AQUATERA®

WATER EARTH INNOVATION

2011 Annual Report

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Message from the Board Chair

What a year. 2011 is a blur, partly because we accomplished so much, and partly because 2012 is full of accomplishments as well.

2011 represents the year which Aquatera geared up for future development. We laid the ground work to pay for the upgrade to the wastewater treatment plant south of Grande Prairie. We transitioned to a new public member board. We restructured the company by establishing new policies for audit and risk, human resources and governance. The restructuring was intensely busy, but none the less necessary to put the company into a position to achieve bigger and better things.

As we ended 2011 the Board was eyeing a host of new strategies:

- developing our business outside of the Peace Country to improve return on investment for our shareholders and keep costs lower for our customers
- having our fees somewhere near the median of comparable cities in Alberta
- improving our relationships with all stakeholders including our shareholders, our customers and those tied to development in our region

2011 is best described as the year of laying ground work, while looking forward to 2012 being a year of opportunity.

I thank the Board, management, and all of our employees for their help in making 2011 such a good year for the company.

Andy Beal
Board Chair
Aquatera Utilities Inc.

Our Board of Directors include members from the public who are selected unanimously by our shareholders. At the end of 2011, our Board of Directors included:

***Andy Beal**, Chair*

***Darren Kjemhus**, Vice-Chair*

***Rick Pfliger,** Secretary*

Abe Neufeld

Jim Smith

Chris LaBossiere

David Urness

Gerry Marcotte

Ken Cory

Message from the CEO

2011 saw several multiyear goals achieved contributing to our long term success. A new governance structure was implemented at the Annual Meeting in June with the appointment of a new nine member Board of Directors. I am most appreciative of the enthusiasm and energy by which Board members have engaged in their roles in providing effective governance, advocacy and strategic direction. A renewed Board vision created in early 2012 focusses on growing the business, and creates an exciting and challenging new direction for the corporation.

A more distinct corporate identity was achieved with the development of a head office, bringing work groups together from four different locations in a high quality work space. The transition of financial, Information Technology (IT) and administrative services were completed, which increased internal capacity and cost effectiveness. Improved customer service capabilities and overall productivity are the result. This major change occurred in less than a year and was a success due to the hard work and dedication of those involved.

Curbside residential recycling collection services began in September. Based on customer interest, it has been very well received, and resulted in increased convenience and more material being recycled. An overlap in recycling charges exists until the depot system is decommissioned in 2012 – after which charges will be reduced. The convenience of curbside recycling will be extended to multifamily residences in 2012.

The addition of a Styrofoam condenser to our Eco Centre was historic, as this was the first municipal program of this type of thermal technology in North America. This material can now be diverted from the landfill while creating a valuable product for reuse. The community has enthusiastically embraced this new waste reduction opportunity.

Overall communication has improved with the creation of a new web site that also accommodates mobile devices, enhanced social media presence and increased activities in the community.

We are pleased to support important new regional family recreation opportunities with sponsorships of Aquaterasaurus Land in the new Eastlink Centre and the Aquatera Tube Zone at Nitehawk Recreation Area.

Work continued on the design of an upgraded Wastewater Treatment Plant to achieve higher nutrient removals and accommodate long term regional growth. Capturing landfill gas and using it to power the treatment plants is an idea that benefits both the environment while reducing power costs. A landfill gas-to-energy system is being incorporated into the construction of plant upgrades, which begin in 2012.

My thanks to all Aquatera employees for their continued innovation and engagement!

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

Mission

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

- 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

Aquatera Utilities Inc. is a full service utility corporation - the provider of choice for governments, businesses, and communities.

Vision

We will:

- grow our non-core business to equal our core business by 2020.
- be below the median Alberta utility rate by 2020.
- double the cash flow to shareholders by 2020.

Principles

All Aquatera employees endorse and commit to exemplifying the following principles which have been established by our Board. These principles will guide our actions and ensure our success.

BE AN EXEMPLARY EMPLOYER

We will:

- strive for the highest levels of workplace safety and employee satisfaction
- continually acknowledge that employees are our greatest strength and asset
- ensure our principles and values are practiced by everyone throughout our organization
- encourage best performance through:
  - fair compensation
  - regular evaluation
  - meaningful reward and recognition
  - supporting continuous learning and personal growth opportunities

MODEL ENVIRONMENTAL STEWARDSHIP

We will:

- provide clean, safe drinking water
- protect, conserve and manage our water supply both now and for the future
- collect and treat wastewater carefully & efficiently and return it to the environment responsibly
- minimize the environmental impact of our services
- provide more opportunities for reducing, reusing and recycling and educate consumers about available services
- always meet and strive to exceed environmental standards

Principles

PROVIDE FIRST CLASS CUSTOMER SERVICE

We will:

- strive to understand and appreciate our customer's concerns, needs and expectations
- resolve service requests in a courteous and timely manner

We are enabled to resolve customer requests expediently

ENSURE AN APPROPRIATE BALANCE BETWEEN PROFITABILITY AND AFFORDABILITY

We Will:

- work within our means, using resources efficiently
- conduct our business in a planned, proactive manner
- provide service value; a fair price for a quality product
- be a sustainable company providing a reasonable return to our shareholders

INNOVATE AND LEAD IN THE DEVELOPMENT OF BEST PRACTICES

We will:

- identify and adopt best practices where it makes sense
- explore and implement new methods and technology to attain better outcomes
- pursue complimentary and strategic alliances with others

EXPAND MARKETS WITHIN THE BOUNDS OF A SOUND BUSINESS APPROACH

We will:

- pursue new business opportunities and expand in areas where it makes good sense to do so
- assess and capitalize on our strengths
- establish priorities to control our future growth
- actively promote our services throughout Northwestern Alberta and beyond

Communicate to enhance understanding, acceptance and support.

Values

In addition to these Principles, we commit to the following Values, which will guide our day-to-day operations and our interactions with our customers, partners, suppliers and with each other.

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

Be a Model of Environmental Stewardship;

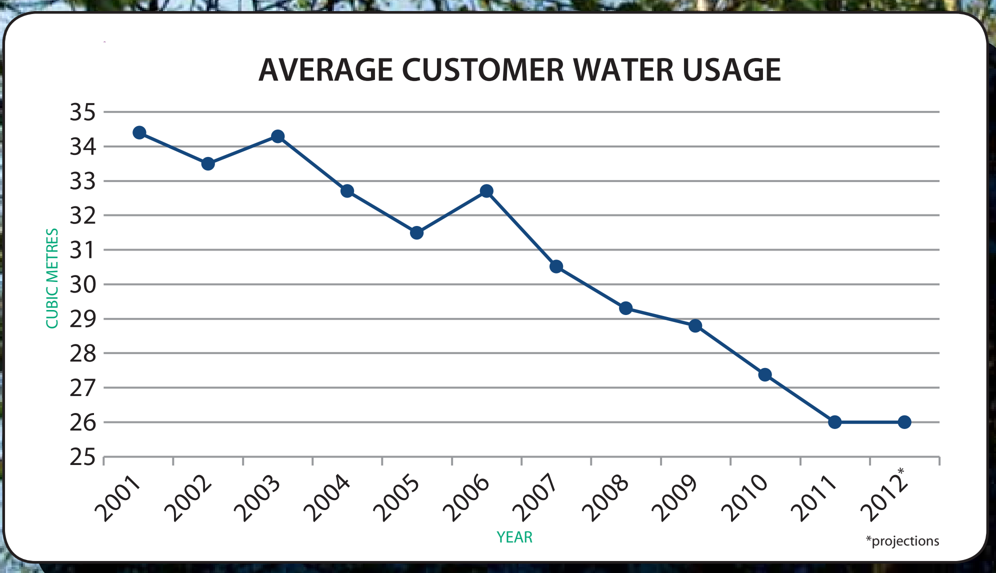
Leading by Example

Aquatera aims to meet Alberta Environment Licence requirements at all times. System upgrades, process improvements, and employee training and development will ensure operating approval compliance.

A new 10-year wastewater system operating approval was issued in September. As part of this, enhanced nutrient removal wastewater will be required by December 31, 2016.

Our interim diversion licence requires substantially increased monitoring, reporting and return flow compensation for water diverted beyond the original license during lower flow periods.

By applying a cover to exposed areas, our employees improved the landfill's appearance and conformity to landfill standards. The cover also reduces blown litter and seagull habitation.

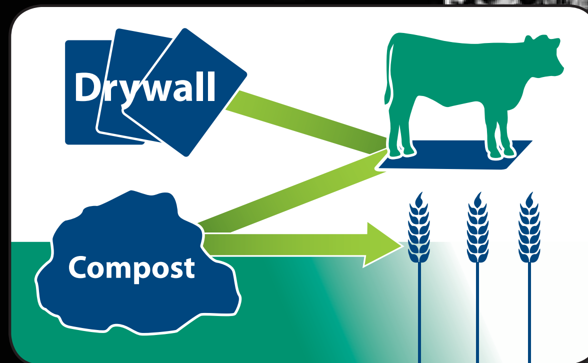


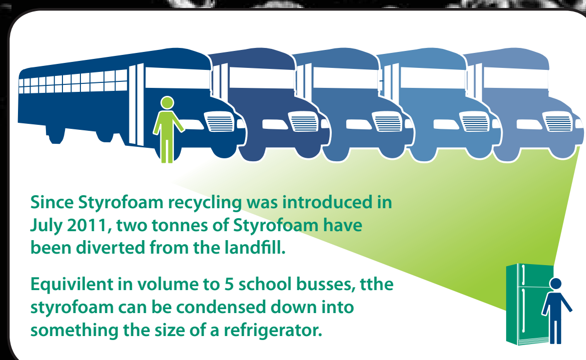
Customers are using less water – 32% less, on average, from 2001, and 26% less than 2006.

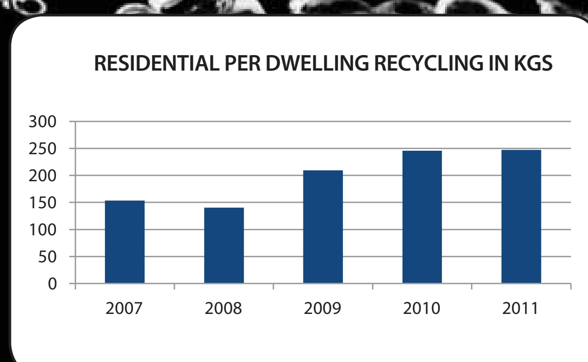
The Waste Management Facility stockpiled drywall throughout 2011 as they searched for a recycling program. Diversion of drywall reduces the formation of dangerous H_2S (hydrogen sulphide) gas in the landfill. The search was successful. In early 2012, drywall was shipped to a feedlot to be spread into pens as bedding, then composted with feedlot and chicken manure. The compost will replace chemical fertilizers and be used to grow crops.

Since Styrofoam recycling was introduced in July 2011, two tonnes of Styrofoam have been diverted from the landfill.

Aquatera introduced single-family residential curbside blue bag recycling to the City of Grande Prairie in September 2011. Since then, residential recycling has increased about 20% from the same time period last year (September to December). Increased volume is expected slowly increase over the coming years. With the introduction of curbside recycling in September, we saw a 20% volume increase for the period from September to December.







Be Committed to First Class Customer Service

TWO CUSTOMER SATISFACTION SURVEYS WERE CONDUCTED IN 2011

Survey highlights include:

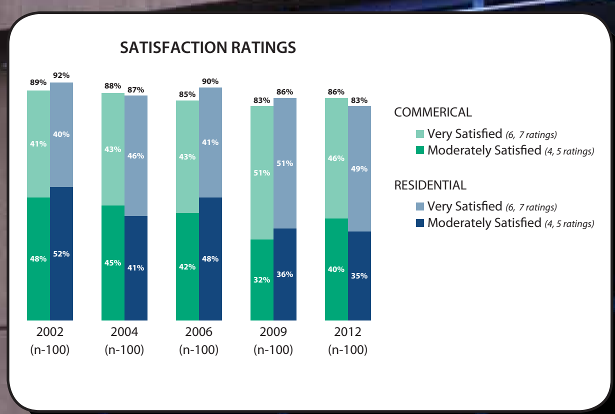
78% of customers think Aquatera is doing a good job of reducing the impact of solid waste on the environment.

The proportion of customers who agree that costs for individual services is fair and reasonable either stabilized or improved since the last survey in 2009.

Compared to 2009, an increased proportion of customers believe Aquatera cares about the environment.

Support for sponsorship of events and non-profit groups is at the highest level since our founding: 81% overall support, with 56% of those strongly supporting.

83% of residential customers are satisfied with water, wastewater and solid waste services, while 86% of commercial customers are satisfied. Both surveys indicate positive or stabilizing trends regarding broad satisfaction.



Aquatera consolidated staff from four different locations into one head office, helping create a distinct corporate identity while improving customer service and staff effectiveness.

Our employees' increasing certification levels enhance our commitment to being an exemplary employer providing high quality products and first class customer service, as well as expert support to other communities within the region.

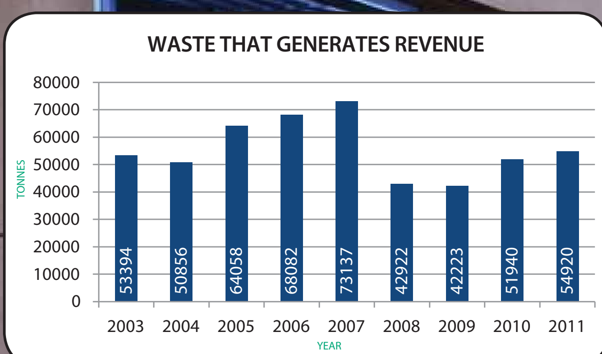
Ensure an Appropriate Balance Between Profitability and Affordability

Aquatera's 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 our business goals.

Our employees continue to pursue ways to extend the life of existing infrastructure and systems and defer major upgrades. This includes interim servicing options, optimizing treatment operations and extending lift station and landfill life.

Cost savings were realized with Aquatera employees undertaking some tasks that were formerly contracted out.

Asset management will be a focus in order to develop optimized maintenance plans and long-term infrastructure replacement strategies.



2011 saw a 6% increase in waste that generates revenue from 2010, as a result of consistently improving customer service and commercial relationships. This is despite having no waste revenue from major demolitions in 2011, compared to revenue from three major demolitions in 2010. Curbside recycling is expected to reduce the amount of waste collected in future years.

Innovate and Incorporate Best Practices

Aquatera's landfill gas collection system has resulted in consistent gas extraction and flaring. It is estimated that the conversion of landfill gas has contributed to a reduction in greenhouse gas emissions equivalent to removing 1,450 vehicles from the road each year.

Introduced at the Eco Centre in 2011, Styrofoam recycling is the first program using thermal technology in North America and has established Aquatera as a leader in waste management.

The major organizational goal for 2011 was to achieve operational independence by assuming responsibility for all administrative and information technology functions by the end of the year. That goal has been achieved through the addition of skilled employees and contractors to handle the new roles and through relocation to a new, custom designed head office. Legacy services, which includes accounting, financial reporting and statements, payroll, purchasing, accounts receivable, and information technology and graphic information services, was transitioned to Aquatera in 2011.

Expand Utility Markets

Our employees continue to develop specialized skills to ensure Aquatera has the necessary capacity to deliver high quality services. High certification levels among our employees equip the company to provide expert support to other regional communities.

Discussions continue with communities to the west for the extension of a regional water transmission line.

Aquatera responded to requests from communities for assistance and provided services to Rycroft, Ridgevalley (school division), Beaverlodge, Wembley, LaGlace, Manning and Valleyview.

Be an Exemplary Employer

Aquatera promotes a safe and healthy workplace culture through a number of initiatives including:

A Safety and Training Coordinator position created in 2011.

A company health and safety team that promotes safety and wellness through a number of activities including:

- worksite inspections
- health and wellness events and education
- recommendations for improved safety practices
- recognition of employees' commitment to safety and healthy living

Participation in the Partnerships/Partners in Injury Reduction (PIR) Program, a joint initiative between the Alberta Municipal Health and Safety Association (AMHSA); Workers' Compensation Board; Alberta Employment, Immigration; and industry. The PIR Program promotes the reduction of loss due to workplace injuries and illnesses.

External audits, conducted every third year, objectively evaluate the program. Aquatera's 2011 external audit score was 96%, showing that staff and management are committed to working in a healthy and safe environment.

A strong focus on retaining and training qualified staff. In 2011, an increased number of employees attended a variety of training and education opportunities. Board development and training is also supported. An employee satisfaction survey conducted every six months indicates high workplace satisfaction with a score of 4.2 out of a possible 5, up from 4.0 in 2010 and 3.8 in 2009.

Our involvement in Partners Bridging Aboriginal Employment strengthens our relationship with the Aboriginal community and enhances our attractiveness to an increasingly diverse workforce. We hosted one student in the 2011 Aboriginal Job Shadow program.

Communicate and Enhance
Understanding, Acceptance and Support

Increased communication with shareholders continues as council members on the Board of Directors were replaced with public members at the Annual Meeting in June. A round table meeting and Annual Meeting are formal opportunities for direct discussion with shareholders.

Our 2011 customer satisfaction survey indicated that 78% of customers are satisfied that they are well informed with 49% of customers strongly satisfied, the highest level since 2004.

Strategic communications resulted in well-received programming with strong results, as was seen with the successful launch of curbside recycling.

Our new website was launched in October. It serves as an easy tool for customers and staff to acquire information about our programs and services.

An increased level of media relations saw an increase in the number of media inquiries to over 90, from 50 in 2010. Overall, positive media stories and those which mention an Aquatera spokesperson make up the majority of Aquatera's stories, an improvement over previous years.

Aquatera also had a strong social media presence in many widely used social media platforms such as Twitter, Facebook, YouTube and Foursquare.

Outreach programs targeting events, schools and public gatherings continued to grow. We expanded our efforts, and in the process were able to ensure we attained in excess of 50,000 direct contact impressions.

In 2011, we continued to invest in local community organizations.

Over 100 organizations received more than $80,000 in overall support from Aquatera.

WE ENTERED INTO TWO LONG-TERM MAJOR SPONSORSHIPS:

Eastlink Centre sponsorship: a 10-year, $250,000 partnership that included naming rights on Aquaterasaurus Land splash park in the aquatics area, in addition to waste receptacles and a future educational area.

Nitehawk Recreation Area sponsorship: a 5-year, $100,000 partnership that included naming rights on the Aquatera Tube Zone and waste receptacles.

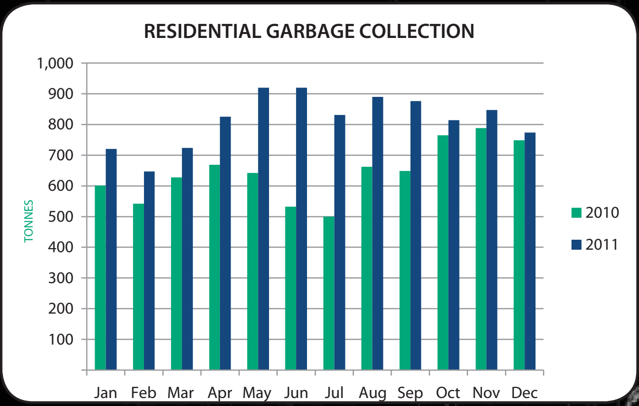
The Bottle Donation Program, a partnership between Aquatera and Recycle Plus, gave $52,500 to 12 youth charities in our region.

2011 Highlights

RECYCLING

Curbside waste tonnages have increased with the rollout automated garbage collection carts in September 2010. Although it is too early to assess, there appears to be decreasing curbside garbage volumes since curbside recycling was introduced in September 2011.

The yard waste program continues to grow. The total yard waste accepted at the landfill site and at curbside in 2011 was 2,980 tonnes compared to 2,635 tonnes the previous year.



WATER

The interim water diversion license incorporates an increased focus on healthy aquatic life and water conservation. Work continues on securing a new diversion license accommodating 25 years of continued growth. The Province has accepted return flow compensation of high quality treated effluent as an alternative to building raw water storage – significantly reducing our future capital costs. This is the first such license in the Province.

The water treatment facility is capable of producing approximately 52 million litres per day (MLD). In 2011 the average daily usage was 20 MLD with a summer peak of 25 MLD (usually associated with the hottest day of the summer and is usually short in duration). Aquatera is well-positioned with facility capacity to service our customers into the future.

The initial design for river bank stabilization is complete and monitoring of bank erosion is on-going. A new river intake, to be incorporated into the bank protection, will continue to be deferred based on risk, and expert recommendation.

Aquatera is on the boards of both the newly formed Mighty Peace Watershed Alliance and Wapiti Corridor Planning Society.

WASTEWATER

The means for extending water distribution and wastewater collection service extensions, to new or existing developments, is in place. As well, standards for low pressure systems exist to serve lower density and remote areas.

Segments of the 116 Street trunk sewer are being constructed gradually. A portion of the trunk was completed between Bear Creek and Wapiti Road in 2011.

Aquatera held a successful Water and Wastewater Seminar in the fall of 2011. Over 89 operators from across Alberta attended. The seminar had the highest revenue for total sponsorship and the largest trade show to date, with vendors from across Canada coming to meet operators at the seminar.

PROJECTS

Aquatera's capital budget for 2011/12 totals more than $30 million. The projection to 2016 is over $100 million, and accommodates a growing region and upgrades. With the introduction of curbside recycling in September, we saw a 20% volume increase for the period from September to December.

Immediate upgrades to the Wastewater Treatment Plant to address increasingly stringent regulatory requirements and expand capacity are estimated to cost $46 million by 2015.

Detailed design of the upgrade to the Wastewater Treatment Plant began. The upgrades will accommodate future enhanced nutrient removal requirements and provide capacity for a projected 25 years of regional growth.

Lagoon and final pump upgrades occurred in 2011 and have improved overall pumping capacity and efficiency.

The construction of the 116 Street trunk sewer released capacity in the 68 Avenue sub-trunk for Knowledge Campus projects and allowed for the removal of one temporary lift station servicing O'Brien Lake. Water and wastewater infrastructure from new development valued at $2.8 million was transferred to Aquatera in 2011.

Looking Ahead

A Strategic Plan will be completed by the Board of Directors in 2012, which will guide us into the next stage of our company.

A multi-family, weekly recycling program will be introduced in 2012. The program will accept the same recyclables as the curbside blue bag program. The consistency between the two programs will result in increased participation and higher volumes of recyclable materials being diverted from the landfill.

As we decommission the community recycling depots in 2012, the Eco Centre will remain in operation. The Eco Centre will accept all recyclables currently accepted in the blue bag program and will also accept plastic bags and glass.

The Waste Management Facility plans to host another Solid Waste Association of North America (SWANA) Landfill Operations Basics certification course in 2012.

Work continues on extending a water transmission main to the airport reservoir to accommodate the new hospital and further growth in the west.

In anticipation of a provincial Construction and Demolition (C&D) Waste Reduction Initiative, the Waste Management Facility is considering considering LEEDs (Leadership in Energy and Environmental Design) accepted methods for wood to encourage more material to come to the facility. Currently wood from projects seeking "green" certification is leaving the Grande Prairie area for recycling.

2012 will see further enhancements to Aquatera's new website, including My Account, which will allow customers to access their bill online for the first time ever.

The company will complete a Strategic Communication Plan in 2012 which will outline how we will communicate with our stakeholders in the future. This plan will also tie together with our Digital Strategic Plan and Crisis Communication Plan.

Financial Overview

For the year 2011 Aquatera Utilities Inc. had a net income of $6.3 million, calculated under the guidelines of Canadian Generally Accepted Accounting Principles (GAAP).

Effective January 1, 2012, Aquatera is required to report under International Financial Reporting Standards (IFRS). For comparative purposes the 2011 financial statements need to be restated from GAAP to IFRS.

The primary change in this move to IFRS is that dividends are now classed as a finance expense and net income is thus reduced.

The restatement of the 2011 financials from GAAP to IFRS results in a net income of $2.6 million.

A new cash management policy was in process through 2011 and approved by the Board of Directors in March 2012. The policy focuses on managing net cash flow from operations, ensuring the company sets aside cash for capital purposes (Capex) and business growth initiatives (Business Development) and provides a fair return to its shareholders in the form of cash dividends. Under GAAP, the cash flow from operations for 2011 was $9.2 million; under IFRS, $9.7 million.

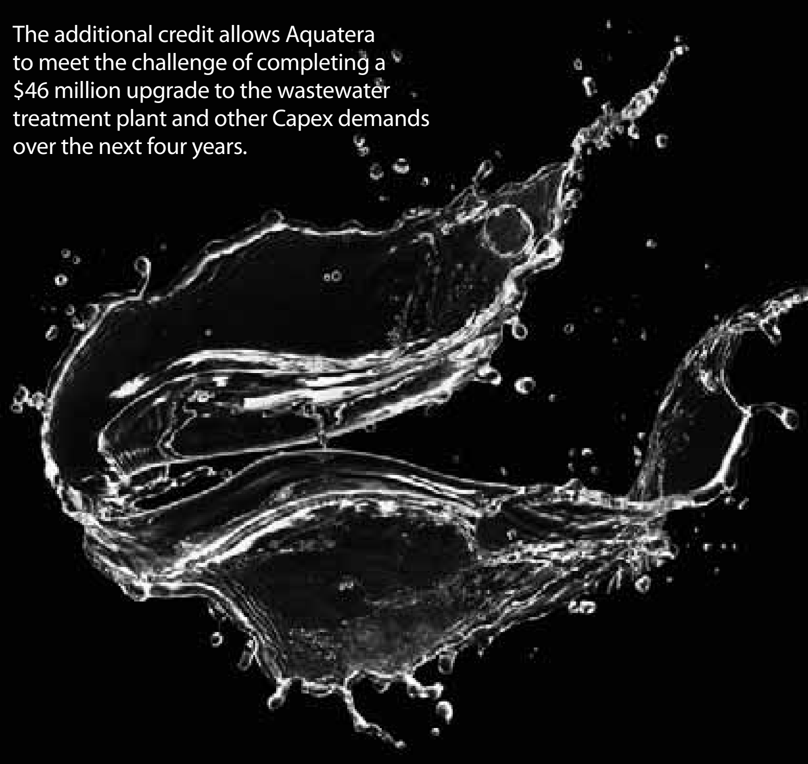
Cash dividends paid to shareholders in 2011 amounted to $3.5 million.

Aquatera funds its capital projects (Capex) from cash (utility rates), infrastructure charges (development), and from debt (borrowing). A debt to equity ratio of 1:1 is the maximum allowed under the Unanimous Shareholder Agreement (USA) and banking covenants.

Aquatera manages its Capex requirements, balancing capital demands due to growth, regulatory legislation and risk mitigation with funding available for capital purposes.

Aquatera successfully complies with its debt to equity limit and has arranged credit facilities with its banker for an $8 million increase in 2011 and an additional $52 million over the next four years.

The additional credit allows Aquatera to meet the challenge of completing a $46 million upgrade to the wastewater treatment plant and other Capex demands over the next four years.



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

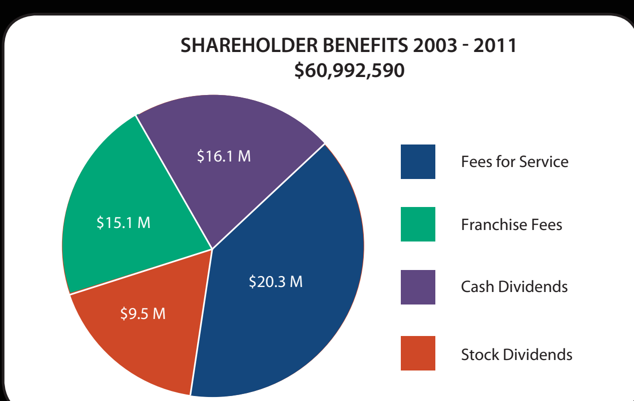
Shareholders receive preferred and common shares based on the value of assets transferred to Aquatera. Prior to asset transfers, a stock dividend is declared, and the shareholders receive preferred shares in the amount of their proportionate share of the retained earnings.

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 (signed in 2010), 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 2011 a cash dividend was paid on 43,840 shares (from asset transfers) x 5% =$2.2 million. Also in 2011, a discretionary cash dividend of 2.5% was paid on all 53,343 outstanding preferred shares x 2.5% = $1.3 million.*



AQUATERA UTILITIES INC.

Financial Statements

December 31, 2011

AQUATERA UTILITIES INC.

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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, 2011 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, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fletcher Mudryk & Co.
Chartered Accountants

Grande Prairie, Alberta
April 17, 2012

AQUATERA UTILITIES INC.

Balance Sheet

December 31, 2011

		2011	2010
ASSETS			
CURRENT			
Cash		$ 10,667,337	$ 3,672,294
Accounts receivable *(Note 4)*		4,852,184	4,683,290
Inventory		478,158	498,376
Due from City of Grande Prairie *(Note 5)*		361,513	383,267
Investments maturing in one year *(Note 6)*		658,886	614,965
		17,018,078	9,852,192
LONG-TERM INVESTMENTS *(Note 6)*		11,474,947	11,304,129
PROPERTY, PLANT AND EQUIPMENT *(Note 7)*		80,377,805	73,809,349
		$ 108,870,830	$ 94,965,670
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities *(Note 8)*		$ 4,015,439	$ 3,375,778
Customer deposits		1,266,977	927,307
Deferred revenue		104,706	114,993
Obligations under capital lease due in one year		-	106,209
Callable debt due in one year *(Note 9)*		1,014,276	691,808
		6,401,398	5,216,095
Callable debt due thereafter *(Note 9)*		23,986,999	17,001,201
Deferred infrastructure charges *(Note 10)*		10,776,232	7,075,145
		41,164,629	29,292,441
SEWER TRUNK OVERSIZING OBLIGATION *(Note 11)*		677,789	1,572,335
LANDFILL CLOSURE AND POST-CLOSURE LIABILITY *(Note 12)*		2,126,430	1,960,976
		43,968,848	32,825,752
PREFERRED SHARES *(Notes 13 and 14)*		53,361,851	53,361,851
SHAREHOLDERS' EQUITY			
SHARE CAPITAL *(Note 14)*		439	439
RETAINED EARNINGS		11,539,692	8,777,628
		11,540,131	8,778,067
		$ 108,870,830	$ 94,965,670

ON BEHALF OF THE BOARD

_______________ *Director*

_______________ *Director*

Please see accompanying notes to financial statements

AQUATERA UTILITIES INC.
Statement of Income and Retained Earnings
Year Ended December 31, 2011

	2011	2010
REVENUE *(Note 17)*		
Sale of services	**$ 33,751,734**	$ 32,003,275
Franchise fee revenue	**2,370,538**	2,393,191
Penalties	**140,946**	129,792
Interest and investment income	**524,702**	597,699
Rental	**336,322**	242,825
Other	**663,715**	922,198
	37,787,957	36,288,980
EXPENSES *(Note 17)*		
Salaries, wages and benefits	**10,824,680**	9,631,369
General, administrative and contracted services	**9,104,358**	7,938,273
Materials, goods and supplies	**6,002,660**	5,038,860
Franchise fees	**2,370,538**	2,393,191
Bad debts (recovery)	**55,571**	(66,048)
Amortization of property, plant and equipment	**3,651,880**	3,613,252
Interest	**1,062,993**	1,089,319
Provision for landfill closure and post-closure	**165,454**	138,030
	33,238,134	29,776,246
INCOME FROM OPERATIONS	**4,549,823**	6,512,734
Other income (expenses) *(Note 17)*		
Amortization of contributed capital	**1,713,810**	1,689,710
Gain on disposal of property, plant and equipment	**23,935**	110,856
	1,737,745	1,800,566
NET INCOME	**6,287,568**	8,313,300
RETAINED EARNINGS - BEGINNING OF YEAR	**8,777,628**	2,656,247
	15,065,196	10,969,547
Dividends on preferred shares	**(3,525,504)**	(2,191,919)
RETAINED EARNINGS - END OF YEAR	**$ 11,539,692**	$ 8,777,628

Please see accompanying notes to financial statements

AQUATERA UTILITIES INC.
Statement of Cash Flows
Year Ended December 31, 2011

	2011	2010
OPERATING ACTIVITIES		
Net income	**$ 6,287,568**	$ 8,313,300
Items not affecting cash:		
Amortization of property, plant and equipment	**3,651,880**	3,613,252
Amortization of contributed capital	**(1,713,810)**	(1,689,710)
Gain on disposal of property, plant and equipment	**(23,935)**	(110,856)
Provision for landfill closure and post-closure	**165,454**	138,030
	8,367,157	10,264,016
Changes in non-cash working capital:		
Accounts receivable	**(168,894)**	1,726,625
Inventory	**20,218**	(70,636)
Accounts payable and accrued liabilities	**639,662**	270,302
Customer deposits	**339,670**	216,331
Deferred revenue	**(10,287)**	(435,709)
	820,369	1,706,913
Cash flow from operating activities	**9,187,526**	11,970,929
INVESTING ACTIVITIES		
Property, plant and equipment purchases	**(4,649,161)**	(2,221,939)
Construction in progress	**(7,128,723)**	(6,285,071)
Property, plant and equipment sales	**288,253**	301,966
Capital contributions	**3,146,258**	4,629,320
Investment purchases	**(3,502,034)**	(5,138,013)
Investment sales	**3,287,295**	653,618
Cash flow used by investing activities	**(8,558,112)**	(8,060,119)
FINANCING ACTIVITIES		
Advances from City of Grande Prairie	**21,754**	1,212,313
Deferred infrastructure charges	**3,701,087**	(209,430)
Proceeds from callable debt financing	**8,000,000**	-
Repayment of callable debt	**(691,734)**	(660,445)
Repayment of obligations under capital lease	**(106,209)**	(134,954)
Sewer trunk oversizing obligation	**(1,033,765)**	(605,237)
Regular dividends	**(2,191,919)**	(2,191,919)
Special dividends	**(1,333,585)**	-
Shares issued	**-**	18,391
Cash flow from (used by) financing activities	**6,365,629**	(2,571,281)
INCREASE IN CASH FLOW	**6,995,043**	1,339,529
CASH - BEGINNING OF YEAR	**3,672,294**	2,332,765
CASH - END OF YEAR	**$ 10,667,337**	$ 3,672,294
SUPPLEMENTARY INFORMATION		
Interest paid	**$ 1,064,328**	$ 1,090,610

Please see accompanying notes to financial statements

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.

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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.

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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 will be fully compliant for the reporting of the 2012 results. The change in standards is expected to have the following impact:

(a) Under IFRS, there are different options for recording the cost of property, plant and equipment as at the transition date. The options available include historical cost, fair market value and deemed cost being the net book value under the former standards. These options must be chosen consistently for any asset within a specific class but different methodologies may be selected for different classes of assets. The company will utilize historical cost where possible but will utilize the exemption available for rate-regulated entities for any assets that would not qualify for recognition under IAS 16. If this exemption were not utilized, it is likely that significant regulatory assets would be subject to derecognition. This is expected to have no impact on the retained earnings of the company.

(b) Contributions received from customers, government grants or other sources for capital projects, including developer-built assets transferred to the company will no longer be netted against the cost of property, plant and equipment. They will be recorded as a deferred funding liability for the specific project and will be amortized to income over the useful life of the related property, plant and equipment. Amounts received for general operating projects will continue to be reported as revenue. This is expected to have no impact on the retained earnings of the company.

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3. FUTURE ACCOUNTING CHANGES *(continued)*

(c) The landfill closure and post-closure liability will be recorded in accordance with the Asset Retirement Obligations standards under IFRS. The full cost of the estimated liability will be recorded at present value as an addition to property, plant and equipment with the corresponding amount being recorded as an Asset Retirement Obligation liability. The amount will be amortized to income over the asset's useful life as amortization expense and any changes to the present value of the liability will be recorded as accretion expense. The impact on the retained earnings of the company is currently being determined. Any required IFRS changes in the discount rate to be used could have a significant impact on the retained earnings of the company.

(d) Dividends paid on preferred shares will be shown as a financing expense of the company. This will have no impact on the retained earnings of the company.

4. ACCOUNTS RECEIVABLE

	2011	2010
Trade receivables	$ 2,130,223	$ 2,057,227
Estimated unbilled revenue	1,543,384	1,096,502
Accrued investment earnings	976,943	732,617
Grants receivable	-	491,797
Other	303,634	420,147
	4,954,184	4,798,290
Allowance for doubtful accounts	(102,000)	(115,000)
	$ 4,852,184	$ 4,683,290

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.

6. LONG-TERM INVESTMENTS

	2011	2010
Long-term investments	$ 12,133,833	$ 11,919,094
Less investments maturing in one year	(658,886)	(614,965)
	$ 11,474,947	$ 11,304,129

Long-term investments consist of fixed income investments and Canadian treasury bills, bear interest at rates between 2.58% and 6.14% and mature between January, 2012 and December, 2021.

7. PROPERTY, PLANT AND EQUIPMENT

Original cost	Cost	Accumulated amortization	**2011 Net book value**	2010 Net book value
Land	$ 1,794,331	$ -	**$ 1,794,331**	$ 1,794,331
Buildings	53,298,088	22,245,538	**31,052,550**	31,549,110
Engineering structures	103,043,017	16,842,673	**86,200,344**	80,891,970
Equipment	31,757,582	12,160,105	**19,597,477**	20,145,427
Equipment under capital lease	-	-	**-**	434,964
Vehicles and mobile equipment	3,941,739	2,747,967	**1,193,772**	1,039,639
Construction in progress	9,775,376	-	**9,775,376**	6,285,071
	203,610,133	53,996,283	**149,613,850**	142,140,512
Contributed capital				
Land	(119,181)	-	**(119,181)**	(119,181)
Buildings	(29,522,028)	(14,157,975)	**(15,364,053)**	(16,575,800)
Engineering structures	(45,168,929)	(4,979,342)	**(40,189,587)**	(38,931,260)
Equipment	(20,076,409)	(9,117,499)	**(10,958,910)**	(11,037,410)
Construction in progress	(2,604,314)	-	**(2,604,314)**	(1,667,512)
	(97,490,861)	(28,254,816)	**(69,236,045)**	(68,331,163)
	$ 106,119,272	$ 25,741,467	**$ 80,377,805**	$ 73,809,349

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
Trade accounts payable	**$ 1,344,052**	$ 1,393,227
Capital accounts payable	**856,889**	696,845
Accrued employee benefits	**780,733**	680,468
Sewer trunk oversizing obligations - current *(Note 11)*	**1,033,765**	605,238
	$ 4,015,439	$ 3,375,778

9. CALLABLE DEBT

	2011	2010
Due to the Town of Sexsmith: Alberta Capital Finance Authority debenture, secured by the Town of Sexsmith, is repayable in annual instalments of $48,990 including interest at a rate of 5.75% per annum and matures in 2019. The company's obligation to the Town of Sexsmith equals the Town's obligation pursuant to the debenture.	**$ 307,248**	$ 336,868
Due to RBC Royal Bank: Bank loans are secured by a general security agreement, are repayable in monthly payments aggregating $169,811 including interest at the bank prime rate or at fixed rates ranging from 1.62% to 6.43% per annum and mature between 2012 and 2016, at which time the loans are expected to be renewed under similar terms.	**24,694,027**	17,356,141
	25,001,275	17,693,009
Callable debt due in one year	**(1,014,276)**	(691,808)
	$ 23,986,999	$ 17,001,201

Principal repayment terms are approximately:

2012	$ 1,014,276
2013	1,059,782
2014	1,107,493
2015	1,157,524
2016	1,209,992
Thereafter	19,452,208

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 ratio has been determined to be 0.28 to 1 (2010 - 0.22 to 1) and, thus, the company is in compliance with this covenant, as it is currently understood.

10. DEFERRED INFRASTRUCTURE CHARGES

	Balance, beginning	Amounts collected	Amounts expended	**Balance, ending**
Water infrastructure charges	$ 6,870,025	$ 2,722,542	$ (188,669)	**$ 9,403,898**
Sewer infrastructure charges	205,120	3,140,749	(1,973,535)	**1,372,334**
	$ 7,075,145	$ 5,863,291	$ (2,162,204)	**$ 10,776,232**

11. SEWER TRUNK OVERSIZING OBLIGATION

	2011	2010
Sewer trunk oversizing obligation	**$ 1,711,554**	$ 2,177,573
Sewer trunk oversizing obligation due in one year *(Note 8)*	**(1,033,765)**	(605,238)
	$ 677,789	$ 1,572,335

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.

12. 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	**$ 3,470,748**
Estimated post-closure costs	**1,160,064**
Estimated total costs	**4,630,812**
Amount accrued to December 31, 2011	**2,126,430**
Balance of estimated costs to accrue	**$ 2,504,382**

Management estimates the site has approximately 1,502,419 (2010 - 1,509,244) 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-two 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.

13. 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.

14. 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

		2011	2010
Issued:			
43,872	Class A shares	**$ 439**	$ 439
43,858	Class D shares	**43,856,835**	43,856,835
9,506	Class H shares	**9,505,016**	9,505,016
		$ 53,362,290	$ 53,362,290

In accordance with CICA accounting standards, the Class D and H shares are presented as a liability of the company at their redemption amount as they are redeemable at the option of the holder. As no amounts are expected to be redeemed in the next fiscal year and the fact that the company would not be able to fund any redemption request, the shares are presented as a long-term liability.

15. RELATED PARTY TRANSACTIONS

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

	2011	2010
City of Grande Prairie		
(the controlling shareholder)		
Sales of services	**$ 318,291**	$ 396,274
Infrastructure charges collected	**412,132**	-
General, administrative and contracted services expense	**2,444,439**	2,379,682
Franchise fees expense	**2,120,129**	2,177,957
Special dividends declared	**1,029,249**	-
Regular dividends declared	**1,608,032**	1,608,032
Trade accounts receivable	**51,382**	30,713
Trade accounts payable	**41,970**	158,847

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15. RELATED PARTY TRANSACTIONS *(continued)*

	2011	2010
County of Grande Prairie No. 1		
(a minority shareholder)		
Sales of services	**101,177**	48,374
General, administrative and contracted services expense	**6,924**	7,696
Franchise fees expense	**183,645**	164,854
Special dividends declared	**205,280**	-
Regular dividends declared	**398,085**	398,085
Trade accounts receivable	**16,134**	256
Grants receivable	**-**	491,797
Town of Sexsmith		
(a minority shareholder)		
Sales of services	**154,888**	114,783
General, administrative and contracted services expense	**17,438**	13,865
Franchise fees expense	**50,841**	50,379
Interest expense	**19,370**	20,980
Special dividends declared	**99,056**	-
Regular dividends declared	**185,802**	185,802
Trade accounts receivable	**2,671**	546
Trade accounts payable	**-**	97,980

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.

16. 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 206,249 people and 421 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 9.49% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.13% on the excess.

Employees of the company are required to make current service contributions to the Plan of 8.49% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 12.13% on the excess.

Total current and past service contributions by the company to the LAPP in 2011 were $721,622 (2010 - $630,171). Total current and past service contributions by the employees of the company to the LAPP in 2011 were $654,029 (2010 - $567,867).

At December 31, 2010, the Plan disclosed an actuarial deficiency of $4.6 billion (2009 - $4.0 billion).

LAPP has announced that member contribution rates will increase in 2012 to 8.91% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension plan and 12.74% on the excess and employer contribution rates will increase in 2012 to 9.91% of pensionable payroll up to the year's maximum pensionable earnings under the Canada Pension Plan and 13.74% on the excess.

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16. 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 $127,611, with no contributions on earnings above the maximum threshold.

Total current and past service contributions made by the company to APEX in 2011 were $49,150 (2010 - $49,583). Total current and past service contributions by the employees of the company to APEX in 2011 were $40,959 (2010 - $41,319).

At December 31, 2010, the Plan disclosed an actuarial surplus of $242,000 (2009 - $121,000 deficiency).

(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, 2011, the company has accrued $199,595 (2010 - $93,374) 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 4.5%, based on a probability analysis of all eligibility factors

At December 31, 2011, current employees meeting all eligibility requirements held a sick time balance of $352,535 (2010 - $174,330).

17. SEGMENT DISCLOSURES

2011	Water	Wastewater	Solid Waste	**Total**
Revenue				
Sale of services	$ 12,461,448	$ 11,225,718	$ 10,064,568	**$ 33,751,734**
Franchise fee revenue	1,059,743	1,039,673	271,122	**2,370,538**
Penalties	64,695	50,715	25,536	**140,946**
Interest and investment income	177,453	176,587	170,662	**524,702**
Rental	335,842	-	480	**336,322**
Other	384,503	181,878	97,334	**663,715**
	14,483,684	12,674,571	10,629,702	**37,787,957**
Expenses				
Salaries, wages and benefits	4,337,585	3,986,325	2,500,770	**10,824,680**
General, administrative and contracted services	1,703,895	2,956,380	4,444,083	**9,104,358**
Materials, goods and supplies	2,543,653	2,189,566	1,269,441	**6,002,660**
Franchise fees	1,059,743	1,039,673	271,122	**2,370,538**
Bad debts	27,786	27,785	-	**55,571**
Amortization of property, plant and equipment	1,563,607	1,855,555	232,718	**3,651,880**
Interest	350,590	425,803	286,600	**1,062,993**
Provision for landfill closure and post-closure	-	-	165,454	**165,454**
	11,586,859	12,481,087	9,170,188	**33,238,134**
Other items				
Amortization of contributed capital	722,926	980,594	10,290	**1,713,810**
Gain (loss) on disposal of property, plant and equipment	(143,138)	161,718	5,355	**23,935**
	579,788	1,142,312	15,645	**1,737,745**
	$ 3,476,613	$ 1,335,796	$ 1,475,159	**$ 6,287,568**

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17. SEGMENT DISCLOSURES *(continued)*

2010	Water	Wastewater	Solid Waste	Total
Revenue				
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	598,900	182,759	140,539	922,198
	14,212,907	11,905,856	10,170,217	36,288,980
Expenses				
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
	10,701,261	10,674,943	8,400,042	29,776,246
Other items				
Amortization of contributed capital	699,553	979,867	10,290	1,689,710
Gain on disposal of property, plant and equipment	-	-	110,856	110,856
	699,553	979,867	121,146	1,800,566
	$ 4,211,199	$ 2,210,780	$ 1,891,321	$ 8,313,300

18. 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 9.

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 $2,000,000, all of which is unused at December 31, 2011. These facilities consist of revolving demand facilities limited to $1,000,000 and a revolving lease line of credit limited to $1,000,000. The company has also received a letter of strategic support from the bank related to funding requirements up to and including 2015 in the company's long-term capital plan which calls for borrowing to fund projects of approximately $40 million. The lending will be subject to formal credit approval at the time of the request for funding.

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.

19. 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.

20. 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 13, in accordance with the Unanimous Shareholders Agreement. A dividend will become payable in 2012 to the shareholders as follows:

City of Grande Prairie	$	1,608,032
County of Grande Prairie No. 1		398,085
Town of Sexsmith		186,725

(b) Premises lease

The company has entered into a long-term premises lease, expiring in 2021 with two five-year renewal options. Future lease payments as at December 31, 2011 are as follows:

2012	$	159,255
2013		159,255
2014		168,103
2015		168,103
2016		176,950
Thereafter		937,835

21. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.

Gumpy & Skipper

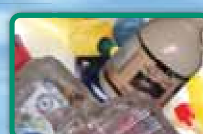
- Make sure recyclables are clean and dry, and stuffed in your blue bag
- Check for what can be recycled on the list on the next page
- There is no limit to the number of bags
- Put your bags at the curb by 7 a.m. on your collection day
- Blue bags should be placed one metre away from your cart to the left of the

Find us on:

ACCEPTED BLUE BAG RECYCLABLES

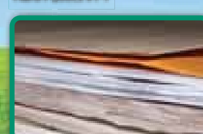
All Together Now!

1. **Recycle** items before they end up in your garbage
2. **Clean** recyclables and ensure they are dry
3. **Bag** all items together in a blue bag (no need to separate) with cardboard flattened to be placed under blue bag at your curb
4. **Set** your bag(s) on the curb on your regular collection day - cardboard under bags should be no larger than 2 ft. x 3ft. (60cm x 90cm)
5. **Ensure** your recycling is placed a cart width from your garbage cart along the sidewalk/curb to the left of the handles, and visible from the road



Hard Plastics #1-7

Tin and Aluminum Cans



All Paper

Cardboard and Cereal-type Boxes

Please no glass ✗, styrofoam ✗, or plastic bags ✗

AQUATERA
WATER EARTH INNOVATION

CONSTRUCTION UNDERWAY ON OUR NEW HEAD OFFICE ON OCTOBER 31, 2011

SIGNIFICANT FLOODING IN SEXSMITH ON JULY 14, 2011


42"
ARE YOU TALL ENOUGH TO TUBE AND ARE AT LEAST 4 YEARS OLD?
THE RISK INCREASES IF:
• You fail to follow instructions
• You don't sit properly in your tube
• You engage in horseplay
FOR YOUR SAFETY:
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 discolouration, simply run your tap until discolouration is gone.
• Watch our Twitter or Facebook account for when your area is being flushed.
* If you notice discolouration in your water when your area is not being flushed, please contact us immediately.
AQUATERA
WATER EARTH INNOVATION