

clarity

SASKWATER ANNUAL REPORT 2006



SaskWater
The Quality Advantage

The background is a deep blue with a subtle pattern of concentric circles and ripples, suggesting water. A thin, white horizontal line with rounded ends spans the width of the page, positioned above the text.

clarity

noun - the quality of being clear; precise; lucid;
transparent; intelligible; pure; certain; definite

As Saskatchewan's Crown water utility, SaskWater provides competitively-priced, quality water and wastewater services to 55 municipal customers, 34 industrial customers and 51 public water boards, user groups, co-operatives and pipeline associations.

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SaskWater owns seven water treatment plants, three wastewater facilities, 30 booster stations and over 770 km of pipeline. We also maintain customer-owned systems and provide operating training to Saskatchewan First Nations and northern communities.

SaskWater currently owns and/or operates potable and non-potable waterworks in the following locations/regions:

- 1 Pierceland
- 2 Paynton
- 3 Meota
- 4 Codette Lake Regional
- 5 Wakaw-Humboldt
- 6 Saskatoon
- 7 Saskatoon Southeast
- 8 Elbow
- 9 Buffalo Pound
- 10 Gravelbourg
- 11 White City
- 12 Edenwold
- 13 Halbrite



Minister's message

Letter of Transmittal

Moose Jaw, March 2007

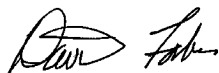
To His Honour
Dr. Gordon L. Barnhart
Lieutenant-Governor of Saskatchewan
Province of Saskatchewan

Dear Sir:

I have the honour to submit herewith the Annual Report of the Saskatchewan Water Corporation for the year ended December 31, 2006. The report includes the financial statements of the year in the form approved by the Treasury Board, duly certified by the auditors of the Saskatchewan Water Corporation, all in accordance with The Saskatchewan Water Corporation Act.

I have the honour to be your obedient servant.

Sincerely,



David Forbes
Minister Responsible
SaskWater

Message from the Minister

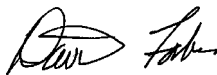
SaskWater's vision is clear – to be a leading provider of safe, reliable, quality water and wastewater services to the people of Saskatchewan. Our government is equally clear in its commitment to make life better for Saskatchewan families and to ensure that our province is the best place to live, work and build strong futures. By providing quality water and quality service to its customers, SaskWater helps our government ensure that Saskatchewan residents have the best quality of life.

I am delighted to report that continued progress towards a sustainable future was very much in evidence at SaskWater in 2006. SaskWater Annual Report 2006 describes this comprehensively as it outlines the corporation's activities, and financial and water quality reports over the past year. SaskWater employees and the board have provided our customers great service and it shows!

As a proud member of the Saskatchewan community, SaskWater continues to invest in the communities it serves and where its employees live. Ranging from the Critters on the Creek day, the Sustainability Science Camp-ins, scholarships and GradWorks interns, it is clear that SaskWater is committed to our province. This January, I was especially pleased to be on hand to present SaskWater's first ABEX Young Entrepreneur of the Year Award in partnership with the Saskatchewan Chamber of Commerce.

I am proud to serve the people of our province as the Minister Responsible for SaskWater and I offer sincere thanks to our SaskWater employees for their dedication to the people of Saskatchewan.

Sincerely,



David Forbes
Minister Responsible
for SaskWater



We also turned our focus inward to our most important asset. As we transition from the “new” to the “established” SaskWater, our corporate culture is changing; we’re committed to involving our employees in managing that change.

Letter to stakeholders

2006 was a time of clarity for SaskWater: clarity of purpose, process, service, vision and culture.

We’ve come far since being re-mandated a commercial Crown four years ago, and have built a strong foundation on which to grow our business.

The switch to commerciality demanded a new way of thinking, a new approach to the way we did our work. Our corporate-wide initiative Achieving Customer Service Excellence at SaskWater (ACES) now defines how we do business, supporting a culture of service to ensure our customers’ needs are always being met.

A priority continues to be ensuring a long-term, sustainable, quality water supply to our customers. SaskWater has adopted strict governing standards; our products consistently meet or exceed provincial and North American water quality standards.

In 2006 we introduced a more transparent billing system with detailed consumption data, so customers can track their usage and make informed conservation decisions.



We continued to seek innovative, cost-effective ways to deliver quality water products and services. Our work with TransGas this past year will see us use their Supervisory Control & Data Acquisition (SCADA) network to remotely monitor parameters and water quality at 33 SaskWater facilities in 2007.

We moved ahead with major projects, including upgrades to our water treatment system serving the village of Elbow and Line 19 Water Pipeline Utility, which in turn supplies the villages of Loreburn and Strongfield, rural users and the Harbour Golf Course & Marina. These upgrades are expected to be completed in early 2007.

We continued construction of a wastewater management facility to meet the town of Fort Qu'Appelle's long-term needs, completing the sewage holding pond in 2006. SaskWater's \$4.2 M investment will see the sewage pumphouse, forcemain and lagoon fully operational in 2007.

Significant progress was made on the creation of an Asset Management Program. A complete inventory of our infrastructure with standardized maintenance schedules will see reduced equipment failures, increased infrastructure life and cost savings.

We've refined and aligned our planning and reporting processes, focusing on transparency and accountability in all that we do. Our 2006-2010 Business Plan identifies measurable objectives to guide future growth and profitability, including a pledge to carefully manage operating costs and achieve efficiency gains.

SaskWater's Board of Directors strengthened corporate governance practices in 2006, establishing a Sustainability Committee to aid SaskWater in becoming a leader in sustainability through best practices and policy development.

We also turned our focus inward to our most important asset. As we transition from the "new" to the "established" SaskWater, our corporate culture is changing; we're committed to involving our employees in managing that change.

As part of this commitment, employees had the chance to discuss SaskWater's business plan with members of our Executive Management Committee at different locations throughout the province.

A Human Resources (HR) unit and an HR Advisory Committee comprised of SaskWater staff were established. We developed and conducted an employee satisfaction survey and the results will help guide future initiatives, supporting SaskWater as an employer of choice from our employees perspective.

We are standing on the doorstep of profitability. With established products and services, a developing culture of customer service and employee involvement, a clear and forward-looking business plan, and a dedicated, highly skilled staff, we're excited about our future as a leading provider of quality water and wastewater services.

Thank you to our customers and our shareholder for your continued support as we define and shape our business. Thank you to our employees; we appreciate your work and your commitment to improving the quality of life for Saskatchewan families.



Stuart Kramer
President



Murray Westby
Chair of the Board



Our water treatment systems allow us to provide our customers with some of the highest quality water in the province.

Vision:

to be Saskatchewan's leader in delivering water and wastewater services, building customer, employee and shareholder value through partnerships and quality management.

Mission:

to provide competitively-priced, customer-focused, quality water and wastewater services.

Values:

as part of SaskWater's strategic planning process, employees were involved in reviewing and revising SaskWater's corporate values in 2006. We value:

Innovation
Trust & Respect
Integrity
Professionalism & Reliability
Sustainability
Our Customers
Our Employees

Strategic Objectives:

SaskWater has defined five measurable strategic objectives to guide the corporation:

Profitability: becoming profitable and achieving financial stability

Growth: growing both the customer and revenue base

Quality: strengthening our key differentiator in the marketplace

Employer of Choice: being recognized by our employees as an employer of choice

Sustainability: addressing current and future corporate needs while enhancing economic, social and environmental resources.

We own and operate a number of regional transmission systems to bring quality drinking water from central treatment plants to serve a number of communities.

Lines of business

As Saskatchewan's Crown water utility, SaskWater provides potable and non-potable water delivery, wastewater management, and certified operations and maintenance services to Saskatchewan municipalities, industry, First Nations and rural water user groups.

Our core lines of business include:

- potable (safe for human consumption) and non-potable water supply;
- wastewater treatment and management;
- certified operations and maintenance of customer-owned systems; and
- project management and operator training services.

SaskWater is a value-added service provider; we own and operate a number of regional transmission systems to bring quality drinking water from central treatment plants to serve a number of communities. For many rural and northern communities, this type of system is the most cost-effective and sustainable.

**Senior technologist
Cal Stewart and
technologist
Marty Shaw at the
Echo Regional
Wastewater System
construction site at
Fort Qu'Appelle.**



Depending on geographic location and feasibility, SaskWater also provides certified operation and maintenance services to customer-owned systems.

Contracted utility services from SaskWater provide communities with access to:

- quality water products;
- reliable supply and service;
- capital investment dollars;
- local employment opportunities for certified operators;
- capital improvement planning;
- reduced liability and risk; and
- the capability to meet regulatory requirements.

Potable water supply

SaskWater's potable water supply business refers to the delivery of water that is suitable for human consumption in accordance with applicable regulations. Municipalities represent the largest consumers of potable water. SaskWater also delivers potable water to industrial customers for on-site human consumptive use.

Our municipal customers own and manage their local distribution systems and the relationship with their residents. SaskWater provides wholesale water delivery service to the community, who then delivers service to its residents.

Source and delivery

To deliver potable water to communities and industry, SaskWater designs, builds, owns and operates regional and stand-alone water supply systems. We also source and supply potable water to communities through transmission networks.

Stand-alone systems

SaskWater's mandate enables us to purchase and operate municipal waterworks or to construct new water supply and treatment systems. SaskWater currently owns and operates stand-alone systems in Elbow, White City, Pierceland, Edenwold and Gravelbourg.

***Village of Elbow:** In September 2005, SaskWater bought the village of Elbow's water supply system. The purchase contract saw SaskWater assume responsibility for system operations and any future expansions and upgrades.*

In October 2006, SaskWater completed major upgrades to the water treatment system, including the commissioning of a new treatment plant and raw water pump. These upgrades were necessary to secure a sustainable water supply to meet seasonal and future customer demand, deliver consistent water pressure, and enable the use of more automated water treatment processes. The upgrades were completed without any service interruptions to customers and supports the village's plans for residential growth.

Regional systems

SaskWater owns and operates the Wakaw-Humboldt and Codette Lake regional potable water systems. These systems consist of a single treatment plant that produces and distributes potable water to surrounding communities through a pipeline network. Water treatment plants for these two regional systems are located in Wakaw and Melfort. Together these systems supply potable water to 16 communities and several rural water associations.

We also own and operate two regional potable water systems where the water is purchased from other suppliers. SaskWater purchases potable water from the City of Saskatoon and delivers it to surrounding communities, industrial companies and water associations through an extensive pipeline network. SaskWater also purchases potable water from the Buffalo Pound Water Administration Board and the City of Regina, sourced from the Buffalo Pound Treatment Plant, and delivers it to area municipalities and industries.

(Figure 1)

Regional Treatment Systems

1. Wakaw-Humboldt
2. Codette Lake

Potable Transmission Systems

3. Saskatoon Area
4. Buffalo Pound Area

Stand Alone Systems

5. Elbow
6. White City
7. Edenwold
8. Pierceland
9. Gravelbourg

Senior technologist Cal Stewart (left) oversees the fusing of HDPE pipe at the Echo Regional Wastewater System site.

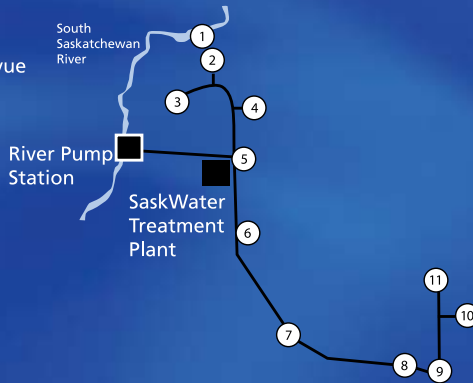


SaskWater's potable water supply systems

HUMBOLDT AREA:

Potable Water Regional Supply System

1. St. Louis
2. Hoey
3. St. Isidore-de-Bellevue
4. Domremy
5. Wakaw
6. Cudworth
7. Bruno
8. Humboldt
9. Muenster
10. Anaheim
11. Lake Lenore



SASKATOON AREA:

Potable Water Supply System

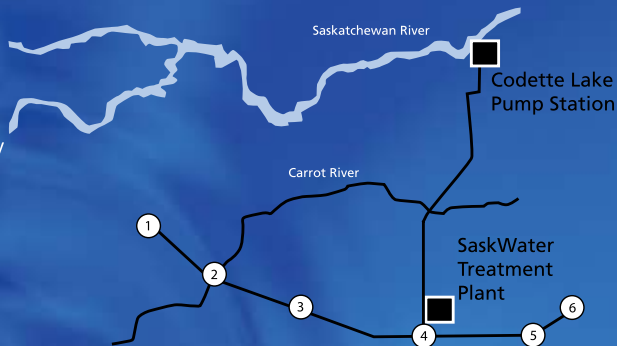
1. Hague
2. Osler
3. Dalmeny
4. Warman
5. Martensville
6. ERCO Worldwide
7. Industrial Customers
8. Royal View Cattle
9. United Chemicals
10. Grasswood
11. Casa Rio/Wood Meadow
12. Sunset Estates
13. Clavet
14. Bradwell
15. Allan
16. Elstow



MELFORT AREA:

Potable Water Regional Supply System

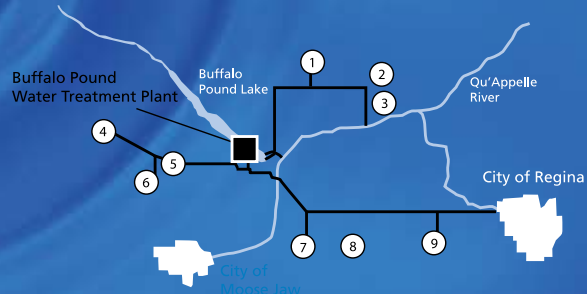
1. Weldon
2. Kinistino
3. Beatty
4. Melfort
5. Star City
6. Star City Colony



BUFFALO POUND AREA:

Potable Water Supply System

1. Bethune
2. Arm River Colony
3. Disley
4. Marquis
5. Tuxford
6. Koch Fertilizer
7. Saskferco
8. Canadian Salt
9. Grand Coulee



(Figure 1)



Non-potable water supply

SaskWater's non-potable water supply business refers to the delivery of water that is considered not suitable for human consumption in accordance with applicable regulations.

The majority of SaskWater's non-potable water supply is delivered in large volumes to industrial customers for processing and manufacturing operations, including numerous potash mines and fertilizer manufacturers.

Municipal customers also purchase non-potable water from SaskWater. These customers own water treatment facilities and perform their own treatment processes prior to residential delivery.

SaskWater currently owns and operates non-potable transmission systems in the areas surrounding Saskatoon and Buffalo Pound Lake and east of Regina.

Where viable, SaskWater invests capital to source, build and operate new non-potable pipelines to service new or existing industrial operations.

Buffalo Pound non-potable water system

expansion: SaskFerco purchases large volumes of non-potable water from SaskWater's Buffalo Pound water supply system. In fall 2006, SaskWater initiated talks with SaskFerco regarding increased water demands, and with Terra Grain Fuels regarding supplying water to a new ethanol plant.

In October 2006, Terra Grain Fuels Inc. began construction of a new \$140M ethanol plant located north of the SaskFerco fertilizer plant in the Rural Municipality of Pense, near Belle Plaine. The ethanol plant is designed to produce approximately 150 million litres of ethanol annually.

To accommodate additional system demands, SaskWater will build a booster station to increase supply capacity of the Buffalo Pound system. Booster station construction is scheduled to begin in the third quarter of 2007.

Wastewater treatment and management

An emerging issue in water management is the need for environmentally sustainable wastewater treatment systems. SaskWater currently owns and operates wastewater facilities in Nipawin, Pierceland and the Echo Regional Wastewater facility at Fort Qu'Appelle.

(Figure 2)

Non-potable Transmission Systems

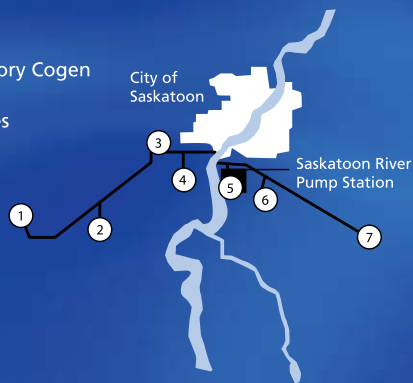
1. Saskatoon Area
2. Saskatoon Southeast
3. Buffalo Pound Area
4. Regina East



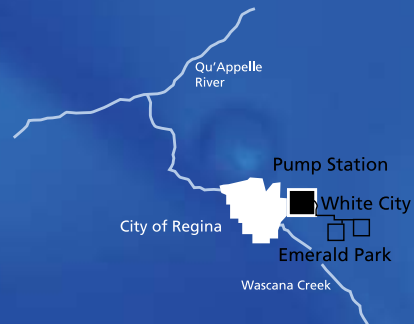
SaskWater's non-potable water supply systems

SASKATOON AREA: Non-Potable Water Supply System

1. Agrium Potash
2. Vanscoy
3. PCS Cory and Cory Cogen
4. Cedar Villa
5. Riverside Estates
6. Golf Courses
7. Cargill

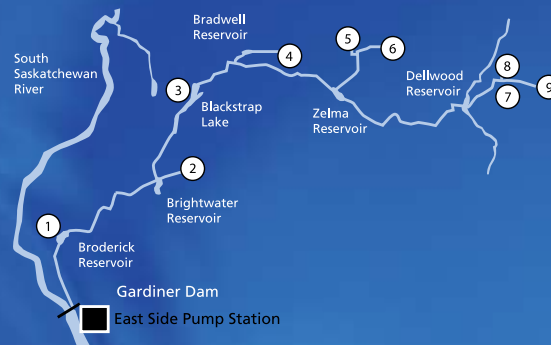


REGINA EAST: Non-Potable Water Supply System

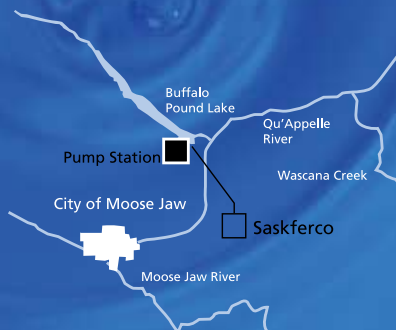


SASKATOON SOUTHEAST: Non-Potable Water Supply System

1. Broderick
2. Hanley
3. Shields
4. PCS Allan
5. Mosaic Potash Colonsay ULC
6. Viscount
7. PCS Lanigan
8. Guernsey
9. Lanigan




BUFFALO POUND AREA: Non-Potable Water Supply System



(Figure 2)



A woman with long dark hair and glasses, wearing a blue long-sleeved shirt and dark pants, is operating industrial machinery. She is standing in a room with large blue pipes and a large blue tank in the background. In the foreground, there is a large red pipe with a pressure gauge and a large black wheel. The woman is reaching out with her right hand to adjust a control on a piece of equipment to the right. The scene is brightly lit, and the equipment appears to be part of a water treatment or distribution system.

Rowena Fourhorns,
operator at Piapot First
Nation, was trained by
SaskWater on behalf of
Indian and Northern
Affairs Canada (INAC)

Echo Regional wastewater treatment system: In November 2005, SaskWater and the town of Fort Qu'Appelle announced the replacement of the town's aging and overburdened wastewater treatment system. Construction of the \$5.8 M Echo Regional Wastewater system began in spring 2006.

The old Fort Qu'Appelle wastewater system discharged effluent into the Qu'Appelle Lakes system. The new wastewater system will pump the wastewater out of the valley where effluent disposal will occur by evaporation.

The system has an aerated holding pond serving as the central collection point for the town's wastewater, and a transfer pump station to pump the wastewater out of the valley to a new sewage lagoon. The lagoon will provide an effective treatment area, sustainable storage volume, and requires limited operation and maintenance.

The Echo Regional wastewater system will be commissioned in 2007. As the owner, SaskWater is responsible for the system's ongoing operation and maintenance and ensuring compliance with Saskatchewan Environment's regulations.

Certified Operations and Maintenance (COM)

SaskWater contracts with communities and rural water associations to provide certified operation and maintenance of their water and wastewater systems, including:

- water supply works;
- treatment plants;
- storage facilities;
- distribution systems; and
- wastewater collection and disposal.

The above services are supervised or performed by certified operators.

We also provide regulatory reporting and consultation, 24/7 continuous monitoring, emergency planning and customer support services.

SaskWater is able to offer the services of its qualified certified operators to communities and associations located near our existing operating centers.

In 2006, SaskWater was contracted to operate and maintain the treatment plant and distribution systems serving the village of Meota and surrounding resort villages. SaskWater operators at this location are also able to provide service to the village of Paynton.

Northern activities

SaskWater plays a role in northern Saskatchewan, planning and managing the design and construction of water and wastewater infrastructure on behalf of Saskatchewan Government Relations.

SaskWater provides ongoing technical advice to northern communities for the expansion and maintenance of water and wastewater infrastructure, including responding to community emergencies related to that infrastructure and helping to conduct water system assessments. At the end of 2006, SaskWater had completed 28 water system assessments in northern Saskatchewan communities.

Water and wastewater training

SaskWater also works on behalf of Indian and Northern Affairs Canada (INAC) to provide operating training to 44 Saskatchewan First Nations. In 2006, SaskWater trained a total of 89 water and wastewater operators at 38 First Nations.

**Craig Standish,
technologist,
Wakaw**





Martin Zdunich,
technician,
Elbow

The value of water

In 2006, SaskWater delivered 5.4 million cubic metres of high quality drinking water to Saskatchewan communities.

The true value of water incorporates the costs of getting water from its source to the taps of end users, including treatment, transmission and infrastructure maintenance. The benefits of quality water to communities include:

- safe, reliable source of quality water;
- resident health and well-being;
- retention and growth of existing population; and
- new business and industry.

The process of getting the water from its source to end users can be complicated and costly. Saskatchewan communities face many challenges to provide safe, quality water to their residents, including:

- quality and quantity of source water;
- complexity of drinking water regulations;
- sustainability of operations and infrastructure; and
- availability of certified staff.

Quality

In 2002, Saskatchewan faced the water crisis of North Battleford, not long after the tragedy in Walkerton, Ontario. In response, the province implemented the Safe Drinking Water Strategy, defining roles in regards to safe drinking water. Saskatchewan Environment was directed to enhance regulation and standards, and the Saskatchewan Watershed Authority to manage water resources and protect water sources. SaskWater became a solutions provider, a commercial Crown helping Saskatchewan communities access quality water treated in accordance with stricter standards. SaskWater provides the expertise and capital needed to deliver quality drinking water to our communities.

SaskWater employs 28 provincially certified operators supported by highly qualified technicians, technologists and professional engineers. This team is dedicated to supplying safe, quality water to our customers.

In addition to meeting the water quality parameters set by the province of Saskatchewan, SaskWater's governing standards for water quality meets or exceeds North American water quality standards.

As part of our commitment to quality, we provide our stakeholders with an annual Water Quality Report detailing testing results.

In 2006, SaskWater delivered 5.4 million cubic metres of high quality potable (drinking) water to Saskatchewan communities.

Detailed information on water quality monitoring can be found in SaskWater's 2006 Water Quality Report. Copies are included with our 2006 Annual Report and are available by calling **1 888 230-1111** or online at www.saskwater.com.

Cost of service

Costs to operate, maintain and upgrade infrastructure are increasing for water utilities. To ensure quality water and wastewater services, pricing must reflect the full cost to provide these services. There is a national movement towards full-cost pricing. In Saskatchewan, Government Relations has put in place regulations requiring all municipalities to have a pricing and capital policy on water utility costs.

SaskWater's rates are based on the full-cost of providing water and wastewater services; however, we recognize that we must improve our pricing to let our customers know what it costs to provide quality water services. To this end, we're undergoing a cost of service rate study to determine rates required for various types of customers to recover the costs of providing safe, quality water and wastewater services.

Under a cost of service model, all costs to operate, maintain, manage and expand water and wastewater works are recovered from customers through the rates they pay for their services. Costs are then allocated equitably across systems and customer type to ensure fairness to all customers.



SaskWater continuously works with engineering firms and suppliers to develop and apply emerging technologies to provide quality drinking water to our customers.

As SaskWater continues to grow and provide expanded services, rates that are based on a cost of service approach are needed to:

- ensure fairness to customers,
- increase corporate transparency on rate design, and
- establish corporate financial sustainability.

Innovation and technology

SaskWater continuously works with engineering firms and suppliers to develop and apply emerging technologies to provide quality drinking water to our customers.

As we address the need to upgrade water treatment infrastructure to meet new standards, SaskWater pilots a number of technologies, including aeration pretreatment, advanced membrane filtration and biological filtration systems.

Aeration pretreatment oxidizes organic matter and increases dissolved oxygen levels at the water source such as a lake, reservoir or dugout. Depending on the system, this process can control algae growth and oxidize iron and manganese.

In 2006, SaskWater pilot tested aeration equipment to control algae growth in an attempt to improve the water supply to Gravelbourg's treatment plant.

Advanced membrane filtration is a pressure driven process that uses a semi-permeable membrane to separate particulate matter and/or dissolved minerals from water.

Membrane filtration removes high dissolved minerals, mostly from groundwater and, on occasion, from highly mineralized surface water. With advanced membrane filtration, minerals are removed or rejected by the membranes after some form of pretreatment.

In 2006, SaskWater pilot tested an advanced membrane filtration process at Kamsack to reduce dissolved minerals from well water. We also tested this process at Gravelbourg in 2004 to reduce dissolved minerals from surface water.

Biological filtration is a method that uses microorganisms to break down contaminants using a biological process. Biological filtration can reduce organic carbon, turbidity, colour, odour, iron, manganese, arsenic and other contaminants from water.

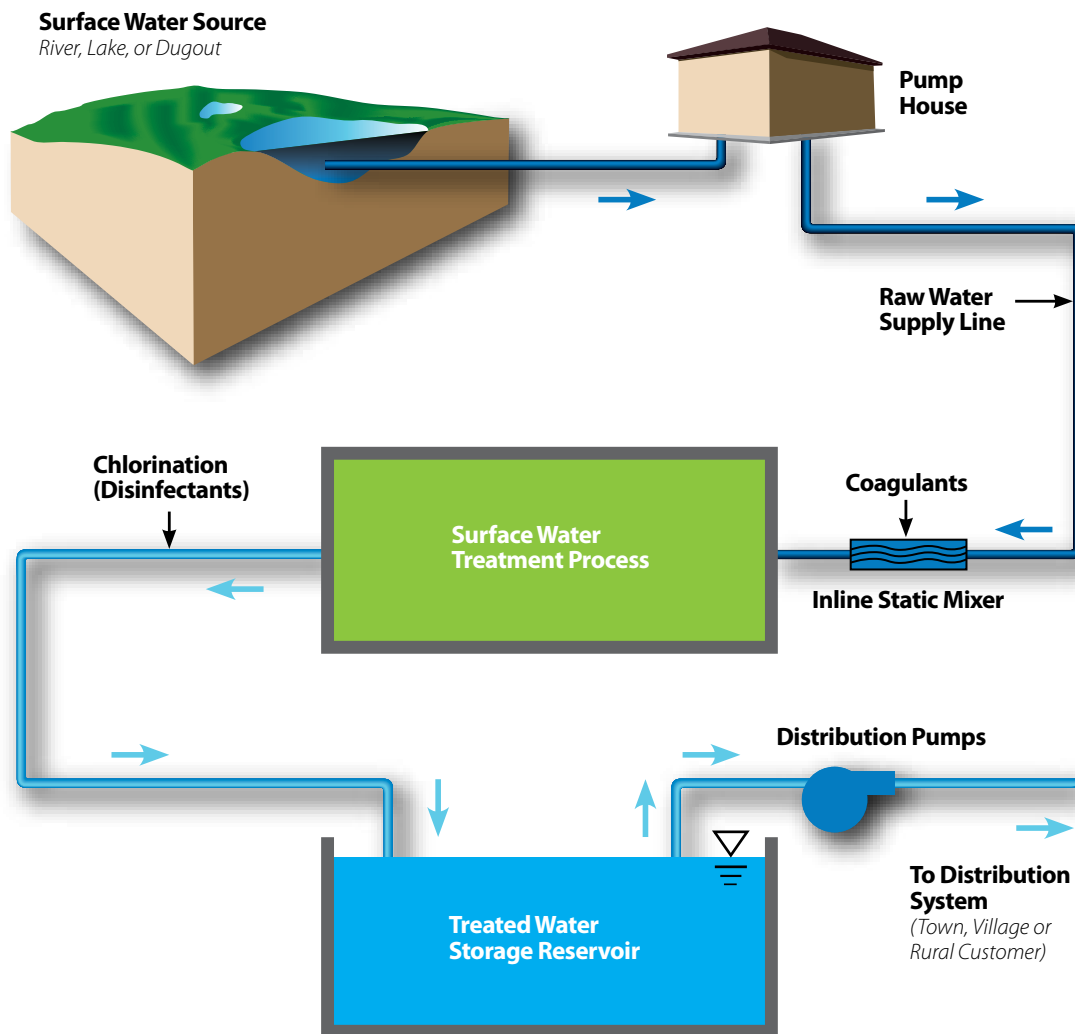
Biological filtration may be a suitable treatment process for prairie surface water that is rich in organic matter. It's also suitable for the treatment of groundwater.

SaskWater is currently piloting this technology at Gravelbourg as a possible treatment process.

Solutions Provider

SaskWater provides the expertise and capital needed to deliver safe, reliable, quality drinking water to Saskatchewan communities.



**Note:**

Depending on the type of water source and its quality, the treatment process will vary.

Description of a typical surface water treatment process

A surface water intake pipe brings water from the source to a raw water pump house; from there, the water is pumped to the treatment plant.

From the intake pipe, raw water passes through an inline or static mixer in the treatment plant. A chemical known as a coagulant is rapidly mixed into the water to neutralize the electrical charge of unwanted particles.

Water then moves to a clarifier and with the aid of a second chemical, a flocculant, the clarifier performs the flocculation process. The flocculant and a slow mixing process causes the smaller particles in the

water to concentrate into large clumps known as floc. The floc drops to the bottom of the clarifier, leaving the cleanest water at the surface.

The clean water is then drawn into filters and the impurities and floc are removed.

Chlorine is added to the filtered water to eliminate any remaining microorganisms and is stored in storage reservoirs. The water is now treated and ready to drink. Treated water is tested regularly to ensure quality.

When needed, water is released from the storage reservoirs into a distribution system of pipes. This distribution system supplies water to homes.

Our employees

At SaskWater, we know that our employees are the corporation's most important asset. The past year has been one of renewed commitment to involving staff in planning and decision-making, and recognizing that each employee is an expert in their area of the business.

SaskWater employed 96 outstanding employees, 87 of whom were permanent as of December 2006.

As well as providing support to the President's Office and SaskWater Board of Directors, our employees work in four different divisions:

- Business Development;
- Corporate and Human Services;
- Engineering; and,
- Operations.

We recruit innovative employees with a wide range of skills, in areas including:

- civil, mechanical, industrial, environmental and water resources engineering and technology;
- legal, financial, human resources and administration; and,

- marketing, communications and policy development.

SaskWater operates in a unionized environment; 57 of our permanent employees are members of the Communications, Energy and Paperworkers Local 820.

Headquartered in Moose Jaw, our employees also work in communities across the province including Edenwold, Elbow, Gravelbourg, Hanley, Melfort, Meota, Prince Albert, Regina, Saskatoon, Wakaw, Watrous and White City.

As our business continues to grow and evolve, SaskWater's corporate culture is also changing. To support our employees in managing that change, a Human Resources (HR) unit and an employee HR advisory committee were established in 2006.

SaskWater completed an employee survey this past December and the results will be used to help shape future initiatives, including establishing SaskWater as an employer of choice from our employees' perspective.

To further support our employees, we encourage ongoing education and professional development; in 2006, 71 employees participated in development activities.

Diversity

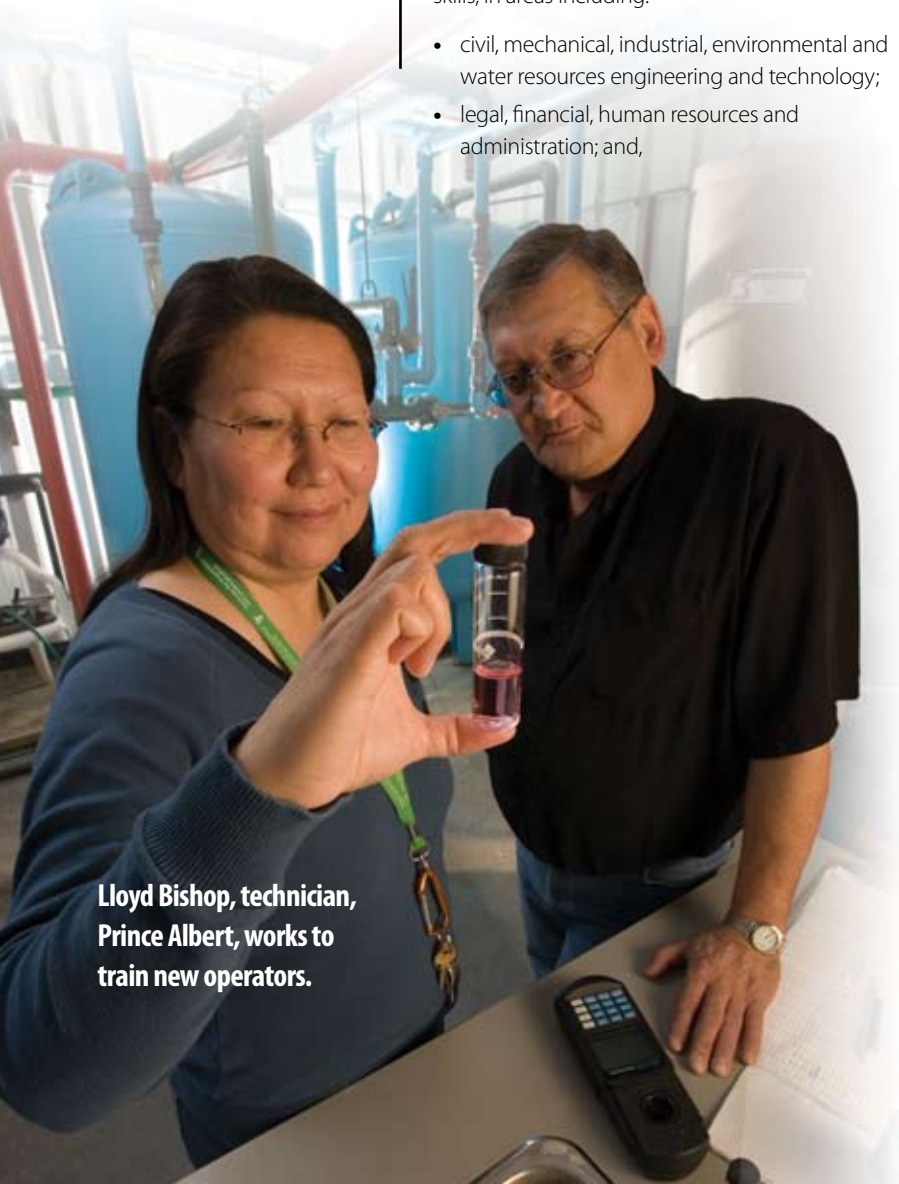
At SaskWater, we understand the importance of a diverse workforce to support not only our operations, but to help us remain a creative and forward-looking company.

A diverse workforce brings different talents, skills, perspectives and ideas to our business, which allows us to innovate and maintain a competitive edge.

In 2006, designated equity group members - Aboriginal persons, persons with disabilities, women in under-represented roles and visible minorities - represented 25 per cent of SaskWater's workforce.

To further support diversity at SaskWater, we continue to partner with the First Nations University of Canada (FNUC) to deliver its Aboriginal Cultural Awareness Program (ACAP) to SaskWater employees. As of December 31, 2006, 92% of our employees attended ACAP training.

Our employees also attend Respect in the Workplace interactive workshops. Employees develop an understanding of how beliefs and values shape behaviour and learn how to bridge differences in the workplace. As of December 31, 2006, 68% of our employees attended this training.



**Lloyd Bishop, technician,
Prince Albert, works to
train new operators.**



Shauna McClinton,
customer service
representative,
Moose Jaw

At SaskWater, we know that our employees are the corporation's most important asset. The past year has been one of renewed commitment to involving staff in planning and decision-making, and recognizing that each employee is an expert in their area of the business.

As a water utility, SaskWater is concerned with protecting our environment and the watersheds from which we get the water we treat for delivery.



Students from Prince Arther Community School dip for critter's in Wakamow Valley, Moose Jaw.

Sustainability

At SaskWater, we're committed to addressing current and future corporate needs while protecting and enhancing economic, social and environmental resources.

We provide an essential service that's important to the health of our customers and our environment. By managing our business responsibly, implementing environmentally-friendly practices, promoting education and source water protection, developing partnerships and supporting local businesses we are contributing to sustainability.



Protecting our environment

As a water utility, SaskWater is concerned with protecting our environment and the watersheds from which we get the water we treat for delivery.

Whether it be installing screens to protect fish in the reservoirs on our Saskatoon Southeast Water Supply (SSEWS) system, or conserving water by installing new canal control structures, SaskWater continues to identify and implement environmentally-friendly practices.

Treatment of polluted water is difficult and costly. Finding new sources of water supply for communities or building more advanced water treatment plants is very expensive. Higher water bills reduce the monies that municipalities and households have for other essential services.

As a solutions provider, SaskWater researches and develops alternative options for water treatment to keep the cost to supply quality water affordable for our customers.

Our engineering and operations divisions partner with organizations like the Communities of Tomorrow Inc. and the Canadian Water Network to investigate methods of energy conservation and leak detection.

In 2006, SaskWater participated with Communities of Tomorrow which brought together scientists from the National Research Council, the Universities of Saskatchewan and Regina, and major utility owners to discuss current research in water and wastewater treatment.

SaskWater is working with research scientists from the Universities of Saskatchewan, Toronto, McMaster and Brock on a Canadian Water Network funded research project. Using SaskWater infrastructure, the project will study energy optimization, effects of pressure waves on water quality in regional transmission pipelines, and other key research areas. This will help SaskWater and others improve our water systems in the future.

Sustainability Science Camp-Ins

Students from SaskWater's customer communities learn about water and eco-systems at the Saskatchewan Science Centre.



Critters on the Creek

SaskWater president Stuart Kramer joins students in dipping for critters.



Senior project manager Tim Jansen (left) and senior project engineer John Conway (standing), also GradWorks coaches, work closely with interns Yasir Elawad and Wakana Konno

SaskWater participates in the GradWorks intern program, established by Crown Investments Corporation to provide work experience to post-secondary graduates. In 2006, SaskWater hired eight interns in the areas of Engineering, Operations, Human Resources, Communications and Marketing.

Other key corporate initiatives, such as remote pump control and pipeline swabbing plans, are aimed at improving energy efficiency.

We have also partnered with the Moose Jaw River Watershed Stewards and the Saskatchewan Science Centre to present our water education programs, Critters on the Creek and

Sustainability Science Camp-Ins. These programs teach youth that caring for the environment supports the sustainability of our water resources. Students in our customer communities, as well as those from Prince Arthur Community School in Moose Jaw, partake in hands-on activities to help them learn the importance of protecting our source water.



SaskWater hires a number of SIAST co-op students and graduates, and supports SIAST's Career Fair and Annual Business & Industry Banquet to showcase SaskWater as an industry expert with many career opportunities to offer talented youth.

SaskWater participates in the GradWorks intern program, established by Crown

Investments Corporation to provide work experience to post-secondary graduates. In 2006, SaskWater hired eight interns in the areas of Engineering, Operations, Human Resources, Communications and Marketing.

Critters on the Creek

Water critters and Piper the Burrowing Owl help students learn about healthy eco-systems.

Educating for our future

In the water and wastewater industry, education is important, whether it's teaching youth about how water gets to their taps, or supporting students in their post-secondary education.

Long term sustainability depends on addressing future workforce needs; it's important that we invest in our human resources as well as our natural resources.

SaskWater provides two annual scholarships to students pursuing engineering or business degrees at the Universities of Regina and Saskatchewan. Recipients in 2006 were Darren Lewis (U of R) and Danielle Schweitzer (U of S).

We also fund an annual SIAST Water Resource Engineering Technology scholarship. Nicole Johnson was the 2006 recipient.



Improving our bottom line

SaskWater will contribute to financial sustainability through efficiency gains. A number of initiatives will see a reduction in annual operating expenses, including:

- lowered infrastructure maintenance and replacement costs through the use of an asset management program;
- energy efficiencies realized through pipeline swabbing, remote pump control and optimizing booster station operation;
- water loss reductions through water audits and working with researchers on a leak detection tool;
- supplier cost efficiencies through bulk purchasing; and,
- switching the monitoring of facilities to a new system control centre.

Investing in our communities

A commitment to sustainability is also a commitment to supporting local businesses, as well as to growing the provincial economy. In 2006, SaskWater purchased 96% of our goods and services in Saskatchewan.

SaskWater also supports many local and provincial organizations and events, including:

- Saskatchewan Chamber of Commerce ABEX Awards;
- Moose Jaw Chamber of Commerce ABEX Awards;
- Nipawin Chamber of Commerce ABEX Awards;
- Sagehill Community Futures YBEX Awards;
- Saskatchewan Urban Municipalities Association (SUMA);
- Saskatchewan Association of Rural Municipalities (SARM);
- Saskatchewan Association of Northern Communities (SANC) / New North;
- Urban Municipal Administrators Association of Saskatchewan (UMAAS); and
- Saskatchewan Water and Wastewater Association (SWWA).

Valuing our customers

The switch to commerciality in 2002 demanded a new approach to the way SaskWater did business. A dedicated customer service group was created in 2005, and in 2006 this employee group led a corporate-wide initiative Achieving Customer Service Excellence at SaskWater (ACES).

Twenty one SaskWater employees served on several cross functional teams to develop tools and processes in the areas of Policy, Contract Administration, Relationship Management and Service Delivery Performance.

An audit of SaskWater's existing customer service processes was conducted and a new customer service model was established that focuses on meeting and exceeding our customers' expectations.

Work on the ACES project officially wrapped up in December 2006. Projects for 2007 include developing a new pricing model, creating a customer relationship management system, designing a customer dialogue process and implementing internal training initiatives to increase employee knowledge and strengthen our new customer service culture.

The recommendations coming out of ACES support a culture of customer service and clarify SaskWater's core services and existing market segments. We recognize that strengthening our relationships with our customers remains a top priority. Our network of business, regulatory and research partners also supports that priority.

Partnering for success

SaskWater's partnership agreement with the Saskatchewan Urban Municipalities Association (SUMA) proved successful in providing a cost effective way for small communities to complete water system assessments. The Water System Assessment (WSA) program had 309 participants when it concluded at the end of 2006.

Our ongoing relationship with SUMA, including our Platinum sponsorship of SUMA's annual convention, allows us to:

- enhance relationships with existing customers and reach new customers;
- promote an understanding of our business;
- share our expertise and experience in water and wastewater management; and
- work together to provide safe, quality water products and services to Saskatchewan municipalities.

SaskWater has a memorandum of understanding for professional services with the Consulting Engineers of Saskatchewan (CES), who employ more than 700 professional and technical support personnel.

We collaborate with CES in many areas, including the review of technology and exchange of information, experiences and best practices..

This past year, SaskWater partnered with CES to plan and host a Technical Exchange Workshop. Consultants, operators and regulators, including Saskatchewan Environment, meet and share knowledge to the benefit of Saskatchewan's entire water and wastewater industry.



A photograph of Shannon Clarke, owner of Curves fitness franchises, smiling while sitting on a piece of exercise equipment in a gym. She is wearing a dark blue and white Curves jacket. In the background, other people are using gym equipment, and the floor is yellow with blue square markings.

In 2006, SaskWater sponsored a new Saskatchewan Chamber of Commerce ABEX Award, Young Entrepreneur of the Year. The winner, Shannon Clarke of Regina, owns and operates four Curves fitness franchises, employing 32 people.

2006 Balanced Scorecard Summary

SaskWater's performance management strategy, informed by the Crown Sector Strategic Plan, maintains accountability to the people of Saskatchewan by reporting on key objectives that drive success.

SaskWater is a subsidiary of Crown Investments Corporation (CIC) and receives strategic direction from CIC. SaskWater's performance management strategy, informed by the Crown Sector Strategic Plan, maintains accountability to the people of Saskatchewan by reporting on key objectives that drive success. SaskWater's performance objectives and results are described in the Balanced Scorecard Report that follows.

Discussion of Results

- For the first time since the Corporation received its commercial mandate in 2002, SaskWater is reporting a profit. This is due, in part, to higher water sales as a result of a hot and dry summer.
- In the fourth quarter (Q4), SaskWater completed a Customer Satisfaction Survey, where municipal and industrial customers reported satisfaction levels of 7.75 and 7.79 respectively on a scale of 1 to 10. Both customer groups reported high levels of satisfaction in the areas of quality, customer service, supply and reliability.
- SaskWater continued to provide dependable service to its customers, where fewer service disruptions occurred than anticipated. Those that occurred lasted 3.4 hours on average.
- SaskWater continues to provide reliable high quality water and received no boil water orders in 2006.
- SaskWater demonstrated its commitment to Saskatchewan residents by sponsoring events for 19 communities in 2006.
- SaskWater continued to support Saskatchewan business procuring 96% of our goods and services from Saskatchewan companies.
- An Employee Satisfaction Survey was completed in Q4 reporting satisfaction levels of 3.32 on a scale of 1 to 5. Employees reported high satisfaction levels with "I take pride in the work I do" and "I play an important role in SaskWater's success".
- SaskWater's progress towards achieving a representative workforce continues to be limited. The company has a limited number of qualified designated group members applying for jobs. Nevertheless, over 26 percent of all people hired in 2006 were from diversity groups.
- SaskWater has reported 0% growth in customer base and 3.7% growth in gross revenue. Several factors have contributed to SaskWater not meeting its population-related growth targets in 2006. SaskWater projected to sign two new customers with a total population of 5000 residents. However, they chose to pursue their own solutions.

2006

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Profitability

Objectives	Measures	Targets	Targets	Results
		2007	2006	2006
Financial flexibility	Debt to Debt & Equity Ratio - Overall Utility ¹	56.7%	52.3%	50.3%
Financial sustainability	Return on Equity ²	-1.2%	-1.4%	1.0%
Profitability	Net Income	-0.4M	-0.5M	0.35M
Earn appropriate return	Business cases meeting IRR Target Ratio	N/A	100%	100%
Efficiency	Corporate productivity per employee	\$184K	\$180K	\$194K
Efficiency	O&M: Sales Unit	\$2.35	\$2.30	\$2.17

Growth

Objectives	Measures	Targets	Targets	Results
		2007	2006	2006
Meet growth targets in all lines of business	Growth in customer base (people)	10%	10%	0%
Economy of scale	Growth in gross revenue ³	0.9M ⁴	8.4%	3.7%
Satisfied customers	Customer Satisfaction Survey ⁵	7.78	n/a	7.77

Quality

Objectives	Measures	Targets	Targets	Results
		2007	2006	2006
Operate the utility to meet customer needs	Number of service interruptions ⁶	55	75	55
	Average length of service interruptions (time)	8.0 hrs	8.0 hrs	3.4 hrs
Enhance employee training	Training dollars as percentage of employee salaries	3.5%	4.5%	2.2%
Provide access to quality services	Number of boil water orders for treated water	0	0	0

¹ Significant debt load is associated with regional water supply systems. SaskWater's long term target is 60%, which will be reviewed annually.

² SaskWater's long term return on equity target is 8%, which will be reviewed annually.

³ Growth in gross revenue does not include any revenues from irrigation as it was transferred to Saskatchewan Agriculture and Food in 2006. The 2007 target has been changed to a dollar value as opposed to a percentage value as reported in the past.

⁴ Growth in gross revenue 2007 target is based on 2006 budgeted revenue to 2007 budgeted revenue.

⁵ The Customer Satisfaction Survey was conducted in 2006 as a baseline satisfaction measure. The survey was based on a scale of 1 -10.

⁶ As storage is required of most SaskWater customers, an interruption in supply does not normally mean the customer is without water.

2006

Employer of Choice

Objectives	Measures	Targets	Targets	Results
		2007	2006	2006
Build a representative workforce ⁷	Women in under-represented roles	45.0%	45.0%	16.8%
	Aboriginals	12.8%	12.8%	3.2%
	People with disabilities	9.7%	9.7%	2.1%
	Visible minorities	5.4%	5.4%	5.3%
Build employee satisfaction	Annual Employee Satisfaction Survey ⁸	3.5	TBD	3.32
	Employee turnover ratio	4.0%	4.0%	8.4%
	Number of employee sick days taken	6.3	6.3	4.9

Sustainability

Objectives	Measures	Targets	Targets	Results
		2007	2006	2006
Contribute to provincial economic diversification & growth	Percentage of products & services sourced in Saskatchewan	85%	85%	96%
Environmental sustainability	Energy consumption per sales unit (SU)	3.22 KW/hr	3.25 KW/hr	2.95 KW/hr

⁷ Percentage representation results for each designated group is based on the total workforce as at December 31, 2006, of 96 employees. New representative workforce targets for 2007 will be developed and implemented July 2007, following CIC approval.

⁸ The Employee Satisfaction survey was conducted in 2006 as a baseline satisfaction measure. The survey was based on a scale of 1 -5.

Management's Discussion and Analysis

2006 Results

Operating Revenues

Operating revenues increased by \$0.7M or 3.7% to \$18.5M, up from \$17.8M in 2005.

- Revenues in Water Transmission and Supply increased by \$0.1M from \$11.8M in 2005 to \$11.9M in 2006. This is attributed to a \$0.8M increase in revenues due to rate increases implemented in April 2006 and a shift in consumption during 2006. This revenue increase was offset by a reduction of \$0.7M revenues as a result of a transfer of irrigation operations to Saskatchewan Agriculture and Food on April 1, 2006.
- Revenue in Water Treatment and Supply increased by \$0.3M over 2005 as a result of a combination of the increase in sales volume and the rate increase applied in 2006.
- Revenues from Wastewater treatment remained constant at \$0.1M for 2006.
- Revenues in Certified Operations and Maintenance increased to \$0.4M in 2006 from \$0.2M in 2005. This was a result of three new customers that were added in late 2005: Elbow, Jackfish Lake West and Sherwood Industrial Park.
- Services revenue decreased by \$0.1M from 2005. Services include:
 - Municipal Project Management,
 - Program and Project Management for the Northern Water and Sewer Program funded by Government Relations,
 - First Nations operator training and technical support, and
 - Audit and Emergency Services

Operating Expenses

Total operating expenses decreased by \$0.8M or by 4.0% to \$18.2M from \$19.0M in 2005.

- Expenses in Water Transmission and Supply decreased by \$0.5M, from \$5.1M in 2005 to \$4.6M in 2006. This is the result of a \$0.5M increase attributable to the increased cost of purchasing bulk water from suppliers and a more intensive maintenance program, offset by a \$1.0M reduction in expenses attributed to the transfer of irrigation operations to Saskatchewan Agriculture and Food on April 1, 2006.
- Expenses in Water Treatment and Supply increased by \$0.1M or 2.9%. This increase is associated with the increased volumes supplied.
- Expenses in Wastewater Treatment returned to a more normal level for 2006. Some lead-in project development costs were incurred in 2005 as part of the Echo Regional Wastewater Project at Fort Qu'Appelle.
- Expenses in Certified Operations and Maintenance increased \$0.1M from \$0.2M in 2005 as a result of serving additional customers.
- In total, expenses for Services (Municipal Project Management, Northern Water and Sewer Program, First Nations operator training and technical support, and Audit and Emergency Planning) decreased marginally.
- Other expenses increased by \$1.3M over 2005. This is a result of general cost increases as well as SaskWater's contractual obligations and staffing initiatives.
- Interest expense decreased by \$1.5M as a result of the debt restructuring that took place in late 2005.

Volumes

Total water sales volumes stayed constant at 18.8 cubic metres. Sales to industrial customers were down 1.8% primarily due to market conditions within their respective industries. Sales to municipal customers were up 5.8% due to community growth and hot, dry weather conditions during 2006 compared to 2005.

Capital Investment

In 2006, \$5.6M was spent on capital infrastructure projects and upgrades, remote monitoring, and an asset management program. Infrastructure projects and upgrades included:

- Construction of the Echo Regional Wastewater System to treat wastewater from Fort Qu'Appelle;
- Pipeline relocation in Saskatoon East Treated system related to CN Rail twinning project;
- SaskWater's share of Clarence Avenue primary water main, a project with the City of Saskatoon;
- Upgrades to raw water supply system and water treatment plant at Elbow; and,
- Pilot-testing costs related to pre-design of planned upgrades to the Gravelbourg Water Treatment Plant.

Net Income (profit/loss)

During the past five years SaskWater has annually improved its operating results from a loss of \$3.3M in 2002 to our first ever positive net income of \$0.3M in 2006.

- SaskWater's operating income of \$0.3M before grant funding improved from a loss of \$1.1M before grants in 2005.
- Net earnings after grant funding decreased from \$34.0M in 2005, to \$0.4M in 2006. In 2005, CIC provided grant funding of \$35.0M to facilitate SaskWater's debt restructuring. In 2006, CIC provided grant funding of \$0.1M for placement of GradWorks interns, which is consistent with 2005.

Key Performance Factors

- About 37% of total revenue is derived from sales of non-potable water to industrial customers for use in their processes. Changes in their production cycles due to market factors affected SaskWater's sales.
- Weather affects sales to municipal customers. Hot, dry weather increases sales while cool, wet weather reduces sales.

Key Financial Data

- Assets total \$73.3M (2005 - \$69.9M)
- SaskWater will not declare a dividend to CIC in 2006
- Return on equity (earnings after operating grant as a percentage of equity) is 1.0%
- Debt ratio (debt as a percentage of debt plus equity) is 50.3%

2007 Outlook

- SaskWater expects total revenues from all lines of business to increase by \$1.7M or 9% to \$20.2M.
- The corporation expects to report a net loss of \$0.4M in 2007.
- SaskWater expects to invest \$9.7M in water and wastewater infrastructure projects in the province. Planned investments include:
 - Saskatoon North Treated – North Booster Upgrade
 - Buffalo Pound Raw – Capacity Upgrade
 - Regina East – Raw Water Supply Upgrade
 - Saskatoon East Treated – Primary Main Upgrade

Management's responsibility

Management has prepared the financial statements of the Corporation in accordance with Canadian generally accepted accounting principles. The financial data included elsewhere in this report is consistent with these statements and the underlying information from which the Corporation prepared them.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, the Corporation maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

Deloitte & Touche LLP, the Corporation's external auditors, have examined the December 31, 2006 financial statements and their report follows.

The Board of Directors of SaskWater has examined and approved the statements.

On behalf of the Corporation,



Stuart Kramer, President
January 31, 2007

Auditor's report

To the Members of the Legislative Assembly Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Water Corporation as at December 31, 2006 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Regina, Saskatchewan
January 31, 2007

Statement of Financial Position

as at December 31

	2006	2005
	(Thousands)	
ASSETS		
Current Assets		
Cash	\$ 881	\$ 142
Accounts receivable and advances	4,100	3,723
Prepaid expenses and supplies	242	262
Current portion of long-term receivables (note 3)	13	12
	5,236	4,139
Long-Term Receivables (note 3)	31	44
Property, Plant and Equipment (note 4)	68,036	65,708
	<u>\$ 73,303</u>	<u>\$ 69,891</u>
LIABILITIES AND PROVINCE OF SASKATCHEWAN'S EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,782	\$ 1,636
Notes payable (note 5)	19,706	19,808
Current portion of long-term debt (note 7)	1,026	938
	24,514	22,382
Deferred Revenue and Prepayments (note 6)	521	668
Long-Term Debt (note 7)	13,838	12,532
Other Long-Term Obligations (note 8)	257	235
	<u>39,130</u>	<u>35,817</u>
Province of Saskatchewan's Equity		
Equity advance (note 9)	700	700
Retained earnings	33,473	33,374
	<u>34,173</u>	<u>34,074</u>
	<u>\$ 73,303</u>	<u>\$ 69,891</u>

Commitments and Contingencies (note 10)
See accompanying notes

on behalf of the Board:



 Chair Director

Statement of Operations and Retained Earnings

for the year ended December 31

	2006	2005
	(Thousands)	
REVENUE		
Water transmission and supply	\$ 11,885	\$ 11,777
Water treatment and supply	4,511	4,221
Wastewater treatment	129	128
Operation and maintenance	423	248
Services	1,039	1,176
Other	518	288
	<u>18,505</u>	<u>17,838</u>
EXPENSES		
Water transmission and supply	4,574	5,072
Water treatment and supply	2,176	2,115
Wastewater treatment	45	204
Operation and maintenance	365	238
Services	1,120	1,152
Other	5,603	4,288
Amortization of property, plant and equipment	2,873	2,882
Interest	1,454	3,026
	<u>18,210</u>	<u>18,977</u>
Income (loss) before the following	295	(1,139)
Operating grant - CIC Gradworks Program (note 11)	57	114
Income (loss) from operations	352	(1,025)
Grant from CIC for debt repayment (note 11)	-	35,000
Net income for the year	352	33,975
Retained earnings, beginning of year	33,374	8,683
Transfer of assets to related party (note 12)	(253)	-
Payment of premium related to early retirement of debt (note 11)	-	(9,284)
Retained earnings, end of year	<u>\$ 33,473</u>	<u>\$ 33,374</u>

See accompanying notes

Statement of Cash Flows

as at December 31

	2006	2005
	(Thousands)	
OPERATING ACTIVITIES		
Net Income	\$ 352	\$ 33,975
Charges and credits not affecting cash:		
Amortization of property, plant and equipment	2,873	2,882
Amortization of deferred revenue and prepayments	(163)	(194)
Amortization of discount (premium)	16	(39)
Other long-term obligations	22	(28)
Sinking fund earnings	(5)	(795)
(Gain) loss on disposal of property, plant and equipment	(7)	21
Increase (decrease) in non-cash working capital items:		
Accounts receivable and advances	(377)	(335)
Prepaid expenses and supplies	20	(45)
Accounts payable and accrued liabilities	2,146	(1,184)
Cash provided by operating activities	4,877	34,258
INVESTING ACTIVITIES		
Long-term receivables	12	12
Property, plant and equipment expenditures	(5,603)	(2,414)
Proceeds on disposal of property, plant and equipment	156	44
Cash used in investing activities	(5,435)	(2,358)
FINANCING ACTIVITIES		
Proceeds from long-term debt	2,400	4,107
(Repayments of) proceeds from notes payable	(102)	4,308
Repayment of long-term debt	(876)	(34,012)
Premium related to early debt repayment	-	(11,606)
Sinking fund installments	(125)	(340)
Sinking fund redemptions	-	5,834
Cash provided by (used in) financing activities	1,297	(31,709)
Increase in Cash	739	191
Cash (Bank Indebtedness), Beginning of Year	142	(49)
Cash, End of Year	\$ 881	\$ 142
Interest paid during the year	\$ 1,486	\$ 4,714

See accompanying notes

Notes to the financial statements

for the year ended December 31, 2006 (Thousands)

1. Status of the Corporation

The Saskatchewan Water Corporation (the Corporation) was established on July 1, 1984, under the authority of The Water Corporation Act which remained in effect until September 30, 2002.

On October 1, 2002 **The Saskatchewan Water Corporation Act** was proclaimed.

By virtue of The Crown Corporation Act, 1993, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

In accordance with the provisions of **The Saskatchewan Water Corporation Act**, the Corporation's general powers and purposes are to construct, acquire, manage or operate works and to provide services in accordance with any agreements that it enters into pursuant to this Act.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered to be significant:

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and appropriate allowance of doubtful accounts is provided where considered necessary. Amortization is based on estimated useful lives of property, plant and equipment. These assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Capitalization of Expenses

Internally provided engineering and technical services are capitalized at standard labour rates designed to recover salaries, benefits and overhead. The objective of this policy is to recognize the approximate value of design, supervision and administrative services rendered by Corporation employees on construction projects. Internally provided services capitalized amounted to \$923 (2005 - \$470). As well, the Corporation capitalizes interest expense on debt relating to specific construction projects until they are substantially completed. During the year, \$101 (2005 - \$12) in interest was capitalized.

Property, Plant and Equipment

Property, Plant and Equipment are recorded at cost less amortization. Assets under construction are capitalized at cost, and are transferred to the appropriate asset category when construction is complete and the asset is in use. Assets are capitalized at cost net of any subsidies or contributions received for that specific purpose.

The Corporation reviews assets for impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate.

Amortization of Property, Plant and Equipment is calculated at the following annual rates designed to amortize the recorded cost over the estimated useful lives of the capital assets. Assets under construction transferred to the appropriate asset category before June 30th are amortized for the full year, otherwise they are not amortized until the following year.

Property, Plant and Equipment	Method	Rate
Building	straight-line	2.5% to 5%
Water facilities	diminishing balance or straight-line, as appropriate	2% to 30%
Maintenance and office equipment	diminishing balance or straight-line, as appropriate	10% to 30%

Post Retirement Benefits Other Than Pension

The Corporation administers a benefit relating to a retirement allowance which is paid to eligible employees upon retirement. The Corporation has adopted the accrual method of accounting for this benefit whereby the cost of providing the benefits is recorded when the related services of employees are performed.

Revenue Recognition

Revenue is recognized as services are rendered based upon agreed upon rates and contracts. Revenue received in advance of services being rendered are recorded as deferred revenue.

3. Long-Term Receivables

	2006	2005
	(Thousands)	
Year Receivable		
2006	\$ -	\$ 12
2007	13	13
2008	15	15
2009	16	16
	44	56
Less: Current portion on long-term receivables	(13)	(12)
	\$ 31	\$ 44

Amounts in this account represent loans issued to various clients for water supply agreements bearing interest at 10%, repayable over the next several years.

4. Property, Plant and Equipment

	2006		2005	
	(Thousands)			
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 1,545	\$ -	\$ 1,545	\$ 1,545
Buildings	1,736	721	1,015	567
Water facilities	98,454	39,282	59,172	62,070
Maintenance equipment	1,523	1,066	457	412
Office equipment	617	152	465	175
Assets under construction	5,382	-	5,382	939
	\$ 109,257	\$ 41,221	\$ 68,036	\$ 65,708

5. Notes Payable

		2006	2005
		(Thousands)	
Due Date	Interest Rate		
March 30, 2007	4.22%	\$ 19,706	\$ -
March 31, 2006	3.44%	-	19,808
		<u>\$ 19,706</u>	<u>\$ 19,808</u>

By Order-in-Council, SaskWater is authorized to borrow up to \$30,000 (2005 - \$22,000) by way of temporary loans from the Province of Saskatchewan - General Revenue Fund.

6. Deferred Revenue and Prepayments

Deferred revenue and prepayments, in part, represent revenue received from certain customers at the commencement of supply. These prepayments are amortized into revenue at 5% over the term of the contract on a straight-line basis or are matched against annual expenses.

Premium and issue costs relating to long-term debt are deferred and amortized on a straight-line basis over the term of the respective debt issue.

		2006	2005
		(Thousands)	
Balance, beginning of year		\$ 668	\$ 1,877
Amortization of revenue		(11)	(20)
Amortization of discounts (premiums)		16	(39)
Amortization of prepayments		(152)	(174)
Write-off premium related to debt repayment		-	(976)
Balance, end of year		<u>\$ 521</u>	<u>\$ 668</u>

7. Long-Term Debt

		2006	2005
		(Thousands)	
Year Payable	Interest Rate		
2006	7.500%	\$ -	\$ 876
2007	7.625%	940	940
2008	7.750%	1,009	1,009
2009	4.750%	4,500	4,500
2015	4.300%	2,407	2,407
2016	4.210%	2,400	-
2024/2025	5.320% / 5.050%	3,800	3,800
		<u>\$ 15,056</u>	<u>\$ 13,532</u>
Less: Current portion of long-term debt		(1,026)	(938)
Less: Equity in sinking funds		<u>(192)</u>	<u>(62)</u>
		<u>\$ 13,838</u>	<u>\$ 12,532</u>

These loans are due in the year payable to the General Revenue Fund with interest payable semi-annually.

Minimum sinking fund installments required over the next five years are \$86 per year.

8. Other Long-Term Obligations

The amounts related to the defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union are as follows:

	2006	2005
	(Thousands)	
Accrued benefit liability	\$ 257	\$ 235
Benefits paid during the year	\$ 14	\$ -
Net expense (recovery)	\$ 36	\$ (28)

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

Discount rate	4.50%	4.50%
Inflation rate	2.75%	2.75%
Average remaining service life	17.2 years	17.3 years

9. Equity Advance

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. Commitments and Contingencies

Contractual Commitments

As of December 31, 2006, the Corporation has outstanding commitments of \$2,591 (2005 - \$1,239) for construction contracts and consulting agreements primarily relating to assets under construction.

As of December 31, 2006, the Corporation is currently in negotiation with the landlord concerning the head office lease space. The Corporation has entered into an interim agreement with the landlord on a month to month basis with a commitment from the landlord that the base rent per sq/ft will not be greater than we were paying under the prior agreement.

The Corporation is currently in negotiations with Communications, Energy and Paperworkers Union regarding the Job Evaluation Process wherein current positions are evaluated and reclassified as required to conform with a new job hierarchy. As a result the Corporation has a commitment to the employees based on the outcome of the negotiations. The negotiations have progressed enough that a reasonable estimate of cost is determinable and therefore was included in the financial statements.

Leases

The Corporation has entered into various operating lease agreements with the following minimum lease payments:

	(Thousands)
2007	\$ 14
2008	11
2009	10
2010	5
	<u>\$ 40</u>

Litigation

The Corporation is party to a number of lawsuits and has provided for these claims in its accounts in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

11. Grants from CIC

SaskWater participated in the CIC sponsored Gradworks Job Placement Program in 2006 and 2005. During the year, the Corporation received Gradworks grant revenue of \$57 (2005 - \$114) from CIC.

Order in Council #907/2005, dated December 13, 2005, authorized CIC to provide a grant to SaskWater in the amount of \$35,000 for the purpose of repaying debt.

Order in Council #914/2005 permitted prepayment of part of the Corporation's debt on such terms and conditions as agreed between the Minister of Finance and SaskWater. The write-off of the unamortized premium related to the debt issues repaid of \$976 as well as the amount paid as a premium related to early debt repayment of \$11,606 have been charged to contributed surplus in the amount of \$1,346 and retained earnings of \$9,284.

12. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms except for revenue which is at rates negotiated between SaskWater and related parties. These transactions, and amounts outstanding at year end, are as follows:

	2006	2005
	(Thousands)	
Accounts receivable	\$ 563	\$ 198
Accounts payable and accrued liabilities	643	370
Revenue	2,829	37,556
Expenses	5,858	4,094

In addition, the Corporation pays Saskatchewan Provincial Sales Tax, to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Effective April 1, 2006 the Corporation's irrigation assets were transferred to Saskatchewan Agriculture and Food for \$0 proceeds. This related party transaction has been charged to retained earnings at the net book value of the irrigation assets which amounts to \$253. Since April 1, 2006 Saskatchewan Agriculture and Food has been recognizing the revenues and expenses related to the assets. Subsequent to December 31, 2006 the documents authorizing the transfer were approved by Sask Finance.

The Corporation has entered into an interim agreement with TransGas Limited to provide SCADA Services for the purposes of assisting with the water system monitoring requirements of the Corporation. TransGas has commenced preparatory work with services to commence in 2007.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

13. Pension Plan

SaskWater's employees participate in the Capital Pension Plan (the Plan), a defined contribution pension plan which is sponsored by CIC. The Corporation's contributions to the Plan include making regular payments into the Plan to match the required amounts contributed by employees for current service. The total amount paid to the Plan for 2006 was \$312 (2005 - \$261).

14. Financial Instruments

The Corporation's recognized financial instruments consist of cash, accounts receivable and advances, long-term receivables, accounts payable and accrued liabilities, long-term obligations, long-term debt, and notes payable.

Credit Risk

The Corporation is exposed to credit risk from the potential default of customers. However, approximately one-half of the Corporation's accounts receivable are from municipalities, large industrial customers and other government agencies. At December 31, 2006, there was no single customer balance that exceeded 10% of the accounts receivable balance.

Fair Values

The fair values of short-term accounts receivable, accounts payable and accrued liabilities and notes payable approximate their carrying value due to the short-term nature of these instruments.

2006			2005	
(Thousands)				
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 15,056	\$ 15,483	\$ 13,532	\$ 12,405
Sinking Fund	192	191	62	63

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions, and may not represent the amounts that could be realized upon settlement.

All long-term debt obligations and sinking funds are estimated using discounted cash flow analysis based on current market yields for similar arrangements.

Fair value of long term receivable approximates its carrying value due to the nature of the receivable and the relatively short term to maturity.

Fair values of other long-term obligations approximate their carrying values. These were estimated using current discount rates.

15. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation. The comparative figures were reported on by another public accounting firm.

Board of Directors

Murray Westby, Chair

- Chair, Watrous Community Health Foundation
- President, Westby Tractor and Equipment 1981 - 2006
- Mayor, Town of Watrous 1980 - 1997
- Past President of Saskatchewan Urban Municipalities Association (SUMA) 1994 - 1997
- Past Chair of the Board, Saskatchewan Transportation Company (STC) 1998-2000

Dan Palsich, Vice-Chair

- Thirty-year career as educator
- President of the Lloydminster Credit Union Board 1986-2002
- B.Ed. and B.A., University of Saskatchewan

Nicole Garman

- Senior Internal Auditor, Robert Prosser & Associates Inc.
- Significant experience in internal control evaluation and performance-based auditing
- B.Comm., Chartered Accountant and Certified Internal Auditor

Doug Hay

- Program Coordinator, Saskatchewan Market Assessment for Research and Technology
- Significant experience in the field of community economic development
- B.Comm. (Finance and Marketing), University of Saskatchewan

Joe Hordyski

- Mayor of LaRonge; self-employed
- Twenty years of experience in contracting
- Served two terms as Councillor in LaRonge before elected as Mayor in 1997
- Twenty-eight years of active committee and public service involvement

James Ireland

- President, ERIN Consulting Ltd.
- Extensive experience in environmental management including policy and planning
- International expert in eco-industrial networking and sustainable development
- B.Sc. (Biology) Moorhead State College, M.A. (Anthropology) University of Toronto

Sheldon Jacobson

- Senior Technologist with SaskWater at the Wakaw-Humboldt Regional water system
- Board Representative for the Communications, Energy and Paperworkers Union of Canada (CEP)
- Certification in water treatment, distribution, wastewater treatment and collection through the Operator Certification Board of Saskatchewan
- Applied Science Technologist (A.Sc.T.) with Saskatchewan Applied Science Technologists and Technicians (SASTT)
- Diploma of Water Resources Engineering Technology, SIAST

Pat Lorjé

- Public Policy and Fund Development Consultant, Saskatoon and San Francisco
- Saskatoon City Councillor, 1979-1991 and 2006 to present
- Former Member of Legislative Assembly (MLA) Saskatoon, 1991-2003
- Past member of Saskatoon City Hospital Board and Saskatchewan Legal Aid Commission
- Founding member of Saskatoon's Fringe Festival
- B.A. (Biology and Psychology-Honours) and M.A. (Clinical Psychology), University of Saskatchewan

Doyle Vermette

- Owner and Manager, Northway Janitorial (Air Ronge)
- Entrepreneur and community leader
- Member of several boards, including Northern Lights School Division
- Vice-chair of Gabriel Dumont Institute
- President of Jim Brady Métis Local

Terry Ross

Corporate Secretary to the Board



**Left to Right: Sheldon Jacobson, Doug Hay, James Ireland, Murray Westby, Nicole Garman,
Joe Hordyski, Dan Palsich, Doyle Vermette
Missing: Pat Lorjé**

Corporate Governance

Corporate Governance is generally accepted as the set of processes, customs, policies, laws and institutions that affect how a corporation is directed, administered or controlled. Corporate Governance includes the relationships among the stakeholders involved, and the goals for which the corporation is governed. Effective corporate governance results in a well-run, high-performing and transparent organization, accountable to the public it serves. The shareholder, management and board of directors are instrumental to achieving effective corporate governance.

A. Authority

SaskWater is a statutory Crown corporation governed by The Saskatchewan Water Corporation Act, 2002, and is subject to the provisions of The Crown Corporation Act, 1993. Crown Investments Corporation of Saskatchewan (CIC), SaskWater's holding company, has the legislative authority to oversee and direct SaskWater.

On behalf of the Board of Directors, an independent director holds position of Chair, accountable to CIC and reporting to the Minister Responsible for SaskWater. The Minister is a key communications link between SaskWater, CIC, Cabinet, the Legislature and the public.

B. Board of Directors' Responsibilities and Duties

The Board is responsible for SaskWater's stewardship, while fostering success consistent with SaskWater's mandate. The Board works with management to oversee corporate operations, including:

- setting corporate direction;
- guiding strategic planning processes;
- executing performance evaluations;
- annual and quarterly monitoring and reporting functions;
- assisting in business plan development and approval; and,
- monitoring processes and systems used to achieve sustainable operations.

The SaskWater Board of Directors met ten (10) times in 2006.

C. Board Composition

The SaskWater Board consists of eight (8) independent directors and one (1) appointed as a representative of the Communications, Energy and Paperworkers Union (CEP). All are appointed for a set term by the Lieutenant Governor in Council, who also designates the Chair and Vice Chair.

D. Committees

The Board has established three (3) standing committees to undertake detailed reviews and provide in-depth supervision in key areas of responsibility. The Committees of the Board are:

- Audit and Finance;
- Governance; and
- Sustainability

Audit and Finance Committee - held eight (8) meetings

Members: Joe Hordyski (Chair), Nicole Garman, Sheldon Jacobson, Murray Westby

The Audit and Finance Committee helps the Board fulfill its financial accountability by:

- overseeing the corporation's budget, financial operations and results;
- reviewing internal controls established by management and the Board;
- participating in internal and external audit processes;
- monitoring the adequacy and condition of capital assets;
- reviewing and making recommendations on capital activities; and,
- ensuring appropriate systems are in place to identify and manage risk.

Governance Committee - held six (6) meetings

Members: Dan Palsich (Chair), Doug Hay, James Ireland, Pat Lorjé, Doyle Vermette

The Governance Committee reviews, develops and maintains SaskWater's governance practices and oversees the Board's nominating and governance activities, including:

- evaluating the performance of Board committees, Board Chair, individual directors and the President/CEO;
- establishing Board and Committee structure, composition and mandate;
- ensuring Board orientation and opportunities for professional development;
- articulating roles and responsibilities of the Board.

Sustainability Committee - held two (2) meetings

Members: James Ireland (Chair), Doug Hay, Pat Lorjé, Dan Palsich, Doyle Vermette

The Sustainability Committee was established in June 2006 to assist SaskWater in becoming a leader in utilizing sustainability policy and best practices. This includes:

- helping to develop and implement a corporate sustainability policy;
- reviewing recommended policies, procedures and practices;
- reviewing and monitoring compliance with legislation and statutory environmental and sustainability laws and regulations; and
- identifying potential environmental risks.

Terms of Reference outlining the specific scope, duties and responsibilities of the SaskWater Board of Directors and Committees are available upon request by contacting SaskWater toll free: 1 888 230-1111 or by Email: comm@saskwater.com

E. Governance practices

In substantial alignment with current industry best practices, SaskWater's approach to corporate governance is consistent with the Canadian Securities Administrators' (CSA) Corporate Governance Guidelines and Disclosure Practices. These guidelines address areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role, and ensuring proper function of the Board, while maintaining its fiduciary obligation to the Corporation. SaskWater's corporate governance practices are benchmarked against CSA's Corporate Governance Guidelines in the following Governance Scorecard.

**CSA Corporate Governance Policy NP 58-201,
and Disclosure Instrument, NI 58-101F1
(Summary)**

SaskWater's Governance Practices

Composition of the Board

NP 58-201, section 3.1

The board should have a majority of independent directors.

The majority of directors on the SaskWater Board (8 out of 9) are independent.

NI 58-101F1, sections 1(a) and (d)

- 1 (a) Disclose the identity of directors who are independent;
- (b) Disclose the identity of directors who are not independent and the basis for that determination;
- (c) Disclose whether the majority of directors are independent; and
- (d) Disclose whether a director is a director of any other issuer that is a reporting issuer.

Murray Westby, Chair, Independent
Retired CEO, Westby Tractor and Equipment

Dan Palsich, Vice Chair, Independent
Retired Educator

Nicole Garman, Independent
Auditor, Robert Prosser & Associates Inc.

Doug Hay, Independent
Program Coordinator, Saskatchewan Market
Assessment for Research and Technology

Joe Hordyski, Independent
Mayor of La Ronge, self-employed

James Ireland, Independent
President, ERIN Consulting Ltd.

Sheldon Jacobson, Not Independent
Senior Technologist, SaskWater and CEP
representative

Pat Lorjé, Independent
Consultant, Saskatoon City Councillor

Doyle Vermette, Independent
Owner/ Manager, Northway Janitorial

The determination of independence is based on an assessment of the requirements outlined in Multilateral Instrument 52-110, Audit Committees.

Sheldon Jacobson, as an employee of SaskWater, is not independent.

Section 1(d) does not apply to SaskWater as SaskWater does not have share capital, and is not an issuer.

NP 58-201, section 3.2

The chair of the board should be an independent director who is the effective leader of the board and who ensures that the board's agenda will enable it to successfully carry out its duties.

The Chair of the Board is an independent director, providing leadership in Board activities and direction and duties, and serving as a liaison between the Board and SaskWater's shareholders.

**CSA Corporate Governance Policy NP 58-201,
and Disclosure Instrument, NI 58-101F1
(Summary)**

SaskWater's Governance Practices

NI 58-101F1, sections 1(f)

- 1 (f) Disclose whether the chair of the board is an independent director; disclose the identity of the chair and describe the role of the chair.

Murray Westby is the Chair of the Board and an independent director, reporting to the Board and to the shareholder. The Chair's role includes:

- presiding over meetings and ensuring the Board discharges its fiduciary and legal responsibilities;
- working with CEO and Corporate Secretary to set Board schedules and agendas;
- evaluating and addressing concerns relating to the Board, committee or director performance;
- promoting effective working relationships with SaskWater executive members, and providing advice to CEO and senior management; and,
- representing shareholder's interests to management, and management's interests to shareholder.

Meetings of Independent Directors

NP 58-201, section 3.3

- 3.3 The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not present.

As a standing Agenda item, the Board holds an in-camera session without management present at each regular meeting of the Board. All directors are present except where a director has a conflict of interest with an item to be discussed. The non-independent director is not an officer of the Corporation and it has been deemed that participation of the non-independent director does not give executive management of the Corporation the opportunity to bias or influence the Board of Directors.

NI 58-101F1, sections 1(e)

- 1 (e) Disclose whether the independent directors hold regularly scheduled meetings at which members of management are not present; disclose the number of such meetings held in the previous 12 months; if such meetings are not held, disclose what the board does to facilitate open and candid discussion among independent directors.

There were ten (10) regular Board meetings held in 2006, and during each regular meeting the Board held in-camera sessions without management present which included the participation of all directors.

The Board facilitates open and candid discussion by holding in-camera sessions and having an independent director as Chair of the Board. Directors are encouraged to raise any issues of concern and are provided access to external advice.

**CSA Corporate Governance Policy NP 58-201,
and Disclosure Instrument, NI 58-101F1
(Summary)**
SaskWater's Governance Practices

NI 58-101F1, sections 1(g)

- 1 (g) Disclose the attendance record of each director for board meetings held in the most recently completed financial year.

The Board held ten (10) meetings in 2006. The number of Board meetings attended by each director in 2006 is as follows:

Director	Meetings Attended*
Murray Westby, Chair	09(10)**
Dan Palsich, Vice Chair	10(10)
Nicole Garman	10(10)
Doug Hay	09(10)
Joe Hordyski	10(10)
James Ireland	07(10)
Sheldon Jacobson	04(4)
Pat Lorjé	06(7)
Doyle Vermette	07(7)

* For the purposes of this report, members who attended meetings in part were considered to be present.

** Figures in brackets represent the maximum number of meetings for the period in which the individual was a board member.

Board Mandate

NP 58-201, section 3.4

- 3.4 The board should adopt a written mandate which explicitly acknowledges responsibility for the stewardship of the corporation and responsibility for:
- (a) to the extent possible, satisfying itself as to the integrity of the CEO and executive and that they have created a culture of integrity throughout the organization;
 - (b) adopting a strategic planning process and approving at least annually a strategic plan which takes into account, among other things, the opportunities and risks of the business;
 - (c) identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;
 - (d) succession planning, including appointing, training and monitoring senior management;

The Board has written Terms of Reference that set out responsibilities and duties, including responsibility to function as stewards of the Corporation.

- a) The integrity of the CEO and other executive officers, as well as the creation of a culture of integrity, are specific items in the annual CEO appraisal conducted by the governance committee. The appraisal includes interviews with those internal and external to the company. The Board's performance appraisal of itself also evaluates integrity.
- b) The Board provides leadership in setting the Corporation's long-range strategic direction and annually approves the Corporation's Strategic Business Plan.
- c) The Board annually reviews principal risks of the corporation's business and ensures the implementation of appropriate systems to manage these risks.
- d) The Board appoints the CEO under the advisement of CIC.

**CSA Corporate Governance Policy NP 58-201,
and Disclosure Instrument, NI 58-101F1
(Summary)**

SaskWater's Governance Practices

(e) adopting a communications policy for the Corporation;

(f) the integrity of the Corporation's internal control and management information systems; and

(g) developing the Corporation's approach to corporate governance, including a set of principles and guidelines specific to the Corporation.

The written mandate should also address measures for receiving feedback from stakeholders (for example, a process for stakeholders to contact independent directors); and the expectations and responsibilities of directors, including basic duties to attend meetings and review materials in advance.

e) At present, the Corporation does not have a communications policy. The Board adopts policies and processes to enable effective communication with the shareholder, stakeholders and the public.

f) The Board monitors the integrity of the Corporation's internal control and management information systems.

g) The Board has approved Terms of Reference for directors where expectations and responsibilities are set out.

SaskWater formally and informally surveys internal and external stakeholders to obtain feedback about corporate activities. The Board Chair also participates in a forum established by CIC, comprised of Board Chairs of all subsidiary Crown Boards and senior CIC officials.

The Governance Committee reviews the Board's Terms of Reference annually.

NI 58-101F1, section 2

2 Disclose the text of the board's written mandate.

The Board's principal responsibilities are described above. Text of the Board's Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.

Position Descriptions

NP 58-201, section 3.5

3.5 The board should: develop clear position descriptions for the chair of the board and the chair of each board committee; together with the CEO, develop a position description for the CEO delineating management's responsibilities; develop or approve corporate goals and objectives that the CEO is responsible to meet.

The Board has approved Terms of Reference for the Board, the Board Chair, each Committee and individual directors.

The Board does not have a position description for the Chair of each Committee.

The Board annually approves a business plan and performance management plan that includes Corporate objectives and performance indicators.

**CSA Corporate Governance Policy NP 58-201,
and Disclosure Instrument, NI 58-101F1
(Summary)**

SaskWater's Governance Practices

NI 58-101F1, sections 3(a) and (b)

- 3 (a) Disclose whether the board has developed written position descriptions for the chair of the board and the chair of each board committee and, if not, describe how the board delineates the role and responsibilities of each such position.
- (b) Disclose whether the board and CEO have developed a written position description for the CEO.

There is a Terms of Reference for each Committee of the Board; however, the Board does not have a position description for the Chair of each Committee. The Chair communicates on a regular basis with Committee Chairs in order to effectively share information and to maintain a focus on proper appropriation of responsibilities between the Committees.

There is no written position description for the CEO. However, there is a comprehensive annual evaluation document which clearly describes the duties and expectations for the CEO position.

Orientation & Continuing Education

NP 58-201, sections 3.6 and 3.7

- 3.6 The board should ensure new directors receive comprehensive orientation and fully understand the role of the board and committees, the contribution individual directors are expected to make and the nature and operation of the business.
- 3.7 The board should provide continuing education opportunities for all directors to enhance their skills and abilities and ensure their knowledge of the Corporation's business is current.

Management provides new directors with an orientation session which provides insight to the business and operations; the board also receives regular operations and management updates on an ongoing basis.

Several times per year, CIC delivers a directors training program that focuses on the skills and needs that directors require in the provision of effective board processes and best practices in corporate governance.

Other ongoing development and training opportunities are made available to directors.

NI 58-101F1, sections 4(a) and (b)

- 4 (a) Describe the measures taken to orient new directors to the role of the board, committees and directors and to the nature of the Corporation's business.
- (b) Describe the measures taken to provide continuing education opportunities for all directors.

The Corporation provides new directors with a Board Manual and an orientation session. The orientation session addresses the Board's role and the nature of SaskWater's business.

Each year, CIC sponsors a comprehensive education program for directors of CIC subsidiary Crown Board's to orientate directors on roles of the Board and Committees, the skills directors need to effectively discharge their responsibilities, and corporate governance best practices.

**CSA Corporate Governance Policy NP 58-201,
and Disclosure Instrument, NI 58-101F1
(Summary)**

SaskWater's Governance Practices

Code of Business Conduct and Ethics

NP 58-201, section 3.8

- 3.8 The board should adopt a written code of business conduct and ethics applicable to directors, officers and employees of the corporation designed to promote integrity and deter wrongdoing. The code should address:
- (a) conflicts of interest, including transactions and agreements where a director or officer has a material interest;
 - (b) protection and proper use of corporate assets and opportunities;
 - (c) confidentiality of corporate information;
 - (d) fair dealing with the Corporation's security holders, customers, suppliers, competitors and employees;
 - (e) compliance with laws, rules and regulations; and
 - (f) reporting of illegal or unethical behavior.

Board members must comply with the Directors' Code of Conduct, developed by CIC. The Code promotes integrity and deters wrongdoing and provides a mechanism to report illegal or unethical behaviour.

SaskWater Corporation does not yet have a written Code of Conduct in place.

NI 58-101F1, sections 5(a)

- 5 (a) Disclose whether the board has adopted a written code of ethical business conduct for the directors, officers and employees of the corporation; how to obtain a copy of the Code; how the board monitors compliance with the Code; and reference any material change report in the most recent financial year relating to any conduct of a director or officer that constitutes a departure from the Code.

A copy of the Directors' Code of Conduct can be obtained by contacting the Corporate Secretary to the SaskWater Board of Directors.

The Audit and Finance Committee assists the Board in fulfilling its financial accountability by maintaining oversight of the Corporation's budget and financial operation; reviewing internal controls established by the Board and management; participating in audit processes; monitoring capital assets; reviewing and recommending on capital activities; and ensuring systems are in place to identify and manage risk.

The Governance Committee reviews, develops and maintains corporate governance practices and oversees the Board's nominating and governance activities. Duties and responsibilities include: evaluating the performance of the Board, Committees, Chair, directors and President/CEO; establishing board and committee structure and mandate; ensuring board orientation and opportunity for professional development; and articulating roles and responsibilities.

**CSA Corporate Governance Policy NP 58-201,
and Disclosure Instrument, NI 58-101F1
(Summary)**

SaskWater's Governance Practices

	<p>The Sustainability Committee was established in 2006 to assist the Corporation in becoming a leader in the use of sustainability policy and best practices. The Committee: assists management in the development and implementation of sustainability policy; reviews management's recommendations regarding sustainability policies and practices in the conduct and operation of the Corporation; reviews and monitors compliance with legislative and regulatory requirements as prescribed in statutory environmental and sustainability laws and regulations; and identifies potential environmental risks that may impact the Corporation.</p> <p>The Board has not reported any material changes (departure from Directors' Code of Conduct) in 2006.</p>
<p>NP 58-201, section 3.9</p> <p>3.9 The board should monitor compliance with the code and any waivers granted for the benefit of directors and executive officers should be granted by the board or a board committee. Any waivers for a material departure from the code for any directors or officers should disclose full details of the material change.</p>	<p>The Board has delegated to its Committees the responsibility to monitor compliance with the Directors Code of Conduct. The Committees report any issues dealt with pursuant to the Code to the full Board.</p> <p>There is no formal process in place, but the Committees will report if a Code issue arises.</p> <p>No waivers from the Code have been granted to any director in 2006.</p>
<p>NI 58-101F1, sections 5(b)</p> <p>5 (b) Describe steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements where a director or officer has a material interest.</p>	<p>Where a director has, or is perceived to have, a personal interest in a transaction being considered by the Corporation, the director has a fiduciary responsibility to declare such interest at the meeting at which the matter is to be considered.</p> <p>Management monitors agenda items to identify any issues where a director may have a material interest and such items would not be distributed to the director.</p>
<p>NI 58-101F1, sections 5(c)</p> <p>5 (c) Describe other steps the board takes to encourage and promote a culture of ethical business conduct.</p>	<p>The Board follows industry best practices in corporate governance; promotes and practices open, honest and ethical discussions and has delegated the Governance Committee to act as the ethics advisor to the Board and management. The Governance Committee will provide a verbal report if any ethics issues arise.</p> <p>The Board expects management to act ethically in its business dealings, in accordance with all applicable legislation.</p>

CSA Corporate Governance Policy NP 58-201, and Disclosure Instrument, NI 58-101F1 (Summary)	SaskWater's Governance Practices
<p>Nomination of Directors</p> <p>NP 58-201, section 3.10</p> <p>3.10 The board should appoint a nominating committee composed of entirely independent directors.</p>	<p>The Governance Committee functions as the nominating committee. The Governance Committee is comprised of independent directors.</p>
<p>NI 58-101F1, sections 6(a) and (b)</p> <p>6 (a) Describe the process by which the board identifies new candidates for board nomination.</p> <p>(b) Disclose whether the board has a nominating committee composed entirely of independent directors and, if not, describe the steps the board takes to encourage an objective nomination process.</p>	<p>The Board, through the Governance Committee, reviews the skills and composition of current directors annually and performs needs and skills assessments when the need for a new member arises.</p> <p>The Governance Committee identifies skill sets required on the Board, and seeks and recommends to the Board those nominees that have required competencies to fill any identified skill gaps.</p> <p>In seeking candidates, the Committee receives recommendations from directors, senior management, Corporate Secretary and the shareholder. Potential candidates are interviewed to determine a fit with Board needs. The Committee nominates candidates to the shareholder. The shareholder has the legislative authority to make Board appointments.</p>
<p>NP 58-201, section 3.11</p> <p>3.11 The nominating committee should have a written charter establishing the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual directors or subcommittees) and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate outside advisors necessary to permit it to carry out its work. Where a third party has a legal right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.</p>	<p>The Governance Committee, which acts as the Nominating Committee, has written Terms of Reference setting out its purpose and responsibilities, which addresses the Committee's responsibility to lead the process of recruiting and nominating candidates for appointment to the Board.</p>

**CSA Corporate Governance Policy NP 58-201,
and Disclosure Instrument, NI 58-101F1
(Summary)**
SaskWater's Governance Practices

NI 58-101F1, sections 6(c)

- 6 (c) If the board has a nominating committee, describe the responsibilities, powers and operation of the committee.

The Governance Committee performs the functions of a nominating committee and its Terms of Reference describe the responsibilities, powers and operation of the Committee. The Committee is appointed by the Board and services in an advisory capacity.

The Governance Committee Terms of Reference can be obtained by contacting the SaskWater Board of Directors Corporate Secretary.

NP 58-201, section 3.12

- 3.12 The board should adopt a nomination process which considers the competencies and skills of the board as a whole; assesses the competencies and skills possessed by each existing director; and considers the personality and other qualities of each director. The board should also consider the appropriate size of the board, with a view to effective decision-making, and should consider the advice and input of the nominating committee.

The Board's nomination process, previously described, meets the guidelines of the Instrument.

By legislation, the Board is comprised of a maximum 12 directors. The Governance Committee makes recommendations that are conducive to the promotion of timely and effective decision-making.

NP 58-201, section 3.13

- 3.13 The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees.

The Governance Committee, which serves as the nominating committee, is responsible for undertaking the process to identify, recruit and recommend qualified candidates for appointment to the Board.

NP 58-201, section 3.14

- 3.14 In making its recommendations the nominating committee should consider: the competencies and skills that the board considers necessary for the board as a whole to possess; the competencies and skills of existing directors; the competencies and skills of each nominee; and whether each new nominee can devote sufficient time and resources to board work.

As previously described, the Governance Committee identifies skill sets required on the Board, and seeks and recommends to the Board those nominees that have required competencies to fill any identified skill gaps.

In seeking candidates, the Committee receives recommendations from directors, senior management, and the shareholder. Potential candidates are interviewed to determine a fit with Board needs. The Committee makes recommendations to the Board then nominates candidates to the shareholder. The shareholder has the legislative authority to make Board appointments.

CSA Corporate Governance Policy NP 58-201, and Disclosure Instrument, NI 58-101F1 (Summary)	SaskWater's Governance Practices
<p>Compensation</p> <p>NP 58-201, section 3.15</p> <p>3.15 The board should appoint a compensation committee composed entirely of independent directors.</p>	<p>The Governance Committee performs the functions of a compensation committee which is comprised of independent directors.</p>
<p>NI 58-101F1, sections 7(a) and (b)</p> <p>7 (a) Describe the process by which the board determines compensation for the directors and officers of the Corporation.</p> <p>(b) Disclose whether the board has a compensation committee composed entirely of independent directors and, if not, describe the steps the board takes to ensure an objective process for determining such compensation.</p>	<p>The Governance Committee performs the functions of a compensation committee which is comprised of independent directors.</p> <p>CIC has the legislative authority to determine remuneration rates and set expense guidelines for directors. The Governance Committee has authority to recommend to the Board adjustments to directors' compensation. The Committee receives quarterly reports outlining the remuneration and expenses received by members of the Board.</p> <p>Each director receives an annual retainer for services as a board member. Directors who are not employees of the Corporation receive fees for attending meetings of the Board and Committees or for performing other duties associated with the Board.</p> <p>A copy of CIC's Remuneration and Expense Guidelines for directors can be obtained by contacting CIC or the Corporate Secretary to the Board.</p> <p>A framework for executive compensation has been established by CIC. The Board can approve compensation packages as provided within that framework. The Board as a whole provides insight and recommendations concerning executive compensation issues.</p> <p>Compensation is determined by reviewing the Corporation's overall compensation and benefits plans, industry standards equivalencies in regards to executive compensation, performance compensation programs and annual corporate performance indicators. In the reviewing of executive compensation the Committee has the ability to utilize external consultation. External advice is subject to approval from the Board.</p>

**CSA Corporate Governance Policy NP 58-201,
and Disclosure Instrument, NI 58-101F1
(Summary)**

SaskWater's Governance Practices

NP 58-201, section 3.16

- 3.16 The compensation committee should have a written charter establishing the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure, operations (including any authority to delegate to individual directors or subcommittees) and manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate outside advisors necessary to permit it to carry out its work.

The Governance Committee has Board approved Terms of Reference and is appointed by the Board to fulfill the role of compensation committee. The Committee serves in an advisory capacity and makes recommendations to the Board within its area of responsibility. In the reviewing of compensation issues the Committee has the ability to utilize external consultation. External advice is subject to approval from the Board.

A copy of the Committees Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.

NI 58-101F1, sections 7(c)

- (c) If the board has a compensation committee, describe the responsibilities, powers and operation of the committee.

The Governance Committee has Board approved Terms of Reference and is appointed by the Board to fulfill the role of compensation committee. The Committee serves in an advisory capacity and makes recommendations to the Board within its area of responsibility.

A copy of the Committees Terms of Reference can be obtained by contacting the Corporate Secretary to the Board.

NP 58-201, section 3.17

- 3.17 The compensation committee should be responsible for: reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining the CEO's compensation level based on the evaluation; making recommendations to the board respecting non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and reviewing executive compensation prior to public disclosure.

The Governance Committee annually recommends to the Board the CEO's level of performance and performance targets. The Committee is also discharged with the duty of performing the annual CEO performance evaluation process. During the evaluation process the CEO's performance is benchmarked against pre-determined Corporate objectives and CEO's individual objectives. The results of the CEO's evaluation are used in determining compensation.

The Board annually reviews corporate target objectives and the degree of success that corporate Management has achieved in aligning with the pre-determined benchmarks.

Corporate Management is eligible for compensation based on the degree of success in attaining these performance objectives.

Executive compensation approvals and the decision making process are subject to guidelines as provided by CIC. As a Provincially owned Crown corporation, SaskWater does not have equity-based plans.

CSA Corporate Governance Policy NP 58-201, and Disclosure Instrument, NI 58-101F1 (Summary)	SaskWater's Governance Practices
<p>NI 58-101F1, sections 7(d)</p> <p>(d) If a compensation consultant has been retained, at any time during the Corporation's most recently completed fiscal year, to assist in determining compensation for any of the Corporation's directors and officers, disclose the identity of the consultant and briefly summarize their mandate. If retained to perform any other work, state that fact and briefly describe the nature of the work.</p>	<p>In 2006, the Corporation did not retain any external consultation to assist in the compensation process for directors or officers.</p>
<p>Other Board Committees</p> <p>NI 58-101F1, section 8</p> <p>If the board has standing committees of the board, other than audit, compensation and nominating committees, identify the committees and describe their function.</p>	<p>In addition to the Audit and Finance Committee, and the Governance Committee, the Board established the Sustainability Committee in 2006.</p> <p>The Committee, as described previously, assists management in the development, review and implementation of sustainability policy and best practices.</p> <p>A Terms of Reference outlining scope, responsibilities and duties of the Committee can be obtained by contacting the Corporate Secretary to the Board.</p>
<p>Board Assessments</p> <p>NP 58-201, section 3.18</p> <p>3.18 The board, its committees and each individual director should be regularly assessed. An assessment should consider: with respect to the board or committees, its mandate or charter; with respect to an individual director, the applicable position description(s), as well as the competencies and skills each individual director brings to the board.</p>	<p>Board, Chair, Committee evaluations and director peer assessments are performed annually on a two year cycle. Board and Chair evaluations are conducted once a year, and director peer and committee evaluations are conducted the following year.</p>
<p>NI 58-101F1, sections 9(a)</p> <p>Disclose whether the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution and, if yes, describe the process used.</p>	<p>The Governance Committee oversees the implementation of the evaluation process. The evaluations are survey-based, using an instrument developed by CIC in consultation with the Governance Committees of the subsidiary Crown boards of directors.</p> <p>Directors complete surveys to provide feedback in writing on the effectiveness of the Board, Committees, Chairs and individual directors.</p> <p>The Governance Committee outlines evaluation results which are submitted to the Board for review and approval. The Committee tracks implementation of any action items.</p>

Corporate Directory

Stuart Kramer, President

Business Development

Dr. Greg Argue
Vice President

Ingrid Brueckner
Manager, Policy & Planning

Ron Barss
Manager, Customer & Market Services

Lori Boothman
Acting Manager, Corporate Communications

Engineering

Bob Wheatley
Vice President

Glen Gillis
Manager, Northern Engineering

Eric Light
Manager, Construction & Maintenance Engineering

Shahid Khan
Manager, Water & Wastewater Engineering

Operations

Mart Cram
Vice President

Jeff Mander
Director, District Operations

Vacant
Manager, Special Services

Corporate and Human Services

Denise Soar
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