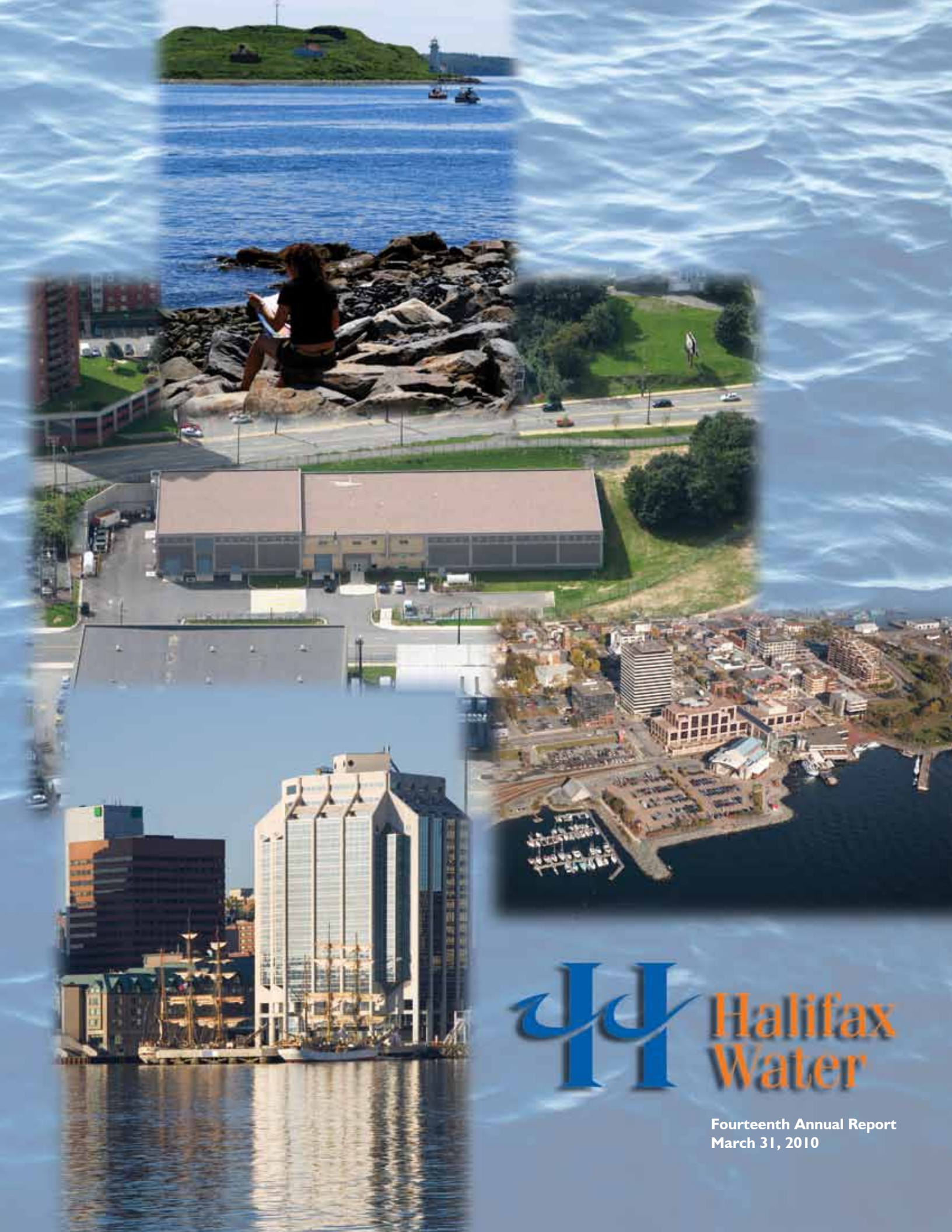


Halifax Water

Fourteenth Annual Report
March 31, 2010

Cover: **Halifax Wastewater Treatment Facility (centre), downtown Halifax and photos of the environment it protects**

Design: Sharon Ward Graphic Design;
Printing: Advocate Printing;
Cover photography: Canstock; iStockphoto

Our Mission

To provide world-class services for our customers and our environment.

Our Vision

- *We will provide our customers with high quality water, wastewater, and stormwater services.*

- *Through the adoption of best practices, we will place the highest value on public health, customer service, fiscal responsibility, workplace safety and security, asset management, regulatory compliance, and stewardship.*

- *We will fully engage employees through teamwork, innovation, and professional development.*

Halifax Water

Letter from the Chair

November 4, 2010
Mayor Kelly and Members of Council

Re: 2009/10 Annual Report

On behalf of the Halifax Water Board, I am pleased to submit the Annual Report for the 2009/10 fiscal year. The hard work and long-term planning continued during the fiscal year to develop strategies to rejuvenate an aging wastewater and stormwater system and prepare for new wastewater regulations tied to the Canadian Council of the Ministers of the Environment (CCME) Municipal Wastewater Effluent Strategy. It is expected that regulations associated with the Federal Fisheries Act will become law by the end of 2011.

Halifax Water staff were also actively engaged in the commissioning of the Halifax Harbour Solutions Project (HHSP) assets, which were to be transferred to Halifax Water after reaching substantial completion. In that regard, the first wave of assets from the HHSP was transferred to Halifax Water on June 1, 2009, including the Halifax Wastewater Treatment Facility and associated sewer collection system, and the Biosolids Processing Facility at the Aerotech Industrial Park. In recognition of this asset transfer, in conformance with the Transfer Agreement executed between HRM and Halifax Water in 2007, Halifax Water assumed the leadership role in the recovery of the Halifax Wastewater Treatment Facility which suffered a setback from a flood incident on January 14, 2009. We are pleased to report that the recovery of the Halifax Facility went according to plan, with the plant returning to full operation by June, 2010. In recognition of the transfer of knowledge to Halifax Water in regards to the HHSP, HRM accelerated the transfer of the remaining assets to Halifax Water, effective August 1, 2010. The transfer also included overall responsibility for completion of the HHSP, including outstanding financial and contractual obligations.

Reduced operating expenses, as a result of the unexpected shutdown of the Halifax Wastewater Treatment Facility and delays in the completion of the HHSP, caused results to be better than budget by $4.7 million for the fiscal year. As of June, 2010, the majority of HHSP assets had achieved substantial completion, and as a result, Halifax Water will incur additional operating costs for these assets within the 2010/11 fiscal year. These additional costs will necessitate wastewater rate increases. In recognition that Halifax Water would be assuming the operating expenses for the HHSP plants in the 2010/11 fiscal year, a rate application was submitted to the Nova Scotia Utility and Review Board at the end of March, 2010. This first joint rate application to cover all services provided by Halifax Water also included costs associated with the pending CCME regulations and attempted to begin to address the infrastructure deficit associated with the wastewater and stormwater systems. In particular, Halifax Water recognizes the importance of establishing depreciation funds to ensure sustainable funding for wastewater infrastructure renewal similar to that already established for drinking water assets which have been adequately funded in the past.

Historically, municipal wastewater and stormwater assets have been underfunded throughout North America, and Halifax Water will be attempting to rectify this situation in the current rate application. This rate application will also reflect the completion of a cost of service study mandated by the NSUARB to ensure fair and equitable rates between customer classes of the utility. A hearing was held in September, 2010, and at the time of writing this letter, a decision was pending from the NSUARB.

In keeping with the terms of our agreement with our shareholder HRM, Halifax Water provided a dividend/grant in lieu of taxes of $3.63 million, based on a percentage of the water rate base. The current agreement expires March 31, 2010, and a new agreement was proposed as part of the rate application to the NSUARB.

Although much of last year was focused on wastewater and stormwater services, water service delivery has kept pace with customer expectations. We are pleased to report that our annual Customer Survey, carried out in the fall of 2009, revealed that 90% of Halifax Water customers rated drinking water quality as good to excellent; the highest benchmark ever achieved in the history of Halifax Water. In addition, the survey revealed that customers were very satisfied with the overall service delivery for water, wastewater, and stormwater services, with a 98% satisfaction rating.

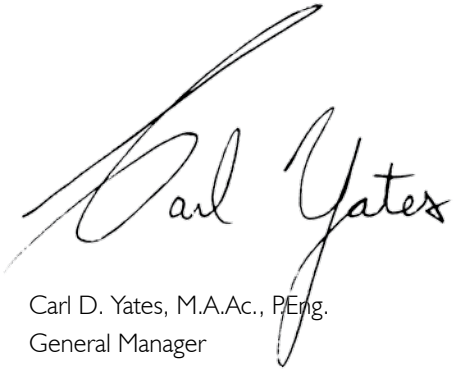
As we continue to address the challenges facing the utility, we are encouraged that customers and our shareholder, HRM, continue to support our initiatives. We look forward to another challenging year to make further inroads with the wastewater and stormwater infrastructure deficit, the preparations for CCME regulations, and optimization of the Harbour Solutions assets, which are now under the full custodial control of Halifax Water.
Respectfully Submitted,

Colleen Purcell, CA
Chair of the Board

New beginnings

The 2009/10 fiscal year was an exceptionally challenging one as the utility began to take on more responsibility for the Halifax Harbour Solutions Project (HHSP). In conformance with the Transfer Agreement of 2007, Halifax Water was to receive the HHSP assets in a staged process after they reached substantial completion. The first stage included the transfer of the Halifax Wastewater Treatment Facility (WWTF) on June 1, 2009. Unfortunately, the Halifax WWTF suffered a setback on January 14, 2009 which caused Halifax Water to recalibrate its priorities to assume the leadership role in the plant recovery. With this leadership role, the dedicated staff of the utility approached the recovery with clear objectives; bring the plant to full operation as soon as possible; identify any operational or design deficiencies, and implement changes to minimize a flood reoccurrence; and shield ratepayers from financial exposure.

We are pleased to report that all three objectives have been met with the vast majority of recovery costs, estimated at $11 million, covered by Builders Risk Insurance, which was in place at the time of the flooding incident. With the flagship plant back on track, staff look forward to optimizing its performance for the betterment of the environment. To that end, Halifax Harbour water quality is vastly improved now that all three HHSP plants are in operation. It is a new day.



Carl D. Yates, M.A.Ac., P.Eng.
General Manager

Board Of Commissioners
March 31, 2010

Colleen Purcell, CA
Chair

Councillor Bob Harvey
Vice Chair

Councillor Bill Karsten
Commissioner

Councillor Linda Mosher
Commissioner

Mayor Peter Kelly, MBA
Commissioner

Dan English, MPA
Commissioner

David Melvin
Commissioner

Rick Paynter
Commissioner

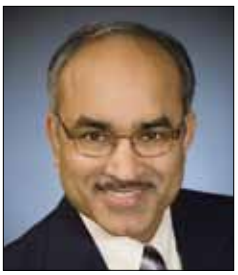
Executive Staff

C. Yates, M.A.Sc., P.Eng.
General Manager

B. Rooney, C.A.
Director, Finance and Customer Service

J. Hannam, MBA, P.Eng.
Director, Engineering and Information Services

J. Sheppard, P.Eng.
Director, Environmental Services



S. Arora, M.A.Sc., P.Eng.
Director, Wastewater Services

R. Campbell, M. Eng., P.Eng.
Director, Water Services

V. Veinot, MPA
Director, Human Resources

Contents

How to reach us:
For more information about Halifax Water and its services, visit our website at www.halifaxwater.ca, contact Customer Service at (902) 490-4820, e-mail us at Cust_Inq@halifaxwater.ca, fax us at (902) 490-4749, or write us at P.O. Box 8388 RPO CSC, Halifax, N.S., B3K 5M1.

General Information of Utility

Year Ended March 31, 2010

Water

Precipitation

Measured at Pockwock	
Rainfall	1 221.6 mm
Snowfall	170.9 cm
Measured at Lake Major	
Rainfall	1 181.8 mm
Snowfall	99.6 cm

Sources of Supply and Watershed Areas

Pockwock Lake	5 661 ha
Safe Yield	145 500 m^3/day
Chain Lake	206 ha
Safe Yield	4 500 m^3/day
Lake Major	6 944 ha
Safe Yield	65 900 m^3/day
Lake Lamont/Topsail	346 ha
Safe Yield	4 500 m^3/day
Bennery Lake	644 ha
Safe Yield	2 300 m^3/day

Water Supply Production (Cubic Metres)

Pockwock Lake	32 377 504
Lake Major	15 292 513
Bennery Lake	396 480
Small Systems	75 832
Total	**48 142 329**

Storage Reservoirs (Elevation Above Sea Level)

Lake Major	(60 m)	9 092 m^3
Pockwock	(170 m)	13 600 m^3
Geizer 158	(158 m)	36 400 m^3
Geizer 123	(123 m)	31 800 m^3
Cowie	(113 m)	11 400 m^3
Robie	(82 m)	15 900 m^3
Lakeside /Timberlea	(119 m)	5 455 m^3
Mount Edward 1	(119 m)	22 728 m^3
Mount Edward 2	(119 m)	22 728 m^3
Akerley Blvd.	(119 m)	37 727 m^3
North Preston	(125 m)	1 659 m^3
Meadowbrook	(95 m)	9 091 m^3
Sampson	(123 m)	12 273 m^3
Stokil	(123 m)	23 636 m^3
Waverley	(86 m)	1 364 m^3
Middle Musquodoboit	(81m)	275 m^3
Aerotech	(174 m)	4 085 m^3
Beaver Bank	(156 m)	6 937 m^3
Total Storage Capacity		**259 213 m^3**

Transmission and Distribution System

Size of mains	50 mm - 1 500 mm
Total water mains	1 307 km
Main valves	13 027
Fire hydrants	7 673
Distribution Pumping Stations	20
Pressure Control/Flow Meter Chambers	107

Services and Meters

WATER	
Sprinkler services (25 mm - 300 mm)	1 936
Supply services (10 mm - 400 mm)	83 926
Meters (15 mm - 250 mm)	79 848
Wastewater services	76 839

Population Served

Halifax Regional Municipality
Estimated population served 345 000
Consumption per capita 327 litres/day

Wastewater/Stormwater

Wastewater Treatment

Facilities	Process	Design Capacity	Area Served	Receiving Water
Halifax	Enhanced Primary - U.V.	139 900 m^3/d	Halifax	Halifax Harbour
Dartmouth	Enhanced Primary - U.V.	83 800 m^3/d	Dartmouth	Halifax Harbour
Herring Cove	Enhanced Primary - U.V.	28 500 m^3/d	Halifax-Herring Cove	Halifax Harbour (Outer)
Mill Cove	Secondary - U.V. / Pure oxygen activated sludge	28 400 m^3/d	Bedford-Sackville	Bedford Basin
Eastern Passage	Primary - Chlorine	17 700 m^3/d	Cole Hbr-East Passage	Halifax Harbour
Timberlea	Enhanced Primary - Chlorine / RBC	4 540 m^3/d	Beechville-Lakeside-Timberlea	Nine Mile River
Aerotech	Tertiary - U.V. /SBR	1 400 m^3/d	Aerotech Park-Airport	Johnson River
Springfield Lake	Secondary - Chlorine / Activated sludge	543 m^3/d	Springfield Lake	Fenerty Lake
Fall River	Tertiary - U.V. / Activated sludge and post filtration	454.5 m^3/d	Lockview-McPherson Road	Lake Fletcher
North Preston	Tertiary - U.V. / SBR and engineered wetland	345 m^3/d	North Preston	Winder Lake
Middle Musquodoboit	Secondary - U.V. / RBC	114 m^3/d	Midd Musquodoboit	Musquodoboit River
Uplands Park	Tertiary - U.V. / Trickling filter and wetland	91 m^3/d	Uplands Park	Sandy Lake
Wellington	Secondary - Chlorine / Activated sludge	68 m^3/d	Wellington Station	Grand Lake
Frame SD	Secondary - Chlorine / Activated sludge	80 m^3/d	Frame Sub-Division	Lake William

RBC = Rotating Biological Contactor; SBR = Sequencing Batch reactor; U.V. = Ultra Violet

General Information of Utility

Year Ended March 31, 2010

Water

Treatment Processes

J. Douglas Kline Water Supply Plant

Source - Pockwock Lake
Process - Dual media direct filtration
- Iron and manganese removal

8 filters	143 m^2/each
Max. flow rate	0.137 m^3/m^2/min
Design capacity	227 000 m^3/day
Average production	91 872 m^3/day

Lake Major Water Supply Plant

Source - Lake Major
Process - Upflow clarification and trimedia filtration
- Iron and manganese removal

4 filters	85 m^2/each
Max. flow rate	0.192 m^3/m^2/min
Design capacity	94 000 m^3/day
Average production	43 742 m^3/day

Small Systems

Bennery Lake

Source - Bennery Lake
Process - Manganese removal, sedimentation, dual media filtration

2 filters	26.65 m^2/each
Max. flow capacity	0.10/m^3/m^2/min
Design capacity	7 950 m^3/day
Average production	3 400 m^3/day

Collins Park

Source - Lake Fletcher
Process - Multi-media pressure filter/ultraviolet disinfection
- Turbidity removal
Average production 64 m^3/day

Middle Musquodoboit

Source- Musquodoboit River
Process- Raw water infiltration gallery
- Pressure filter
- Turbidity removal
Average production 61 m^3/day

Five Island Lake

Source - 1 well
Process - Ultraviolet disinfection
Average production 8 m^3/day

Silver Sands

Source - 2 wells
Process - Green sand pressure filters
-Iron and manganese removal
Average production 27 m^3/day

Miller Lake

Source - 3 wells
Process - Arsenic removal with G2 Media
Average Production 24 m^3/day

ha - hectare
m - metre
m^2 - square metre
m^3 - cubic metre
mm - millimetre
km - kilometre
cm - centimetre

Wastewater / Stormwater Control Structures

	Stormwater	Capacity (m^3)
C	Meadowbrook Retention Pond	190
W	Oceanview Drive Retention Pond	3,700
W	Transom Drive Retention Pond	9,900
W	Glenbourne Estates Retention Pond	430
W	Parkland Avenue Retention Pond	36,000
W	Glen Forest Weir / Retention Pond	12
W	Lacewood Retention Pond	5,300
W	Susie Lake Control Structure	35,600
W	Volvo West Retention Pond	55,600
W	Old Sambro Road Retention Pond	20
W	Graystone Road Retention Pond	300
W	Tamarack Drive Retention Pond	270
E	Heritage Hills Retention Pond	13,800
E	Clement Street Retention Pond	244,000
E	Maynard Lake Dam	172,000

	Stormwater	Capacity (m^3)
E	Shubie Drive Retention Pond	19,500
E	Countryview Drive Retention Pond	3,200
E	Commodore Drive Retention Pond	9,400
E	Lemlair Row Retention Pond	15,300
E	Forest Hills Retention Pond	5,000
E	Cole Harbour Commons	2,000
E	Guysborough Retention Pond	9,000
E	John Stewart Dr Retention Pond A&B	550
E	Stewart Harris Drive Retention Ponds	160
E	Cranberry Lake Retention Pond	108
E	Gregory Drive Retention Pond	80
E	Main Street Retention Pond	130
E	Kuhn Marsh Dam	60,000

C = Central; W = West; E = East

Financial Overview

Abbreviated Financial Information
March 31, 2010
(In thousands)

ASSETS				
Fixed				
Utility Plant in Service at Cost				$ 872,753
Provision for Depreciation				($ 201,832)
Depreciated Cost of Utility Plant				$ 670,921
Plant Under Construction				$ 29,680
Other				$ 190
Current				$ 58,468
TOTAL ASSETS				**$ 759,259**
LIABILITIES				
Long Term Debt				$ 155,958
Other Than Long Term Debt				$ 33,687
	TOTAL LIABILITIES			**$ 189,645**
EQUITY				
Special Purpose Reserves				$ 20,357
Contributed Capital Surplus				$ 525,916
				$ 546,273
Operating Surplus April 1, 2009				$ 18,634
2009/2010 OPERATIONS				
Operating Revenue			$ 87,166	
Financial Revenue			$ 2,630	
Revenue From all Sources			$ 89,796	
Expenditures				
Operating Expenses	$ 52,968			
Depreciation and Loss on Disposal	$ 6,333			
Grant in lieu of taxes HRM	$ 3,626			
Financial	$ 22,162	$ 85,089		
Excess of Revenue over Expenditures				$ 4,707
Operating Surplus March 31, 2008				**$ 23,341**
TOTAL EQUITY				**$ 569,614**
TOTAL LIABILITIES & EQUITY				**$ 759,259**

New beginnings

This fiscal year has been one of new beginnings on a number of fronts for Halifax Water.

The biggest and most highly publicized challenge was the recovery of the Halifax wastewater treatment facility from the flood incident of January 14, 2009. Halifax Water provided a leadership role in the recovery as residents witnessed the restoration of both the Halifax wastewater treatment facility and the reputation of the project. The often intense public and media scrutiny tested the mettle of staff as they worked diligently to recover the facility to full operation while making every effort to protect rate payers from financial exposure.

Continuous improvement is essential to any organization, and Halifax Water is no different. To better serve our customers and our environment, Halifax Water took part in QualServe. The QualServe Program, sponsored by the American Water Works Association (AWWA), and the Water Environment Federation (WEF), is a program designed to help water, wastewater and stormwater utilities improve performance.

QualServe uses a two pronged approach to promote improvement. The first phase involves completion of a self-assessment survey. The second is a peer review of operations which was conducted by a team of managers and senior staff from other utilities across North America.

The Peer review team provided a comprehensive report outlining

Crews work on recovery in the basement area of the Halifax WWTF

Wendy Jones (l) and John Anderson (r) of AWWA present the Qualserve Recognition Award to Halifax Water Board Chair Colleen Purcell

our strengths, weaknesses, and recommendations for improvement. We are pleased to report that overall the utility scored very well. There is always of course room for improvement and many of the recommendations from the report have already been implemented. Work continues on further follow through.

Halifax Water is regulated by the Nova Scotia Utility and Review Board (NSUARB). As a recently merged utility, a Cost of Service Study (COSS) was ordered by the NSUARB for wastewater and stormwater services. The COSS was completed in the 2009/10 fiscal year and included an assessment of all three services (water, wastewater and stormwater). Utilities generally use cost of service studies to allocate costs to various customer classes and determine whether costs are fixed or variable. The Halifax Water COSS, completed in late 2009, reviewed the services we provide to all of our customers – Industrial, Commercial, Multi-Residential, Institutional and Residential – to see if the costs for services are being charged in a fair and equitable manner. The COSS does not establish how much funding is required for services; it determines how costs are allocated between different customers benefitting from the services. It is about how to most equitably divide the pie rather than making a bigger pie. The COSS will form the basis for future rate applications.

High-quality water

Halifax Water utilizes a multiple barrier approach to maintain high quality drinking water starting at the source. The protection and management of source waters is paramount to providing a safe, reliable and affordable drinking water supply to our customers. Source waters are the untreated water resources (e.g., lakes, rivers, groundwater) that we use for public drinking supplies. The goal of source water protection is to maintain, or improve, the quality of drinking water resources before it reaches the treatment plant.

Another satisfied customer

Halifax Water currently manages eight watersheds, as well as three groundwater sources, that collectively supply drinking water to over 79,000 households and businesses in the Halifax Regional Municipality.

In an effort to improve our source water management, Halifax Water added the position of Source Water Planner. This is an important advancement in our Source Water Protection Program and has been made necessary, in part, due to new regulation imposed by Nova Scotia Environment in 2002. This will allow us to increase our efforts in community engagement in Watershed issues.

Having access to a highly skilled and motivated workforce is important for the success of any organization. Halifax Water places a high value on community support and education. With this in mind The Arnold Johnson Award was established. This award is in recognition of a North Preston resident, the late Arnold Johnson who was the founding Chairman of the Lake Major Watershed Advisory Board. Mr. Johnson was a community leader and an advocate for Watershed Protection. The award is open to African Canadian students enrolled in the Water Resources Technology Program at Nova Scotia Community College.

On-going training and development is key to our operation. To this end Halifax Water set up an internal program to train our 220 operators and obtain the Continuous Education Units (CEUs) necessary to renew their licenses. License renewal is a new initiative in Nova Scotia and dictates life-long learning for system operators, a concept fully embraced by Halifax Water.

Staff also completed a Supervisory Control and Data Acquisition (SCADA) Master Plan which will provide the framework for upgrades to a modern and unified SCADA system over the next five years. This will allow operational efficiencies and synergies between water and wastewater.

Continuous improvement and research helps keep Halifax Water on the leading

Launch of the "Pipe Diver" to assess water transmission main condition on Hammonds Plains Road

Dr. Graham Gagnon (r) of Dalhousie University with Alisha Knowles, Ph.D. candidate

edge of water related issues. Through the continued implementation of the Water Quality Master Plan a major process improvement opportunity was identified. Flash mixing and flocculation improvements at the J.D.Kline Water Supply Plant will take place over the next few years and will provide opportunity for further water quality improvements.

Halifax Water is also a proud sponsor of the Natural Science and Engineering Council (NSERC)/Halifax Water Industrial Research Chair in Water Quality and Treatment at Dalhousie University. The Chair is held by Dr. Graham Gagnon, a professor in civil engineering at Dalhousie and a well known researcher in the North American drinking water industry.

Through the Chair, Dr. Gagnon is able to accomplish three key objectives of the program, which are:

- To undertake research designed to help Halifax Water improve the quality of water delivered to its customers.
- To train Dalhousie University students to compete on the world stage in drinking water treatment,
- To make Halifax Water and Dalhousie University a centre for excellence in drinking water quality.

As part of Halifax Water's environmentally focused business model, our ISO 14001 Environmental Management System Registration at the J. Douglas Kline and Lake Major Water Supply plants was renewed for a third three year cycle.

On the leading edge of water research. The pilot plant at the J.D. Kline Water Supply Plant

Service excellence

Halifax Water ended the year with 79,848 water and 76,839 wastewater/ stormwater customer connections. These included the Urban Core, Satellite and Airport/Aerotech systems.

Customer service staff answered 59,000 telephone enquiries during the year, which was slightly less than the previous year. The average call wait time to answer was 72 seconds and an organization benchmark of 70 seconds has been established to measure ongoing performance.

In September 2009, a call quality monitoring program was developed to provide insight into how we are performing, what customers are experiencing, and to aid in staff training and coaching. Regular monitoring has helped provide greater customer satisfaction by ensuring best practices are applied, and providing a comprehensive view of agents, the team, and overall call centre performance.

The conversion of meters 20 mm (3/4") diameter and above to a mobile radio frequency (RF) system continued throughout the year. With the installation of the mobile RF system in the previous year, these meters are converted to monthly reading and billing. The program to install meters with RF for all new 15 mm (5/8 inch) as well as routine replacements, which started last year, continued. The conversion will enable more frequent reading and billing without incurring significant operational cost. At the end of the fiscal year, 100% of the large meters (3 inch diameter and above), 45.1% of the mid size meters (3/4 inch - 2 inch diameter) and 11.8% of the small meters (5/8 inch residential) had been converted.

The large meter and statistical sample testing programs continued during the year to ensure billing accuracy. The handling of wastewater/stormwater inquiries while still using the HRM call centre, particularly for emergency calls, increased as call centre staff became more familiar with the operation. The emphasis on collection of delinquent accounts was continued and resulted in write off of uncollectable accounts of 0.2% of metered sales for the year, an excellent result.

There was additional staffing added in the Accounting Department to accommodate the increased workload. Changes were made to the accounting system to continue to separate the costs of delivering each service to align with the cost of service study and corresponding rate structure. Internal controls were reviewed and updated where necessary. Timely and accurate financial information was available on demand to user departments through SAP access and presented to the Board at their monthly meetings.

On March 25, 2010 Halifax Water filed with the (NSUARB), its first joint rate application for revised rates for water, wastewater and stormwater, as well as a consolidated schedule of rules and regulations for the three services. A public hearing to consider the application was initially scheduled by the NSUARB in June but due to the complexity of the application, a new hearing was scheduled for September 2010.

The Engineering Planning Group expanded this year as part of the transition of services from HRM relating to wastewater and stormwater. The Planning Group now provides the full regulatory process for wastewater infrastructure including design and construction specifications and regulatory review of all proposed work.

The Capital Budget for 2009/10 was $ 17.0M for water and $15.8M for wastewater and stormwater with $400,000 of the funding from external programs.

Heather Corkum assists customer with service inquiry

Responsible financial management

Sewer Replacement Project, South Park Street, Halifax

The 2009/2010 fiscal year was the second full year that Halifax Water operated as a joint water, wastewater and stormwater utility following the transfer of the wastewater and stormwater operations by the Halifax Regional Municipality on August 1, 2007. The financial statements contained herein are presented based on the Accounting and Reporting Handbook issued by the Nova Scotia Utility and Review Board (NSUARB) rather than Canadian General Accepted Accounting Principles, a change that was made in the previous fiscal year.

There were no rate adjustments during the year for the urban core and satellite systems as the existing water and wastewater/stormwater rates were sufficient to operate the utility. The second phase of the Airport/Aerotech rate adjustment that was approved by the NSUARB came into effect on April 1, 2009 which resulted in increases in base and consumption charges for water and wastewater services, a decrease in fire protection charges and an increase in the stormwater charges.

The combined financial results achieved in fiscal year 2009/2010 were better than projected. The net income of $4,707,000 exceeded the projected budget loss of $3,814,000. The largest factor for this variance was lower than budgeted wastewater treatment costs associated with the inoperation of the Halifax Wastewater Treatment Facility (HWWTF) and the delay in the other Halifax Harbour Solutions Project assets in reaching substantial completion. As the financial statements are presented in accordance with the recommendations of the Accounting and Reporting Handbook for Water Utilities (Handbook) as issued by the NSUARB, the results include the total cost of debt servicing.

The audited financial statements are for the first time presented in thousands of dollars to recognize the increase in the size of the organization. A summary of the actual and budget variances is summarized below. In comparing the actual and budget results it must be noted that the budget was based on the completion and transfer of the components of the Halifax Harbour Solutions Project. Due to delays in the completion of the project, and the flood incident at the Halifax WWTF, some of the projected costs of operating were not incurred resulting in actual results better than those contained in the budget.

A detailed review of the financial results shows that total operating revenue amounted to $87,166,000 and was under budget by $868,000. The budget provided for an increase in the customer base of 1,000 customer connections but a decrease in total consumption of 1%. There was a small increase in metered consumption as the utility did not experience a decline in water sold this year which has been the trend in the past. There was an increase in customer base in line with the budget. Water operating revenue was $22,000 overbudget while wastewater/

Pipe work underway as part of the Freshwater Brook Project in South End Halifax

stormwater was $506,000 under budget. Actual water consumption for the urban core and satellite systems totaled 38,824,219 Cubic Metres (CM) and increased .16% over the previous year. The consumption at the Airport/ Aerotech system totaled 343,551 CM and increased 1.85% over 2008/2009. Fire protection revenue equaled the budget based on the NSUARB approved calculation. Sprinkler service and small system revenue exceeded budget by $11,000. Revenue from the Airport/ Aerotech system exceeded budget by $40,000 reflecting the effect of the rate increase approved by the NSUARB effective April 1, 2009, and new customers to the system. Other operating income was under budget by $435,000 reflecting lower interest income on cash reserves as well as lower than projected over-strength revenue as a result of the inoperation of the Halifax WWTF.

Metered sales for both water and wastewater/stormwater services are the single largest component of operating revenue at $73,571,000 or 84.4%. Fire protection amounted to $9,502,000 or 10.9% of total operating revenue. The remaining components of operating revenue are detailed above.

Operating expenditures including depreciation amounted to $59,301,000 and were under budget by $9,529,000. All of the direct operating costs of providing water, wastewater and stormwater service were under budget. Water supply and treatment was under budget by $181,000 reflecting under spending in certain cost centres. Water transmission and distribution was under budget by $1,107,000, due to a combination of lower operating costs as a result of a very mild winter and under spending in some cost centres. Wastewater/stormwater collection was under budget by $1,247,000 and wastewater treatment was under budget

by $5,719,000. These two latter cost centres reflect the costs of operating the wastewater and stormwater system. The budget anticipated that the Halifax Harbour Solutions Project would be complete and in full operation.

Common costs including, environmental services, engineering and information services, customer service, administration, and pension are costs applicable to all services. Many of these costs were close to budget with under spending in environmental services and customer service due to understaffing. Administration and pension were over budget due to the required calculation for pension costs under section 3451 of the Canadian Institute of Chartered Accountants (CICA) Handbook. The costs of operating the Airport/Aerotech system were also less than projected.

Operating revenue and expenditures combined to generate an operating profit of $27,865,000 which was $8,661,000 more than budget. This significant increase was due mainly to the delay in the operation of the components of the Halifax Harbour Solutions Project, and a milder than normal winter which had a positive effect on operating costs.

Financial and other revenue totaled $2,630,000 and was under the budget by $113,000. The majority of this was interest on cash reserves as interest rates declined and produced lower than projected investment income.

Financial and other expenditures which include interest on long term debt, principal repayment of long term debt, amortization of debt issue costs, and grant in lieu of taxes for the water service amounted to $25,788,000 and exceeded budget by $27,000. On June 1, 2009 components of the Halifax Harbour Solutions Project were transferred to Halifax Water. The assets included the Halifax WWTF, the majority of the related collection system, and the Biosolids Processing Facility. The full amount of the term debt associated with the project was also set up as part of the transfer.

Blending in: the Mill Cove Wastewater Treatment Facility

A dividend/grant in lieu of taxes of $3,606,000 was provided to our shareholder HRM based on the current agreement with HRM as approved by the NSUARB. A new dividend agreement was proposed as part of the rate application to the NSUARB.

Halifax Water borrowed $15,250,000 through the Nova Scotia Municipal Finance Corporation in October 2009. Of this, $13,000,000 was funding for the completion of the Halifax Harbour Solutions Project, and $2,250,000 for the refinancing of a balloon payment for the remaining ten years of a 1999 issue amortized for 20 years.

The combination of factors detailed above resulted in an excess of revenue over expenditures for the year of $4,707,000. While this includes full debt servicing costs, it is not sufficient to operate the utility when the Halifax Harbour Solutions Project's assets are in full operation, which will occur in the next fiscal year. Halifax Water continues to experience flat revenue growth in the case of water service, as the increase in customer base is often offset by a decrease in annual water sold, due primarily to water conservation. This also results in a decrease in revenue for wastewater/stormwater service as the current rates are all consumption based. With operating and capital expenditures increasing through a combination of inflation, completion of the Halifax Harbour Solutions Project, regulatory compliance, and infrastructure renewal needs, the current rates are not sufficient for Halifax Water to carry out its mandate. Future rate increases will be needed. A Cost of Service Study (COSS) that was ordered by the NSUARB for wastewater and stormwater operations was expanded to include water, and was completed in the 2009/10 fiscal year. A Cost of Service Demand Analysis Study for water service that was ordered by the NSUARB in conjunction with the 2006 water rate decision was also completed in the year and the results were factored into the COSS. It confirmed that rates for consumption should be based on a single block structure.

Sewer line cleaning, Northwest Arm, Halifax

Utility plant in service at year end totaled $872,753,000 and is detailed in Schedule A of the financial statements, and represents net additions of $204,224,000 for the year. Water fixed assets increased by a net of $23,308,000 with the largest component in transmission and distribution mains with net additions of $14,874,000 representing the extension and rehabilitation of the distribution system followed by structures and improvements with net additions of $3,282,000. The remaining increase in water plant in service intangibles consisted of services, land and land rights, meters, hydrants, transportation and other equipment. Wastewater and Stormwater fixed assets increased by a net of $180,917,000 with the largest component being the transfer of a portion of the Halifax Harbour Solutions Project. The assets transferred included the Halifax WWTF, portions of the related collection system, and the Biosolids Processing Facility. These assets accounted for $147,707,000. These were followed by collection system, structures and improvements with a net increase of $32,210,000 including the close out of some work in process transferred from HRM in 2007. The remaining increases were divided between intangibles, land and land rights, Aerotech and other small systems. Of the total increase in utility plant in service, $18,251,000 represented contributions of plant in service or capital of water, wastewater and stormwater assets and $42,091,000 was capital surplus transferred from HRM in connection with the transfer of the Halifax Harbour Solutions Project.

At March 31, 2010, Halifax Water had plant under construction in the amount of $29,680,000. Of this, $11,645,000 remained from the balance that was transferred from HRM in 2007. The remaining $18,035,000 represented water and wastewater capital projects started by Halifax Water that had not been completed at year-end.

Effective asset management

The backbone of Halifax Water's capital budget process is the Asset Management (AM) Program. The AM program has been focused on the primary questions "what do we own" and "what is the condition of our assets?" This program helps ensure a prioritized selection of assets for renewal and expansion and provides a model for longer term sustainable capital needs.

Sewer liner moving through leaking section of Northwest Arm pipe, Halifax

The capital work completed last year within the North Preston Wastewater System involved an upgrade to the headworks portion of the existing wastewater treatment facility. The detailed work included the installation of a spiral screen complete with a building to house the screen and its associated mechanical and electrical equipment. This work resulted in greater operational efficiency and performance, including reduced maintenance requirements for the wastewater treatment facility.

Wastewater pumping stations were renewed and expanded at the Dingle Tower and Roach's Pond locations to minimize the potential for overflows to the environment.

The first phase of the Northwest Arm Trunk sewer was structurally lined. This trenchless technology allowed a full structural fix for the old pipe with a very short construction schedule, minimal impact on the neighbourhood and at a significant cost savings versus a traditional open trench approach.

The wastewater collection system was replaced within the Wellington small system as the first part of a full upgrade to the collection and treatment system.

The third phase of the multi-year Freshwater Brook Project was completed from Fenwick St. to South Park St. as the backbone for sewer separation in the southend of Halifax.

Halifax Water worked with HRM on a series of integrated street, water and sewer projects that jointly renewed structurally deficient water and sewer pipes in conjunction with HRM street upgrades. This cost-effective program provides valuable improvements to the infrastructure while minimizing impacts on surrounding neighbourhoods.

The second phase of the renewal of 500m of the 750 mm diameter Bedford Connector water transmission main was completed in conjunction with the widening of the Hammonds Plains Road, another joint project with HRM.

Crews monitor progress of sewer lining along Northwest Arm, Halifax

Above: Crews replace water line on South Park Street, Halifax

As a first important phase for the ultimate expansion and upgrade to the Eastern Passage Wastewater Treatment Facility, a formal Request for Proposals was issued for a Design/Build contract. The selection of the proponent and the start of construction are scheduled for 2011.

A Corporate Facilities Plan was completed that recommended the consolidation of all administrative functions at an expanded Cowie Hill facility and further recommended combined Water and Wastewater/ Stormwater Operations facilities in each of the three operational regions. This plan lays the framework for future capital initiatives beginning in 2010/11 with planned work at the Cowie Hill Rd. site.

Below: Freshwater Brook Project at the intersection of Fenwick and South Park Streets

Regulatory compliance and environmental stewardship

Compliance with regulatory requirements remains a priority for the wastewater side of our business. This includes all aspects of obtaining and maintaining operational permits, liaison with regulators, sampling and reporting. The Canadian Council of Ministers of the Environment (CCME) Municipal Wastewater Effluent Strategy will require a major focus on all wastewater and stormwater infrastructure and will be one of the main strategic drivers for the next 30 years.

The Environmental Services Department of Halifax Water provides regular compliance reporting to provincial and federal regulators. To maintain compliance with operating permits, each regulated facility requires reporting on physical, biological and chemical parameters, which entails sampling, testing, data interpretation and analysis. Based on the analysis, action plans are being developed to address regulatory requirements. Efforts to automate field data collection include real-time capture through our Supervisory Control and Data Acquisition (SCADA) System and archiving in our data historian.

Environmental Services staff taking water samples to help protect our environment

Motivated and satisfied employees

During the past year Human Resources worked in concert with the project team to ensure the successful implementation of the SAP Human Resources/Payroll System to meet the needs of the expanded (merged) workforce. The new system came on stream in July 2009, providing enhanced service including access to information and reports, greater accuracy of data, improved business processes and robust internal controls. This enhancement to the corporate SAP System replaces the Legacy Payroll System and provides corporate human resource services across the organization.

Donations & Fundraising

Once again employees and pensioners supported the Metro United Way by contributing over $6,036.00 through the fall campaign.

Funds were also raised in support of the American Water Works Association (AWWA) "Water for People" Program which sponsors water supply projects in third world countries. For this fiscal year over $ 4,818.00 was raised through casual day contributions and other events.

Employee-outreach activity expanded significantly this year helping to create ties with numerous community organizations.

Halifax Water was a proud sponsor of Canoe09 and Tall Ships 2009. These world class events attract visitors from around the world which helps showcase our great region. Halifax Water staff also volunteered their time and expertise at both events.

Water on tap at the Bluenose Marathon

Continuing with the water and community involvement theme, Halifax Water entered a team in the Manulife Dragon Boat Festival. All proceeds from the Manulife Dragon Boat Festival benefit community sport programs through the Nova Scotia Amateur Sport Fund.

A number of Halifax Water staff took part in the Bluenose Marathon. They were not just running for the fun of it, which is important, but were also raising funds for the Nova Scotia Special Olympics.

Engineering & IS staff participated in the Construction Association of Nova Scotia Canstruction and built an awesome sculpture of a Rubik's Cube entirely out of cans of food with all contributions going to Feed Nova Scotia.

Halifax Water also sponsored the Discovery Centre's, Water and our World Program. The program is focused on the full life cycle of the water system from source, to tap, through to the wastewater treatment facility, and back to the environment. Centre visitors get tips on conservation, water use at home, and of course get to play with the interactive display unit. The program also includes a school outreach program.

The Halifax Water Canstruction team with their Rubik's Cube design

Long-service awards were presented to the following:

35 Year Awards

Michael Borden, Wastewater Services
Lawrence Drew, Wastewater Services
Dennis LeBlanc, Wastewater Services
Joseph Legere, Water Services
Terry Pelrine, Water Services
William Slade, Water Services
Daniel Smith, Water Services

30 Year Awards

Cheryl Little, Finance/Customer Service
Tony Makin, Wastewater Services
Kenneth Webb, Water Services

25 Year Awards

William Lackie, Wastewater Services
William MacDonald, Wastewater Services
Albert MacMaster, Wastewater Services
Donald Martin, Wastewater Services
Tim Stanislow, Water Services

20 Year Awards

Paula Amaral, Wastewater Services
Marty Dykeman, Water Services
Darren Higdon, Wastewater Services
Terrance Nelson, Water Services
Alan Ossinger, Water Services
Leon Oulton, Wastewater Services
Gerald Patterson, Wastewater Services
William Robar, Water Services
William Sanderson, Water Services
Randy Shrum, Wastewater Services
Andrew Smith, Wastewater Services
Terry Staples, Water Services
Anthony Tooke, Water Services
Raymond Young, Water Services

10 Year Awards

George Bent, Wastewater Services
Paul Boiduk, Water Services
Glen Campbell, Water Services
Robert Cohoon, Wastewater Services
George Doane, Wastewater Services
Gregory Harding, Water Services
Wayne Hiltz, Wastewater Services
Steven Hubbard, Wastewater Services
Christopher Marks, Engineering/IS
Leslie Scott, Wastewater Services
Christopher Weeks, Wastewater Services
Carol White, Wastewater Services

During the year, the following employees retired after dedicated service to the utility:

Adele Webster – April 1, 2009
Mike Borden – April 1, 2009
Dan Tobin – May 1, 2009
Joey Legere – June 1, 2009
Ken Webb – July, 2009
Chauncey Cox – December, 2009
Don Martin – February 1, 2010
Ralph Butler – March 1, 2010

Partners in education and environmental stewardship. Halifax Water's fun, interactive water life cycle exhibit at the Discovery Centre, Halifax

Workplace safety and security

Halifax Water and its employees are committed to providing a healthy and safe work environment to prevent occupational illness and injury. This commitment is based upon our understanding that health and safety is a core business function for the organization and is treated as a priority in our work. Working safely is an obligation for all our employees.

Halifax Water continues to review and update policy and procedures to ensure the use of safe work practices. Special emphasis has been placed on some of the critical activities we conduct daily such as confined space entry, traffic control and excavations.

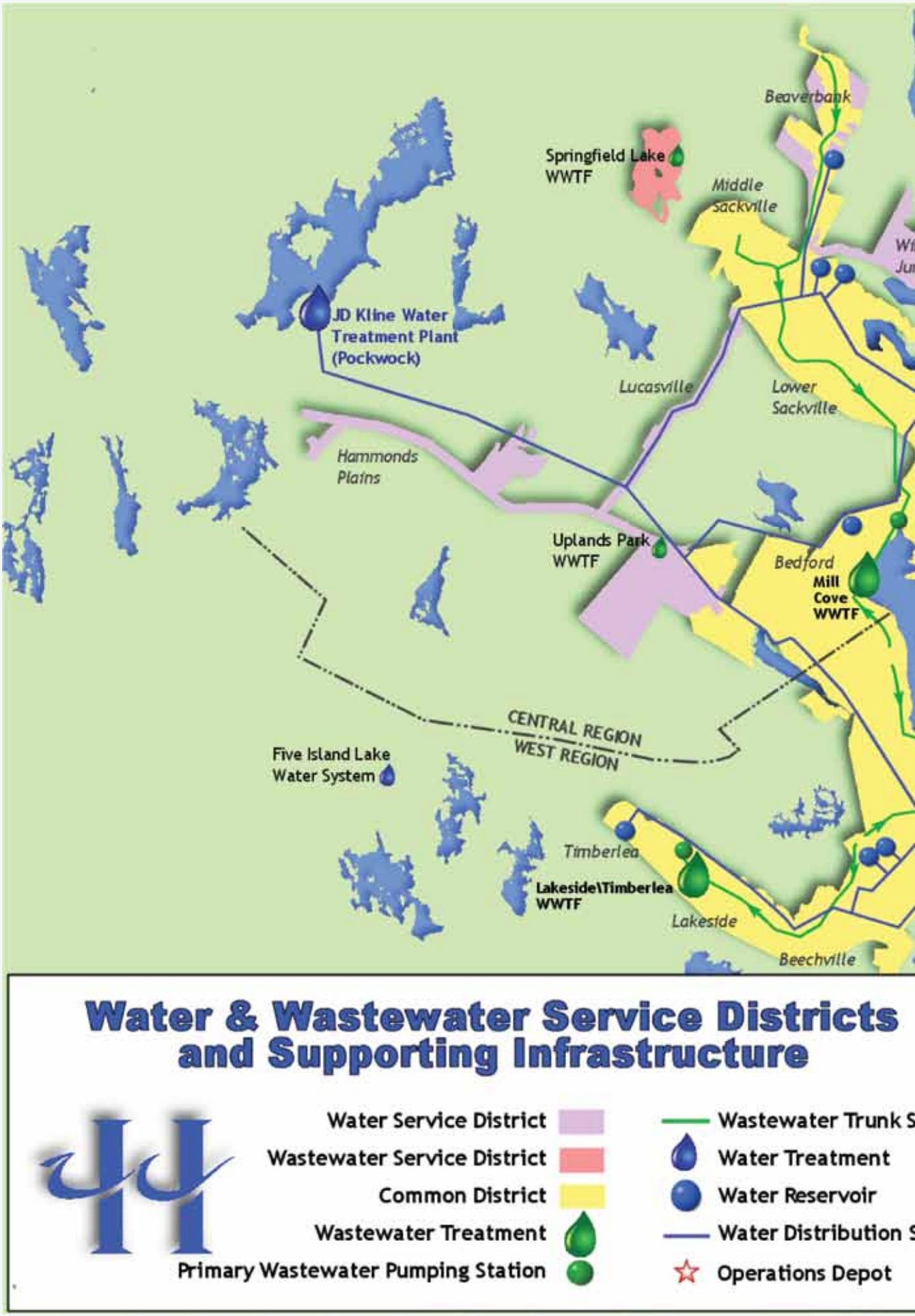
Staff learning the finer points of fall protection

Halifax Water's Security Program is based on Enterprise Assets Protection and is designed to protect three types of assets: people, property, and information. It also considers intangible assets such as the organization's reputation, relationships, and creditworthiness. The program has been developed to take an all hazards approach, be it from natural, intentional, or accidental hazards, when reviewing risks to the organization.

This program continues to grow with the expansion of access control systems, central alarm monitoring, upgrading of fencing and updating of policies and procedures.

Safe and reliable drinking water, sanitation, and environmental protection are vital to the sustainability of communities within HRM. Halifax Water's prime mandate is to deliver these services, even in an emergency. Preparedness includes documentation of an emergency response plan, which is an essential part of managing a drinking water, wastewater, and stormwater system. This plan continues to be reviewed and updated on an annual basis to ensure our infrastructure remains resilient against all hazards.

Training with new breathing equipment for use when entering confined spaces


Beaverbank
Springfield Lake WWTF
Middle Sackville
JD Kline Water Treatment Plant (Pockwock)
Lucasville
Lower Sackville
Hammonds Plains
Uplands Park WWTF
Bedford
Mill Cove WWTF
CENTRAL REGION
WEST REGION
Five Island Lake Water System
Timberlea
Lakeside\Timberlea WWTF
Lakeside
Beechville
Water & Wastewater Service Districts and Supporting Infrastructure
Water Service District
Wastewater Service District
Common District
Wastewater Treatment
Primary Wastewater Pumping Station
Wastewater Trunk S
Water Treatment
Water Reservoir
Water Distribution S
Operations Depot


Fall River
(Lockview\MacPherson)
WWTF
Fall River
Miller Lake
Water System
Waverley
Frame Subdivision
WWTF
Lakeview
Central Water
Operations Depot
Central Wastewater
Operations Depot
CENTRAL REGION
EAST REGION
North Preston
WWTF
East
Preston
Lake Major Water
Treatment Plant
Cherrybrook
Burnside
Bedford
Basin
West
Wastewater
Operations
Depot
Dartmouth
Cole
Harbour
East Wastewater
Operations Depot
East
Water
Operations
Depot
Dartmouth
WWTF
Halifax
Halifax
WWTF
Belmont
WWTF
Cow Bay
Silversands
Water System
Eastern Passage
WWTF
West Water
Operations
Depot and
Administration
Office
Halifax
Harbour
Eastern
Passage
Spryfield
Fergusons
Cove
Herring Cove
WWTF
Herring
Cove
Atlantic
Ocean
Systems Outside Map Limits
- Collins Park Water System
- Middle Musquodoboit Water & Wastewater
- Wellington Subdivision Wastewater System
- Airport\Aerotech Water & Wastewater
- Bomont Water System

TYPICAL ANALYSIS OF POCKWOCK/LAKE MAJOR WATER
2009 - 2010

(in milligrams per litre unless shown otherwise)
Note: All Regulatory Compliance Analysis are Processed by Third Party Laboratories

PARAMETERS	(Halifax) POCKWOCK		(Dartmouth) LAKE MAJOR		GUIDELINES FOR CANADIAN DRINKING WATER QUALITY	
	Raw Water	Treated Water	Raw Water	Treated Water	Maximum Acceptable Concentration	Objective Concentration
Alkalinity (as $CaCO_3$)	<1.0	20.5	<1.0	14.0	-	-
Aluminum	0.147	0.066	0.230	0.051	-	*0.20/0.10
Ammonia (N)	<0.05	<0.05	<0.06	<0.05	-	-
Arsenic	<0.002	<0.002	<0.002	<0.002	0.010	-
Calcium	1.1	4.8	0.9	5.9	-	-
Chloride	6.0	9.5	5.0	8.0	-	≤250
Chlorate	<0.1	<0.1	<0.1	<0.1	1.0	-
Chlorite	<0.1	<0.1	<0.1	<0.1	1.0	-
Colour (True Colour Units)	17.6	3.0	45.0	3.0	-	≤15.0
Conductivity (μmho/cm)	42.0	93.0	34.0	89.0	-	-
Copper (Total)	0.079	0.003	0.20	0.002	-	≤1.0
Fluoride	<0.10	0.65	<0.10	0.70	1.5	0.7 - 0.8
Hardness (as $CaCO_3$)	4.0	14.0	4.0	16.0	-	-
Hardness (as $CaCO_3$) (Grains)	0.3	0.99	0.3	1.2	-	-
HAA5 (avg.)	<0.005	0.069	<0.005	0.074	0.080	-
Iron (Total)	<0.066	<0.020	0.180	<0.020	-	≤0.3
Langelier Index @ 5°C	-4.9	-2.4	-5.4	-2.5	-	-
Langelier Index @ 60°C	-4.5	-2.2	-4.4	-2.1	-	-
Lead (Total) (μg/l)	<0.5	<0.5	<0.5	<0.5	10.0	-
Magnesium	0.40	0.50	0.4	0.4	-	-
Manganese (Total)	0.054	0.005	0.074	0.014	-	≤0.05
Mercury (μg/l)	<0.013	<0.013	<0.013	<0.013	1.0	-
Nitrate (as N)	0.06	0.07	0.07	0.06	10.0	-
Nitrite (as N)	<0.01	<0.01	<0.01	<0.01	3.2	-
pH (pH Units)	5.6	7.4	5.4	7.4	-	6.5 - 8.5
Potassium	0.3	0.5	0.4	0.4	-	-
Sodium	4.4	14.5	3.7	11.0	-	≤200
Solids (Total Dissolved)	19.0	53.5	17.0	52.0	-	≤500
Sulfate	4.0	8.5	3.0	13.0	-	≤500
Turbidity (NTU)	0.31	<0.1	0.32	<0.1	**0.2/0.5	≤5
Total Organic Carbon (TOC)	2.5	1.8	4.0	2.0	-	-
THM's (avg.)	-	0.078	-	0.084	0.100	-
Uranium (μg/l)	<0.1	<0.1	<0.1	<0.1	20.0	-
Zinc (Total)	0.010	0.103	0.008	0.110	-	≤5.0

* Aluminum objective is related to type of plant filtration; the aluminum objective for direct filtration (i.e. Pockwock) is <0.20 mg/l and conventional filtration (i.e. Lake Major) is 0.10 mg/l. **0.2/0.5 means the plant must produce water with turbidity of <0.2 NTU 90% of the time and <0.5 NTU 100% of the time, as is required by Provincial Permit. This is more stringent than the Canadian guideline of 0.3/1.0 NTU.

TYPICAL ANALYSIS SMALL SYSTEMS
2009 - 2010

(in milligrams per litre unless shown otherwise)

Note: All Regulatory Compliance Analysis are Processed by Third Party Laboratories

PARAMETERS	BENNERY LAKE		FIVE ISLAND LAKE		GUIDELINES FOR CANADIAN DRINKING WATER QUALITY	
	*Raw Water	Treated Water	Raw Water	Treated Water	Maximum Acceptable Concentration	Objective Concentration
Alkalinity (as $CaCO_3$)	<5.0	36.0	32.0	36.0	-	-
Aluminum	0.096	0.041	<0.010	<0.010	-	0.20/0.10
Ammonia (N)	0.06	<0.05	<0.05	<0.05	-	-
Arsenic	<0.002	<0.002	0.004	0.004	0.010	-
Calcium	2.5	8.9	8.4	8.6	-	-
Chloride	8.0	12.0	4.0	5.0	-	≤250
Chlorate	<0.1	0.3	<0.1	<0.1	1.0	-
Chlorite	<0.1	<0.1	<0.1	<0.1	1.0	-
Colour (True Colour Units)	52.0	<3.0	3.0	3.0	-	≤15.0
Conductivity (μmho/cm)	46.0	125.0	79.0	84.1	-	-
Copper (Total)	0.560	0.030	<0.010	0.010	-	≤1.0
Fluoride	<0.1	<0.1	0.40	0.40	1.5	0.8 - 1.0
Hardness (as $CaCO_3$)	9.0	24.5	25.0	24.5	-	-
Hardness (as $CaCO_3$) (Grains)	0.63	1.7	1.8	1.7	-	-
HAA5 (avg.)	<0.005	0.067	<0.005	<0.005	0.080	-
Iron (Total)	0.29	0.020	<0.020	<0.020	-	≤0.3
Langelier Index @ 5°C	-2.7	-2.2	-2.4	-1.6	-	-
Langelier Index @ 60°C	-2.3	-1.8	-2.2	-1.3	-	-
Lead (Total) (μg/l)	1.1	<0.5	<0.5	<0.5	10.0	-
Magnesium	0.60	0.60	1.0	1.0	-	-
Manganese (Total)	0.10	0.030	<0.010	<0.002	-	≤0.05
Mercury (μg/l)	<0.013	<0.013	<0.013	<0.013	1.0	-
Nitrate and Nitrite (as N)	<0.07	0.06	<0.05	<0.05	10.0	-
pH (pH Units)	6.1	7.2	7.0	7.6	-	6.5 - 8.5
Potassium	0.3	0.4	0.5	0.5	-	-
Sodium	5.0	16.0	5.8	7.1	-	≤200
Solids (Total Dissolved)	24.0	74.0	58.0	63.0	-	≤500
Sulfate	4.0	17.0	2.0	2.3	-	≤500
Turbidity (NTU)	1.47	0.1	<0.1	0.2	**0.2/0.5	≤5
Total Organic Carbon (TOC)	4.0	1.9	<0.5	<0.5	-	-
THM's (avg.)	<0.001	0.081	<0.001	<0.001	0.100	-
Uranium (μg/l)	<0.1	<0.1	9.4	10.1	20.0	-
Zinc (Total)	0.016	0.085	<0.05	0.006	-	≤5.0
PCB (μg/l)	<0.08	<0.1	<0.05	<0.05	-	-
Gross Alpha / Gross Beta (Bq/L)	<0.03 / 0.03	<0.04/<0.03	0.16/0.11	0.25/0.25	0.1 / 1.0	-
Lead-210 (Bq/L)	-	-	-	<0.02	0.2	-

*Facility construction does not allow for raw water sampling. **0.2/0.5 means the plant must produce water with turbidity of <0.2 NTU 90% of the time and <0.5 NTU 100% of the time, as is required by Provincial Permit. This is more stringent than the Canadian guideline of 1.0 NTU.

TYPICAL ANALYSIS SMALL SYSTEMS
2009 - 2010

(in milligrams per litre unless shown otherwise)
Note: All Regulatory Compliance Analysis are Processed by Third Party Laboratories

PARAMETERS	SILVER SANDS		MILLER LAKE		GUIDELINES FOR CANADIAN DRINKING WATER QUALITY	
	Raw Water	**Treated Water**	Raw Water	**Treated Water**	**Maximum Acceptable Concentration**	**Objective Concentration**
Alkalinity (as $CaCO_3$)	62.0	65.3	120.0	49.7	-	-
Aluminum	<0.010	<0.010	<0.005	0.060	-	0.20/0.10
Ammonia (N)	<0.05	<0.05	<0.05	<0.05	-	-
Arsenic	<0.003	<0.002	<0.021	0.006	0.010	-
Calcium	34.0	37.6	72.0	28.9	-	-
Chloride	58.0	63.0	120.0	48.3	-	≤250
Chlorate	<0.01	<0.01	<0.1	<0.1	1.0	-
Chlorite	<0.01	<0.01	<0.1	<0.1	1.0	-
Colour (True Colour Units)	<5.0	<5.0	<5.0	<5.0	-	≤15.0
Conductivity (μmho/cm)	340.0	352.0	720.0	299.0	-	-
Copper (Total)	<0.010	0.004	<0.002	<0.002	-	≤1.0
Fluoride	0.20	0.20	0.30	0.50	1.5	0.8 -1.0
Hardness (as $CaCO_3$)	100.0	117.2	220.0	86.0	-	-
Hardness (as $CaCO_3$) (Grains)	7.0	8.2	15.5	6.1	-	-
HAA5 (avg.)	<0.005	<0.005	<0.005	0.045	0.080	-
Iron (Total)	0.755	<0.020	<0.020	<0.040	-	≤0.3
Langelier Index @ 5°C	-0.8	-1.0	+0.1	-1.1	-	-
Langelier Index @ 60°C	-0.5	-0.7	+0.2	-0.8	-	-
Lead (Total) (μg/l)	<0.5	<0.5	<0.5	<0.5	10.0	-
Magnesium	4.4	4.8	10.0	3.5	-	-
Manganese (Total)	0.890	0.020	0.017	0.005	-	≤0.05
Mercury (μg/l)	<0.013	<0.013	<0.013	<0.013	1.0	-
Nitrate and Nitrite (as N)	<0.05	<0.05	0.06	0.07	10.0	-
pH (pH Units)	7.6	7.4	7.8	7.7	-	6.5 - 8.5
Potassium	0.7	1.7	1.4	0.8	-	-
Sodium	21.0	25.0	48.0	23.7	-	≤200
Solids (Total Dissolved)	185.0	199.2	378.0	163.0	-	≤500
Sulfate	20.0	18.3	35.0	21.0	-	≤500
Turbidity (NTU)	9.5	0.22	0.2	0.20	*0.2/0.5	≤5
Total Organic Carbon (TOC)	<0.5	<0.5	0.6	1.1	-	-
THM's (avg.)	<0.001	0.001	<0.001	0.055	0.100	-
Uranium (μg/l)	<0.1	<0.10	3.4	0.9	20.0	-
Zinc (Total)	0.050	0.069	0.024	0.057	-	≤5.0
PCB (μg/l)	<0.05	<0.05	<0.10	<0.10	-	-
Gross Alpha / Gross Beta (Bq/L)	<0.09 / <0.10	<0.11 / 0.07	0.35 / 0.29	0.16 / 0.12	0.1 / 1.0	-
Lead-210 (Bq/L)	-	-	-	-	0.2	-

*0.2/0.5 means the plant must produce water with turbidity of <0.2 NTU 90% of the time and <0.5 NTU 100% of the time, as is required by Provincial Permit. This is more stringent than the Canadian guideline of 1.0 NTU.

TYPICAL ANALYSIS SMALL SYSTEMS
2009 - 2010

(in milligrams per litre unless shown otherwise)
Note: All Regulatory Compliance Analysis are Processed by Third Party Laboratories

PARAMETERS	MIDDLE MUSQUODOBOIT		COLLINS PARK		GUIDELINES FOR CANADIAN DRINKING WATER QUALITY	
	Raw Water	Treated Water	Raw Water	Treated Water	Maximum Acceptable Concentration	Objective Concentration
Alkalinity (as $CaCO_3$)	55.0	52.7	13.0	14.6	-	-
Aluminum	0.075	0.175	0.062	0.065	-	0.20/0.10
Ammonia (N)	<0.07	<0.05	<0.05	<0.05	-	-
Arsenic	<0.002	<0.002	0.003	<0.002	0.010	-
Calcium	13.3	14.5	6.8	6.4	-	-
Chloride	7.3	9.0	39.4	46.5	-	≤250
Chlorate	<0.1	<0.1	<0.1	0.50	1.0	-
Chlorite	<0.1	<0.1	<0.1	<0.1	1.0	-
Colour (True Colour Units)	<5.0	<5.0	31.4	11.0	-	≤15.0
Conductivity (μmho/cm)	119.0	150.0	178.6	183.0	-	-
Copper (Total)	0.002	0.003	0.002	0.016	-	≤1.0
Fluoride	<0.1	<0.1	<0.10	<0.10	1.5	0.8 -1.0
Hardness (as $CaCO_3$)	48.2	57.3	21.0	19.6	-	-
Hardness (as $CaCO_3$) (Grains)	3.4	4.0	1.5	1.4	-	-
HAA5 (avg.)	<0.005	<0.005	<0.005	0.190	0.080	-
Iron (Total)	0.034	<0.020	0.167	0.158	-	≤0.3
Langelier Index @ 5°C	-2.3	-2.1	-2.8	-2.6	-	-
Langelier Index @ 60°C	-2.0	-1.8	-2.5	-2.3	-	-
Lead (Total) (μg/l)	0.8	<0.5	<0.5	<0.5	10.0	-
Magnesium	3.6	4.8	1.0	0.8	-	-
Manganese (Total)	0.003	<0.002	0.073	0.040	-	≤0.05
Mercury (μg/l)	<0.013	<0.013	<0.013	<0.013	1.0	-
Nitrate and Nitrite (as N)	0.70	0.60	0.20	0.21	10.0	-
pH (pH Units)	6.8	6.8	6.9	7.0	-	6.5 - 8.5
Potassium	1.0	1.6	1.2	1.1	-	-
Sodium	5.1	6.7	25.0	30.0	-	≤200
Solids (Total Dissolved)	73.7	88.2	92.0	106.0	-	≤500
Sulfate	15.5	13.2	8.3	8.3	-	≤500
Turbidity (NTU)	0.44	0.37	0.74	0.90	*0.2/0.5	≤5
Total Organic Carbon (TOC)	0.5	0.6	4.3	3.9	-	-
THM's (avg.)	<0.001	0.007	<0.001	0.177	0.100	-
Uranium (μg/l)	<0.10	<0.10	<0.10	<0.10	20.0	-
Zinc (Total)	0.015	0.016	0.011	0.010	-	≤5.0
PCB (μg/l)	<0.10	<0.10	<0.10	<0.10	-	-
Gross Alpha / Gross Beta (Bq/L)	<0.05 / 0.06	<0.05 / 0.06	<0.04 / 0.07	<0.04 / 0.07	0.1 / 1.0	-
Lead-210 (Bq/L)	-	-	-	-	0.2	-

*0.2/0.5 means the plant must produce water with turbidity of <0.2 NTU 90% of the time and <0.5 NTU 100% of the time, as is required by Provincial Permit. This is more stringent than the Canadian guideline of 1.0 NTU.

The Halifax Water Dragon Boat Race team hits the water for a good cause

Financial Statements

(as revised, see note 14)
(NSUARB Accounting and Reporting Handbook)

Halifax Regional Water Commission
March 31, 2010

Contents **Page**

Halifax Regional Water Commission
Statement of operations

Year ended March 31, 2010
(in thousands)
(as revised, see note 14)

	2010		2009
	Budget	**Actual**	Actual
Operating revenues			
Water service	$ 31,093	**$ 31,115**	$ 30,957
Wastewater/stormwater services	42,962	**42,456**	42,409
Fire protection	9,502	**9,502**	9,217
Sprinkler service and small systems	1,344	**1,355**	1,772
Airport aerotech system (schedule E)	1,416	**1,456**	999
Other operating revenue	1,717	**1,282**	1,564
	88,034	**87,166**	86,918
Operating expenditures			
Water supply and treatment	7,223	**7,042**	6,348
Water transmission and distribution	8,662	**7,555**	7,293
Wastewater/stormwater collection	14,657	**13,410**	12,155
Wastewater treatment	15,809	**10,090**	12,191
Environmental pollution control	2,062	**1,715**	1,126
Engineering and information services	4,895	**4,772**	3,998
Customer service	3,364	**2,962**	3,101
Airport aerotech system (schedule E)	1,360	**1,275**	1,197
Administration and pension	3,920	**4,147**	4,200
Depreciation	6,878	**6,333**	5,857
	68,830	**59,301**	57,466
Operating profit	19,204	**27,865**	29,452
Financial and other revenues			
Interest	450	**269**	1,249
Other	2,293	**2,361**	2,294
	2,743	**2,630**	3,543
	21,947	**30,495**	32,995
Financial and other expenditures			
Interest on long term debt	9,340	**9,026**	9,857
Repayment of long term debt	12,660	**13,076**	12,608
Amortization of debt discount	61	**60**	54
Grant in lieu of taxes (note 8)	3,700	**3,626**	3,622
	25,761	**25,788**	26,141
Excess of revenues over expenditures	$ (3,814)	**$ 4,707**	$ 6,854

See accompanying notes to the financial statements.

Halifax Regional Water Commission
Balance sheet

Year ended March 31, 2010
(in thousands)
(as revised, see note 14)

	2010	2009
Assets		
Current		
Cash and cash equivalents	**$ 22,836**	$ 27,282
Receivables		
Customer charges and contractual	**22,673**	18,973
Halifax Regional Municipality	**11,338**	-
Materials and supplies	**1,073**	1,101
Prepaids	**548**	620
	58,468	47,976
Receivable from Halifax Regional Municipality	**190**	176
Plant under construction	**29,680**	47,984
Utility plant in service (schedule A)	**670,921**	482,473
	$ 759,259	$ 578,609
Liabilities		
Current		
Payables and accruals		
Trade	**$ 12,673**	$ 8,596
Interest on long term debt	**1,659**	1,317
Halifax Regional Municipality	**-**	7,295
Contractor and customer deposits	**145**	110
Current portion of long term debt (schedule B)	**13,211**	4,742
Unearned revenue	**95**	77
	27,783	22,137
Long term debt (schedule B)	**155,958**	58,374
Deferred pension liability (note 4)	**2,585**	2,726
Accrued post retirement benefits (note 4)	**872**	948
Accrued long term service costs (notes 2(h) & 5)	**2,447**	2,252
	189,645	86,437
Equity		
Special purpose reserves (note 7)	**20,357**	22,450
Contributed capital surplus (page 5)	**525,916**	451,088
Operating surplus (page 5)	**23,341**	18,634
	569,614	492,172
	$ 759,259	$ 578,609

Contingent liabilities (note 3)
Commitments (note 8)
Subsequent event (note 13)

On behalf of the Board

Commissioner

Commissioner

See accompanying notes to the financial statements.

Halifax Regional Water Commission
Statement of cash flows

Year ended March 31, 2010
(in thousands)
(as revised, see note 14)

	2010	2009
Increase (decrease) in cash and cash equivalents		
Operating		
Excess of revenues over expenditures	**$ 4,707**	$ 6,854
Depreciation and amortization	**6,923**	6,245
Deferred pension liability	**(141)**	437
Decrease in accrued post retirement benefits	**(76)**	(43)
Repayment of long term debt included in statement of operations	**13,076**	12,608
Increase in accrued long term service costs	**196**	111
Grant in lieu of taxes	3,626	3,623
	28,311	29,835
Change in non-cash operating working capital items (note 9)	**849**	3,583
	29,160	33,418
Financing		
Proceeds from issuance of long term debt	**15,250**	2,000
Receivable (payable) from Halifax Regional Municipality	**(14,958)**	(1,902)
Receivable from Halifax Regional Municipality	**(14)**	14
Contributions to reserves	**2,474**	4,010
Deferred charges	**53**	(39)
Principal repayment on Harbour Solutions long term debt	**(6,500)**	(6,500)
Long term debt appropriations	**-**	(33)
Principal repayments of long term debt	**(8,556)**	(5,721)
	(12,251)	(8,171)
Investing		
Capital cost contributions	**2,377**	811
Proceeds from sale of plant in service assets	**112**	779
Purchase of capital work in progress	**(9,748)**	(16,807)
Purchase of plant in service	**(14,096)**	(11,036)
	(21,355)	(26,253)
Increase (decrease) in cash and cash equivalents	**(4,446)**	(1,006)
Cash and cash equivalents, beginning of year	**27,282**	28,288
Cash and cash equivalents, end of year	**$ 22,836**	$ 27,282

See accompanying notes to the financial statements.

Halifax Regional Water Commission
Statement of contributed capital surplus

Year ended March 31, 2010
(in thousands)
(as revised, see note 14)

	2010	2009
Contributed capital surplus, beginning of year	**$ 451,088**	$ 439,223
Contributions to plant in service	**18,251**	7,202
Transfer from special purpose reserve (note 7)	**8,168**	1,155
Debt repayment	**15,538**	6,140
Loss on disposal of assets	**14**	(116)
Gain on sale of land	**-**	704
Wastewater capital surplus transferred (note 12)	**42,091**	-
	535,150	454,308
Less: amortization (note 2(b))	**9,234**	3,220
Contributed capital surplus, end of year	**$ 525,916**	$ 451,088

Halifax Regional Water Commission
Statement of operating surplus

Year ended March 31, 2010
(in thousands)
(as revised, see note 14)

	2010	2009
Operating surplus, beginning of year	**$ 18,634**	$ 11,915
Excess of revenues over expenditures	**4,707**	6,854
Stewardship contributions charged to current surplus	**-**	(135)
Operating surplus, end of year	**$ 23,341**	$ 18,634

See accompanying notes to the financial statements.

(in thousands)

1. NATURE OF OPERATIONS

The Commission is a public utility owned by the Halifax Regional Municipality (HRM). The Commission is responsible for the supply of municipal water, wastewater and stormwater services to the residents of the HRM.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Regulation

In matters of administrative policy relating to rates, capital expenditures, depreciation rates and accounting matters, the Commission is subject to the jurisdiction of the Nova Scotia Utility and Review Board (NSUARB). These statements have been prepared in accordance with the Accounting and Reporting Handbook for Water Utilities issued by the NSUARB. There are differences in the accounting treatment of certain transactions from Canadian generally accepted accounting principles in the areas of principal debt payments and gains and losses on the disposal of fixed assets.

(b) Utility plant

Utility plant in service (schedule A) is recorded at cost, including interest capitalized on the financing of major projects during construction. Contributions receivable for capital expenditures are credited to the contributed capital surplus account. Structures and land taken out of service are removed from utility plant in service and placed in plant not in service at cost less accumulated depreciation. Losses or gains related to assets retired, demolished or sold are charged or credited to contributed capital surplus for the period.

The Commission has received approval from the NSUARB to record contributed assets. The estimated value of contributed assets is credited to the contributed capital surplus account. Commencing in fiscal 2005, contributed assets are depreciated over their estimated remaining useful lives. The related contributed capital surplus is being amortized on the same basis as the contributed assets to which it relates.

The Commission has implemented a policy to account for infrastructure extensions into its water and wastewater/stormwater service districts, which for the most part will be recovered by capital contributions from developers in current and future periods. The objective is for these extensions to be cost neutral to the Commission with regard to current customers, unless there is a benefit to them. The related infrastructure extensions may include costs incurred by the Commission to provide additional capacity, not required at the present time, but undertaken to allow for future expansion. The estimated portion of these costs that do not benefit existing customers are recorded as contributed assets. The capital cost contribution is credited to contributed capital surplus when receivable and estimates adjusted, if required, when the development into the water service area is complete. The capital cost contributions are subject to approval by the NSUARB.

The utility plant acquired with the transfer of the wastewater/stormwater operations from HRM has been recorded at historical cost as recorded by HRM, less estimated depreciation to the date of acquisition. Refer to note 12 for further details relating to this transaction.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, net of bank indebtedness.

(d) Depreciation

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Depreciation is provided on assets for one half of the year in the year of acquisition.

The estimated useful lives for the major classifications of utility plant in service are as follows:

Structures and improvements	50 to 100 years
Pumping equipment	5 to 30 years
Purification equipment	20 to 50 years
Water and wastewater/stormwater mains	60 to 100 years
Services	50 to 60 years
Meters	20 to 25 years
Hydrants	50 to 80 years
Tools and work equipment	5 to 30 years
Office equipment and furniture and transportation equipment	3 to 10 years

(e) Depreciation fund

The Commission does not maintain a depreciation fund. The Commission has received NSUARB approval for exemption from setting up a depreciation fund as long as net depreciable additions to plant exceed the depreciation charged.

(f) Materials and supplies

Materials and supplies inventories are carried at the lower of cost and net realizable value with cost being determined on a moving average cost basis. The cost of materials and supplies recognized as an expense during the period was $.318.

(g) Revenues and expenditures

All revenues and expenditures are recorded on an accrual basis. Receivables include outstanding revenue billed by the Commission and estimated metered revenue not billed.

(h) Long term debt

Interest on long term debt is recorded on an accrual basis. Debt issue costs are deferred and amortized over the term of the debt to which it relates.

(i) Accrued long term service costs

The Commission provides a one-time long term service award to employees at retirement or resignation after ten years of continuous service based on three days pay for each completed year of service. The Commission performs an actuarial valuation to measure the liability at year end (note 5).

(j) Reserves

Certain funds within the reserves can be used for capital expenditures only with the approval of the NSUARB. The Wastewater and Stormwater reserve does not require approval from the NSUARB for capital expenditures. System connection charges approved by the NSUARB are added to these reserves as collected. The reserves are to be used for capital expenditures on the wastewater/stormwater system (note 7).

(k) Use of estimates

In preparing the Commission's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures during the period. Significant estimates and assumptions are not limited to but include the following.

Specifically, at year end, revenue from water and wastewater services have been earned but not yet billed due to the timing of the billing cycles. Management estimates the unbilled revenue accrual based on historic billing trends.

Management assumptions are also used in the actuarial determination of the deferred pension liability and the accrued post retirement benefit. These assumptions are outlined in note 4 of the financial statements.

Actual results could differ from these estimates.

(l) Financial instruments

The Commission is required to initially recognize and measure its financial assets and liabilities at fair value. Loans and receivables, held to maturity financial assets and other financial liabilities are subsequently measured at cost or amortized cost.

The Commission classifies financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurements. Classification choices for financial assets include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings; b) held to maturity - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available for sale - measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired.

Classification choices for financial liabilities include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings and b) other - measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

The Commission's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash	Held for trading	Fair value
Cash equivalents	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost
Receivable from HRM	Loans and receivables	Amortized cost
Payables and accruals	Other liabilities	Amortized cost
Payable to HRM	Other liabilities	Amortized cost
Long term debt	Other liabilities	Amortized cost

Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from financial instruments. The fair value of the Commission's financial instruments approximates their carrying values.

3. CONTINGENT LIABILITIES

As a condition of the sale of a property, the Commission indemnified the purchaser from claims or actions resulting from migration of halocarbons. The environmental risk is assessed to be low and the likelihood of any related liability is not determinable.

The Commission has been named along with the contractor for a flooding incident that occurred as a result of an overflow of wastewater at the pumping station associated with the HHS project. The claim is being defended by the Commission's insurer and the Commission believes its exposure in this regard is minimal.

The Commission has several outstanding grievances for alleged violations of the collective agreements with its union. These grievances are working their way through the grievance process provided for in the collective agreements. The financial risk of these grievances is not considered material.

4. PENSION PLAN AND POST RETIREMENT BENEFITS

The Commission maintains a contributory defined benefit pension plan for all employees and offers post retirement health and insurance benefits to its employees. The pension plan provides pensions based upon length of service and best five years' earnings. The Commission follows the recommendations of Section 3461 "Employee Future Benefits" of the CICA Handbook.

The Commission is responsible for funding the employer share of the

(in thousands)

contributions for certain employees that transferred from HRM as of August 1, 2007.

Employees who retired prior to July 1, 1998 have extended health benefits coverage for life and drug coverage until age 65. Employees who retire after July 1, 1998 and before December 31, 2008 have coverage for drug, extended health, dental and life insurance until age 65 on a 50/50 cost shared basis. Extended health coverage for these retirees and their spouses after the age of 65 is available on an optional basis at 100% retiree cost.

Information about the Commission's plans, based on an accounting valuation as at March 31, 2010, is as follows:

	2010 Pension Plan	2009 Pension Plan	**2010 Post Retirement Benefits**	2009 Post Retirement Benefits
Accrued benefit obligation				
Balance, beginning of year	**$ 50,458**	$ 63,226	**$ 634**	$ 1,014
Current service cost	**2,124**	2,745	**-**	3
Interest cost	**3,775**	3,551	**39**	51
Actuarial loss (gain)	**16,728**	(16,693)	**-**	-
Benefit payments	**(2,401)**	(2,377)	**(100)**	(97)
Transfers in	**32**	6	**-**	-
Actuarial gain	**-**	-	**56**	(337)
Balance, end of year	**70,716**	50,458	**629**	634
Plan assets				
Balance, beginning of year	**41,417**	49,231	**-**	-
Actual return (loss) on plan assets	**7,835**	(8,220)	**-**	-
Transfers in	**32**	6	**-**	-
Benefits paid	**(2,401)**	(2,377)	**-**	-
Contributions: Employee	**1,286**	1,061	**-**	-
Employer	**1,936**	1,716	**-**	-
Balance, end of year	**50,105**	41,417	**-**	-
Accounting valuation – plan deficit	**$ 20,611**	$ 9,041	**$ 629**	$ 634
Unamortized transitional asset/(liability)	**$ 1,375**	$ 1,571	**$ -**	$ -
Unamortized experience gain/(loss)	**(18,478)**	(6,867)	**243**	314
Unamortized plan amendments	**(923)**	(1,019)	**-**	-
	2,585	2,726	**872**	948
Accrued liability, beginning of year	**$ 2,726**	$ 2,289	**$ 948**	$ 992
Expense for 2009/2010	**1,795**	2,153	**24**	53
Employer contributions for 2009/2010	**(1,936)**	(1,716)	**(100)**	(97)
Accrued liability recognized	**$ 2,585**	$ 2,726	**$ 872**	$ 948

Administration and pension expense includes pension expense of $1,795 (2008 - $2,153). This amount includes the amortization of experience gains and losses and plan improvements. Amortization is calculated on a straight-line basis over the estimated average remaining service life of the employee group, currently estimated at 17 years.

(in thousands)

The following assumptions have been used in the actuarial determination of the accrued benefit liability at March 31, 2010:

	Pension Plan 2010	Pension Plan 2009	**Post Retirement Benefits 2010**	Post Retirement Benefits 2009
Discount rate	**5.7%**	7.50%	**6.75%**	6.75%
Expected return on plan assets	**6.75%**	6.75%	**N/A**	N/A
Rate of compensation increase	**3.75%**	3.75%	**3.75%**	3.75%
Expenses for life benefits as a % of claims	**N/A**	N/A	**5.10%**	5-10%
Health benefit inflation per year	**N/A**	N/A	**5.10%**	6-8%
Dental benefit inflation per year	**N/A**	N/A	**5%**	5%

Funding for the pension plan is based on regular actuarial reviews, the next of which is scheduled for January 1, 2011.

5. PRE-RETIREMENT LEAVE (LONG TERM SERVICE AWARD)

The Commission has a non-funded pre-retirement leave benefit that is payable on retirement, termination or death if the employee has at least 10 years of continuous service. The benefit is equal to three days' pay for each completed year of service, up to a maximum of six month's salary.

	2010	2009
Pre-retirement leave	$ 2,447	$ 2,252

The following assumptions have been used in the valuation of the Halifax Regional Water Commission's pre-retirement leave benefit at March 31, 2010:

	2010	2009
Pre-retirement benefits		
Discount rate	5.70%	7.50%
Rate of compensation increase	3.75%	3.75%

6. RETURN ON RATE BASE

	2010	2009
Rate of return on rate base	4.47%	5.15%

The return on rate base is calculated for water service. The wastewater/stormwater assets were transferred to the Commission in exchange for the debt servicing responsibilities associated with these facilities and therefore were not included in rate base.

(in thousands)

7. SPECIAL PURPOSE RESERVES

	Bomont Capital Reserve	Sewer Redevelopment Reserve	Wastewater Infrastructure Reserve	Wastewater & Stormwater Reserve	**2010 Total**	2009 Total
Reserve, beginning of year	$ 190	$ 9,665	$ 6,581	$ 6,014	**$ 22,450**	$ 15,995
Additions	-	-	-	3,600	**3,600**	3,600
Transfer from HRM	-	-	-	-	**-**	966
Contributions and interest	-	1,038	1,436	-	**2,474**	3,044
Expenditures	-	(5,991)	-	(2,176)	**(8,167)**	(1,155)
Reserve, end of year	$ 190	$ 4,712	$ 8,017	$ 7,438	**$ 20,357**	$ 22,450

8. COMMITMENTS

The Commission has reached an agreement with HRM for renewal of the dividend/grant in lieu of taxes for the years 2010/11 to 2014/15. This agreement requires the approval of the NSUARB and will be considered as part of the rate application which will be considered at a public hearing in September 2010. If the agreement is approved, the Commission would be committed to a payment of $3,749 for the 2010-2011 fiscal year.

The Commission is committed to acquire the remaining assets and associated debt of the Halifax Harbour Solutions Project ("HHS Project") from HRM as part of a transfer agreement. The HHS is a $334,000 project to clean the Halifax harbour. It consists of three wastewater treatment plants and associated collection systems as well as a biosolids processing facility. The debt servicing associated with the HHS Project is being funded by the Commission from the wastewater/stormwater rates. Under the terms of the transfer agreement, the HHS facilities will be transferred to the Commission between 60 and 180 days following substantial completion of each phase of the project.

The remaining components of the HHS Project will transfer to the Commission on August 1, 2010. The carrying value of assets to be transferred is $187,354.

9. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
Changes in non-cash operating working capital items		
Receivables	**$ (3,700)**	$ 167
Materials and supplies	**28**	168
Prepaids	**72**	(216)
Payables and accruals	**4,396**	1,569
Contractor and consumer deposits	**35**	(23)
Unearned revenue	**18**	16
	$ 849	$ 1,681

During the year, plant in service of $21,047 (2009 - $8,677) was contributed and recorded as donated assets.

Interest paid during the year was $9,026 (2009 - $9,857).

(in thousands)

10. CAPITAL MANAGEMENT

The Commissions' objective when managing capital is to ensure sufficient liquidity to support its financial obligations and execute its operating and capital plans. The Commission monitors and makes adjustments to its capital structure through additional borrowings of long term debt which are then used to finance capital projects.

The Commission considers its total capitalization to include all long term debt and total equity. The calculation is set out in the following table:

		2010		2009
Long-term debt (current portion)	**$**	**13,211**	$	4,742
Long-term debt		**155,958**		58,374
Funded debt		**169,169**		63,116
Equity		**569,614**		492,172
Capital under management	**$**	**738,783**	$	555,288

The Commission is a regulated utility and is subject to the regulations of the NSUARB. As part of this regulation, the Commission must obtain approval by the NSUARB for all borrowings. The Commission has obtained regulatory approval for all borrowings during the fiscal year. The Commission is not subject to financial borrowing covenants.

11. COMPARATIVE FIGURES

Certain of the comparative figures for 2009 have been reclassified to conform with the financial statement presentation adopted for 2010.

12. RELATED PARTY TRANSACTIONS

On June 1, 2009, certain components of the Halifax Harbour Solutions Project ("HHS Project") were transferred to the Commission from HRM. This transfer was approved by the NSUARB. The Commission assumed the responsibility for debt servicing associated with the HHS Project assets that were transferred. This transaction is non-cash and was recorded at carrying value in accordance with the CICA Handbook Section 3840 "Related Party Transactions". The utility plant transferred has been recorded at HRM's recorded net book value of $147,707. The associated debt transferred to the Commission from HRM was $105,616 and the contributed capital surplus transferred was $42,091.

Amounts receivable from and payable to HRM have normal credit terms.

13. SUBSEQUENT EVENT

Subject to the approval of the NSUARB the Commission and HRM have reached agreement on the transfer of the remaining components of the Halifax Harbour Solutions (HHS) project including the HHS office effective August 1, 2010. The remaining components reached substantial completion after the end of the fiscal year and the repairs to the Halifax sewage treatment plant were completed and put back in operation prior to the transfer. The carrying value of these components is $187,354.

14. OTHER MATTERS

On July 21, 2010, Grant Thornton LLP reported on the March 31, 2010 financial statements of the Commission. This report was issued prior to the discovery of the following items:

a) The net book value of components of the HHS Project transferred to the Commission were previously recorded at $161,061. Based on revised net book value information provided by HRM, this amount has been revised to $147,707 and utility plant in service has been adjusted accordingly (a reduction of $13,354).

b) The associated debt transferred to the Commission from HRM relating to the HHS Project has been adjusted to $105,616, an increase of $1,592.

c) As a result of the adjustments noted in a) and b), the contributed capital surplus associated with the transfer of assets relating to the HHS Project has been adjusted to $42,091, a reduction of $14,946.

Halifax Regional Water Commission
Schedule of utility plant in service

Schedule A

Year ended March 31, 2010
(in thousands)
(as revised, see note 14)

	Cost	Accumulated Depreciation	**2010 Net Book Value**	2009 Net Book Value
Water				
Intangible plant	$ 546	$ 56	**$ 490**	$ 275
Land and land rights	15,660	-	**15,660**	15,660
Structures and improvements	74,887	19,969	**54,918**	52,753
Pumping equipment	7,918	4,521	**3,397**	3,641
Purification equipment	25,080	12,894	**12,186**	13,297
Transmission and distribution mains	263,493	54,180	**209,313**	197,499
Services	26,412	3,136	**23,276**	22,471
Meters	10,111	2,549	**7,562**	7,062
Hydrants	15,398	2,081	**13,317**	12,877
Tools and work equipment	2,155	1,460	**695**	650
Transportation equipment	4,440	1,675	**2,765**	1,427
Office equipment and furniture	7,592	4,934	**2,658**	2,741
Airport Aerotech system	407	77	**330**	329
Small systems	3,980	522	**3,458**	3,584
	458,079	108,054	**350,025**	334,266
Wastewater/stormwater				
Wastewater intangibles	4,001	530	**3,471**	$ 2,602
Land and land rights	966	-	**966**	932
Structures and improvements	106,327	30,734	**75,593**	33,593
Equipment	58,492	2,940	**55,552**	5,249
Manholes	1,049	3	**1,046**	74
Collection system	220,947	53,348	**167,599**	98,594
Sewer laterals	4,762	32	**4,730**	1,760
Outfalls	7,141	66	**7,075**	1,888
Transportation equipment	5,386	5,282	**104**	(452)
Aerotech	2,391	95	**2,296**	2,391
Small utilities	2,211	647	**1,564**	1,576
Office equipment	1,001	101	**900**	-
	414,674	93,778	**320,896**	148,207
Total	$ 872,753	$ 201,832	**$ 670,921**	$ 482,473

During the period the amount of $119 of interest was capitalized to Utility Plant in Service.

Schedule B

Halifax Regional Water Commission
Schedule of long term debt

Year ended March 31, 2010
(in thousands)
(as revised, see note 14)

	Interest Rate	Final Maturity	Balance Remaining 2010	2009
Debentures				
Municipal Finance Corporation - Water				
Debenture 96 A 1	5.500% to 8.000%	2016	**$ 560**	$ 640
Debenture 98 A 1	5.625% to 6.125%	2019	**26,288**	28,424
Debenture 99 A 1	6.500% to 6.750%	2009	**2,250**	2,475
Debenture 20 A 1	6.125% to 6.375%	2010	**1,925**	2,100
Debenture 21 A 1	5.250% to 6.250%	2011	**2,303**	2,704
Debenture 22 A 1	4.250% to 6.125%	2012	**2,930**	3,240
Debenture 23 A 1	3.500% to 5.750%	2018	**1,400**	1,500
Debenture 25 A 1	2.970% to 4.560%	2015	**4,000**	4,250
Debenture 26 A 1	4.350% to 4.880%	2016	**3,400**	3,600
Debenture 27 A 1	4.650% to 5.010%	2017	**7,577**	8,342
Debenture 28 A 1	3.750% to 5.088%	2023	**1,900**	2,000
Municipal Finance Corporation – Wastewater/stormwater				
Debenture 98 B 1	5.000% to 5.625%	2008	**-**	14
Debenture 99 A 1	5.250% to 5.375%	2010	**256**	320
Debenture 99 B 1	5.825% to 5.825%	2008	**-**	527
Debenture 20 A 1	6.750% to 6.875%	2010	**17**	35
Debenture 20 B 1	6.250% to 6.375%	2010	**14**	28
Debenture 21 A 1	8.000% to 8.000%	2012	**171**	256
Debenture 21 B 1	3.125% to 6.000%	2011	**31**	46
Debenture 22 A 1	3.375% to 6.125%	2012	**263**	351
Debenture 22 B 1	3.250% to 5.625%	2012	**133**	177
Debenture 23 A 1	3.500% to 5.375%	2013	**182**	227
Debenture 23 B 1	2.750% to 5.000%	2013	**17**	22
Debenture 24 A 1	2.550% to 5.450%	2014	**416**	499
Debenture 24 B 1	2.840% to 5.940%	2024	**82,672**	-
Debenture 24 C 1	7.000% to 7.000%	2015	**293**	352
Debenture 25 A 1	2.970% to 4.560%	2015	**1,043**	377
Debenture 25 B 1	3.630% to 4.830%	2020	**203**	236
Debenture 26 A 1	4.350% to 4.880%	2016	**879**	204
Debenture 26 B 1	4.265% to 4.410%	2016	**34**	39
Debenture 27 A 1	4.450% to 4.625%	2017	**525**	591
Federation of Canadian Municipalities – Wastewater/stormwater				
Debenture GMIF 1599	1.330% to 3.127%	2014	**15,000**	-
Municipal Finance Corporation – Halifax Harbour Solutions				
Debenture 29 A 1	0.900% to 4.329%	2019	**13,000**	-
			169,682	63,576
Less: debt issue costs			**513**	460
			169,169	63,116
Less: amount payable within one year			**13,211**	4,742
			$ 155,958	$ 58,374

Wastewater/stormwater debt is repayable directly to HRM. The debentures are repayable in fixed annual or semi-annual principal instalments plus interest payable semi-annually. Principal instalments including Halifax Harbour Solutions debt repayment for the next five years are as follows:

2011	$ 13,211
2012	$ 13,102
2013	$ 12,939
2014	$ 12,897
2015	$ 13,060

Halifax Regional Water Commission
Schedule of operations for water service

Schedule C

Year ended March 31, 2010
(in thousands)
(as revised, see note 14)

	2010		2009
	Budget	**Actual**	Actual
Operating revenues			
Water service	$ 31,093	**$ 31,115**	$ 30,957
Fire protection	9,502	**9,502**	9,217
Sprinkler service and small systems	519	**526**	529
Other operating revenue			
Customer late payment fees	155	**144**	153
Miscellaneous	286	**264**	258
	41,555	**41,551**	41,114
Operating expenditures			
Water supply and treatment	7,223	**7,042**	6,348
Water transmission and distribution	8,662	**7,555**	7,293
Engineering and information services	2,447	**2,317**	2,066
Environmental services	600	**459**	153
Customer service	1,717	**1,509**	1,584
Administration and pension	2,281	**2,414**	2,340
Depreciation	6,450	**6,028**	5,747
	29,380	**27,324**	25,531
Operating profit	12,175	**14,227**	15,583
Financial and other revenues			
Interest	225	**137**	621
Other	100	**235**	161
	325	**372**	782
Financial and other expenditures			
Interest on long term debt	3,220	**3,191**	3,422
Repayment of long term debt	4,780	**4,780**	4,580
Transfer to wastewater/stormwater operations			1,500
Amortization of debt discount	55	**56**	54
Grant in lieu of taxes	3,700	**3,626**	3,622
	11,755	**11,653**	13,178
Excess of revenues over expenditures	$ 745	**$ 2,946**	$ 3,187

Schedule D

Halifax Regional Water Commission
Notes to the financial statements

Year ended March 31, 2010
(in thousands)
(as revised, see note 14)

	2010		2009
	Budget	**Actual**	Actual
Operating revenues			
Wastewater/stormwater services	$ 42,963	**$ 42,456**	$ 42,409
Sprinkler service and small systems	825	**829**	1,242
Other operating revenue			
Sludge tipping	800	**828**	759
Customer late payment fees	127	**122**	129
Miscellaneous	350	**(75)**	265
	45,065	**44,160**	44,804
Operating expenditures			
Wastewater/stormwater collection	14,657	**13,410**	12,155
Wastewater treatment	15,809	**10,090**	12,191
Engineering and information services	2,448	**2,455**	1,932
Environmental pollution control	1,462	**1,256**	973
Customer service	1,650	**1,452**	1,518
Administration and pension	1,638	**1,733**	1,860
Depreciation	428	**305**	108
	38,092	**30,701**	30,737
Operating profit	6,973	**13,459**	14,067
Financial and other revenues			
Interest	225	**132**	628
Other	2,194	**2,126**	2,133
	2,419	**2,258**	2,761
Financial and other expenditures			
Interest on long term debt	6,120	**5,835**	6,434
Repayment of long term debt	7,879	**8,296**	8,027
Transfer from water operations	-	**-**	(1,500)
Amortization of debt discount	6	**4**	-
	14,005	**14,135**	12,961
Excess of revenues over expenditures	$ (4,613)	**$ 1,582**	$ 3,867

Halifax Regional Water Commission
Airport aerotech system
Schedule of operations for water service

Schedule E

Year ended March 31, 2010
(in thousands) (as revised, see note 14)

	2010 Budget	2010 Actual	2009 Actual
Operating revenues			
Metered sales	$ 561	**$ 562**	$ 354
Fire protection	142	**142**	150
Customer late payment charges	1	**-**	1
Miscellaneous	4	**5**	-
	708	**709**	505
Operating expenditures			
Plant operations	583	**576**	510
Pumping stations	31	**21**	29
Transmission and distribution	105	**77**	80
Administration and general	-	**-**	22
Depreciation	32	**36**	12
	751	**710**	653
Excess of expenditures over revenues	$ (43)	**$ (1)**	$ (148)

Halifax Regional Water Commission
Airport aerotech system
Schedule of operations for wastewater/stormwater services

Year ended March 31, 2010
(in thousands) (as revised, see note 14)

	2010 Budget	2010 Actual	2009 Actual
Operating revenues			
Metered sales	$ 555	**$ 576**	$ 356
Dewater facility/sludge lagoon	95	**95**	95
Airline effluent	20	**40**	41
Customer late payment charges	1	**-**	1
rea charges	38	**36**	-
	709	**747**	493
Operating expenditures			
Wastewater treatment	536	**493**	476
Wastewater/stormwater collection	74	**64**	45
Pumping stations	-	**-**	20
Depreciation	-	**8**	4
	610	**565**	545
Excess of revenue over expenditures (expenditures over revenues)	$ 99	**$ 182**	$ (52)