April 18, 2017

Chestermere Utilities Inc. (CUI) is pleased to announce positive financial results for the year ending Dec 31, 2016. Net Income was favorable to budget by $5.3 million primarily due to non-cash, non-rate base water, sanitary and storm infrastructure assets transferred to CUI from developers. These assets are recognized in revenue once ownership has transferred to CUI and accounted for 32% of our total revenue.

From a rate base net income perspective, we've recorded a loss of ($0.598 million). Results were slightly ahead of expectations by $0.3 million primarily due to the deferral of capital work to 2017. Looking more specifically at line-items on the income statement:

- Revenue is lower than expected by $0.93 million compared to budget due to the difference between the approved rate by City Council versus the rate originally proposed in the budget.
- Contracted Services was lower than budgeted by $0.60 million due to the implementation of new cost control measures including moving organics waste collection in-house.
- Amortization was lower than expected by $0.77 million due to the deferral of Rainbow Road Sanitary Trunk and Lift Station 13 Forcemain construction to 2017. This decision also means there was no amortization recorded in 2016 for Lift Station 13 as it will not be operational until 2017, when these two projects are complete.
- Financing costs were higher than expected in 2016 as CUI renegotiated our financing arrangements with lenders. The negative variance in 2016 will be offset by the new decreased fixed rate interest costs that were negotiated for the next 20 years. It is anticipated CUI will save more than $7.3 million for the three projects that were refinanced as part of this negotiation. Further financial benefits relating to future water and sanitary projects are also expected.

In addition, business practice changes initiated in 2016 are anticipated to have a positive impact on CUI financial results in the future:

- CUI has implemented numerous practices and programs that continue to emphasize and build a positive safety culture within the organization. Excellent safety performance, such as zero lost time incidents in 2016, should result in WCB premium discounts, reduce disability management costs, and maintain operational productivity and performance.
- One of our priorities is to focus on minimizing water losses which ultimately will result in lower costs to the consumer. Water losses result from items such as undetected leaks, billing system errors and inaccurate meter reads. CUI is actively pursuing improvements in these areas. Our efforts in 2016 have already resulted in performance improvements this year. 3 major leaks representing 10 l/s were identified and repaired. Left unchecked for a year that amount of water would fill approximately 126 Olympic sized swimming pools!
- In 2016, CUI reviewed its' outsourced services and has intensified performance monitoring activities to improve contractor performance. CUI's contractors will be continuously reviewed for compliance and performance will be assessed based on the terms and conditions of our agreements.
- A formal Asset Review Program has been developed and implemented to optimize CUI's operational and capital expenditures. The program will assist in the management of risks associated with ensuring the long-term integrity of our assets.
- As it relates to Chestermere's continuous growth, CUI is working with developers to ensure new infrastructure investments are prudently incurred and assets are online to meet demand in a timely manner without incurring undue financial risk for our shareholder and existing customers.
- Our Customer Relations Program evolved significantly in 2016 with the addition of a Manager, and numerous tools and processes focused on enhancing our customer's experiences and streamlining our operational activities. This included implementation of the CUI Curbside Collection App as well as a new account set-up process that assists with the active management of customer arrears.

- We also have unrelenting attention on cost control measures following prudent business practices which will continue indefinitely.

CUI continues to implement systems, tools and processes that will lead to sustainable improvement in all our operations and will position the organization appropriately to meet the needs of Chestermere residents and businesses in the future.

Copies of CUI's 2016 audited financial statements and unaudited consolidated and line of business results rate base results are available in the "Reports and Information" section of the company website at www.cuinc.ca.

Lastly, all our customers are invited to attend our Annual Report to the Community Open House on May 11, 2017 at the Chestermere Regional Community Centre. Information booths featuring our programs, services and 2017 Capital Projects will be on display. Doors open and registration begins at 6 pm, a presentation by our Board Chair and the CEO will be made at 6:30 pm, followed by a question and answer session.

Representatives from CUI will be available throughout the evening to answer questions. To RSVP or for further information please contact us at 403-207-7284 or myaccount@cuinc.ca or www.cuinc.ca/events.

Chestermere Utilities Incorporated

Financial Statements
December 31, 2016
(expressed in Canadian dollars)

April 6, 2017

Independent Auditor's Report

To the Shareholder of
Chestermere Utilities Incorporated

We have audited the accompanying financial statements of Chestermere Utilities Incorporated, which comprise the statement of financial position as at December 31, 2016 and the statements of operations and comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

PricewaterhouseCoopers LLP
111 5 Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Chestermere Utilities Incorporated as at December 31, 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Chestermere Utilities Incorporated

Statement of Financial Position

As at December 31, 2016

(expressed in Canadian dollars)

	2016 $	2015 $
Assets		
Current assets		
Cash and cash equivalents (note 7)	2,936,674	3,235,788
Investments (note 5)	1,409,135	1,342,750
Accounts receivable (note 8)	1,367,479	1,668,082
Inventory (note 9)	56,667	72,356
Goods and services tax receivable	51,074	93,543
Prepaid expenses	38,834	34,821
	5,859,863	6,447,340
Property and equipment (note 10)	79,934,799	78,542,974
Intangible assets (note 11)	4,427,656	-
	90,222,318	84,990,314
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	1,306,973	7,237,492
Current portion of long-term debt (note 14)	472,101	332,098
Due to related party (note 16)	36,914	241,550
	1,815,988	7,811,140
Deferred revenue (note 13)	954,756	1,707,183
Long-term debt (note 14)	17,339,420	8,277,186
Preferred shares (note 17)	-	47,759,789
	20,110,164	65,555,298
Shareholder's Equity		
Share capital (note 17)	49,271,751	100
Contributed surplus (note 17)	13,252,479	13,252,479
Retained earnings	7,521,709	6,182,563
Accumulated other comprehensive income (loss)	66,215	(126)
	70,112,154	19,435,016
	90,222,318	84,990,314

Commitments (note 19)
Subsequent event (note 21)

Approved by the Board of Directors

______________________ Director ______________________ Director

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

Chestermere Utilities Incorporated

Statement of Operations and Comprehensive Income

For the year ended December 31, 2016

(expressed in Canadian dollars)

	2016 $	2015 $
Revenue		
Sale of goods and services (note 16)	11,311,711	9,568,048
Development and offsite levies (note 16)	5,768,517	6,185,341
Penalties and interest income	228,331	255,625
	17,308,559	16,009,014
Expenses		
Water supply and waste management charges	3,863,444	3,905,881
Contracted services	2,654,243	3,646,859
Amortization (notes 10 and 11)	2,403,446	1,751,756
Salaries, wages and benefits (note 16)	1,803,811	1,500,666
Finance costs (note 15)	3,767,396	2,282,530
Materials, goods and supplies	835,456	668,194
General and administrative expenses (note 16)	553,665	499,577
Other	87,952	101,217
	15,969,413	14,356,680
Net income for the year	1,339,146	1,652,334
Item that may be reclassified to profit or loss		
Unrealized profit (loss) on investments	66,341	(11,020)
Total comprehensive income	1,405,487	1,641,314

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

Chestermere Utilities Incorporated

Statement of Changes in Equity

For the year ended December 31, 2016

(expressed in Canadian dollars)

	Share capital $	Contributed surplus $	Retained earnings $	Accumulated other comprehensive income (loss) $	Total equity $
Balance – January 1, 2015	100	6,736,608	4,530,229	10,894	11,277,831
Net income for the year	-	-	1,652,334	-	1,652,334
Other comprehensive loss	-	-	-	(11,020)	(11,020)
Equity portion of redeemable preferred shares (note 17)	-	6,515,871	-	-	6,515,871
Balance – December 31, 2015	100	13,252,479	6,182,563	(126)	19,435,016
Net income for the year	-	-	1,339,146	-	1,339,146
Other comprehensive income	-	-	-	66,341	66,341
Exchange of preferred shares to common shares (note 17)	49,271,651	-	-	-	49,271,651
Balance – December 31, 2016	49,271,751	13,252,479	7,521,709	66,215	70,112,154

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

Chestermere Utilities Incorporated

Statement of Cash Flows

For the year ended December 31, 2016

(expressed in Canadian dollars)

	2016 $	2015 $
Cash provided by (used in)		
Operating activities		
Net income for the year	1,339,146	1,652,334
Items not affecting cash		
Amortization (notes 10 and 11)	2,403,446	1,751,756
Finance costs (note 15)	3,767,396	2,282,530
Contributed assets	(5,480,783)	(5,312,946)
	2,029,205	373,674
Change in non-cash working capital		
Net accounts receivable	300,603	(176,214)
Due to/from related party	(204,636)	401,066
Inventory	15,688	62
Accounts payable and accrued liabilities	(804,588)	(646,830)
Prepaid expenses	(4,012)	(20,355)
Goods and services tax receivable	42,469	72,537
Deferred revenue	(752,428)	589,430
	(1,406,904)	219,696
	622,301	593,370
Investing activities		
Purchase of property and equipment (note 10)	(2,626,754)	(1,301,845)
Sales of property and equipment	-	(12,679)
Investment purchases	(43)	(6,925)
	(2,626,797)	(1,321,449)
Financing activities		
Interest paid (note 15)	(570,923)	(580,800)
Receipt of long-term debt (note 14)	14,956,547	-
Termination fee paid on debt settlement (notes 14 and 15)	(1,800,000)	-
Repayment of accrued debt (note 12)	(5,125,932)	-
Repayment of long-term debt (note 14)	(5,754,310)	(333,985)
	1,705,382	(914,785)
Decrease in cash and cash equivalents	(299,114)	(1,642,864)
Cash and cash equivalents – Beginning of year	3,235,788	4,878,652
Cash and cash equivalents – End of year	2,936,674	3,235,788

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

(expressed in Canadian dollars)

1 Statutes of incorporation and nature of operations

Chestermere Utilities Incorporated (the "Corporation") is a government business enterprise which was incorporated on May 27, 2010 under the Business Corporations Act (Alberta). On August 23, 2011, the Corporation issued 100 Class A Common voting shares to the City of Chestermere (the "City") making the Corporation wholly owned by the City of Chestermere. The Corporation provides water, wastewater, storm water, solid waste collection and recycling services to the City of Chestermere. The head office, principal address, and records office of the Corporation is located at #403, 320 West Creek Drive, Chestermere, Alberta, T1X 0P7.

2 Basis of presentation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

The financial statements of the Corporation for the year ended December 31, 2016 were approved and authorized for issuance by the Board of Directors on April 6, 2017.

Basis of measurement

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

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 on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The following outlines the significant judgments and estimates made by the Corporation.

(expressed in Canadian dollars)

Revenue recognition

The estimate of usage not yet billed, which is included in revenues from the sale of water and other services is based on an assessment of unbilled services supplied to customers. This estimate is from the date of the last meter reading using historical consumption patterns. Management applies judgment to measure and value the estimated consumption.

The Corporation applies the percentage of completion accounting policy for revenue recognition. The estimation of percentage of completion of development projects in order to determine the amount of revenue to recognize is based on the attainment of critical milestones pre-set at the commencement of each project. Based on this, management applies judgment to determine the amount of revenue to recognize in relation to the stage of completion of each project at each reporting date.

Useful lives of long-lived assets

Property and equipment and limited life intangible assets are amortized over their estimated useful lives. Useful lives are determined on current facts and past experience, and consider the anticipated physical life of the asset, existing long-term agreements and contracts, current and forecasted demand and the potential for technological obsolescence. Useful lives of intangible assets arising from contractual or other legal rights shall not exceed the period of the contractual or legal rights, but may be shorter depending on the period over which the Corporation expects to use the asset. Useful life estimates are reviewed on a regular basis; however, actual lives may differ from the estimates.

Impairment of long-lived assets

If indicators of impairment exist for an asset or cash generating unit ("CGU") to which an asset belongs, an estimate of the recoverable amount is made to determine whether an impairment loss is to be recognized. The calculations used to determine the recoverable amounts include assumptions, such as the price for which the asset could be obtained or the future cash flows that will be produced by the asset or group of assets, discounted using an appropriate rate. Subsequent changes to these estimates or assumptions may significantly impact the carrying value of the assets within the respective CGU.

Functional and presentation currency

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

(expressed in Canadian dollars)

3 Significant accounting policies

a) Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i) Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. There are no instruments held by the Corporation classified in this category.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of net income in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position date, which is classified as non-current.

ii) Available-for-sale investments

Financial instruments classified as available-for-sale are measured at fair value using quoted prices in an active market.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of it within twelve months.

(expressed in Canadian dollars)

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities of greater than twelve months after the end of the reporting periods, which are classified as non-current liabilities. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost using the effective interest rate method less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and Includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

iv) Financial liabilities

Financial liabilities at amortized cost include the Corporation's accounts payable and accrued liabilities, long-term debt and preferred shares issued. Transaction costs on financial liabilities other than those classified as fair value through profit or loss are treated as part of the carrying value of the liability. Transaction costs for liabilities at fair value through profit or loss are expensed as incurred.

v) Impairment of financial assets

The Corporation assesses at the end of each reporting date whether there are indicators of impairment present for financial assets other than financial assets at fair value through profit or loss.

A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

An impairment loss in respect of a financial asset carried at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted using the instrument's original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset that was previously recognized in profit or loss, is removed from equity and recognized in the statement of net income.

The Corporation has not recognized any impairment of financial assets for the year ended December 31, 2016 (2015 – nil).

(expressed in Canadian dollars)

vi) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to either settle on a net basis or to realize the assets and settle the liabilities simultaneously.

vii) Derecognition of financial instruments

Financial assets are derecognized when the right to receive cash flows from the financial assets has expired or been transferred and the Corporation has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the obligation is discharged, cancelled, or expired.

viii) Settlement

The Corporation applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting means recognizing an asset on the day it is received by the Corporation and recognizing the disposal of an asset on the day it is delivered by the Corporation. Any gain or loss on disposal is also recognized on that day.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term investments, such as money market deposits or similar type instruments, with an original maturity of three months or less.

c) Investments

Investments include available-for-sale investments and are recorded at fair market value using quoted prices in an active market. The change in fair market value is recorded as other comprehensive income.

d) Inventories

Inventories consist of water meter and water meter parts inventories which are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of inventories comprises all costs of purchase, costs of conversion and other costs included in bringing the inventories to their present condition and location. Inventories are classified as current unless management does not expect the items to be utilized within twelve months.

(expressed in Canadian dollars)

e) Property and equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses and include capitalized interest incurred during construction on qualified assets. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset such as materials, labor, borrowing costs and contracted services. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. A gain or loss arising from the derecognition of an asset is recorded in earnings when the asset is derecognized.

Major overhaul costs are capitalized and depreciated on a straight-line basis to the next major overhaul. Other repair and maintenance costs are charged to earnings during the period in which they are incurred.

Interest on the funding attributable to qualifying assets is capitalized during construction and is depreciated as part of the total cost over the useful life of the asset. Capitalized interest is calculated using the effective interest rate method based on specified rates for specific borrowings and a weighted average rate for general borrowings. Interest capitalization commences when borrowing costs and expenditures are incurred at the onset of construction on assets of substantial duration. Interest capitalization ceases when construction of the asset is substantially complete.

Government grants are recorded net of the carrying amount of the asset once the property and equipment is acquired or constructed and ready for use. The grant is recognized in profit or loss on a systematic basis over the life of a depreciable asset as a reduced amortization expense.

The Corporation has received contributed property and equipment from the City which has been contributed as part of terms of development agreements. As the assets relate to delivery of utility services, the City has then transferred the assets to the Corporation. These assets are recorded by the Corporation at the exchange amount, which is the amount of consideration established and agreed by the related parties, as either revenue or deferred revenue.

Depreciation is provided on assets primarily on a straight-line basis over their estimated useful lives. No depreciation is provided on land and construction work-in-progress. Depreciation periods for the principal categories of property and equipment are shown in the table below:

	Years	**Method**
Land improvement	15 – 25	Straight-line method
Building	25 – 50	Straight-line method
Engineering structures	45 – 50	Straight-line method
Machinery and equipment	5 – 40	Straight-line method
Vehicles	3 - 12	Straight-line method

(expressed in Canadian dollars)

f) Intangible assets

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

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

	Years	Method
Intangible assets	20	Straight-line method

g) 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.

Recoverable amount is the higher of fair value less costs of disposal and value in use. Where fair value less costs of disposal is not reliably available, value in use is used as the recoverable amount.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings.

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset's recoverable amount since the last impairment was recognized is warranted. Where an impairment charge is subsequently reversed, the carrying amount of the asset (or CGU) is increased to the revised recoverable amount to the extent that it does not exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods. A reversal of an impairment charge is recognized immediately in earnings. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(expressed in Canadian dollars)

h) Impairment of financial assets

Available-for-sale investments

At the end of each reporting period, management assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Investments classified in the available-for-sale category are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring a decline in value, the Corporation takes into account many facts specific to each investment and all the factors that could indicate that there has been impairment. Factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer will enter bankruptcy or a restructuring, and the disappearance of an active market for the financial asset in question. Management also uses its judgment to determine when to recognize an impairment loss.

For equity investments classified in the available-for-sale category, the objective evidence would also include a significant or prolonged decline in the fair value below cost. When evidence of impairment exists, the cumulative loss (the difference between acquisition cost and current fair value, less any impairment loss previously recognized) is transferred out of Other Comprehensive Income, in equity, and recognized in the Statement of Operations. Impairment losses on equity securities are not reversed through the Statement of Operations, and increases in fair value occurring subsequent to impairment are recorded directly in Other Comprehensive Income, in equity. Any impairment loss on securities previously impaired is directly recognized in the Statement of Operations.

i) Deferred revenue

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

Certain assets may be acquired or constructed using non-repayable government grants or contributions from developers or customers. Contributions received towards construction of an item of property and equipment which are used to provide ongoing service to customers are recorded as deferred revenue and recognized in net income when the risks and rewards of ownership have been transferred to the Corporation.

Government grants are recognized initially as deferred revenue at fair value when there is reasonable assurance that they will be received and the Corporation will comply with the conditions associated with the grant. Grants that compensate the Corporation for expenses incurred are recognized in net income on a systematic basis in the same periods in which the expenses are recognized.

(expressed in Canadian dollars)

j) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risk and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The increase in the obligation due to the passage of time is recognized as finance expense. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that the reimbursement will be received and the amount receivable can be measured reliably. No such provisions existed at December 31, 2016 or 2015.

k) Income taxes

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

l) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Corporation for the provision of goods or services and where the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or to be received.

Revenue from the sale of water is recognized upon delivery or provision of the services to the customer. These revenues include an estimate of the value of water consumed by customers, to the end of each period but billed subsequent to the reporting period.

Revenues from the sale of other goods are recognized when the products have been delivered and collectability is reasonably assured.

Revenues from the provision of wastewater treatment and other services are recognized over the period in which the service is performed and collectability is reasonably assured.

Certain additions to property and equipment are made with the assistance of non-refundable cash contributions from developers and customers. Contributions received towards construction of an item of property and equipment are recorded as deferred revenue and recognized in revenue when the risks and rewards of ownership have been transferred to the Corporation.

The delivery or provision of services to the customer is completed when the Corporation no longer has effective control over the goods sold or services provided, when the amount of revenue can be measured reliably, when it is probable that the economic benefits associated with the transaction will flow to the Corporation, and when costs incurred or to be incurred in respect of the transaction can be measured reliably and recovery is reasonably assured.

(expressed in Canadian dollars)

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

m) 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.

n) Preferred shares

Preferred shares are classified as equity if it is non-redeemable, or redeemable only at the Corporation's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Preferred shares are classified as a liability if it is redeemable on a specific date or at the option of the shareholder, or if the dividend payments are not discretionary. Dividends thereon are recognized as a financing expense in profit or loss as accrued.

4 Accounting standards and interpretations not yet applied

Certain new or amended standards or interpretations issued by the IASB or IFRIC do not have to be adopted in the current period. As a result, the Corporation has not early adopted these standards or interpretations. Those that may be relevant to the Corporation are set out below.

IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in Other Comprehensive Income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Corporation is assessing the impact of IFRS 9.

(expressed in Canadian dollars)

IFRS 15, *Revenue from Contracts with Customers*, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, *Revenue* and IAS 11, *Construction Contracts* and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Corporation is assessing the impact of IFRS 15.

IFRS 16, Leases, specifies that lessees are to recognize leases that were traditionally recorded as operating leases in a similar way to finance leases under existing IAS 17. The effective date for IFRS 16 is on or after January 1, 2019, with early adoption permitted if IFRS 15 *"Revenue from Contracts with Customers"* has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. A formal assessment of the transitional implication to the Corporation will be completed in the future.

There are no other standards or interpretations issued, but not yet effective, that the Corporation anticipates will have a material effect on the financial statements once adopted.

5 Financial instruments

Fair values

The Corporation has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

				2016
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Available-for-sale investments	345,948	1,063,187	-	1,409,135

				2015
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Available-for-sale investments	289,634	1,053,116	-	1,342,750

(expressed in Canadian dollars)

No transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments recognized at fair value during the year ended December 31, 2016.

The following table provides a reconciliation of fair value measurements changes in Level 2 financial instruments, which pertains to the Corporation's pooled fund investments.

	$
Balance – Beginning of year	1,053,116
Unrealized gains	10,071
Balance – End of year	1,063,187

The fair value of cash and cash equivalents, accounts receivable, due (to) from related party, and accounts payable and accrued liabilities approximates carrying value due to the short-term nature of the financial instruments.

The fair value of the Company's non-derivative financial instruments, which include long-term debt and preferred shares, approximate their carrying value.

Long-term debt is recorded at amortized cost. Fair values are determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Corporation's current borrowing rate for similar borrowing arrangements. Fair value of long-term debt at initial recognition was classified in Level 2 of the fair value hierarchy.

On January 1, 2012, redeemable preferred shares of $56,050,023 were issued to the City as consideration for assets transferred to the Corporation. The preferred shares were redeemable and retractable on demand initially by the City as at December 31, 2015. A waiver was received by the City on April 15, 2013, waiving the right to retract the shares until December 31, 2016. On April 15, 2013, the preferred shares were recorded at fair value, based on the present value of the redemption amount. On December 14, 2015, the City further extended the waiver period to December 31, 2020. On December 14, 2015, the preferred shares' existing fair value was deemed to qualify as an extinguishment and a new fair market value was established. The difference in fair value is recorded as contributed surplus. On December 21, 2016, the preferred shares were extinguished and issued as common shares. The accreted book value of the preferred shares on the date of exchange was transferred to share capital which is the deemed value of the common shares (note 17).

(expressed in Canadian dollars)

6 Capital management

The objective of managing the Corporation's equity is to ensure the Corporation effectively achieves its goals and objectives for which it has been established, while remaining a going concern. In order to ensure the Corporation achieves its goals and objectives, management has in place a planning and budgeting process that is reviewed on an ongoing basis. The Corporation sets the amount of capital in proportion to risk. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets.

The Corporation defines capital as the aggregate total of cash and cash equivalents and shareholder's equity less long-term debt (excluding preferred shares):

	2016 $	2015 $
Cash and cash equivalents	2,936,674	3,235,788
Investments	1,409,135	1,342,750
Shareholder's equity	70,112,154	19,485,719
Long-term debt	(17,339,420)	(8,277,186)
	57,118,543	15,787,071

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

7 Cash and cash equivalents

	2016 $	2015 $
Short-term investments	250,638	212,837
Cash at bank	2,686,036	3,022,951
	2,936,674	3,235,788

(expressed in Canadian dollars)

8 Accounts receivable

	2016 $	2015 $
Utilities accounts receivable	1,276,684	1,709,729
Other receivables	134,928	9,057
Allowance for doubtful accounts	(44,133)	(50,704)
	1,367,479	1,668,082

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

The carrying amount of the Corporation's past due receivables is $179,439 (2015 – $345,886). Of these past due receivables, management has determined an allowance for doubtful accounts of $44,133 (2015 – $50,704). The aging of these receivables is detailed in the following table:

	2016 $	2015 $
61 to 90 days	105,555	207,369
91 to 120 days	39,718	59,482
121 to 150 days	34,166	18,265
Over 150 days	-	60,770
	179,439	345,886

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

(expressed in Canadian dollars)

9 Inventory

	2016 $	2015 $
Water meters	56,667	72,356

The total amount of inventory recognized as expense during the year was $166,859 (2015 – $280,275). No inventory write-downs were recognized in the year ended December 31, 2016 . No reversals of previous write-downs were recorded in the year ended December 31, 2016.

At December 31, 2016, no inventories were pledged as security for liabilities.

(expressed in Canadian dollars)

10 Property and equipment

	Land $	Land improvements $	Buildings $	Engineered structures $	Machinery and equipment $	Vehicles $	Construction in-progress $	Total $
Cost								
Balance – January 1, 2016	4,525,402	74,323	1,954,004	67,160,565	743,628	389,280	9,058,415	83,905,617
Additions	393,320	-	-	5,186,436	107,232	150,000	3,248,006	9,084,994
Transfers	-	-	-	(5,219,011)	-	-	(1,037,861)	(6,256,872)
Disposals	-	-	-	-	-	-	-	-
	4,918,722	74,323	1,954,004	67,127,990	850,860	539,280	11,268,560	86,733,739
Accumulated amortization								
Balance – January 1, 2016	-	6,511	367,716	4,671,344	248,286	68,786	-	5,362,643
Current period amortization	-	3,027	96,574	1,512,543	84,940	70,523	-	1,767,607
Transfers	-	-	-	(331,310)	-	-	-	(331,310)
Disposals	-	-	-	-	-	-	-	-
Balance – December 31, 2016	-	9,538	464,290	5,852,577	333,226	139,309	-	6,798,940
Net book value	4,918,722	64,785	1,489,714	61,275,413	517,634	399,971	11,268,560	79,934,799

	Land $	Land improvements $	Buildings $	Engineered structures $	Machinery and equipment $	Vehicles $	Construction in-progress $	Total $
Cost								
Balance – January 1, 2015	4,524,364	74,323	1,954,004	61,899,154	477,451	112,254	3,123,345	72,164,895
Additions	1,038	-	-	5,261,411	298,760	277,026	5,935,070	11,773,305
Disposals	-	-	-	-	(32,583)	-	-	(32,583)
	4,525,402	74,323	1,954,004	67,160,565	743,628	389,280	9,058,415	83,905,617
Accumulated amortization								
Balance – January 1, 2015	-	3,483	271,142	3,139,647	184,031	25,263	-	3,623,566
Current period amortization	-	3,028	96,574	1,531,697	76,934	43,523	-	1,751,756
Disposals	-	-	-	-	(12,679)	-	-	(12,679)
	-	6,511	367,716	4,671,344	248,286	68,786	-	5,362,643
Net book value	4,525,402	67,812	1,586,288	62,489,221	495,342	320,494	9,058,415	78,542,974

During the year, the Corporation capitalized $115,389 of borrowing costs incurred on the construction of qualifying assets (2015 – $nil).

(expressed in Canadian dollars)

11 Intangible assets

	2016 $	2015 $
Cost		
Balance – January 1	-	-
Additions	175,794	-
Transfers from property and equipment (note 10)	5,219,011	-
Disposals	-	-
Balance – December 31	5,394,805	-
Accumulated amortization		
Balance – January 1	-	-
Current period amortization	635,839	-
Transfers from property and equipment (note 10)	331,310	-
Disposals	-	-
Balance – December 31	967,149	-
Net book value	4,427,656	-

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

12 Accounts payable and accrued liabilities

	2016 $	2015 $
Trade accounts payable	909,233	1,531,042
Accrued liabilities	255,737	5,503,400
Accrued wages and benefits payable	142,003	203,050
	1,306,973	7,237,492

During the year, the Corporation settled all accrued liabilities and other amounts owing to EPCOR (note 14).

(expressed in Canadian dollars)

13 Deferred revenue

	2016			2015		
	Water $	**Sewer $**	**Total $**	**Water $**	**Sewer $**	**Total $**
Beginning of period – January 1	803,658	903,525	1,707,183	284,424	833,329	1,117,753
Amount collected during the year	82,543	138,750	221,293	519,234	70,196	589,430
Revenue recognized	-	(973,720)	(973,720)	-	-	-
End of year – December 31	886,201	68,555	954,756	803,658	903,525	1,707,183

14 Long-term debt

	2016 $	2015 $
EPCOR amortization fund assigned from the City	-	5,650,407
Alberta Capital Finance Authority loan assigned from the City	2,300,547	2,404,450
Loan from shareholder	554,427	554,427
Toronto Dominion bank loans	14,956,547	-
	17,811,521	8,609,284
Amounts payable within one year	(472,101)	(332,098)
	17,339,420	8,277,186

Principal repayment terms are as follows:

	$
2017	472,101
2018	1,121,584
2019	587,518
2020	608,613
Thereafter	15,021,705

(expressed in Canadian dollars)

EPCOR amortization fund

	2016 $	2015 $
Balance – January 1	5,650,407	5,883,789
Additions	-	-
Current period interest expense	483,716	500,264
Repayments	(6,134,123)	(733,646)
Balance – December 31	-	5,650,407

The EPCOR amortization fund relates to a long-term financing arrangement between the City of Chestermere and EPCOR for the water reservoir and water line tie-in projects. The term of this financing was over 20 years with payments to include principal and interest. The loan agreement with EPCOR was held in the City of Chestermere's name; however, the balance of this debt was assigned from the City of Chestermere to the Corporation as per the transfer agreement effective January 1, 2012.

During the year, the Corporation capitalized $110,279 of borrowing costs incurred on EPCOR financing obtained for the purposes of constructing a qualifying asset (2015 – $nil) (note 10).

During the year, the Corporation made a lump sum payment of $14,956,547 to EPCOR as full and final settlement of all amounts owing under this agreement. This payment included a termination fee of $1,800,000 (note 15).

Alberta Capital Finance Authority loan

	2016 $	2015 $
Balance – January 1	2,404,450	2,505,053
Additions	-	-
Current period interest expense	77,249	80,678
Repayments	(181,152)	(181,281)
Balance – December 31	2,300,547	2,404,450

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.

(expressed in Canadian dollars)

Shareholder loan

	2016 $	2015 $
Balance – January 1	554,427	554,427
Additions	-	-
Current period interest expense	-	-
Repayments	-	-
Balance – December 31	554,427	554,427

The loan from shareholder is a five year, unsecured, non-interest bearing promissory note payable which was payable on demand as at December 31, 2015. However, on April 15, 2013, the Corporation received a waiver from the City of Chestermere, waiving the right to retract the loan until December 31, 2018.

Toronto Dominion bank loan

	2016 $	2015 $
Balance – January 1	-	-
Additions	14,956,547	-
Current period interest expense	9,957	-
Repayments	(9,957)	-
Balance – December 31	14,956,547	-

The loans from the Toronto Dominion bank are floating rate term loans which were obtained in order to refinance the Corporation's term debt and termination costs with EPCOR as well as to finance water and sanitary infrastructure projects. The loans have a contractual term of five years, with monthly payments of principal and interest to be provided over this period. Interest on the loans is based on a floating rate of the prime rate.

During the year, the Corporation capitalized $5,109 of borrowing costs incurred on Toronto Dominion bank loans obtained for the purposes of constructing a qualifying asset (2015 – $nil) (note 10).

Subsequent to year end, the Corporation entered into two interest rate swap arrangements with Toronto Dominion bank and revised the terms of borrowings (note 21).

(expressed in Canadian dollars)

15 Finance costs

	2016 $	2015 $
EPCOR amortization fund assigned from the City	373,437	500,263
Alberta Capital Finance Authority loan assigned from the City	77,249	80,536
Toronto Dominion bank loans	4,848	-
Termination fee on EPCOR debt settlement	1,800,000	-
Accretion of the liability portion of redeemable preferred shares (notes 5 and 17)	1,511,862	1,701,731
	3,767,396	2,282,530

16 Related party transactions

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

	2016 $	2015 $
Due to related party	(36,914)	(241,550)
Long-term debt (note 14)	(2,300,547)	(8,609,284)
Preferred shares (notes 5 and 17)	-	(47,759,789)

Amounts due to related party include an amount payable of $36,914 (2015 –$241,550) for infrastructure services performed and employee benefits.

Transactions and balances with the City are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

The following transactions occurred between related parties:

	2016 $	2015 $
Compensation of key management personnel		
Short-term employee benefits	427,236	200,958
Post-employment benefits	-	-
Other long-term benefits	25,000	25,000
Termination benefits	-	23,077
	452,236	249,035

(expressed in Canadian dollars)

Included in the current year short-term employee benefits is $344,594 relating to the Chief Executive Officer (2015 - $187,253).

	2016 $	2015 $
City of Chestermere		
Sales of goods and services	32,196	157,439
General and administrative expenses	14,558	51,715
Office space rental	48,000	6,000
	94,754	215,154

During the year, the net amount collected by the City of Chestermere on behalf of the Corporation is $4,385,119 (2015 – $6,702,953), which is primarily contributed assets.

17 Share capital

a) Authorized

Unlimited number of Class "A" common voting shares

b) Issued

The carrying value of common shares issued is as follows:

	2016		2015	
	Number	Total $	Number	Total $
Class "A" common voting shares				
Balance – January 1	100	100	100	100
Exchange of Class "G" preferred shares as Class "A" common shares	56,050,023	49,271,651	-	-
Balance – December 31	56,050,123	49,271,751	100	100

Common shares issued all have the same rights in respect to the distribution of dividends and the repayment of capital. Each share entitles the holder to vote at all of the meetings of the shareholders of the Corporation except meetings at which only holders of a specified class of shares are, by the provisions of the Business Corporations Act, entitled to vote.

(expressed in Canadian dollars)

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

	2016		2015	
	Number	Total $	Number	Total $
Class "G" preferred, non-cumulative, redeemable, retractable, non-voting shares				
Balance – January 1	56,050,023	47,759,789	56,050,023	52,573,929
Current period accretion of liability portion of redeemable preferred shares (note 15)	-	1,511,862	-	1,701,731
Addition to contributed surplus related to equity portion of redeemable preferred shares	-	-	-	(6,515,871)
Exchange of Class "G" preferred shares as Class "A" common shares	(56,050,023)	(49,271,651)	-	-
Balance – December 31	-	-	56,050,023	47,759,789

On January 1, 2012, redeemable preferred shares of $56,050,023 were issued to the City as consideration for assets transferred to the Corporation. The preferred shares were redeemable and retractable on demand. On April 15, 2013, the City initially waived its right to retract the shares until December 31, 2016 (from December 31, 2014) and on December 14, 2015, the City extended the waiver period to December 31, 2020.

The fair value of the liability component was calculated as the present value of the preferred shares discounted at the Corporation's current borrowing rate for borrowing arrangements with similar terms of 3.253% for the period from the date of waiver to the expected remaining life of the preferred shares.

For financial reporting purposes, the preferred shares are considered to have both a debt and equity component. The equity component was calculated as the issue price of the preferred shares less the fair value of the liability component. As a result, an equity component of $6,736,608 was recorded initially in contributed surplus and in 2015 an additional $6,515,871 was recorded in contributed surplus.

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

18 Employee benefits

The Corporation matches contributions made by employees ranging from 3% to 7% of employee earnings for defined contribution pension plans. The total current service contribution by the Corporation in 2016 was $60,787 (2015 – $55,420). Contributions for current service are recorded as expenditures in the year in which they become due.

(expressed in Canadian dollars)

19 Commitments

At December 31, 2016, the Corporation had the following commitments:

	$
No later than one year	4,394,442
Later than one year and no later than five years	10,631,188
Later than five years	11,495,442
	26,521,072

20 Financial risks

The Corporation has exposure to the following risks from its use of financial instruments: liquidity risk, market risk, credit risk, and interest rate risk. This note presents information about the Corporation's exposure to each of these risks and the Corporation's objectives, policies and processes for managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and monitors risk management activities. The Corporation identifies and analyzes the risks faced by the Corporation and may utilize financial instruments to mitigate these risks.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets at hand at the statement of financial position date. The Corporation is subject to credit risk with respect to cash and cash equivalents, investments, accounts receivables, due from related party and good and services tax receivable. The large number and diversity of customers minimizes the credit risk of any one individual customer. In previous years, and for the first half of 2016, the Corporation was able to mitigate credit risk through its ability to transfer past due utilities receivable balances to the City, which could then be collected from customers through payment of property taxes. The Corporation discontinued this practice in the second half of the year and established an internal collections process. Cash is deposited with a Canadian chartered bank.

(expressed in Canadian dollars)

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 $1,000,000 available by way of an overdraft facility and a further $15,519,737 under its term facilities, which are not fully drawn at December 31, 2016. As at December 31, 2016, the Corporation's available cash totaled $2,936,674 (2015 – $3,235,788). The Corporation's net financial debt net of cash and cash equivalents is $14,874,847 (2015 – $5,373,495). The following table shows the undiscounted maturities of financial liability-related cash flows (principal and interest).

				2016
	2017 **$**	**2018 – 2020** **$**	**2021 and thereafter** **$**	**Total** **$**
Accounts payable and accrued liabilities	1,306,973	-	-	1,306,973
Long-term debt – principal	472,101	2,317,715	15,021,705	17,811,521
Long-term debt – interest	476,930	1,702,861	6,034,107	8,213,898
	2,256,004	4,020,576	21,055,812	27,332,392

				2015
	2016 **$**	**2017 – 2019** **$**	**2020 and thereafter** **$**	**Total** **$**
Accounts payable and accrued liabilities	7,237,492	-	-	7,237,492
Long-term debt – principal	332,098	1,507,448	6,769,739	8,609,285
Long-term debt – interest	561,494	1,567,505	4,162,283	6,291,282
Preferred shares	-	-	56,050,023	56,050,023
	8,131,084	3,074,953	66,982,045	78,188,082

Market risk

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

(expressed in Canadian dollars)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Corporation manages exposure through its normal operating and financing activities. The Corporation is not currently exposed to interest rate risk as it has fixed interest rate long-term financing with the Alberta Capital Finance Authority. In addition, subsequent to year-end the Corporation has entered into an interest rate swap arrangement with Toronto Dominion to hedge its interest rate risk exposure (note 21). Except for cash and cash equivalents, all other assets and liabilities of the Corporation are not interest rate sensitive.

Currency risk

Currency risk is the risk that variation in exchange rates between the Canadian dollar and foreign currencies will affect the Corporation's operations and financial results. The Corporation is not exposed to foreign currency risk because all assets and liabilities and the associated revenue and expenses are denominated in Canadian dollars.

Other price risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Corporation attempts to moderate this risk through the careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk of loss resulting from financial instruments is equivalent to their fair value.

The Corporation is exposed to other price risk from its investment in equity securities. As at December 31, 2016, had the prices on the respective stock exchanges for these securities increased or decreased by 5%, with all other variables held constant, Investments would have increased or decreased by approximately $70,457. In practice, the actual trading results may differ, and the difference could be material.

21 Subsequent event

Subsequent to yearend, the Corporation entered into two interest rate swap arrangement with Toronto Dominion bank to minimize its interest rate risk exposure on both its loans with this lender. Each loan has a contractual term of 20 years and will be amortized over 20 and 25 years with payments to include principal and interest. The fixed rate interest for the loans range from 3.555% to 3.671% over the life of the arrangement.

CUI 2016 Rate Base Results - Unaudited

CHESTERMERE UTILITIES INC.
Consolidated Statement of Operations & Comprehensive Income
For the Period Ending December 31, 2016
($000's)

	2016 Actual	2016 Budget	2016 Variance	2015 Actual
Revenue				
Sale of goods and services [1]	11,312	12,241	-929	9,568
Development and offsite levies	273	273	1	798
Penalties and interest income	155	174	-19	160
	11,740	**12,687**	**-947**	**10,526**
Expenses				
Water supply and w aste management charges [2]	3,863	3,780	-83	3,906
Contracted Services [3]	2,472	3,078	606	3,342
Amortization [4]	2,394	3,169	775	1,748
Salaries, w ages and benefits	976	994	18	768
Financing costs [5]	209	0	-209	0
Materials, goods and supplies	808	865	57	644
General and administrative expenses	285	343	58	225
Other expenses	20	4	-17	55
	11,029	**12,234**	**1,205**	**10,687**
Admin and board expenses	1,309	1,363	55	1,247
Rate base net income (loss) for the year	**-598**	**-910**	**313**	**-1,408**
Contributed assets [6]	5,481	0	5,481	5,293
Offsite levy revenue [7]	14	924	-910	50
Offsite levy expense [8]	-2,046	-2,410	363	-581
Accretion of preferred shares	-1,512	-1,554	42	-1,702
Net income (loss) for the year	**1,339**	**-3,950**	**5,289**	**1,652**

Notes:

1) Budget assumed the addition of 25 residential and 12 commercial customers and a 25% increase of all utility rates effective March 1, 2016. 2016 Actual represents the addition of 168 residential and 1 commercial customers, a 15% rate increase for water and sanitary services and a 25% rate increase for solid waste and storm services.

2) 2016 Actual water purchases were 1,833,708 m^3 or 15.9 % higher than Budget which was offset by decreased landfill costs attributable to better than expected solid waste diversion rates.

3) Budget assumed a full year of outsourced organics collection and higher costs from other contract services providers. 2016 Actual reflects the mid year insourcing of organics collection and effective cost management with other contract services suppliers.

4) Budget assumed rate base attracted amortization for all CUI assets including the new expenses related to the Lift Station ("LS") 13, LS 13 Forcemain and Rainbow Road Sanitary Trunk projects which were expected to be complete in 2016. 2016 Actual reflects the delay of the expected in-service dates of these projects to 2017.

5) Budget assumed the financing expenses related to LS 13 would be recovered 100% through Off-site Levies ("OSL"). It was subsequently determined the construction of LS 13 was required to address existing system capacity issues as well as to facilitate growth resulting in the sharing of costs based on asset utilization with 20% of the costs being recovered from rate base and 80% through OSL.

6) Budget assumed $0.0 of developer contributed assets. Developer contributed assets are non-cash, non-rate base and are recorded as revenue when received.

7) Actual revenue for LS 11 has been recorded in Contributed assets and budgeted in Offsite Levy Revenue

8) 2016 Actual Offsite levy expense is lower than expected due to the deferral of capital projects with financing required for only LS 13.

CHESTERMERE UTILITIES INC.
Admin & Board Statement of Operations & Comprehensive Income
For the Period Ending December 31, 2016
($000's)

	2016 Actual	2016 Budget	2016 Variance	2015 Actual
Revenue				
Sale of goods and services	0	0	0	0
Development and offsite levies	0	0	0	24
Investment income	73	70	3	96
	74	**70**	**3**	**120**
Expenses				
Water supply and waste management charges	0	0	0	0
Contracted services [1]	182	251	69	304
Amortization	9	13	4	4
Salaries, wages and benefits [2]	828	790	-38	733
Financing costs	0	0	0	0
Materials, goods and supplies [3]	28	131	103	25
General and administrative	268	223	-45	275
Other expenses	68	26	-42	27
	1,382	**1,434**	**51**	**1,367**
Rate base net income (loss)	**-1,309**	**-1,363**	**-55**	**-1,247**
Contributed assets	0	0	0	0
Offsite levy revenue	0	0	0	0
Offsite levy expense	0	0	0	0
Accretion of preferred shares	-1,512	-1,554	42	-1,702
Net income (loss) for the year	**-2,821**	**-2,917**	**96**	**-2,949**

Notes:

1) Communication costs were lower than expected as we hired internally, establishing a more robust customer service team, and lower costs than expected for HR support.

2) 2016 Actual includes the unbudgeted addition of two new positions: Customer Relations Manager and Environment, Health and Safety Manager. These positions were filled in July and September respectively.

3) 2016 Actual reflects the results of efforts towards managing discretionary expenses.

CHESTERMERE UTILITIES INC.
Water Statement of Operations & Comprehensive Income
For the Period Ending December 31, 2016
($000's)

	2016 Actual	2016 Budget	2016 Varianc	2015 Actual
Revenue				
Sale of goods and services [1]	3,619	3,886	-267	3,165
Development and offsite levies	0	0	0	264
Penalties and interest income	155	174	-19	160
	3,773	**4,060**	**-286**	**3,589**
Expenses				
Water supply charges [2]	2,005	1,823	-182	1,856
Contracted Services [3]	983	1,081	98	989
Amortization [4]	688	617	-71	657
Salaries, w ages and benefits	156	182	25	122
Financing costs	0	0	0	0
Materials, goods and supplies [5]	252	98	-153	358
General and administrative expenses	80	107	27	58
Other expenses	20	4	-17	55
	4,184	**3,911**	**-274**	**4,095**
Admin and board expenses	421	425	5	425
Rate base net income (loss) for the year	**-832**	**-277**	**-555**	**-931**
Contributed assets [6]	1,304	0	1,304	1,342
Offsite levy revenue	12	37	-26	42
Offsite levy expense [7]	-1,133	-307	-826	-500
Accretion of preferred shares	0	0	0	0
Net income (loss) for the year	**-649**	**-546**	**-103**	**-47**

Notes:

1) Budget assumed a March 1, 2016 25% rate increase for water services. 2016 Actual reflects an approved increase of 15%.

2) 2016 Actual water purchases were 1,833,708 m^3 or 15.9 % higher than Budget.

3) 2016 Actual reflects the renegotiation of the EPCOR contract.

4) 2016 Actual includes the expected life of the various assets.

5) 2016 Actual reflects increased water meter purchases due to 168 new customers and 114 customer meter replacements. An unbudgeted water meter replacement program was implemented mid year to enhance billing accuracy and decrease water losses related to unbilled water use.

6) Budget assumed $0.0 of developer contributed assets.

7) Offsite levy expense higher than expected due to the refinancing of existing loans.

CHESTERMERE UTILITIES INC.
Sanitary Statement of Operations & Comprehensive Income
For the Period Ending December 31, 2016
($000's)

	2016 Actual	2016 Budget	2016 Variance	2015 Actual
Revenue				
Sale of goods and services [1]	4,895	5,474	-578	4,169
Development and offsite levies	273	273	1	522
Penalties and interest income	0	0	0	0
	5,169	**5,746**	**-578**	**4,692**
Expenses				
Waste w ater charges [2]	1,551	1,485	-66	1,676
Contracted services [3]	948	1,184	235	1,345
Amortization [4]	1,225	2,095	870	660
Salaries, w ages and benefits	161	182	20	121
Financing costs [5]	209	0	-209	0
Materials, goods and supplies [6]	391	598	207	189
General and administrative expenses	75	114	39	54
Other expenses	0	0	0	0
	4,561	**5,657**	**1,097**	**4,045**
Admin and board expenses	576	626	50	556
Rate base net income (loss) for the year	**32**	**-537**	**569**	**91**
Contributed assets [7]	1,691	0	1,691	1,096
Offsite levy revenue [8]	2	887	-884	8
Offsite levy expense [9]	-914	-2,103	1,189	-81
Accretion of preferred shares	0	0	0	0
Net income (loss) for the year	**812**	**-1,754**	**2,565**	**1,114**

Notes:

1) Budget assumed a March 1, 2016 25% rate increase for sanitary services. 2016 Actual reflects the approved increase of 15%.

2) 2016 Actual sanitary volume usage was over budget by 15.9%.

3) 2016 Actual reflects the renegotiation of the EPCOR contract.

4) Budget assumed rate base attracted amortization for all CUI assets including the new expenses related to the LS 13, LS 13 Forcemain and Rainbow Road Sanitary Trunk projects which were expected to be complete in 2016. 2016 Actual reflects the delay of the expected in-service dates of these projects to 2017.

5) Budget assumed financing expenses related to LS 13 would be recovered 100% through OSL. It was subsequently determined the construction of LS 13 was required to address existing system capacity issues as well as to facilitate growth and resulting in the sharing of costs based on asset utilization with 20% of the costs being recovered from rate base and 80% through OSL.

6) Lower than anticipated chemical purchase.

7) Budget assumed $0.0 of developer contributed assets.

8) 2016 Actual revenue for Lift Station 11 has been recorded in Contributed assets and budgeted in Offsite Levy Revenue

9) 2016 Actual Offsite levy expense lower than Budget due to the deferral of the LS 13 Forcemain and Rainbow Road Sanitary Trunk projects, offset by the increased costs related to the refinancing of the existing loans.

CHESTERMERE UTILITIES INC.

Solid Waste Statement of Operations & Comprehensive Income
For the Period Ending December 31, 2016
($000's)

	2016 Actual	2016 Budget	2016 Variance	2015 Actual
Revenue				
Sale of goods and services [1]	1,890	1,955	-65	1,511
Development and offsite levies	0	0	0	12
Penalties and interest income	0	0	0	0
	1,890	**1,955**	**-65**	**1,522**
Expenses				
Garbage, recycling and organics disposal fees [2]	308	472	165	374
Contracted services [3]	238	445	207	658
Amortization	107	113	6	80
Salaries, wages and benefits	470	484	14	339
Financing costs	0	0	0	0
Materials, goods and supplies	156	155	0	82
General and administrative expenses	115	97	-18	96
Other expenses	0	0	0	0
	1,393	**1,767**	**374**	**1,628**
Admin and board expenses	211	211	0	180
Rate base net income (loss) for the year	**286**	**-23**	**309**	**-286**
Contributed assets	0	0	0	-20
Offsite levy revenue	0	0	0	0
Offsite levy expense	0	0	0	0
Accretion of preferred shares	0	0	0	0
Net income (loss) for the year	**286**	**-23**	**309**	**-306**

Notes:

1) 2016 Actual is lower than Budget due to a calculation error offset by the addition of 82 *"unregulated"* solid waste customers.

2) 2016 Actual reflects the achievement of a 73% diversion rate, reducing the volume of waste delivered to landfill from 2,573.3 tonnes in 2015 to 1,283.5 tonnes in 2016.

3) Budget assumed a full year of outsourced curbside organics collection. 2016 Actual reflects the decision to provide this service directly starting in June.

CHESTERMERE UTILITIES INC.
Storm Statement of Operations & Comprehensive Income
For the Period Ending December 31, 2016
($000's)

	2016 Actual	2016 Budget	2016 Varianc	2015 Actual
Revenue				
Sale of goods and services	907	926	-19	723
Development and offsite levies	0	0	0	0
Penalties and interest income	0	0	0	0
	907	**926**	**-19**	**723**
Expenses				
Water supply and w aste management charges	0	0	0	0
Contracted services [1]	304	369	65	350
Amortization	374	345	-29	351
Salaries, w ages and benefits	188	147	-41	185
Financing costs	0	0	0	0
Materials, goods and supplies	9	14	5	15
General and administrative	15	24	9	17
Other expenses	0	0	0	0
	890	**899**	**9**	**919**
Admin and board expenses	101	101	0	86
Rate base net income (loss) for the year	**-84**	**-74**	**-10**	**-282**
Contributed assets [2]	2,485	0	2,485	2,875
Offsite levy revenue	0	0	0	0
Offsite levy expense	0	0	0	0
Accretion of preferred shares	0	0	0	0
Net income (loss) for the year	**2,401**	**-74**	**2,475**	**2,593**

Notes:

1) 2016 Actual reflects savings achieved by performing work directly and finding lower cost alternatives to complete projects.

2) Budget assumed $0.0 of developer contributed assets.