, and other revenue depending on the nature of each distinct performance obligation.

Sale of water

Revenue is recognized from the sale of water upon delivery to the customer, contingent upon reasonable assurance of collectability. This includes water consumption by customers up to the end of each reporting period, with billing occurring subsequent to the reporting period.

Customer contracts for supplying water goods to customers are indefinite agreements that remain in effect until terminated by the customer or the Company. The Company provides multiple distinct goods that customers receive and consume concurrently. Revenue recognition involves meeting performance obligations gradually using the output method, which includes measuring the units of each good delivered to the customer.

Revenue is determined based on the customer's consumption of goods within the reporting period, at the rate specified in the City of Wetaskiwin's Fees and Charges bylaw. Customers are invoiced monthly, with payment due within 21 days from the billing date.

Provision of wastewater treatment services

Customer contracts for wastewater treatment and other services to customers are indefinite agreements that remain in effect until terminated by the customer or the Company. The Company provides multiple distinct services that customers receive and consume concurrently. Revenue recognition involves meeting performance obligations gradually using the output method, which includes measuring the quantifiable services rendered to the customer. This includes services rendered to the customers up to the end of each reporting period, with billing occurring subsequent to the reporting period.

Revenue is determined based on the customer's consumption of goods within the reporting period, at the rate specified in the City of Wetaskiwin's Fees and Charges bylaw. Customers are invoiced monthly, with payment due within 21 days from the billing date.

(CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Revenue recognition (continued)

Sale of bulk water

Revenue is recognized from the sale of bulk water upon payment from the customer.

Penalties

Penalties are charged to customers for overdue accounts from the sale of goods and provision of services.

Government grants

The Company recognizes unconditional government grants in net income when the grant become receivable. Other government grants related to assets are initially recognized as deferred revenue at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. When the grant relates to an expense item, it is recognized as income on a systemic basis over the periods that the related costs, for which it is intended to compensate, as are expensed. When the grant related to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

Finance income

Finance income consists of interest revenue earned on funds account and portfolio investments, gains on the disposal of financial assets, and changes in value value of assets measured at fair value through the statement of net income and comprehensive income.

Finance income is recognized on the statement of net income and comprehensive income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. The amortized cost of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

c) Income taxes

Under the *Income Tax Act* (Canada), a municipally owned corporation is subject to income tax on its taxable income if the income from activities for any relevant period that was earned outside the geographical boundaries of the municipality exceeds 10% of the Company's total income for that period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Right to charge intangible asset

In accordance with the operating agreement with the City, the Company was responsible for the construction of the City's water and wastewater infrastructure (the "infrastructure") and for the subsequent operation and maintenance. Under the terms of the agreement, the Company is granted the right to charge users of the for a specified period.

The right to charge intangible asset is initially recorded at cost, which comprise construction and development costs incurred during the build phase of the infrastructure. After initial recognition, the right to use intangible asset is carried at cost less accumulated amortization and any accumulated impairment.

The right to charge intangible assets has an estimated useful life of 45 years and is amortized on a straight-line basis.

e) Service concession liability

The Company has entered into a service concession arrangement with Peace Hills Municipal Investment Limited Partnership ("PHMI") to construction, finance and maintain the water and wastewater infrastructure. The Company is responsible for monthly capital payments of $322,374 over the concession period beginning January 2024 lasting until March 2062.

The service concession liability is initially measured at fair value and is subsequently measured at amortized cost using the effective interest method.

f) Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instruments.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into one of the following categories:

- Amortized cost
- Fair value through profit or loss (FVTPL), or
- Fair value through other comprehensive income (FVOCI).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows, and
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The classification of financial assets categorised as FVTPL or FVOCI is determined by both:

- The entity's business model for managing the financial asset, and
- The contractual cash flow characteristics of the financial asset.

All revenue and expenses relating to financial assets that are recognized in net income are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within operating expenses.

<u>Subsequent measurement of financial assets</u>

Financial assets at amortized cost

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets held within a different business model other than "hold to collect" or "hold to collect and sell" are categorised at FVTPL. Further, irrespective of the business model used, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

Assets in this category are measured at fair value with gains or losses recognized in net income. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial assets at fair value through other comprehensive income (FVOCI)

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- They are held under a business model whose objective is "hold to collect" the associated cash flows and sell, and
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in OCI will be recycled upon derecognition of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (continued)

Impairment of financial assets

Trade and other receivables and contract assets

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to Note 6 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and measurement of financial liabilities

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transactions unless the Company designated a financial liability at FVTPL.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains and losses recognized in net income.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in net income are included within finance costs or finance income.

g) Provisions, contingent assets and contingent liabilities

Provisions for product warranties, legal disputes, onerous contracts or other claims are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

(CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Standards and interpretations not yet applied

A number of new standards, amendments to standards and interpretations of standards have been issued by the IASB and the IFRIC, the application of which is effective for periods beginning on or after January 1, 2025 which are not effective for these financial statements. The Company does not expect the implementation of these new accounting pronouncements to have a material impact on its accounting policies.

4. USE OF JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgments in the application of accounting policies, estimates and assumptions that affect the reported amounts of income, expenses, assets, and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

a) Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in notes:

Note 3(a) - Business combinations
Note 3(b) - Revenue recognition
Note 3(d) - Right to charge intangible asset
Note 3(e) - Service concession liability
Note 3(f) - Investment classification
Note 3(g) - Provisions

b) Estimates

The Company reviews its estimates and assumptions on an ongoing basis, uses the most current information available and exercises careful judgment in making these estimates and assumptions. Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

<u>Fair value measurement</u>

Certain accounting measures such as determining asset impairment and recording certain financial and non-financial assets and liabilities, require the Company to estimate an item's fair value. Estimates of fair value may be based on readily determinable market values or on depreciable replacement cost or discounted cash flow techniques employing estimated future cash flows based on a number of assumptions and using an appropriate discount rate.

5. TRADE AND OTHER RECEIVABLES

		2024	2023
Trade receivable		**$ 3,181,566**	$ 3,283,890
Expected credit loss allowance	(*Note 6*)	**(1,475,152)**	(1,891,400)
		1,706,414	1,392,490
Goods and Services Tax recoverable		**1,447,124**	412,095
Interest receivable		**159,870**	-
Other receivables		**3,861**	5,508
Net accounts receivable		**$ 3,317,269**	$ 1,810,093

6. EXPECTED CREDIT LOSS ALLOWANCE

The Company calculates the expected credit loss (ECL) on trade receivables using a provision matrix approach, which is based on the Company's historical credit loss experience and current economic conditions for accounts receivables to estimate the ECL. The provision matrix specifies fixed provision rates depending on the number of days that a trade receivable is due or past due. Trade receivables are derecognized when there is no reasonable expectation of recovery.

The gross amounts of trade receivables and corresponding ECL allowance are as follows:

	Gross Trade Receivable	Expected Credit Loss Allowance	**2024 Net Trade Receivable**
Current	$ 1,602,836	$ (59,541)	**$ 1,543,295**
Outstanding 30 to 60 days	227,279	(87,595)	**139,684**
Outstanding 61 to 90 days	36,742	(16,123)	**20,619**
Outstanding 91 to 120 days	53,875	(51,059)	**2,816**
Outstanding over 120 days	1,260,834	(1,260,834)	**-**
	$ 3,181,566	$ (1,475,152)	**$ 1,706,414**

	Gross Trade Receivable	Expected Credit Loss Allowance	2023 Net Trade Receivable
Current	$ 1,491,273	$ (222,887)	$ 1,268,386
Outstanding 30 to 60 days	177,499	(99,058)	78,441
Outstanding 61 to 90 days	122,040	(86,648)	35,392
Outstanding 91 to 120 days	92,897	(82,626)	10,271
Outstanding over 120 days	1,400,181	(1,400,181)	-
	$ 3,283,890	$ (1,891,400)	$ 1,392,490

(CONT'D)

6. EXPECTED CREDIT LOSS ALLOWANCE (CONTINUED)

During the year, the Company recognized an ECL expense (recovery) of $(231,451) (2023 - $1,031,519) in net income relating to customer amounts that the Company determined may not be fully collectable. The ECL allowance is determined considering the unique factors of the business unit's trade and other receivables. Write-offs are determined either by applying specific risk factors to customer groups' aged balances in trade and other receivables or by reviewing material accounts on a case-by-case basis. Reductions in trade and other receivables and the related ECL allowance is recorded when the Company has determined that recovery is not possible.

The changes in the ECL allowance are as follows:

	2024	2023
Balance, beginning of the year	**$ 1,891,400**	$ 859,881
ECL allowance created (recovered) during the year	**(231,451)**	1,031,519
Receivables written off	**(184,797)**	-
Balance, end of the year	**$ 1,475,152**	$ 1,891,400

7. PORTFOLIO INVESTMENTS

	2024	2023
Measured at Amortized Cost		
Bonds	**$ 11,899,466**	$ -
Measured at Fair Value Through Profit or Loss		
Principal protected notes	**5,520,631**	-
	$ 17,420,097	$ -

Bonds have an effective interest rate ranging from 3.70% to 4.70% mature between between February 2028 and November 2034.

Principal protected notes mature between November 2031 and November 2034.

8. INVESTMENT IN PEACE HILLS MUNICIPAL INVESTMENT LP

	2024	2023
Investment in PHMI, Opening	**$ 1,508,229**	$ 717,098
Share of PHMI comprehensive income	**396,091**	791,131
Investment in PHMI, Ending	**$ 1,904,320**	$ 1,508,229

The Company holds a 49.75% (2023 - 49.75%) proportionate ownership interest in Peace Hills Municipal Investment Limited Partnership (PHMI). PHMI was established to design, construct, finance and maintain the Wetaskiwin Wastewater Treatment Plant Project. The Company has joint control, over PHMI.

(CONT'D)

8. INVESTMENT IN PEACE HILLS MUNICIPAL INVESTMENT LP (CONTINUED)

Summarized financial information as included in PHMI's IFRS financial statements for the period ended December 31, 2024:

	2024	2023
Revenue	**$ 13,317,594**	$ 34,868,239
Expenses	**(10,452,872)**	(31,950,415)
Other expenses	**(2,068,560)**	(1,315,551)
Net income and comprehensive income	**$ 796,162**	$ 1,602,273

	2024	2023
Current assets		
Cash and cash equivalents	**$ 776,458**	$ 3,386,966
Restricted cash	**10,696,532**	19,541,647
Accounts receivable	**338,493**	-
Goods and Service Tax recoverable	**31,379**	67,284
Current portion of concession receivables	**3,868,485**	3,868,485
	15,711,347	26,864,382
Non-current assets		
Concession receivables	**51,953,120**	42,504,011
Total assets	**67,664,467**	69,368,393
Current liabilities		
Accounts payable and accrued liabilities	**1,001,852**	4,170,459
Current portion of long-term debt	**640,794**	322,639
Holdback payable	**5,428,972**	4,437,856
	7,071,618	8,930,954
Non-current liabilities		
Long-term debt	**56,758,514**	57,399,266
	56,758,514	57,399,266
Total liabilities	**63,830,132**	66,330,220
Shareholders' equity	**$ 3,834,335**	$ 3,038,173

PHMI is a private company; therefore no quoted market prices are available for its shares.

PHMI has entered into a Financial Services Agreement (FSA) for financial services through to 2062. The fees to be paid are $19,167 monthly over the terms of the FSA. Future minimum annual construction cost commitments of PHMI amount to $47,000 in 2025.

9. RIGHT TO CHARGE INTANGIBLE ASSET

	2024	2023
Net book value, Opening	**$ -**	$ -
Additions	**50,918,009**	-
Amortization of right to charge intangible asset	**(1,131,511)**	-
Net book value, Ending	**$ 49,786,498**	$ -

As of December 31, 2024, the remaining right to use period is 44 years.

10. SERVICE CONCESSION LIABILITY

In accordance with the concession agreement with PHMI, the Company is obligated to complete monthly capital payments of $322,374 beginning January 2024 until the agreement termination in March 2062. Total infrastructure received amounted to $50,646,303. The service concession liability bear interest at an effective rate of 7.09%.

	2024	2023
Service concession liability	**$ 50,646,303**	$ -
Less: current portion of service concession liability	**(287,210)**	-
	$ 50,359,093	$ -

The required repayments are as follows.

	Principal	Interest	**Total**
2025	$ 287,210	$ 3,581,275	**$ 3,868,485**
2026	308,236	3,560,239	**3,868,475**
2027	330,823	3,537,662	**3,868,485**
2028	355,053	3,513,432	**3,868,485**
2029	381,058	3,487,427	**3,868,485**
Subsequent	48,983,923	75,774,725	**124,758,648**
	$ 50,646,303	$ 93,454,760	**$144,101,063**

Interest expense on the service concession liability amounted to $3,596,779 (2023 - $NIL).

11. DEFERRED REVENUE

	2024	2023
Alberta municipal water/wastewater partnership grant	$ 11,771,983	$ -
Prepaid utility fees	62,495	43,546
	$ 11,834,478	$ 43,546

In 2024, the Company utilized $3,868,485 (2023 - $NIL) in government funding for the purposes of debt repayment and have been transferred into deferred capital contribution.

12. DEFERRED CAPITAL CONTRIBUTIONS

	2024	2023
Opening	$ -	$ -
Funding utilized	3,868,485	-
Amortization of deferred capital contributions	(85,966)	-
Ending	$ 3,782,519	$ -

13. FINANCE INCOME

	2024	2023
Interest income	$ 377,265	$ 224,961
Unrealised loss on portfolio investments	(379,791)	-
	$ (2,526)	$ 224,961

14. SHARES CAPITAL

Authorized:

- Unlimited class "A", B", "C", common voting shares
- Unlimited class "D", "E", "F", common non-voting shares
- Unlimited class "G", "H", preferred voting share, redeemable and retractable shares
- Unlimited class "I", "J", preferred non-voting share, redeemable and retractable shares
- Unlimited class "K", "L", preferred voting redeemable share
- Unlimited class "M", "N", preferred non-voting redeemable share

Issued:

	2024	2023
100 - Class A common shares	$ 10	$ 10

15. RETAINED EARNINGS

As at December 31, 2024, the retained earnings of the Company included internal reserves established by management and the Board of Directors for specific purposes. These internal reserves are not mandated by statute and do not restrict the distribution of profits, but represent appropriations of retained earnings made for internal policy or operational prudence following tables.

The composition of retained earnings is as follows:

	2024	2023
Unrestricted	**$ 8,292,675**	$ 7,987,970
Reserves	**2,001,751**	-
	$ 10,294,426	$ 7,987,970

16. RELATED PARTY BALANCES AND TRANSACTIONS

City of Wetaskiwin

The following tables summarize the related party transactions between the Company and the City.

	2024	2023
Revenue		
Water hydrants	**$ 162,549**	$ 150,324
Sale of water	**148,314**	78,926
Provision of wastewater services	**47,801**	40,201
	$ 358,664	$ 269,451
Expenses		
Administrative fee	**$ 540,861**	$ 506,400
Fleet expense	**150,370**	130,875
	$ 691,231	$ 637,275

In 2024, the Company declared $940,461 in dividends (2023 - $700,000) payable to the City.

16. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The following summarizes the Company's related party balances with the City:

	2024	2023
Trade receivables	**$ 6,061,238**	$ 8,991,979
Trade payables	**-**	(5,585,527)
	$ 6,061,238	$ 3,406,452

The amounts due from (to) related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

Peace Hills Municipal Investment LP

In 2024, the Company recorded $3,596,779 (2023 - $NIL) in interest expense related to concession liabilities. In addition, the Company made payments towards the concession liability in the amount of $271,706 (2023 - $NIL).

As at December 31, 2024, the recorded a $338,492 payable to PHMI (2023 - $NIL).

17. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

The carrying amount of the Company's financial instruments by classification is as follows:

	2024 Carrying Value	Amortized Cost	FVTPL	FVTOCI
Non-Derivative Financial Assets				
Cash	**$ 4,152,899**	$ 4,152,899	$ -	$ -
Trade and other receivables	**3,317,269**	3,317,269	-	-
Portfolio investments	**17,420,097**	11,899,466	5,520,631	-
	$ 24,890,265	**$ 19,369,634**	**$ 5,520,631**	**$ -**
Non-Derivative Financial Liabilities				
Trades payable and accrued liabilities	**$ 1,429,268**	$ 1,429,268	$ -	$ -
Deposit liabilities	**107,576**	107,576	-	-
Concession liability	**50,646,303**	50,646,303	-	-
	$ 52,183,147	**$ 52,183,147**	**$ -**	**$ -**

(CONT'D)

17. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (CONTINUED)

	2023 Carrying Value	Amortized Cost	FVTPL	FVTOCI
Non-Derivative Financial Assets				
Cash	$ 6,635,345	$ 6,635,345	$ -	$ -
Trade and other receivables	1,810,093	1,810,093	-	-
	$ 8,445,438	$ 8,445,438	$ -	$ -
Non-Derivative Financial Liabilities				
Trades payable and accrued liabilities	$ 658,038	$ 658,038	$ -	$ -
Deposit liabilities	166,359	166,359	-	-
	$ 824,397	$ 824,397	$ -	$ -

Assets and liabilities recorded at fair value in the statement of the financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1: Unadjusted quoted prices in an active market for identical assets and liabilities.
- Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.

Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

The composition of financial instruments measured at fair value is as follows

	2024			
	Level 1	Level 2	Level 3	**Total**
Portfolio investments	$ -	$5,520,631	$ -	**$5,520,631**

	2023			
	Level 1	Level 2	Level 3	Total
Portfolio investments	$ -	$ -	$ -	$ -

There were no transfers between fair value hierarchy levels for the years ended 2024 (2023 - $NIL).

18. RISK MANAGEMENT

The Company is exposed to a number of different financial risks arising from business activities and its use of financial instruments, including market risk, credit risk, and liquidity risk. The Company's overall risk management process is designed to identify, assess, measure, manage, mitigate and report on business risk, which includes financial risk.

Market Risk

Market risk is the risk that changes in market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return. Market risk comprises three types of risk: currency rate risk, interest rate risk, and other price risk. The Company is mainly exposed to other price risk. It is management's opinion that the Company is not exposed to significant market risks.

i. Other Price Risk

Other price risk is the risk that the fair value or the future cash flows of the Company's financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is exposed to other price risk through its portfolio investments.

The Company's exposure to other price risk is mitigated through its intention to hold the instruments until maturity. The principal protected notes are structured to return the principal in full at maturity, with any upside linked to the performance of an underlying asset or index, thereby limited exposure to fluctuation in fair value prior to maturity.

Credit Risk

Credit risk is the risk that financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Company. The Company is exposed to credit risk from financial assets including trade and other receivables.

The following table lists the Company maximum credit exposure:

	2024	2023
Trade and other receivables	**$ 3,317,269**	$ 1,810,093
Portfolio investments	**17,420,097**	-

Management of credit risk is an integral part of the Company's activities. Management carefully monitors and manages the Company's exposure to credit risk by a combination of methods.

The large number of 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 Company has established an internal collections process. The Company does not hold any security on any trade receivables balance at December 31, 2024.

(CONT'D)

18. RISK MANAGEMENT (CONTINUED)

Concentration of Risk

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicates the sensitivity of the Company to developments affecting a particular segment of borrowers or geographic region.

There were no individual accounts which exceed 1.00% (2023 - NIL) of trades receivable at December 31, 2024.

Geographic credit risk exists for the Company due to its primary service area being in the City of Wetaskiwin and surrounding areas.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its obligations to members and other liabilities. The Company manages liquidity risk through regular monitoring of cash requirements by preparing short-term and long-term cash flow forecasts and by matching the maturity profiles of financial assets and financial liabilities to identify financing requirements.

The undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments as at December 31, 2024 are as follows:

	2025	2026	2027	2028	2029	2030 Thereafter	Total Contractual Cash Flows
Trade and other payables	$ 1,429,267	$ -	$ -	$ -	$ -	$ -	**$ 1,429,267**
Concession liability[1]	3,868,485	3,868,475	3,868,485	3,868,485	3,868,485	124,758,648	**144,101,063**
	$ 5,297,752	**$ 3,868,475**	**$ 3,868,485**	**$ 3,868,485**	**$ 3,868,485**	**$124,758,648**	**$145,530,330**

[1] Payments on concession liabilities include the interest component of lease payments

The Company's undiscounted cash flow requirements and contractual maturities in the next 12 months are expected to be funded from operating cash flows.

19. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it maintains an appropriate current ratio in order to support its operations and maximize shareholder value.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.