

2010 **ANNUAL REPORT**





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Message from the Board Chair

What a year! 2010 brought so many positive changes to Aquatera. Two big changes affect our sustainability. One, our dividend structure was changed so that we can retain some of our earnings and engage in better long term fiscal planning. Two, our board structure changed. Our new Board of Directors is made up of incredibly talented people.

2010 also represented a year of stability. Our management team continued to excel. They brought us some very good cost savings and streamlined many of our operations. Staff morale and satisfaction was very high. We had a perfect safety record. We kept up our tradition of supporting continuous learning for staff and board members.

A new curbside recycling program was approved in 2010. A new garbage cart system was introduced in 2010. We continued to be on the cutting edge of electronic waste recycling. We began the planning for a new Wastewater Treatment Facility.

A word of caution in regards to our bottom line. We had the best fiscal performance to date as a result of many factors lining up. Yet, we face some very high capital costs in our near future, particularly a \$45 million Waste Treatment Facility nearing the construction phase.

We look forward to continuing to support growth in the region, and to be the stewards of the region's water, wastewater, and solid waste and recycling materials. We look forward to 2011 and to our continued service to shareholders, customers, suppliers, and stakeholders.

*Andy Beal
Public Member
Chair, Board of Directors
Aquatera Utilities Inc.*

Board of Directors in 2010 Included:

*Andy Beal – Public Member
(current Board Chair)*

*Bernd Manz, CEO
Aquatera Utilities Inc. (ex-officio)*

*Jackie Clayton – Public Member
(Term ended 2010)*

*Reeve Everett McDonald
County of Grande Prairie*

*Mayor Bill Given
City of Grande Prairie*

Rick Pfliger – Public Member

*Mayor Claude Lagace
(Town of Sexsmith)*

*Councillor Helen Rice
City of Grande Prairie*

*Mayor Dwight Logan
City of Grande Prairie
(past Chair, term ended 2010)*



Message from the CEO

A stronger foundation for the future was set in many respects in 2010. The hard work of the shareholders committee and support of all shareholders resulted in fundamental changes to our corporate bylaws and Unanimous Shareholders Agreement. These changes will create a more financially sustainable company allowing Aquatera to start reinvesting more earnings in infrastructure while taking pressure off future rate increases. Changes to the corporate bylaws will result in a larger and more diverse Board of Directors, providing expanded governance and increased accountability. My sincere thanks to all board members for their continued guidance and support.

In the solid waste area, construction of a new landfill cell incorporating bio-reactor capabilities allows us to continue to capture landfill gas, reduce greenhouse gas emissions and accommodate continued growth. The

“ no lost time injuries
in 2010 - a first for our
company ”

introduction of residential garbage collection carts with improved convenience and reduced mess was well-received. Waste diversion programs continue to be strongly supported. Fluorescent tube recycling increased substantially, as did overall recycling. We look forward to increasing the convenience of recycling with the introduction of residential curbside blue bag collection in the fall of 2011.

The completion of upgrades to the Clairmont Lagoon and main lift station effectively doubled the capacity of the Clairmont treatment system and will serve the community for years to come.

The Wastewater Treatment Plant Master Plan provides direction

for meeting more stringent provincial environmental regulations and increasing capacity for regional growth. The estimated \$45 million upgrading cost will be the single largest project Aquatera has undertaken, and will impact customer rates and our finances in coming years.

Special thanks to all Aquatera staff whose continual focus on a safe workplace resulted in no lost time injuries in 2010 - a first for our company. Our team's focus on improving effectiveness also meant that we were able to keep expenses in check, even while costs continue to rise.

Approval of a new two year business plan by the Board sets the course for continued improvements in our services and further investments to ensure we meet the demands the future will require.



*Bernd Manz, P.Eng.
Chief Executive Officer
Aquatera Utilities Inc.*

Mission

Our business is to provide high quality regional utility services and optimize value to consumers, the environment, and shareholders by:

- ◆ **providing residents with clean, safe water - an essential foundation to our quality of life**
- ◆ **collecting and treating wastewater carefully and efficiently returning it to the environment responsibly**
- ◆ **managing solid waste collection, landfill, and recycling operations**
- ◆ **capitalizing on new water, wastewater, solid waste, and energy utility opportunities**

Vision

Aquatera Utilities Inc. will be a full-service utility corporation active throughout the South Peace Region - the partner and provider of choice for governments, businesses, and communities.





Principles

AQUATERA WILL, WITHIN THE BOUNDS OF A SOUND, APPROVED BUSINESS PLAN:

- ◆ be a model of environmental stewardship, leading by example
- ◆ be committed to first class customer service
- ◆ ensure an appropriate balance between profitability and affordability
- ◆ innovate and incorporate best practices
- ◆ expand utility markets
- ◆ be an exemplary employer - nurturing best performance and striving for the highest levels of workplace safety and satisfaction
- ◆ communicate to enhance understanding, acceptance and support

Values - We Will

BE ACCOUNTABLE BY:

- ◆ taking responsibility for our actions
- ◆ acknowledging and building upon successes and learning from mistakes
- ◆ practicing confidentiality
- ◆ expressing a willingness to learn and accept help

COMMUNICATE BY:

- ◆ listening to understand
- ◆ contributing openly and honestly
- ◆ ensuring customers are aware of our service and the benefits of our initiatives
- ◆ eliciting new ideas and valuing the input and opinions of our staff

BE FLEXIBLE IN ADAPTING TO CHANGING CIRCUMSTANCES AND TO DO WHAT NEEDS TO BE DONE

PRACTICE INTEGRITY BY:

- ◆ honouring our commitments
- ◆ doing the right thing in addition to doing things right and providing consistent, reliable products and services on time

PROVIDE QUALITY SERVICE BY:

- ◆ striving to do the job right the first time
- ◆ demonstrating pride in our work
- ◆ always meeting our standards
- ◆ working and delivering our products and services safely

RESPECT AND VALUE EACH OTHER'S DIFFERENCES AND OPINIONS

TREAT EACH OTHER WITH COURTESY AND TREAT OTHERS THE WAY THEY WANT TO BE TREATED

MEASURE TEAMWORK BY:

- ◆ helping and supporting each other
- ◆ working together to achieve our common goals
- ◆ recognizing that everyone's skills and abilities contribute to the competency and success of the team



Progress on Principles

BE A MODEL OF ENVIRONMENTAL STEWARDSHIP

Our landfill gas collection system reduces greenhouse gas emissions by capturing and flaring landfill gas through the summer months. Converting our landfill methane to CO₂ is the equivalent of removing approximately 1450 vehicles from the road.

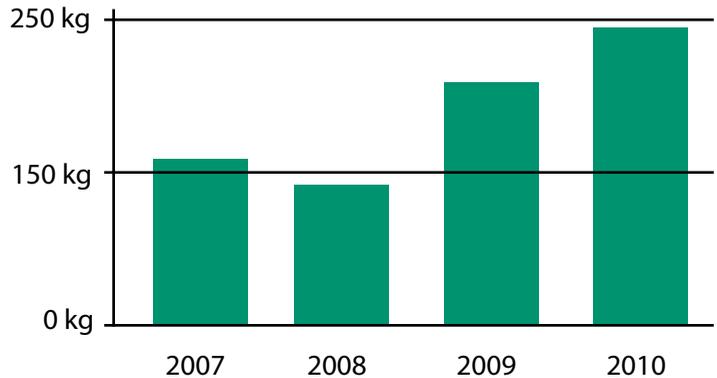
The new interim diversion licence requires substantial increased monitoring and reporting, and return flow compensation for water diverted beyond the original license during low flow periods.

Our Water Conservation Program, in its third year, is having an impact. Customers used 26% less water on average since 2001 and 17% less than 2006.

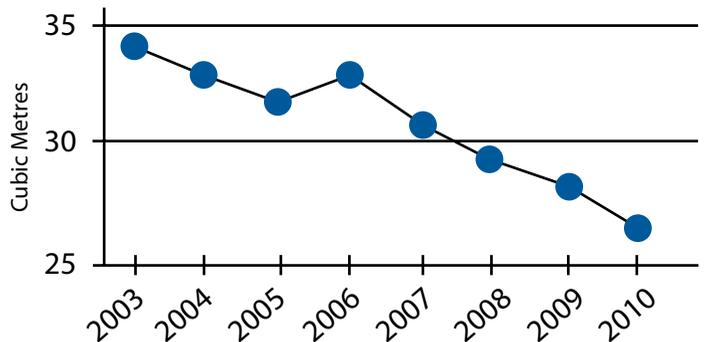
The collection and acceptance of compact fluorescent bulbs increased over 43% in 2010. Awareness about free fluorescent tube light (FTL) collection increased among City business. The result: the Eco Centre collected 42,247 feet of FTL in 2010, about 25% more than in 2009. Collection of hazardous substances continued to increase.

When waste is diverted from our landfill, the life of the landfill is extended. Habitat for Humanity Restore operates the Recycle Centre for Building Materials and saw substantial increases in volumes in its first full year of operations. Over 118 metric tonnes of useable building materials were diverted from the landfill.

RESIDENTIAL PER HOUSEHOLD RECYCLING



AVERAGE MONTHLY CUSTOMER WATER USAGE



Progress on Principles

BE COMMITTED TO FIRST CLASS CUSTOMER SERVICE

A customer satisfaction survey is conducted bi-annually with an upcoming survey in fall 2011. The 2009 survey showed high customer satisfaction with Aquatera services.

An annual social media scan analysis will give us a synopsis on our perception online.

Being committed to customer service also means being committed to the health and well-being of the organizations that serve the communities our customers live and work in. Through our bottle donation program, Aquatera gave \$56,000 to 12 youth charities in our region in 2010. Since the program's inception, 50 organizations have received \$400,000.

Over 100 organizations received our support in 2010, through cash, gift-in-kind services (landfill tipping fees) and gift baskets. Major sponsorships included the GPRC College Classic, Lakeland Playground Society and the Community Foundation of Greater Grande Prairie.

Customers overwhelmingly supported the introduction of automated garbage collection carts in the fall—implemented without an additional increase in rates.

ENSURE AN APPROPRIATE BALANCE BETWEEN PROFITABILITY AND AFFORDABILITY

Operating revenues and expenses reflect meeting future regulatory requirements, a growing customer base, preventative maintenance, replacement of aging infrastructure and the additional resources needed to accomplish business goals.

Landfill tonnages stabilized after dropping sharply since 2008. Consolidation of operations and initiatives resulted in a recovery of net income in solid waste operations.

Customer water usage decreased. While revenues are reduced when customers use less water, the life of existing supply and waste treatment facilities is extended.

Consolidation of customer, technical and administration staff into one building in 2011 will improve customer service and staff efficiencies. Core management performance and accountability standards are being developed. Cost-savings are also recognized as Aquatera staff undertake some tasks that were formally contracted out.

Shareholders approved changes to corporate bylaws and the Unanimous Shareholders Agreement, creating a more financially sustainable corporate framework while reducing pressure for future rate increases. More earnings can be reinvested in infrastructure, with the Board having discretion on future cash dividend increases. Changes to the Board structure will result in a larger and entirely public board, expanding corporate governance, accountability and expertise.



INNOVATE AND INCORPORATE BEST PRACTICES

Aquatera staff continue to develop specialized skills to deliver high quality products and services. High staff certification levels also equip the company to provide expert support to other communities within the region.

In a partnership with GPRC, Ainsworth, and the County of Grande Prairie, we piloted the irrigation of fast growing poplar trees from the Clairmont Lagoon to re-use treated effluent and reduce discharge volumes.

We continue to participate in Partners Bridging Aboriginal Employment to strengthen relationships with the Aboriginal community and enhance our attractiveness to an increasingly diverse workforce. We are proud recipients of the “Aboriginal Rewarding Partnerships Award” from the Alberta Chamber of Resources for our success in the Aboriginal Job Shadow Program. Eighteen youth were hosted at the Grande Prairie Regional College for seven weeks, and recieved work and life experience in the community. As a full partner in this initiative, Aquatera hosted two youth and hired one of the previous year’s participants as a summer relief administrative assistant.

EXPAND UTILITY MARKETS

Optional and commercial services generated \$2.5 million in gross revenue in 2010. Aquatera responded to requests from communities for assistance and served Grovedale, Rycroft and Spirit River in 2010.

The first customers of the West Aqua Water System began receiving water in early 2010. This water system has already been extended into two new developments with at least two more in the planning stages.

Extension of water distribution systems to service new rural residential subdivisions has created some interest for further extension of this service into existing acreage developments. The County of Grande Prairie is currently updating a servicing study for lands east of Grande Prairie to determine how this can be accommodated.

Planning processes for solid waste and recycling services on a regional basis were initiated.





Progress on Principles

BE AN EXEMPLARY EMPLOYER

Workplace safety is a priority. Safety training, especially Safe Start, was a focus in 2010 showing excellent returns through improved awareness and incident and injury reduction.

Aquatera nurtures best performance and highly values employee training and development. In a 2010 survey, employees rated “opportunities to learn and grow” at 4 out of 5. Staff working on university programs and certifications are encouraged to take on increasing responsibility. The Great Workplace Survey, conducted every six months, indicates high workplace satisfaction with a score of 4 out of 5.

We participate in the Partnerships/ Partners in Injury Reduction (PIR) Program. This program promotes the reduction of loss due to workplace injuries and illnesses through an effective health and safety management program.

Six Aquatera employees are certified AMHSA Peer Auditors and internally audit Aquatera’s Health and Safety program annually. External audits are conducted every third year, and are a means of objectively evaluating the program. In 2008, Aquatera achieved an external audit score of 96%. The 2009 and 2010 internal audits achieved a score of 94%. These results show that staff and management are committed to working in a healthy and safe environment.

Our Health and Safety Team has participates in worksite inspections and the education of fellow employees, sponsored health and wellness events, recommended improved safety practices, and encouraged and rewarded healthy living and safety.

For the first time, no lost time injuries occurred, an indication of the increasing commitment by all staff to a safe work place.



We're on:



COMMUNICATE AND ENHANCE UNDERSTANDING, ACCEPTANCE AND SUPPORT

Throughout the year, formal opportunities for shareholder feedback included our business plan processes, a round table meeting and our Annual Meeting. As we transition to an entirely public board, more interaction and communication with shareholders will occur.

Our participation at several events including Earth Day, Environment Week, and the Health & Wellness Show served as educational opportunities and a chance to meet and talk personally with the public.

Briefing notes helped educate board members, the Aquatera Corporate Team, and in some cases shareholders, of issues or processes that may develop. Already these have been used for advocacy by shareholders, the chamber of commerce, Board members and the Aquatera Corporate Team.

Social media relations was also added to the mix of communication tools. We actively engage our audience on Twitter, a Facebook Page, and FourSquare (a GPS-based check-in service for those on mobile devices). As well, we engage in conversations on blogs and on-line newspaper websites.

To improve communications with customers and stakeholders, we are building a new web site, to be complete in 2011. The new site will encourage stakeholder engagement with full integration with social media, and content that will address stakeholder needs. It will also include customer account access, educational tools and an intranet for internal use.

We began development of a comprehensive crisis communication plan. This plan is integral to ensuring we can readily respond to both small and large scale emergencies, and communicate quickly and effectively with our customers and other stakeholders.

Progress on Principles



2010 Highlights

SOLID WASTE

Automated garbage cart collection was implemented in the fall of 2010.

2010 saw a 23% increase in revenue waste from 2009, as a result of one time demolitions of major buildings including Eagle Manor Apartments, the Wapiti Dorm and the York Hotel. There was also a 26.5% increase in the tonnage received from commercial haulers in 2010.

Small load traffic volumes at the landfill have increased with the Eco Centre no longer accepting yard waste. In 2009, there were 1,224 residential yard waste customers at the landfill. There were 4,289 yard waste customers through to the end of August 2010 - a 250% increase in traffic.

The yard waste program continued to grow. The total yard waste accepted at both the landfill site and at the curbside in 2010 was 2,614 tonnes – overall a 16% increase.

Improvements to the Eco Centre in 2010 resulted in increased usable space and convenience for customers and staff.

Recycling and waste diversion continued to increase. With less waste being disposed of, the overall recycling rate substantially increased with residential diversion increasing from 25.9% to 30.9% (including yard waste) from 2009 to 2010. Commercial waste diversion saw a slight decrease from 13.7% in 2009 to 13.4% in 2010.

Recycling continued to be more expensive than disposal. Services are funded through recycling utility charges. Through a franchise agreement, Aquatera provides residential garbage collection and recycling services to the City of Grande Prairie.

2010 Highlights

WATER

In 2010, our water treatment plant produced an average of 20 million litres of water per day with a summer peak of 30 million litres per day. Our plant is capable of producing up to 52 million litres per day, enough to meet peak customer needs well into the future.

The raw water transfer pumps were upgraded, replacing 3 - 550 hp with 900 hp. This will dramatically increase the pumping capacity of raw water from the raw water pump station at the river to the Water Treatment Facility. Energy will be saved by using one pump under normal operating conditions instead of multiple smaller pumps.

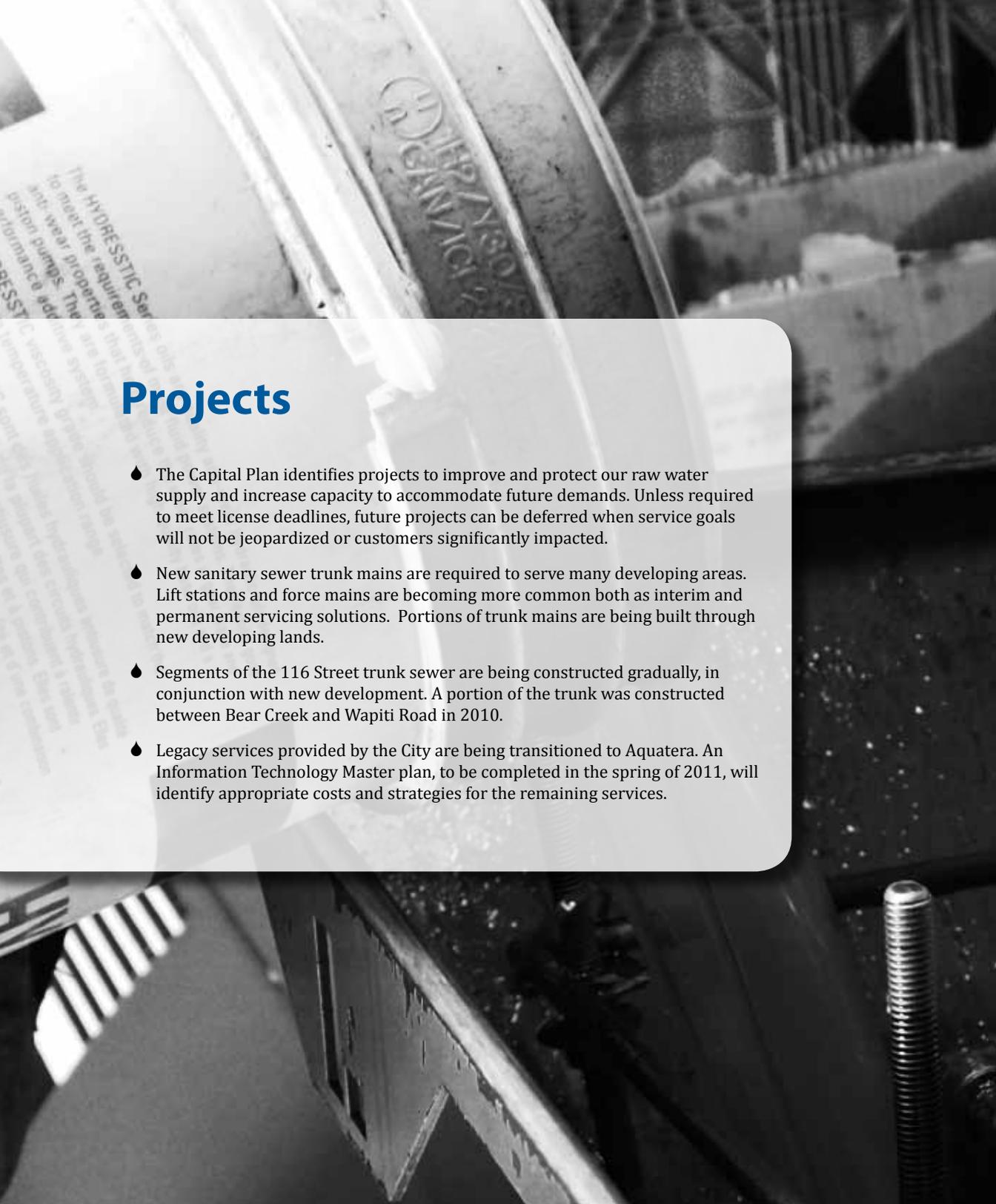
The initial design for river bank stabilization is complete. Ongoing monitoring of bank erosion is occurring. A new river intake will be incorporated into the bank protection currently planned for 2012, but may continue to be deferred based on a risk and expert recommendation.

WASTEWATER

A Wastewater Treatment Facility Master Plan set the direction for immediate upgrades estimated to cost approximately \$45 million. Upgrades will address increasingly stringent provincial regulatory requirements and expand capacity. These costs create the need for increasing sewer charges and strain Aquatera's borrowing capacity.

2010 also saw completion of the Clairmont Main Lift Station upgrade and force-main construction project. The project doubles capacity at the existing facility at a fraction of the cost of a new Regional Lift Station. Further, a concentrated effort is underway to control wet weather inflow in Clairmont as a means of maximizing the effectiveness of this interim measure.





Projects

- ◆ The Capital Plan identifies projects to improve and protect our raw water supply and increase capacity to accommodate future demands. Unless required to meet license deadlines, future projects can be deferred when service goals will not be jeopardized or customers significantly impacted.
- ◆ New sanitary sewer trunk mains are required to serve many developing areas. Lift stations and force mains are becoming more common both as interim and permanent servicing solutions. Portions of trunk mains are being built through new developing lands.
- ◆ Segments of the 116 Street trunk sewer are being constructed gradually, in conjunction with new development. A portion of the trunk was constructed between Bear Creek and Wapiti Road in 2010.
- ◆ Legacy services provided by the City are being transitioned to Aquatera. An Information Technology Master plan, to be completed in the spring of 2011, will identify appropriate costs and strategies for the remaining services.

Looking Ahead

- ◆ The proposed 2011/12 Capital Budget totals more than \$29 million and the projection in five years is \$61 million. The Capital Plan includes investments to accommodate a growing region, and upgrades to accommodate more stringent regulations and achieve business goals. Capital costs are based on engineering estimates developed in Master Plans and are refined as further design work occurs.
- ◆ Aquatera will host a Water/Wastewater Operator Seminar in 2011, an excellent local training opportunity for our treatment operators.
- ◆ Our customers asked, and we responded. Curbside recycling collection for single family dwelling units commences September 1, 2011. A collection contract for the existing recycling depots is in effect until mid-2012. Depot volumes will drop as curbside collection increases, and the number of depots will be consolidated accordingly. A program to provide multi-family recycling collection is being developed for implementation in 2012.
- ◆ Enhanced nutrient removal in wastewater will be required by June 1, 2016. We are working with the Province on timelines and planning treatment plant upgrades.
- ◆ Greenhouse gas credit revenue is being pursued, in addition to the possibility of a landfill gas to energy (power and heat) project.
- ◆ Both the Water Treatment Plant and Wastewater Treatment Plant back-up power generators require replacement. As part of the Wastewater Plant upgrades, we are exploring the opportunity for the new generators to run on natural gas (and potentially landfill gas) and provide power for sale to the grid or to reduce peak power and heating demands.
- ◆ High inorganic loadings has required regular de-sludging of the Clairmont lagoon – a significant expense. Industrial monitoring, education and enforcement will ensure compliance with bylaw discharge limits to minimize operating expenses. An initial program focusing on car washes in Grande Prairie has had positive results.
- ◆ Aquatera staff currently work out of six different facilities. A single head office facility planned for late 2011 will bring together administrative, technical and customer billing and metering staff. Consolidating operations will improve efficiencies and communication.
- ◆ Upgrading and expansion of the West End (Airport) Pump House and Reservoir was fully commissioned in 2008. A study to be completed in 2011 will determine the location, timing and cost of a dedicated transmission line to accommodate continued growth on the west side of the City–including the new hospital site–and into the County.
- ◆ Curbside recycling is expected to reduce the amount of material disposed of at the curb and the landfill transfer station.
- ◆ Succession Planning will continue to help ensure future staffing and skill needs can be addressed proactively - helping staff increase their skills and succeed as career opportunities arise.

Financial Overview

A revised Unanimous Shareholder Agreement (USA) was signed by all shareholders in August 2010. This agreement covers the fundamental financial principles under which Aquatera operates and provides a return to our shareholders.

The revisions, effective January 2, 2010, primarily relate to receiving shares for assets transferred to the company, and shares as a result of stock dividends, which in the future will receive dividends at the discretion of our Board of Directors. Mandatory dividends on shares issued in the past from stock dividends are also stopped. These actions help to improve our cash position, and prepare us for future capital upgrades and fluctuations in revenue.

In 2010, Aquatera Utilities Inc. had a net income of approximately \$8.3 million due to higher revenues and effective control of expenses. We maintain water, wastewater and solid waste operations through utility and infrastructure charges to our customers as well as from debt.

The improved profitability will allow Aquatera to be more sustainable, and manage capital projects and associated growth, while providing an appropriate return to our shareholders.

We are required to maintain a debt to equity ratio of 1:1 under the USA and our banking covenants. We have been successful in complying with this ratio. Mandatory cash dividends for 2010 and future years are approximately \$2.2 million.

In order to manage capital requirements – due to growth and regulatory legislation – Aquatera must be able to finance our capital projects. We finance capital projects from cash (utility rates), infrastructure charges (development) and from debt (borrowing). As a result, we are facing a challenge in the next two to three years with the need to complete a \$45 million upgrade to our wastewater treatment plant in addition to other capital projects.



Shares & Dividends

HOW TO GET SHARES

For any assets transferred to Aquatera from a shareholder, they get a \$1,000 preferred share for each \$1,000 in asset value, and they also get a \$0.01 common share. Additionally, shareholders receive stock dividends, which amount to preferred shares for the equivalent value of the shareholders' proportion of retained earnings.

HOW DIVIDENDS WORK

Shareholders receive preferred and common shares based on the value of assets transferred to Aquatera. Prior to asset transfers, a stock dividend is declared, and the shareholders receive preferred shares in the amount of their proportionate share of the retained earnings.

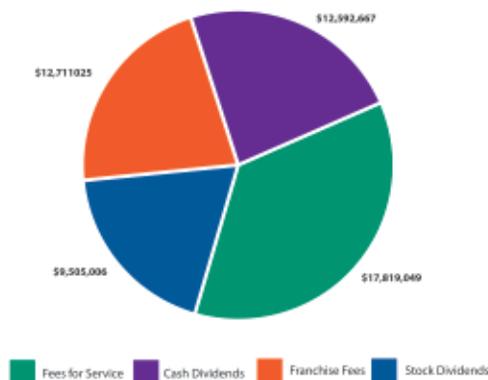
Example: If Aquatera has \$10 million in retained earnings, and the shareholder owns 50% of the company, the stock dividend for that shareholder = \$10 million x 50% = \$5 million ÷ \$1,000 = 5,000 preferred shares.

Prior to the revised USA, cash dividends were paid on all preferred shares at a mandatory rate of 5% of the stated value.

After the revised USA, cash dividends are paid on preferred shares from assets transferred prior to 2010 at a mandatory rate of 5% of the stated value. Cash dividends may be paid on preferred shares from future asset transfers and from all stock dividends at the discretion of the Board of Directors.

Example: In 2010 the cash dividend was paid on 43,840 shares (from asset transfers) x 5% = \$2.2 million.

Shareholder Benefits 2003-2010
\$52,627,747



INDEPENDENT AUDITORS' REPORT

To the Directors of Aquatera Utilities Inc.

We have audited the accompanying financial statements of Aquatera Utilities Inc., which comprise the balance sheet as at December 31, 2010, and the statements of income and retained earnings and cash flows for the year then ended, and 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 Canadian generally accepted accounting principles, 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.

Auditors' 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.

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 Aquatera Utilities Inc. as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grande Prairie, Alberta
April 13, 2011

Fletcher Mudryk & Co.
Chartered Accountants

AQUATERA UTILITIES INC.

Balance Sheet

December 31, 2010

	2010	2009
ASSETS		
CURRENT		
Cash	\$ 3,672,294	\$ 2,332,765
Accounts receivable (Note 4)	4,683,290	6,409,915
Inventory	498,376	427,740
Due from City of Grande Prairie (Note 5)	383,267	1,595,580
Investments maturing in one year (Note 6)	614,965	653,618
	<u>9,852,192</u>	<u>11,419,618</u>
LONG-TERM INVESTMENTS (Note 6)	11,304,129	6,781,081
PROPERTY, PLANT AND EQUIPMENT (Note 7)	73,809,349	72,046,311
	<u>\$ 94,965,670</u>	<u>\$ 90,247,010</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 8)	\$ 3,375,778	\$ 3,105,477
Deferred revenue (Note 9)	7,190,138	7,835,277
Customer deposits	927,307	710,976
Callable debt due in one year (Note 10)	691,808	660,779
Obligations under capital lease due in one year (Note 11)	106,209	134,954
	<u>12,291,240</u>	<u>12,447,463</u>
Callable debt due thereafter (Note 10)	17,001,201	17,692,674
Obligations under capital lease due thereafter (Note 11)	-	106,209
	<u>29,292,441</u>	<u>30,246,346</u>
SEWER TRUNK OVERSIZING OBLIGATION (Note 12)	1,572,335	2,177,573
LANDFILL CLOSURE AND POST-CLOSURE LIABILITY (Note 13)	1,960,976	1,822,946
	<u>32,825,752</u>	<u>34,246,865</u>
PREFERRED SHARES (Notes 14 and 15)	53,361,851	53,343,460
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 15)	439	438
RETAINED EARNINGS	8,777,628	2,656,247
	<u>8,778,067</u>	<u>2,656,685</u>
	<u>\$ 94,965,670</u>	<u>\$ 90,247,010</u>

ON BEHALF OF THE BOARD

 Director
 Director
 Director

Please see accompanying notes to financial statements



AQUATERA UTILITIES INC.
Statement of Income and Retained Earnings
Year Ended December 31, 2010

	2010	2009
REVENUE <i>(Note 19)</i>		
Sale of services	\$ 32,003,275	\$ 28,820,189
Franchise fee revenue	2,393,191	2,038,611
Penalties	129,792	124,267
Interest and investment income	597,699	528,641
Rental	242,825	434,009
Other	523,848	473,325
	<u>35,890,630</u>	<u>32,419,042</u>
EXPENSES <i>(Note 19)</i>		
Salaries, wages and benefits	9,631,369	8,977,196
General, administrative and contracted services	7,938,273	8,350,140
Materials, goods and supplies	5,038,860	5,953,900
Franchise fees	2,393,191	2,038,611
Bad debts (recovery)	(66,048)	337,849
Amortization of property, plant and equipment	3,613,252	3,607,660
Interest	1,089,319	1,076,991
Provision for landfill closure and post-closure	138,030	174,525
	<u>29,776,246</u>	<u>30,516,872</u>
INCOME FROM OPERATIONS	<u>6,114,384</u>	<u>1,902,170</u>
Other income (expenses) <i>(Note 19)</i>		
Amortization of contributed capital	1,689,710	1,625,590
Infrastructure charge revenue allocated to expenses	398,350	101,313
Gain (loss) on disposal of property, plant and equipment	110,856	(22,582)
	<u>2,198,916</u>	<u>1,704,321</u>
NET INCOME	<u>8,313,300</u>	<u>3,606,491</u>
RETAINED EARNINGS - BEGINNING OF YEAR	<u>2,656,247</u>	<u>1,055,902</u>
	10,969,547	4,662,393
Dividends	<u>(2,191,919)</u>	<u>(2,006,146)</u>
RETAINED EARNINGS - END OF YEAR	<u>\$ 8,777,628</u>	<u>\$ 2,656,247</u>

Please see accompanying notes to financial statements

AQUATERA UTILITIES INC.**Statement of Cash Flows****Year Ended December 31, 2010**

	2010	2009
OPERATING ACTIVITIES		
Net income	\$ 8,313,300	\$ 3,606,491
Items not affecting cash:		
Amortization of property, plant and equipment	3,613,252	3,607,660
Amortization of contributed capital	(1,689,710)	(1,625,590)
Loss (gain) on disposal of property, plant and equipment	(110,856)	22,582
Provision for landfill closure and post-closure	138,030	174,525
	<u>10,264,016</u>	<u>5,785,668</u>
Changes in non-cash working capital:		
Accounts receivable	1,726,625	(2,151,066)
Inventory	(70,636)	(80,847)
Accounts payable and accrued liabilities	270,302	(662,605)
Deferred revenue	(645,139)	291,253
Customer deposits	216,331	133,812
	<u>1,497,483</u>	<u>(2,469,453)</u>
Cash flow from operating activities	<u>11,761,499</u>	<u>3,316,215</u>
INVESTING ACTIVITIES		
Property, plant and equipment purchases	(2,221,939)	(12,691,933)
Construction in progress	(6,285,071)	-
Property, plant and equipment sales	301,966	164,006
Capital contributions	4,629,320	7,734,373
Investment purchases	(5,138,013)	(3,409,288)
Investment sales	653,618	3,041,057
Cash flow used by investing activities	<u>(8,060,119)</u>	<u>(5,161,785)</u>
FINANCING ACTIVITIES		
Advances (to) from City of Grande Prairie	1,212,313	(855,395)
Proceeds from callable debt financing	-	1,900,000
Repayment of callable debt	(660,445)	(590,039)
Repayment of obligations under capital lease	(134,954)	(127,722)
Long-term portion of sewer trunk oversizing obligation	(605,237)	2,177,573
Regular dividends	(2,191,919)	(2,006,146)
Shares issued	18,391	-
Cash flow from (used by) financing activities	<u>(2,361,851)</u>	<u>498,271</u>
INCREASE (DECREASE) IN CASH FLOW	1,339,529	(1,347,299)
CASH - BEGINNING OF YEAR	<u>2,332,765</u>	<u>3,680,064</u>
CASH - END OF YEAR	\$ 3,672,294	\$ 2,332,765
SUPPLEMENTARY INFORMATION		
Interest paid	<u>\$ 1,090,610</u>	<u>\$ 1,078,368</u>

Please see accompanying notes to financial statements

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

1. NATURE OF OPERATIONS

Aquatera Utilities Inc. provides water, wastewater and solid waste services to residents of the City of Grande Prairie, the Town of Sexsmith and to residents residing in specific service areas within the County of Grande Prairie No. 1.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Aquatera Utilities Inc. are the representations of management prepared in accordance with Canadian generally accepted accounting principles.

Significant aspects of the accounting policies adopted by Aquatera Utilities Inc. are as follows:

Basis of accounting

The basis of accounting followed in these financial statements includes recognizing revenue in the period in which the transactions or events occurred that gave rise to the revenue and expenses in the period the goods and services are provided and a liability is incurred.

Inventory

Inventory consists of goods held for consumption and is valued at the lower of cost and net realizable value with cost being determined on a weighted average basis.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of contributed capital such as contributions from developers and government grants. When a developer or other outside organization constructs assets to be transferred to the company upon completion, the cost and corresponding capital contribution is not recorded in the financial statements unless the amount or fair market value is readily determinable. Rates of amortization applied on a straight-line basis to the cost of property, plant and equipment and rates of amortization applied on a straight-line basis to the contributed capital to write off the cost of the property, plant and equipment and contributed capital over their estimated useful lives are as follows:

Engineering structures	60 - 75 years
Buildings	50 years
Equipment	15 - 40 years
Equipment under capital lease	15 years
Vehicles and mobile equipment	5 years

In the year of acquisition, amortization is applied at half of normal rates.

Construction in progress is not amortized until the asset is available for use.

When property, plant and equipment are sold or scrapped, the cost and accumulated amortization of the property, plant and equipment and the contributed capital and accumulated amortization of the contributed capital are removed from the accounts and any resulting gain or loss on disposal is reflected in income. No amortization is recorded in the year of disposition.

(continues)

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of long-lived assets

The company reviews its long-lived assets for impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate. No impairment has been identified and, thus, no impairment loss has been recognized in these financial statements.

Deferred revenue

Deferred revenue consists of offsite and sewer trunk levies collected from developers and infrastructure charges levied on new customers to be utilized for future capital or other projects.

Callable debt

The company's demand loans are classified as current liabilities because the lender has the right to demand repayment.

Landfill closure and post-closure liability

The company recognizes a liability for the future environmental remediation of certain properties and for future removal and handling costs for contamination of storage and distribution equipment.

Pursuant to the Alberta Environmental Protection and Enhancement Act, Aquatera Utilities Inc. is required to fund the closure of its landfill site and provide for post-closure care of the facility. Closure and post-closure activities include the final clay cover and landscaping, as well as surface and ground water monitoring, leachate control and visual inspection. This requirement is being provided for over the estimated remaining useful life of the landfill site based on usage.

Income taxes

The company is exempt from income taxes as it is municipally owned and the revenue earned outside its geographical boundaries does not exceed 10% of total revenue.

Employee future benefits

Selected employees of the company are members of the Local Authorities Pension Plan (LAPP), a multi-employer defined benefit pension plan. The trustee of the plan is the Alberta Treasurer and the plan is administered by a Board of Trustees. Since the plan is a multi-employer plan, it is accounted for as a defined contribution plan and, accordingly, the company does not recognize its share of any plan surplus or deficit.

A supplementary plan (APEX) is available through the Alberta Urban Municipalities Association for selected employees conditional upon the company being a member of the LAPP. The plan is a top-up of the LAPP.

(continues)

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue from the sale of water and other services are recognized upon delivery or provision of the services to the customer. These revenues include an estimate of the value of services consumed by customers in the year but billed subsequent to year-end.

Franchise fees are collected on behalf of the shareholders and paid directly to them.

Revenue from penalties is earned at a rate of 3% per month on accounts receivable balances outstanding for more than thirty days.

Interest and investment income is recognized in income based on the interest rate and principal balance for each investment held.

Other income is recognized at such time as the product or service has been delivered to the customer.

Revenue is recognized to the extent that collectibility is reasonably assured.

Infrastructure charge revenue allocated to expenses

Infrastructure charges levied on customers are available to be used for future capital or other projects, as determined by management. Amounts applied against expenses are recorded in income in the period in which the expense is incurred.

3. FUTURE ACCOUNTING CHANGES

The Canadian Accounting Standards Board (AcSB) has approved changing of the accounting framework for Canadian companies from Canadian generally accepted accounting principles (GAAP) to International Financial Reporting Standards (IFRS), effective for year-ends beginning on or after January 1, 2011. Rate-regulated entities were given an extension to conform to the new standards until year-ends beginning on or after January 1, 2012. The company is in the process of determining the impact on its financial statements of this transition.

4. ACCOUNTS RECEIVABLE

	<u>2010</u>	<u>2009</u>
Trade receivables	\$ 2,057,227	\$ 2,509,271
Estimated unbilled consumption	1,096,502	1,207,047
Accrued investment earnings	732,617	431,137
Grants receivable	491,797	1,855,694
Other	<u>420,147</u>	<u>556,766</u>
	4,798,290	6,559,915
Allowance for doubtful accounts	<u>(115,000)</u>	<u>(150,000)</u>
	<u>\$ 4,683,290</u>	<u>\$ 6,409,915</u>

5. DUE FROM CITY OF GRANDE PRAIRIE

Amounts due from the City of Grande Prairie are unsecured, non-interest bearing and are repayable on demand.

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

6. LONG-TERM INVESTMENTS

	2010	2009
Long-term investments	\$ 11,919,094	\$ 7,434,699
Less investments maturing in one year	(614,965)	(653,618)
	\$ 11,304,129	\$ 6,781,081

Long-term investments consist of fixed income investments and Canadian treasury bills, bear interest at rates between 2.60% and 6.14% and mature between February, 2011 and November, 2020.

7. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Original cost				
Land	\$ 1,794,331	\$ -	\$ 1,794,331	\$ 1,794,331
Buildings	52,728,615	21,179,505	31,549,110	32,493,357
Engineering structures	96,190,419	15,298,449	80,891,970	81,221,436
Equipment	31,895,596	11,750,169	20,145,427	21,040,405
Equipment under capital lease	634,700	199,736	434,964	477,212
Vehicles and mobile equipment	3,385,789	2,346,150	1,039,639	1,050,479
Construction in progress	6,285,071	-	6,285,071	-
	192,914,521	50,774,009	142,140,512	138,077,220
Contributed capital				
Land	(119,181)	-	(119,181)	(119,181)
Buildings	(30,316,101)	(13,740,301)	(16,575,800)	(17,248,312)
Engineering structures	(43,195,510)	(4,264,250)	(38,931,260)	(37,019,766)
Equipment	(19,859,879)	(8,822,469)	(11,037,410)	(11,643,650)
Construction in progress	(1,667,512)	-	(1,667,512)	-
	(95,158,183)	(26,827,020)	(68,331,163)	(66,030,909)
	\$ 97,756,338	\$ 23,946,989	\$ 73,809,349	\$ 72,046,311

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010	2009
Trade accounts payable	\$ 1,393,227	\$ 1,034,176
Capital accounts payable	696,845	795,107
Accrued employee benefits	680,468	590,569
Sewer trunk oversizing obligations - current (<i>Note 12</i>)	605,238	685,625
	\$ 3,375,778	\$ 3,105,477

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

9. DEFERRED REVENUE

	Balance, beginning	Amounts collected	Amounts expended	Balance, ending
Offsite levies	\$ 454,175	\$ 124,617	\$ (578,792)	\$ -
Infrastructure charges	7,284,576	2,896,406	(3,103,985)	7,076,997
Other deferrals	96,526	18,515	(1,900)	113,141
	\$ 7,835,277	\$ 3,039,538	\$ (3,684,677)	\$ 7,190,138

10. CALLABLE DEBT

	2010	2009
Due to the Town of Sexsmith:		
Alberta Capital Finance Authority debenture, secured by the Town of Sexsmith, is repayable in annual instalments of \$48,990 including interest at a rate of 5.75% per annum and matures in 2019. The company's obligation to the Town of Sexsmith equals the Town's obligation pursuant to the debenture.	\$ 336,868	\$ 364,877
Due to RBC Royal Bank:		
Bank loans are secured by a general security agreement, are repayable in monthly payments aggregating \$124,162 including interest at the bank prime rate or at fixed rates ranging from 1.62% to 6.43% per annum and mature between 2011 and 2015, at which time the loans are expected to be renewed under similar terms.	17,356,141	17,988,576
	17,693,009	18,353,453
Callable debt due in one year	(691,808)	(660,779)
	\$ 17,001,201	\$ 17,692,674

Principal repayment terms are approximately:

2011	\$ 691,808
2012	726,499
2013	762,316
2014	800,015
2015	839,697
Thereafter	13,872,674

As a condition of bank financing, the company is subject to a restrictive bank covenant, whereby it is required to maintain a funded debt to total capital ratio not exceeding 0.5 to 1. The company is in compliance with this ratio, as understood by management.

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

11. OBLIGATIONS UNDER CAPITAL LEASE

	<u>2010</u>	2009
Due to HSBC:		
Obligation under capital lease, secured by equipment with a carrying value of \$227,247, is repayable in monthly instalments of \$6,308 including interest at a rate of 4.95% per annum and matures in September, 2011.	\$ 55,489	\$ 125,996
Due to HSBC:		
Obligation under capital lease, secured by equipment with a carrying value of \$207,716, is repayable in monthly instalments of \$5,766 including interest at a rate of 4.95% per annum and matures in September, 2011.	<u>50,720</u>	115,167
	106,209	241,163
Obligations under capital lease due in one year	<u>(106,209)</u>	(134,954)
	\$ -	\$ 106,209

12. SEWER TRUNK OVERSIZING OBLIGATION

	<u>2010</u>
Sewer trunk oversizing obligation	\$ 2,177,573
Sewer trunk oversizing obligation due in one year (Note 8)	<u>(605,238)</u>
	<u>\$ 1,572,335</u>

The company has committed to reimburse costs incurred by certain real estate developers to install wastewater infrastructure in specific real estate developments in the company's service area. The amounts are payable contingent upon the company collecting infrastructure charges to fund the cost. The agreement requires the company to repay an amount equal to half of the infrastructure charges collected each year in the specific service area by March 31 of the following year until the obligation is paid in full. The current portion due in one year is included in accounts payable and accrued liabilities, as detailed in Note 8.

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

13. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

The company recognizes the anticipated costs for the landfill closure and post-closure liability on an annual basis. The estimated liability for these costs is based on estimates and assumptions related to future events and costs using information currently available to management and is recognized on a cumulative basis as the landfill capacity is utilized. Future events may result in significant changes to the estimated total costs, capacity used or total capacity and the estimated liability.

The accrued liability for closure and post-closure of the landfill is recognized over the life of the cells, using the net present value of the total estimated costs of closure and post-closure care, prorated on the basis of the current capacity in metric tonnes utilized over the total estimated capacity of the site. Estimated total costs equal the sum of the discounted future cash flows for closure and post-closure care activities discounted at the historical average long-term borrowing rate of 4.5%.

The following summarizes the total net present value of the estimated total expenditures for closure and post-closure care:

Estimated closure costs	\$ 3,321,290
Estimated post-closure costs	<u>1,088,342</u>
Estimated total costs	4,409,632
Amount accrued to December 31, 2010	<u>1,960,976</u>
Balance of estimated costs to accrue	<u>\$ 2,448,656</u>

Management estimates the site has approximately 1,509,244 (2009 - 1,559,293) metric tonnes of landfill capacity remaining. With an estimated annual utilization of 50,000 metric tonnes expected to increase at a rate of 2% annually, the landfill has approximately twenty-three years of life remaining. It is anticipated that post-closure care will be required for a period of twenty-five years once the landfill has been closed.

14. PREFERRED SHARES

There is a dividend restriction on preferred shares issued in consideration for an asset transfer into the company such that dividends cannot be declared on these shares for two years from the date of any such asset transfer.

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

15. SHARE CAPITAL

Authorized:

Unlimited	Class A voting common shares
Unlimited	Class B voting common shares
Unlimited	Class C voting common shares
Unlimited	Class D non-cumulative, redeemable, retractable, non-voting preferred shares
Unlimited	Class E non-cumulative, redeemable, retractable, non-voting preferred shares
Unlimited	Class F non-cumulative, redeemable, retractable, non-voting preferred shares
Unlimited	Class G non-cumulative, redeemable, retractable, non-voting preferred shares
Unlimited	Class H non-cumulative, redeemable, retractable, non-voting preferred shares
Unlimited	Class I non-cumulative, redeemable, retractable, non-voting preferred shares

	2010	2009
Issued:		
43,872 Class A shares	\$ 439	\$ 438
43,858 Class D shares	43,856,835	53,343,460
9,506 Class H shares	9,505,016	-
	\$ 53,362,290	\$ 53,343,898

During the year, 18 Class A common shares were issued for \$0.18 and 18 Class D preferred shares were issued for \$18,391 pursuant to an asset transfer as disclosed in Note 15. In addition, 9,506 Class D shares were converted to 9,506 Class H shares.

16. ASSET TRANSFER

On January 1, 2010, the Town of Sexsmith transferred water and wastewater assets to Aquatera Utilities Inc. in exchange for share capital. The shareholders unanimously agreed to waive the stock dividend mandated by the Unanimous Shareholders Agreement in advance of any asset transfer.

17. RELATED PARTY TRANSACTIONS

The following is a summary of the company's related party transactions and balances:

	2010	2009
City of Grande Prairie <i>(the controlling shareholder)</i>		
Sales of services	\$ 396,274	\$ 759,167
General, administrative and contracted services expense	2,379,682	2,736,828
Franchise fees expense	2,177,957	1,861,962
Regular dividends declared	1,608,032	1,600,287
Trade accounts receivable	30,713	579,117
Trade accounts payable	158,847	42,032

(continues)

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

17. RELATED PARTY TRANSACTIONS *(continued)*

	2010	2009
County of Grande Prairie No. 1 <i>(a minority shareholder)</i>		
Sales of services	48,374	162,535
General, administrative and contracted services expense	7,696	102,085
Franchise fees expense	164,854	133,299
Regular dividends declared	398,085	216,262
Trade accounts receivable	256	388
Grants receivable	491,797	96,917
Town of Sexsmith <i>(a minority shareholder)</i>		
Sales of services	114,783	57,668
General, administrative and contracted services expense	13,865	821
Franchise fees expense	50,379	43,350
Interest expense	20,980	22,503
Regular dividends declared	185,802	189,597
Trade accounts receivable	546	335
Trade accounts payable	97,980	360

These transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

18. EMPLOYEE FUTURE BENEFITS

(a) Local Authorities Pension Plan

Employees of the company participate in the Local Authorities Pension Plan (LAPP), which is covered by the Public Sector Pension Plans Act. The Plan serves 199,849 people and 418 employers. It is financed by employer and employee contributions and investment earnings of the LAPP fund.

Contributions for current service are recorded as expenditures in the year in which they become due.

The company is required to make current service contributions to the Plan of 9.06% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 12.53% on the excess.

Employees of the company are required to make current service contributions to the Plan of 8.06% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 11.53% on the excess.

Total current and past service contributions by the company to the LAPP in 2010 were \$630,171 (2009 - \$544,660). Total current and past service contributions by the employees of the company to the LAPP in 2010 were \$567,867 (2009 - \$489,061).

At December 31, 2009, the Plan disclosed an actuarial deficiency of \$4.0 billion (2008 - \$4.4 billion).

LAPP has announced that member contribution rates will increase in 2011 to 8.49% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension plan and 12.13% on the excess and employer contribution rates will increase in 2011 to 9.49% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.13% on the excess.

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AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

18. EMPLOYEE FUTURE BENEFITS *(continued)*

(b) APEX Supplementary Pension Plan

Eligible employees may also elect to participate in the voluntary APEX Supplementary Pension Plan offered through the Alberta Urban Municipalities Association, which is covered by the Public Sector Pension Plans Act. It is funded by employer and employee contributions and investment earnings of the APEX fund.

The company is required to make current service contributions to the Plan of 3.0% of pensionable payroll above the LAPP maximum pensionable earnings up to the year's maximum pensionable earnings of \$124,722 for employees who have elected to participate in the Plan. No contributions are required on earnings above the maximum threshold.

Employees electing to participate in the Plan are required to make current service contributions of 2.5% of pensionable payroll above the LAPP maximum pensionable earnings up to the year's maximum pensionable earnings of \$124,722, with no contributions on earnings above the maximum threshold.

Total current and past service contributions made by the company to APEX in 2010 were \$49,583 (2009 - \$46,741). Total current and past service contributions by the employees of the company to APEX in 2010 were \$41,319 (2009 - \$38,951).

At December 31, 2009, the Plan disclosed an actuarial deficiency of \$121,000 (2008 - \$1,028,000).

(c) Sick Bank Accrual

Under terms of an agreement reached with the union representing certain employees of the company, the company is required to pay to qualifying employees an amount equal to 75% of their accrued sick time balance if, upon retirement, the employee is older than 55 years of age and has a minimum of 15 years of service with the company. Management has extended this benefit to all employees of the company, including those that are not within the scope of the union agreement. At January 1, 2011, the agreement was amended such that, for employees who commenced employment with the company subsequent to January 1, 2001, the benefit is an amount equal to 40% of their accrued sick time balance. The other conditions required to be met to receive the benefit were not amended.

At December 31, 2010, the company has accrued \$93,374 (2009 - \$102,859) for expenses related to this agreement, which is included in the accrued employee benefits balance within accounts payable. Estimated costs equal the sum of the discounted future cash flows discounted at the historical average long-term borrowing rate of 6%.

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

19. SEGMENT DISCLOSURES

<u>2010</u>	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
<u>Revenue</u>				
Sale of services	\$ 12,117,907	\$ 10,503,511	\$ 9,381,857	\$ 32,003,275
Franchise fee revenue	1,034,993	971,789	386,409	2,393,191
Penalties	58,854	46,763	24,175	129,792
Interest and investment income	202,109	201,034	194,556	597,699
Rental	200,144	-	42,681	242,825
Other	200,550	182,759	140,539	523,848
	<u>13,814,557</u>	<u>11,905,856</u>	<u>10,170,217</u>	<u>35,890,630</u>
<u>Expenses</u>				
Salaries, wages and benefits	3,917,697	3,468,766	2,244,906	9,631,369
General, administrative and contracted services	2,038,482	1,940,135	3,959,656	7,938,273
Materials, goods and supplies	1,855,603	2,007,207	1,176,050	5,038,860
Franchise fees	1,034,993	971,789	386,409	2,393,191
Bad debts	(57,064)	(8,984)	-	(66,048)
Amortization of property, plant and equipment	1,550,804	1,856,415	206,033	3,613,252
Interest	360,746	439,615	288,958	1,089,319
Provision for landfill closure and post-closure	-	-	138,030	138,030
	<u>10,701,261</u>	<u>10,674,943</u>	<u>8,400,042</u>	<u>29,776,246</u>
<u>Other items</u>				
Amortization of contributed capital	699,553	979,867	10,290	1,689,710
Infrastructure charge revenue allocated to expenses	398,350	-	-	398,350
Gain on disposal of property, plant and equipment	-	-	110,856	110,856
	<u>1,097,903</u>	<u>979,867</u>	<u>121,146</u>	<u>2,198,916</u>
	<u>\$ 4,211,199</u>	<u>\$ 2,210,780</u>	<u>\$ 1,891,321</u>	<u>\$ 8,313,300</u>

(continues)

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

19. SEGMENT DISCLOSURES *(continued)*

2009	Water	Wastewater	Solid Waste	Total
<u>Revenue</u>				
Sale of services	\$ 10,891,761	\$ 9,346,079	\$ 8,582,349	\$ 28,820,189
Franchise fee revenue	922,673	860,426	255,512	2,038,611
Penalties	56,420	45,132	22,715	124,267
Interest and investment income	179,545	176,488	172,608	528,641
Rental	233,089	-	200,920	434,009
Other	116,422	196,541	160,362	473,325
	<u>12,399,910</u>	<u>10,624,666</u>	<u>9,394,466</u>	<u>32,419,042</u>
<u>Expenses</u>				
Salaries, wages and benefits	3,416,250	3,240,057	2,320,889	8,977,196
General, administrative and contracted services	1,645,002	2,080,505	4,624,633	8,350,140
Materials, goods and supplies	2,370,329	2,484,533	1,099,038	5,953,900
Franchise fees	922,673	860,426	255,512	2,038,611
Bad debts	193,540	109,398	34,911	337,849
Amortization of property, plant and equipment	1,586,920	1,813,440	207,300	3,607,660
Interest	265,448	478,230	333,313	1,076,991
Provision for landfill closure and post-closure	-	-	174,525	174,525
	<u>10,400,162</u>	<u>11,066,589</u>	<u>9,050,121</u>	<u>30,516,872</u>
<u>Other items</u>				
Amortization of contributed capital	670,080	945,220	10,290	1,625,590
Infrastructure charge revenue allocated to expenses	65,335	34,625	1,353	101,313
Gain on disposal of property, plant and equipment	(22,582)	-	-	(22,582)
	<u>712,833</u>	<u>979,845</u>	<u>11,643</u>	<u>1,704,321</u>
	<u>\$ 2,712,581</u>	<u>\$ 537,922</u>	<u>\$ 355,988</u>	<u>\$ 3,606,491</u>

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

20. FINANCIAL INSTRUMENTS

Credit Risk

Credit risk arises from the potential that a customer will fail to perform its obligations. The company is exposed to credit risk from customers. In order to reduce its credit risk, the company conducts regular reviews of its existing customers' credit performance. New customers are required to pay a deposit which may be applied against any future unpaid amounts. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The company has a significant number of customers which minimizes concentration of credit risk. No one customer makes up a significant portion of either revenue or the accounts receivable balance at year-end.

Interest Rate Risk

The company is exposed to interest rate risk as a result of the issuance of variable debt, as outlined in Note 10.

Currency Risk

Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The company is not exposed to significant foreign currency exchange risk on cash, accounts receivable and accounts payable as few such balances are held in foreign dollars.

Unused Credit Facilities

The company has available bank credit facilities in the amount of \$7,500,000, all of which is unused at December 31, 2010. These facilities consist of revolving demand facilities limited to \$1,000,000, revolving lease line of credit limited to \$1,000,000 and revolving bank demand loan limited to \$5,500,000.

Fair Value

The company's carrying value of cash, accounts receivable and accounts payable and accrued liabilities approximates its fair value due to the immediate or short term maturity of these instruments.

The carrying value of the long-term investments approximates the fair value as the interest rates are consistent with the current rates available to the company in the investment market for such investment instruments.

The fair value of the amounts due from the City of Grande Prairie are less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

The carrying value of the callable debt approximates the fair value as the interest rates are consistent with the current rates offered to the company for debt with similar terms.

The carrying value of the Class D preferred shares approximates the fair value as the shares are carried at the fixed redemption value and bear 5% dividend rights in accordance with the terms of the Unanimous Shareholders Agreement.

The carrying value of the Class H preferred shares are less than the carrying value, as the amounts bear no fixed dividend rate. As such, the fair value cannot be calculated with any degree of certainty.

AQUATERA UTILITIES INC.

Notes to Financial Statements

Year Ended December 31, 2010

21. MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management in these financial statements include accruals for unbilled utility revenues, provision for uncollectible accounts receivable, provision for landfill closure and post-closure liabilities, provision for accrued employee benefits, amortization of property, plant and equipment, amortization of contributed capital and allocation of shared costs between segments. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

22. COMMITMENTS

(a) Dividends

The company has committed to pay annual non-cumulative dividends on the outstanding Class D preferred shares, subject to the restrictions discussed in Note 14, in accordance with the Unanimous Shareholders Agreement. A dividend will become payable in 2011 to the shareholders as follows:

City of Grande Prairie	\$	1,608,032
County of Grande Prairie No. 1		398,085
Town of Sexsmith		185,802

(b) Equipment leases

The company has long-term operating leases with respect to equipment expiring August, 2011. Future minimum lease payments as at December 31, 2010 are as follows:

2011	\$	192,214
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Aquatera in for an extreme makeover



We're Rolling Out Your Rolling Garbage Cart!

Garbage will be collected in your area using rolling carts. Please read the instructions carefully on how to use your cart.

How to use your rolling garbage cart:

1. Place bagged waste inside the cart.
2. Roll your cart curbside on your regular collection day by 7:00 am and ensure you remove it by the end of the day.
3. Ensure wheels/handles are facing inward toward your home with wheels touching the edge of the street or curb.
4. Be sure there is one metre of clearance on all sides of the cart and overhead – this includes parked cars, fences, and trees beside or above.

DRIVEWAY

YARD

SIDEWALK

ROAD



one metre

CR: 1,200 more bins expected to be rolled out later this summer

Aquatera working out kinks with new trash bins

ERIC PLUMMER
Local Tribune Staff

Residents will have to change their habits while riding out the trash, waste officials say in the first three weeks of the new plan of Grande Prairie's new wheeled-cart garbage collection program.

"One thing we have to make sure of is that the carts are size overfitting," said Aquatera communication manager Tim Corral.

Each bin can hold up to three full garbage bags – the weekly household limit that applies across the city. Additional bags still have to be tagged and placed beside the bin.

Aquatera, which manages the city's waste and sewer services, delivered the new two-wheeled garbage bins to 350 homes at the end of May. Those select neighborhoods were chosen by Aquatera and its garbage collection contractor, Dave Green, for the difficulties they pose for the new system.

"As we phase this in we're trying to get some of the harder areas from the start to find out what our challenges are going to be," Corral said.

The new system uses different trucks that pick up the bins with automated arms, similar to dumpster collection methods. Instead of the collectors manually dumping bins into the truck.

An adjustment Aquatera requires of residents is to ensure that there is at least one metre of clear space around the new bins, including over the top. This allows the truck automated arms to pick up the bins without hitting anything.

This has proven no different in those areas of the city that some streets have changed garbage bin drop off locations to the



RANDY WINTERSTEIN Special to the Local Tribune
A row of the new Aquatera trash bins sits along a street in County Side South waiting to be emptied. The bins can be lifted by a back-mounted arm.

alley behind houses, allowing the new garbage truck space to pick up the bins.

The system was not introduced until any possible difficulties caused by some had passed. Corral stressed the importance of residents always leaving carts on the curb and not on the sidewalk, especially in the winter.

"The system is a little bit more challenging, but as long as people can get the cart to the curb, the truck will get it," he said.

The system was introduced for better efficiency in garbage collection. The automated arm gives garbage men an easier time handling the bins, reducing

the risk of injury due to weight of bins and dangerous trash inside.

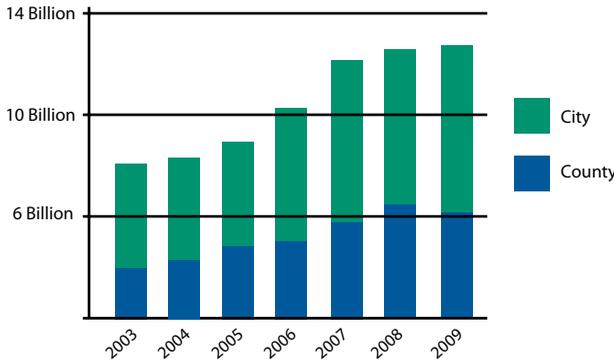
"It's a common thing in the industry for us," said Corral, "they don't know the weight of the bag until they go to pick it up."

Following the test launch this spring, 1,200 more wheeled bins will be dispersed to residents later in the summer.

Aquatera is currently accepting proposals for a curbside recycling program, and its consideration will be released next month. Grande Prairie's curbside recycling program is set to begin this fall.

eric.plummer@localtribune.com

City & County Tax Assessments Since Aquatera was Formed



LOADS OF LITTER!

Do you secure



Every year unnecessary litter clean-up is required
hauling in the following areas:

- Resources Road
- Highway 40
- South to Aquatera's Landfill
- Emerson Trail to the Regional Landfill
- 116th Street north to the Clairmont Landfill

County Enforcement Services, RCMP and City Enforcement working together to identify vehicle operators that have unsecured loads of garbage within the county and city.

Operators found with unsecured loads may be charged under the Provincial Traffic Safety Act and fined \$345 or \$575.

The penalties for unsecured loads at the Clairmont and Regional Landfills are:

- Double
- A flat rate

At Aquatera's V

- Double
- unsecured



Waste Management
Recycling | Residential Waste Collection | Landfill

aquatera.ca

Hotline: 780.538.0452
E-mail: info@aquatera.ca



MEDIA RELEASE

October 29, 2010

Don't throw Jack out! Bag and recycle.

Grande Prairie, AB – Jack-o-lantern's are asking for the public's help in taking on a new life after Halloween this year. A recent survey of pumpkins in the region found that 9 in 10 pumpkins felt they had more purpose in their lives than just being a face one night of the year.

There are many purposes which a Jack-o-lantern can fulfill, from the traditional methods of pie or backyard compost, to a newer method of being placed in a clear plastic bag on your Grande Prairie collection day, just like other yard waste.

Here are some uses for Jack-o-lantern's once they are spent:

Backyard compost, adding pumpkins to our compost helps:

- reduces greenhouse gas emissions
- frees up valuable landfill space
- adds some variation of materials to your compost

Placed in a clear plastic bag on your curb for collection day:

- reduces greenhouse gas emissions
- frees up valuable landfill space
- adds some variation of materials to our landfill's compost operations

Pumpkins are easy to recycle as they don't come in any difficult packaging. And no special preparation is needed. You can recycle your pumpkin with the seeds and the pulp or without, and scary faces are optional. Kids can also have some great fun smashing up their pumpkin creations before placing them into clear yard waste bags or backyard compost.

Additionally, residents can drop off as many pumpkins as they like in the yard waste bin at the Aquatera's waste management facility (landfill) for no charge.

Quotes:

- "I heard it during the election campaign many times, we feel like Jack, and are looking for a greater purpose."
Mayor Jack O'Lantern
- "Whether we become pie, backyard compost, or are placed at the curb in clear plastic bag, we want people to help us continue our legacy."
Jane Jack, Resident of Grande Prairie

Links:

Facebook: www.aquaterafacebook.com
Twitter: www.twitter.com/aquateradotca
Picasa Photos: <http://picasaweb.google.ca/aquateradotca>
Web: www.aquatera.ca

TxT2Win!

TEXT GREEN to 77788
for your chance to win either an iPad,
Rain Barrel, or Composter prize packages

This is a free non-premium campaign. Standard text message rates apply.
1 entry per person. Contest ends September 30/2010.

GPers generally positive

on curbside plan

Curbside recycling officially a go

IT'S FLUSHING TIME!

Delivering high-quality water to our customers takes many steps. Watermain flushing is one of those steps. Flushing keeps water lines clear of corrosion, sediment, and stagnant water.

- Flushing takes place in your area at least every three years, and sometimes more often.
- Each area takes 1-3 weeks to complete, and during this time you can expect water to be discoloured.
- To clear the discoloration, simply run your tap until discoloration is gone.
- Watch our Twitter or Facebook account for when your area is being flushed.

**If you notice discoloration in your water when your area is not being flushed, please contact us immediately.*

Find us on:



YARD WASTE

Wastewater treatment top priority for Aquatera

We collect YARD WASTE curbside

- packaged in transparent/clear bags only
- each bag will weigh less than 20 kgs, and will have no rips or tears
- there is no limit to the number of yard waste bags placed at the curb
- bags must not contain garbage, branches, or animal waste
- small branches are accepted curbside, however they must be compressed in a bundle – maximum length one metre and maximum width 1/2 metre
- bags or bundles of branches must be placed at the curb by 7:00 a.m. on your regular collection day, and will be collected before 5:00 p.m. by a separate collection vehicle (not the regular garbage truck)

REMEMBER:

The Eco Centre no longer accepts yard waste or branches. If you have excess branches or yard waste, please drop them off free at our Waste Management Facility (landfill). However, branches/ trees larger than four inches in diameter are subject to a tipping fee.

Find us on:



AQUATERA
WATER EARTH INNOVATION

Aquatera is the regional utility for water, wastewater, and solid waste. Since forming in 2003, we have returned \$25 million in dividends and franchise fees to our shareholders - the City of Grande Prairie, County of Grande Prairie, and Town of Sexsmith – a population in excess of 60,000.

Find us on:

