

**PEACE HILLS UTILITIES INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

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## INDEPENDENT AUDITORS' REPORT

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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, 2023 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, 2023, 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 using the present value method as of December 31, 2023 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, 2023. The predecessor auditor's opinion on the financial statements for the year ended December 31, 2022 was modified because of the effects of this departure from IFRS.

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.

### *Other Matter*

The financial statements for the period ended December 31, 2022 were audited by another auditor who expressed a qualified opinion on those financial statements on January 22, 2024 for the reasons described in the *Basis for Qualified Opinion* section of our report.

### *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.

(continues)

Independent Auditors' Report to the Board of Directors of Peace Hills Utilities Inc. *(continued)*

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.

*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 of 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

August 21, 2024



## 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  
August 21, 2024

A handwritten signature in blue ink, appearing to read "Sue", is written over a horizontal line.

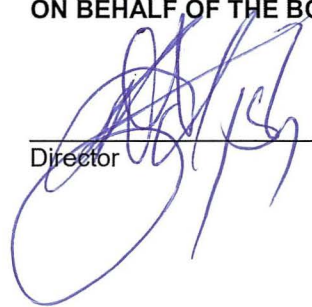
Sue Howard  
President

PEACE HILLS UTILITIES INC.  
Statement of Financial Position  
As at December 31, 2023

	<u>2023</u>	<u>2022</u> (Note 14)
<b>ASSETS</b>		
Current assets:		
Cash	\$ 6,635,345	\$ 1,644,342
Trade and other receivables (Note 5)	<u>1,810,093</u>	<u>1,400,165</u>
	8,445,438	3,044,507
Non-current assets:		
Investment in Peace Hills Municipal Investment LP (Note 7)	1,508,229	717,098
Due from related parties (Note 9)	<u>3,406,452</u>	<u>5,384,077</u>
	<u>4,914,681</u>	<u>6,101,175</u>
	<u>\$ 13,360,119</u>	<u>\$ 9,145,682</u>
<b>LIABILITIES</b>		
Current liabilities:		
Trades payable and accrued liabilities	658,038	442,122
Deposit liabilities	<u>166,359</u>	<u>148,469</u>
	<u>824,397</u>	<u>590,591</u>
<b>EQUITY</b>		
Share capital (Note 8)	10	10
Contributed surplus	4,547,742	4,547,742
Retained earnings	<u>7,987,970</u>	<u>4,007,339</u>
	<u>12,535,722</u>	<u>8,555,091</u>
	<u>\$ 13,360,119</u>	<u>\$ 9,145,682</u>

COMMITMENTS (Note 10)

ON BEHALF OF THE BOARD:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

**PEACE HILLS UTILITIES INC.**  
**Statement of Net Income and Other Comprehensive Income**  
**For The Year Ended December 31, 2023**

		<u>2023</u>	<u>2022</u> <i>(10-months)</i> <i>(Note 2, 14)</i>
<b>REVENUE</b>			
Sale of Water	<i>(Note 9)</i>	\$ 5,526,175	\$ 3,872,511
Provision of wastewater services	<i>(Note 9)</i>	4,208,597	2,929,132
Penalties on late payments		348,157	140,949
Sale of bulk water		92,049	46,457
Other revenues		<u>7,531</u>	<u>17,682</u>
		<u>10,182,509</u>	<u>7,006,731</u>
<b>OPERATING EXPENSES</b>			
Subcontract services		4,075,153	2,070,866
Impairment loss	<i>(Note 6)</i>	1,031,519	657,882
Utilities		579,893	313,134
Administrative fees	<i>(Note 9)</i>	506,400	-
Fleet rentals	<i>(Note 9)</i>	130,875	-
Professional fees		103,456	42,229
Facility, repair and maintenance		90,665	142,972
Office charges		<u>9</u>	<u>175</u>
		<u>6,517,970</u>	<u>3,227,258</u>
<b>OPERATING INCOME</b>		<u>3,664,539</u>	<u>3,779,473</u>
<b>OTHER INCOME</b>			
Share of comprehensive income of Peace Hills Municipal Investments LP	<i>(Note 7)</i>	791,131	169,356
Finance income		<u>224,961</u>	<u>58,510</u>
		<u>1,016,092</u>	<u>227,866</u>
<b>NET INCOME AND COMPREHENSIVE INCOME</b>		<u>\$ 4,680,631</u>	<u>\$ 4,007,339</u>

**PEACE HILLS UTILITIES INC.**  
**Statement of Changes in Equity**  
**For The Year Ended December 31, 2023**

	<u>Share Capital</u>	<u>Contributed Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance, December 31, 2022</b>	\$ 10	\$ 4,547,742	\$ 4,007,339	\$ 8,555,091
Net income and comprehensive income	-	-	4,680,631	<b>4,680,631</b>
Dividends declared	-	-	(700,000)	<b>(700,000)</b>
<b>Balance, December 31, 2023</b>	<b><u>\$ 10</u></b>	<b><u>\$ 4,547,742</u></b>	<b><u>\$ 7,987,970</u></b>	<b><u>\$ 12,535,722</u></b>
<b>Balance, December 31, 2021</b>	\$ -	\$ -	\$ -	\$ -
Net income and comprehensive income	-	-	4,007,339	<b>4,007,339</b>
Capital contributions	-	4,547,742	-	<b>4,547,742</b>
Issuance of common shares	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>
<b>Balance, December 31, 2022</b>	<b><u>\$ 10</u></b>	<b><u>\$ 4,547,742</u></b>	<b><u>\$ 4,007,339</u></b>	<b><u>\$ 8,555,091</u></b>

**PEACE HILLS UTILITIES INC.**  
**Statement of Cash Flows**  
**Years ended December 31, 2023**

	<u>2023</u>	<u>2022</u>
<b>OPERATING ACTIVITIES</b>		
Net income and comprehensive income	\$ 4,680,631	\$ 4,007,339
Non-cash items included in operating income:		
Share of comprehensive income	(791,131)	(169,356)
Changes in non-working capital balances:		
Trade and other receivables	(409,928)	(1,400,165)
Trades payable and accrued liabilities	215,916	442,122
Deposit liabilities	<u>17,890</u>	<u>148,469</u>
	<u>3,713,378</u>	<u>3,028,409</u>
<b>INVESTING ACTIVITIES</b>		
Amounts advanced to related parties	1,977,625	(5,384,077)
Capital contribution paid to Peace Hills Municipal Investment LP	<u>-</u>	<u>(547,742)</u>
	<u>1,977,625</u>	<u>(5,931,819)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital	-	10
Capital contributions received from the City of Wetaskiwin	-	4,547,742
Dividends paid	<u>(700,000)</u>	<u>-</u>
	<u>(700,000)</u>	<u>4,547,752</u>
<b>Net increase in cash</b>	<b>4,991,003</b>	<b>1,644,342</b>
<b>Cash, Beginning of Year</b>	<u><b>1,644,342</b></u>	<u>-</u>
<b>Cash, End of Year</b>	<u><b>\$ 6,635,345</b></u>	<u><b>\$ 1,644,342</b></u>

**PEACE HILLS UTILITIES INC.**  
**Notes to the Financial Statements**  
**Years ended December 31, 2023**

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**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 August 21, 2024.

**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.

**d) Comparability of Information**

The Company began operating March 8, 2022. Comparative figures cover the 10-month period from March 8, 2022 to December 31, 2022. Current year balances are for the 12-month period from January 1, 2023 to December 31, 2023. Accordingly, current period results are not entirely comparable with those of the prior period due to the difference in length of the reporting periods. The Company has provided additional disclosures and analysis in the notes to help users better understand the financial performance during the partial year.

Revenues

Revenue for the 12-month period ended December 31, 2023 was \$10,182,509 compared to \$7,006,731 for the 10-month period ended December 31, 2022. The increase is primarily due to the increased reporting period.

### 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.

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 7.

#### 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Sale of bulk water

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

#### 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.

#### Penalties and finance income

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

#### Finance income

Finance income consists of interest revenue earned on cash account and investments.

#### **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.

#### **d) 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).

(CONT'D)

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

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).

In the periods presented the Company does not have any financial assets categorised as FVTPL or FVOCI.

The classification 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 recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

#### Subsequent measurement of financial assets

##### *Financial assets at amortized cost*

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.

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 profit or loss. 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.

(CONT'D)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

#### 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 initial measurement of financial liabilities

The Company's financial liabilities include trade payable and other accrued 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 profit or loss.

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

#### **e) 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.

(CONT'D)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

#### *f) 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, 2024 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 3a) - Revenue recognition

#### **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.

##### Fair value measurement

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.

PEACE HILLS UTILITIES INC.  
Notes to the Financial Statements  
Years ended December 31, 2023

5. TRADE AND OTHER RECEIVABLES

		<u>2023</u>	<u>2022</u>
Trade receivable		\$ 3,283,890	\$ 2,100,916
Expected credit loss allowance	(Note 6)	<u>(1,891,400)</u>	<u>(859,881)</u>
		<b>1,392,490</b>	1,241,035
Goods and Services Tax recoverable		<b>412,095</b>	159,130
Other receivables		<u>5,508</u>	<u>-</u>
Net accounts receivable		<u>\$ 1,810,093</u>	<u>\$ 1,400,165</u>

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:

	<u>Gross Trade Receivable</u>	<u>Expected Credit Loss Allowance</u>	<u>2023 Net Trade Receivable</u>
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	<u>1,400,181</u>	<u>(1,400,181)</u>	<u>-</u>
	<u>\$ 3,283,890</u>	<u>\$ (1,891,400)</u>	<u>\$ 1,392,490</u>
	<u>Gross Trade Receivable</u>	<u>Expected Credit Loss Allowance</u>	<u>2022 Net Trade Receivable</u>
Current	\$ 1,131,332	\$ (57,000)	\$ 1,074,332
Outstanding 30 to 60 days	146,240	(58,071)	88,169
Outstanding 61 to 90 days	65,093	(33,210)	31,883
Outstanding 91 to 120 days	26,476	(19,545)	6,931
Outstanding over 120 days	<u>731,775</u>	<u>(692,055)</u>	<u>39,720</u>
	<u>\$ 2,100,916</u>	<u>\$ (859,881)</u>	<u>\$ 1,241,035</u>

**PEACE HILLS UTILITIES INC.**  
**Notes to the Financial Statements**  
**Years ended December 31, 2023**

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**6. EXPECTED CREDIT LOSS ALLOWANCE (CONT'D)**

During the year, the Company recognized \$1,031,519 (2022 - \$657,882) of ECL as an expense 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:

	<u>2023</u>	<u>2022</u>
Balance, beginning of the year	\$ 859,881	\$ -
ECL allowance transferred from City	-	201,999
ECL allowance created (recovered) during the year	<u>1,031,519</u>	<u>657,882</u>
Balance, end of the year	<u>\$ 1,891,400</u>	<u>\$ 859,881</u>

**7. INVESTMENT IN PEACE HILLS MUNICIPAL INVESTMENT LP**

	<u>2023</u>	<u>2022</u>
Investment in PHMI, Opening	\$ 717,098	\$ -
Capital contributions	-	547,742
Share of PHMI comprehensive income	<u>791,131</u>	<u>169,356</u>
Investment in PHMI, Ending	<u>\$ 1,508,229</u>	<u>\$ 717,098</u>

The Company holds a 49.75% (2022 - 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.

Summarized financial information as included in PHMI's IFRS financial statements for the period ended December 31, 2023:

	<u>2023</u>	<u>2022</u>
Revenue	\$ 34,868,239	\$ 23,856,515
Expenses	(31,950,415)	(22,640,476)
Other expenses	<u>(1,315,551)</u>	<u>(875,624)</u>
<b>Net income and comprehensive income</b>	<u>\$ 1,602,273</u>	<u>\$ 340,415</u>

**PEACE HILLS UTILITIES INC.**  
**Notes to the Financial Statements**  
**Years ended December 31, 2023**

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**7. INVESTMENT IN PEACE HILLS MUNICIPAL INVESTMENT LP (CONT'D)**

	<u>2023</u>	<u>2022</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,386,966	\$ 1,544,714
Restricted cash	19,541,647	14,586,213
Structured notes	-	35,216,640
Goods and Service Tax recoverable	67,284	84,558
Current portion of concession receivables	<u>3,868,485</u>	<u>-</u>
	<u>26,864,382</u>	<u>51,432,125</u>
<b>Non-current assets</b>		
Concession receivables	<u>42,504,011</u>	<u>11,504,257</u>
<b>Total assets</b>	<u>69,368,393</u>	<u>62,936,382</u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	4,170,459	2,492,836
Current portion of long-term debt	322,639	-
Holdback payable	<u>4,437,856</u>	<u>-</u>
	<u>8,930,954</u>	<u>2,492,836</u>
<b>Non-current liabilities</b>		
Long-term debt	57,399,266	57,721,897
Holdback payable	<u>-</u>	<u>1,285,749</u>
	57,399,266	59,007,646
<b>Total liabilities</b>	<u>66,330,220</u>	<u>61,500,482</u>
<b>Shareholders' equity</b>	<u>\$ 3,038,173</u>	<u>\$ 1,435,900</u>

No dividends were received from PHMI during the year (2022 - \$NIL).

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 \$8,179,000 in 2024.

**PEACE HILLS UTILITIES INC.**  
**Notes to the Financial Statements**  
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**8. 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:

	<u>2023</u>	<u>2022</u>
100 - Class A common shares	<u>\$ 10</u>	<u>\$ 10</u>

**9. RELATED PARTY BALANCES AND TRANSACTIONS**

City of Wetaskiwin

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

	<u>2023</u>	<u>2022</u>
<b>Revenue</b>		
Water hydrants	\$ 150,324	\$ 101,553
Sale of water	78,926	40,507
Provision of wastewater services	<u>40,201</u>	<u>19,975</u>
	<u>\$ 269,451</u>	<u>\$ 162,035</u>
<b>Expenses</b>		
Administrative fee	\$ 506,400	\$ -
Fleet expense	<u>130,875</u>	<u>-</u>
	<u>\$ 637,275</u>	<u>\$ -</u>

In 2023, the Company declared \$700,000 in dividends (2022 - \$NIL) payable to the City.

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

	<u>2023</u>	<u>2022</u>
Trade receivables	\$ 8,991,979	\$ 7,279,205
Trade payables	<u>(5,585,527)</u>	<u>(1,895,128)</u>
	<u>\$ 3,406,452</u>	<u>\$ 5,384,077</u>

**PEACE HILLS UTILITIES INC.**  
**Notes to the Financial Statements**  
**Years ended December 31, 2023**

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**9. RELATED PARTY BALANCES AND TRANSACTIONS (CONT'D)**

Peace Hills Municipal Investment LP

In 2023, the Company acted as the agent in transactions between the City and PHMI in the amount of \$NIL (2022 - \$12,352,258) related to the design, build, finance, and operation contract for the development of a wastewater treatment plant, owned by the City. No revenue or expense has been recognized in respect of this transaction during the period.

There are no outstanding balances as December 31, 2023 (2022 - \$NIL).

**10. COMMITMENT**

The Company has entered into an agreement with PHMI for maintenance services requiring monthly payments of \$322,374, commencing January 2024 through to 2062.

**11. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE**

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

	<u>2023</u>			
	<u>Carrying Value</u>	<u>Amortized Cost</u>	<u>FVTPL</u>	<u>FVTOCI</u>
Non-Derivative Financial Assets				
Cash	\$ 6,635,345	\$ 6,635,345	\$ -	\$ -
Trade and other receivables	<u>1,810,093</u>	<u>1,810,093</u>	<u>-</u>	<u>-</u>
	<b><u>\$ 8,445,438</u></b>	<b><u>\$ 8,445,438</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
Non-Derivative Financial Liabilities				
Trades payable and accrued liabilities	\$ 658,038	\$ 658,038	\$ -	\$ -
Deposit liabilities	<u>166,359</u>	<u>166,359</u>	<u>-</u>	<u>-</u>
	<b><u>\$ 824,397</u></b>	<b><u>\$ 824,397</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
	<u>2022</u>			
	<u>Carrying Value</u>	<u>Amortized Cost</u>	<u>FVTPL</u>	<u>FVTOCI</u>
Non-Derivative Financial Assets				
Cash	\$ 1,644,342	\$ 1,644,342	\$ -	\$ -
Trade and other receivables	<u>1,400,165</u>	<u>1,400,165</u>	<u>-</u>	<u>-</u>
	<b><u>\$ 3,044,507</u></b>	<b><u>\$ 3,044,507</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
Non-Derivative Financial Liabilities				
Trades payable and accrued liabilities	\$ 442,122	\$ 442,122	\$ -	\$ -
Deposit liabilities	<u>148,469</u>	<u>148,469</u>	<u>-</u>	<u>-</u>
	<b><u>\$ 590,591</u></b>	<b><u>\$ 590,591</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

## 12. 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 interest rate risk. It is management's opinion that the Company is not exposed to significant market risks.

### ***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:

	<u>2023</u>	<u>2022</u>
Trade and other receivables	<u>\$ 1,810,093</u>	<u>\$ 1,400,165</u>

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, 2023.

### ***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% (2022 - NIL) of trades receivable at December 31, 2023.

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

## **12. RISK MANAGEMENT (CONT'D)**

### ***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 amount to \$658,038 in 2024.

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

## **13. 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.

## **14. COMPARATIVE FIGURES**

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