

SHEEP RIVER REGIONAL UTILITY CORPORATION

FINANCIAL STATEMENTS

For the year ended December 31, 2025

Draft - April 10, 2026

SHEEP RIVER REGIONAL UTILITY CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To: The Board of
Sheep River Regional Utility Corporation

Opinion

We have audited the financial statements of the Sheep River Regional Utility Corporation which comprise the statement of financial position as at December 31, 2025, and the statements of operations, change in net financial debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2025, its results of operations, change in net financial debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT, continued

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

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.

April 23, 2026

Chartered Professional Accountants

SHEEP RIVER REGIONAL UTILITY CORPORATION
STATEMENT OF FINANCIAL POSITION
As at December 31, 2025

	2025	2024
Financial assets		
Cash	\$ 1,392,043	\$ 1,133,355
Trade and other receivables (note 3)	151,605	101,339
	1,543,648	1,234,694
Liabilities		
Accounts payable and accrued liabilities	92,126	48,381
Due to shareholders (note 4)	4,572,935	4,572,935
	4,665,061	4,621,316
Net financial debt	(3,121,413)	(3,386,622)
Non-financial assets		
Prepaid expenses	19,637	18,399
Tangible capital assets (schedule 1)	8,331,072	8,509,443
	8,350,709	8,527,842
Accumulated surplus (note 5, schedule 2)	\$ 5,229,296	\$ 5,141,220

Approved on behalf of the board:

Director _____ Director _____

Draft - April 10, 2026

SHEEP RIVER REGIONAL UTILITY CORPORATION
STATEMENT OF OPERATIONS
For the year ended December 31, 2025

	Budget (unaudited)	2025	2024
Revenue			
Water requisition	\$ 904,022	\$ 905,940	\$ 892,973
Interest and other	57,000	96,410	57,422
	961,022	1,002,350	950,395
Expenses			
Contracted and general services	366,100	244,767	212,991
Salaries, wages and benefits	244,000	247,618	236,864
Materials, goods and utilities	209,200	185,289	135,253
Bank charges and short-term interest	1,250	794	652
Amortization of tangible capital assets	228,944	235,806	230,064
	1,049,494	914,274	815,824
Excess (deficiency) of revenue over expenses	(88,472)	88,076	134,571
Accumulated surplus, beginning of year	5,141,220	5,141,220	5,006,649
Accumulated surplus, end of year	\$ 5,052,748	\$ 5,229,296	\$ 5,141,220

Draft - April 10, 2020

SHEEP RIVER REGIONAL UTILITY CORPORATION
STATEMENT OF CHANGE IN NET FINANCIAL DEBT
For the year ended December 31, 2025

	Budget (unaudited)	2025	2024
Excess (deficiency) of revenue over expenses	\$ (88,472)	\$ 88,076	\$ 134,571
Acquisition of tangible capital assets	(26,000)	(57,435)	(11,200)
Amortization of tangible capital assets	228,944	235,806	230,064
	202,944	178,371	218,864
Net change in prepaid expenses	-	(1,238)	(2,183)
Change in net financial debt	114,472	265,209	351,252
Net financial debt, beginning of year	(3,386,622)	(3,386,622)	(3,737,874)
Net financial debt, end of year	\$ (3,272,150)	\$ (3,121,413)	\$ (3,386,622)

Draft - April 10, 2025

SHEEP RIVER REGIONAL UTILITY CORPORATION
STATEMENT OF CASH FLOWS
For the year ended December 31, 2025

	2025	2024
Operating transactions		
Excess of revenue over expenses	\$ 88,076	\$ 134,571
Adjustments for items which do not affect cash		
Amortization of tangible capital assets	235,806	230,064
	323,882	364,635
Net change in non-cash working capital items		
Trade and other receivables	(50,266)	37,641
Prepaid expenses	(1,238)	(2,183)
Accounts payable and accrued liabilities	43,745	(1,226)
	316,123	398,867
Capital transactions		
Acquisition of tangible capital assets	(57,435)	(11,200)
Increase in cash	258,688	387,667
Cash, beginning of year	1,133,355	745,688
Cash, end of year	\$ 1,392,043	\$ 1,133,355

Draft - April 10, 2026

SHEEP RIVER REGIONAL UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2025

1. Nature of operations

Sheep River Regional Utility Corporation is constituted under the Municipal Government Act and was approved by the Minister of Municipal Affairs on for the purpose of (the "company") was incorporated under the Business Corporations Act of Alberta on June 30, 2013. It operates under a Ministerial Order pursuant to section 250 of the Municipal Governments Act of Alberta. The company was incorporated for the purpose of operating the supply, treatment and transmission of drinking water to the respective municipalities.

The members of the company are the Town of Diamond Valley, Foothills County, and the Village of Longview.

The company is exempt from income taxation under Section 149 of the Canada Income Tax Act.

2. Significant accounting policies

The financial statements are prepared in accordance with Canadian public sector accounting standards and reflect the assets, liabilities, revenues and expenses, and change in the financial position of the company. Significant aspects of the accounting policies adopted by the company are as follows:

(a) Revenue recognition

Variable and fixed water revenues are recognized as revenue in the period in which the service is delivered or in which the transactions or events occurred that gave rise to the revenue.

(b) Valuation of financial assets and liabilities

The company's financial assets and financial liabilities are measured as follows:

<u>Financial statement component</u>	<u>Measurement</u>
Cash	Cost and amortized cost
Trade and other receivables	Lower of cost or net recoverable value
Accounts payable and accrued liabilities	Cost
Due to shareholders	Cost

(c) Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

(d) Budget amounts

The budget amounts presented on the statement of operations are taken from the company's annual budget. Certain budget amounts have been reclassified to conform with the current year's financial statement presentation.

SHEEP RIVER REGIONAL UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2025

2. Significant accounting policies

(e) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the Change in Net Financial Debt for the year.

(i) Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

	Years
Buildings	13-48
Engineering structures	38-73
Equipment	10

Full annual amortization is charged in the year of acquisition and none in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

3. Trade and other receivables

	2025	2024
Trade receivables	\$ 139,474	\$ 91,794
GST receivable	12,131	9,545
	\$ 151,605	\$ 101,339

SHEEP RIVER REGIONAL UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2025

4. Due to shareholders

	2025	2024
Town of Diamond Valley	\$ 4,115,642	\$ 4,115,642
Foothills County	457,293	457,293
	\$ 4,572,935	\$ 4,572,935

The amounts due to shareholders are non-interest bearing, and must be repaid to the three shareholders proportionately. There are no scheduled repayments. The amounts are secured by a General Security Agreement covering all present and after acquired property of the company and a land mortgage over the company's assets.

5. Accumulated surplus

Accumulated surplus consists of internally restricted and unrestricted amounts, equity in tangible capital assets, and share capital as follows:

	2025	2024
Unrestricted surplus	\$ 464,927	\$ 312,952
Internally restricted surplus (reserves) (note 6)	1,006,212	891,740
Equity in tangible capital assets (note 7)	3,758,137	3,936,508
Share capital (note 8)	20	20
	\$ 5,229,296	\$ 5,141,220

6. Reserves

	2025	2024
Capital expenditures	\$ 1,006,212	\$ 891,740

SHEEP RIVER REGIONAL UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2025

7. Equity in tangible capital assets

	2025	2024
Tangible capital assets	\$ 10,486,351	\$ 10,428,916
Accumulated amortization	(2,155,279)	(1,919,473)
Due to shareholders	(4,572,935)	(4,572,935)
	\$ 3,758,137	\$ 3,936,508

8. Share capital

Authorized

- Unlimited Class A Common Voting Shares
- Unlimited Class B Common Voting Shares
- Unlimited Class C Common Voting Shares
- Unlimited Class D Common Non-Voting Shares
- Unlimited Class E Common Non-Voting Shares
- Unlimited Class F Common Non-Voting Shares
- Unlimited Class G Preferred Non-Voting Shares
- Unlimited Class H Preferred Non-Voting Shares
- Unlimited Class I Preferred Non-Voting Shares

Issued

	2025	2024
100 Class B - Village of Longview	\$ 10	\$ 10
90 Class A - Town of Diamond Valley	9	9
10 Class A - Foothills County	1	1
	\$ 20	\$ 20

SHEEP RIVER REGIONAL UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2025

9. Related party transactions

Foothills County, the Town of Diamond Valley, and the Village of Longview are shareholders of the company and, as such, have been identified as related parties.

Water requisitions are based on the budgeted net operating costs of the company and are allocated among the shareholders based on actual service utilization during the year. Capital requisitions are based on current year's capital acquisitions. Water and capital requisitions charged to shareholders are as follows:

	2025	2024
Town of Diamond Valley	\$ 934,225	\$ 880,641
Foothills County	29,149	23,532
	\$ 963,374	\$ 904,173

	2025	2024
Expenses charged by the shareholders are as follows:		
Foothills County	\$ 358,766	\$ 323,812
Town of Diamond Valley	109,540	93,332
	\$ 468,306	\$ 417,144

Trade and other receivables include amounts receivable from:		
Town of Diamond Valley	\$ 124,307	\$ 84,553
Foothills County	11,503	3,101
	\$ 135,810	\$ 87,654

Accounts payable and accrued liabilities include amounts payable to:		
Foothills County	\$ 31,740	\$ 30,119
Town of Diamond Valley	9,340	14,818
	\$ 41,080	\$ 44,937

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

SHEEP RIVER REGIONAL UTILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2025

10. Budget amounts

The 2025 budget was approved by the company and has been reported in the financial statements for information purposes only. The budget amounts have not been audited, reviewed, or otherwise verified.

Budgeted deficit per financial statements	\$ (88,472)
Less: Capital expenditures	(26,000)
Transfers to reserves	(114,472)
Add: Amortization	228,944
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Equals: budgeted surplus	\$ -
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11. Economic dependence

Substantially all of the revenues derived by the company are from shareholders. As a result, the company is economically dependent on its shareholders in order to generate operating cash flow and for the continued viability of the business.

12. Financial instruments

The company's financial instruments consist of trade and other receivables and accounts payable and accrued liabilities. It is management's opinion that the company is not exposed to significant interest or currency risks arising from these financial instruments.

The carrying value of these financial instruments approximates their fair value.

13. Approval of financial statements

These financial statements were approved by Board and Management.

SHEEP RIVER REGIONAL UTILITY CORPORATION
SCHEDULES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2025

Schedule of tangible capital assets

Schedule 1

	Land	Buildings	Engineered structures	Machinery and equipment	2025	2024
Cost:						
Balance, beginning of year	\$ 386,841	\$ 1,058,497	\$ 8,464,252	\$ 519,326	\$ 10,428,916	\$ 10,417,716
Acquisitions	-	-	-	57,435	57,435	11,200
Balance, end of year	386,841	1,058,497	8,464,252	576,761	10,486,351	10,428,916
Accumulated amortization:						
Balance, beginning of year	-	271,478	1,330,554	317,441	1,919,473	1,689,409
Annual amortization	-	30,291	147,840	57,675	235,806	230,064
Balance, end of year	-	301,769	1,478,394	375,116	2,155,279	1,919,473
Net book value	\$ 386,841	\$ 756,728	\$ 6,985,858	\$ 201,645	\$ 8,331,072	\$ 8,509,443
2024 net book value	\$ 386,841	\$ 787,019	\$ 7,133,698	\$ 201,885	\$ 8,509,443	

Draft - April 10, 2025

SHEEP RIVER REGIONAL UTILITY CORPORATION
SCHEDULES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2025

Schedule of changes in accumulated surplus

Schedule 2

	Unrestricted	Internally restricted	Equity in tangible capital assets	Share capital	2025	2024
Balance, beginning of year	312,952	891,740	3,936,508 \$	20 \$	5,141,220 \$	5,006,649
Excess of revenue over expenses	88,076	-	-	-	88,076	134,571
Annual amortization expense	235,806	-	(235,806)	-	-	-
Transfer to reserves from operating	(114,472)	114,472	-	-	-	-
Purchase of capital assets	(57,435)	-	57,435	-	-	-
Change in accumulated surplus	151,975	114,472	(178,371)	-	88,076	134,571
Balance, end of year	464,927	1,006,212	3,758,137 \$	20	5,229,296	5,141,220

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