SaskWater

ANNUAL REPORT

2011

About SaskWater

SaskWater is Saskatchewan's commercial Crown water utility, helping communities, First Nations and industry gain access to reliable and professional water and wastewater services.

SaskWater provides professional water and wastewater services to 59 communities, seven rural municipalities, 81 rural pipeline groups, 15 industrial and approximately 233 commercial and end user customers.

The corporation owns seven water treatment plants, three wastewater facilities, 37 pump stations and approximately 860 kilometres of pipeline. SaskWater also maintains customer-owned systems and provides operator training to 41 Saskatchewan First Nations communities.

Originally established as the Saskatchewan Water Supply Board in 1966, SaskWater has undergone a number of organizational and structural changes over the years. In 1984, the operations of the Water Supply Board were part of a reorganization into the newly created SaskWater. In 2002, SaskWater's role was re-focused to be a commercial Crown corporation specializing in the water utility role. Functions such as water management and source water protection moved to a new entity, the Saskatchewan Watershed Authority. Throughout the years, however, the emphasis has always been on supporting economic growth and the people of Saskatchewan.

SaskWater has defined four measurable strategic objectives to guide the corporation: Succeeding Financially; Growing the Business; Achieving Business Excellence; and Valuing Employees.

SaskWater is committed to providing the highest level of service to its customers. That promise is reflected in the corporation's Vision, Mission and Values.

Vision: to be Saskatchewan's water and wastewater utility of choice.

Mission: to provide reliable and professional water and wastewater services for Saskatchewan.

Values: Integrity, Professionalism, Sense of Community and Innovation.

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Letter of Transmittal

Moose Jaw, March 2012
To Her Honour
The Honourable Vaughn Solomon Schofield, S.O.M., S.V.M.,
Lieutenant Governor of Saskatchewan
Province of Saskatchewan

Dear Madam:

It is my honour to submit herewith the annual report of SaskWater for the year ending December 31, 2011.

The annual report includes the financial statements, duly certified by auditors for the corporation, in the form approved by the Treasury Board and in accordance with the Saskatchewan Water Corporation Act.

I have the honour to be your obedient servant.

Sincerely,

Dustin Duncan
Minister Responsible for Saskatchewan Water Corporation

Minister's Message

I am very pleased to present the 2011 Annual Report for SaskWater.

SaskWater has been working diligently to provide a high standard of service and to expand its customer base. The results of this effort are evident in the financial results for 2011, which indicate a surplus for the year of $3.5 million. This is a significant improvement over prior years and is critical in order for SaskWater to move forward with infrastructure refurbishment and service expansion in the future.

In 2011, I had the opportunity to learn first-hand about the dedication and innovation of SaskWater employees through attendance at functions such as the Service Recognition Awards Banquet. The people who work at SaskWater clearly understand the importance of safe drinking water, reliable water services and creative solutions to meet the needs of today and beyond.

As the provincial economy continues to grow, I am confident SaskWater will play an important part in building and operating the infrastructure required to maintain our Saskatchewan Advantage.

Sincerely,

Dustin Duncan
Minister Responsible for Saskatchewan Water Corporation

Letter to Stakeholders

In 2011, SaskWater celebrated its largest financial success to date, reporting a surplus of $3.5 million. As the province continues to grow, a strong financial performance is critical in order to refurbish aging infrastructure, undertake system expansions and maintain excellent customer service.

The 2011 results have been influenced by a focus on growing the business, both for new and expanding customers, and by significant project management work for potential entrants to the potash industry. Project management revenues were $4.5 million in 2011, compared to less than $50,000 five years ago. This work is expected to decline in coming years as these major projects move beyond the initial engineering phases.

In November 2011, K+S Potash Canada GP announced their plans to go forward with a potash mine near Bethune. SaskWater is pleased to have signed a water supply agreement for potable water service to the mine and continues to work on a non-potable water agreement with K+S.

As the province continues to grow, a strong financial performance is critical in order to refurbish aging infrastructure, undertake system expansions and maintain excellent customer service.

BHP Billiton Canada Inc. is expected to make its final go forward decision in late 2012 for its potential potash mine near Jansen. VALE Potash Canada Limited is in the preliminary stages to determine the viability of their potential potash mine near Kronau. SaskWater worked under project management agreements with both of these companies throughout 2011 and will continue to do so into 2012.

SaskWater's focus on growth has resulted in our potable water volumes increasing by 10.7% since 2006, surpassing Saskatchewan's population growth of 6.7% in the same period. SaskWater's non-potable water volumes have increased 110.1% since 2006. In total, SaskWater supplied 34.1 billion litres of water in 2011, including 6.0 billion litres of high-quality drinking water and 28.1 billion litres of non-potable water. SaskWater also received and treated 1.1 billion litres of wastewater.

In 2011, we were pleased to sign water supply agreements with new customers One Arrow First Nation, the Town of Hepburn, the Caron/Mortlach Regional Public Utility Board as well as a 20-year agreement with an existing customer, the Town of Gravelbourg. Completion of Gravelbourg's new water treatment plant as well as the Town of Cupar's new plant are scheduled for early 2012.

SaskWater expanded its presence in Saskatchewan's north in 2011 with the signing of a new certified operations and maintenance (COM) agreement with the Northern Village of Air Ronge. This agreement is an example of how providing quality service can lead to new opportunities. SaskWater's success as the COM operator for the Lac La Ronge Regional Water Corporation's water treatment plant in La Ronge, which supplies water to the Town of La Ronge, the Northern Village of Air Ronge and the Lac La Ronge First Nation, opened the door to new business for SaskWater and safe, reliable water services for area residents.

In 2011, SaskWater hired a consultant to do a review of the Saskatoon Southeast Water Supply System (SSEWS). The SSEWS canal and associated structures were developed 45 years ago primarily to supply potash mines and support irrigation. The system has served SaskWater and its customers well but is in need of upgrades and refurbishment. The report will help inform the development of a multi-year capital plan to ensure safe and reliable service for years to come.

Looking to the future, we continue to focus on growth. To go from initial contact with a potential customer, to understanding their needs, to financial analysis, engineering and construction often spans several months or even years, depending on the nature of the project. A positive customer-centred focus is critical to understand and meet our clients' needs, which will lead to continued success down the road.

Our success today and in the future would not be possible without the expertise of our staff. SaskWater's employees are committed to the role each of them plays in providing reliable and professional water and wastewater services to our customers.

Thank you to our customers for their continued support and our employees for their dedication.

Doug Matthies
President

Glen Rittinger
Chair of the Board

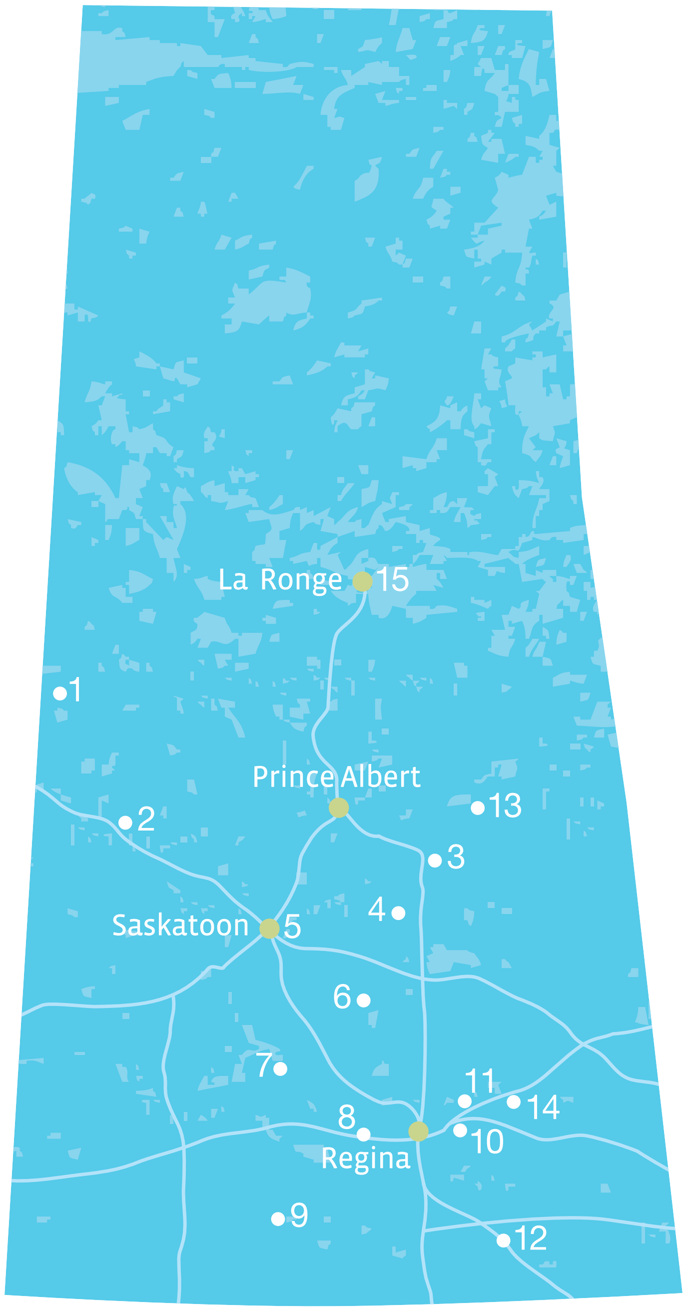
Lines of Business

Systems Map

Current service in Saskatchewan

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

1	Pierceland
2	Jackfish Lake Area
3	Melfort Area
4	Wakaw-Humboldt Area
5	Saskatoon Area
6	Hanley-Watrous-Lanigan Area
7	Elbow
8	Buffalo Pound Area
9	Gravelbourg
10	White City/Emerald Park
11	Edenwold
12	Halbrite
13	Nipawin
14	Fort Qu'Appelle
15	La Ronge Area



SaskWater's core lines of business include:

- potable (safe for human consumption);
- non-potable water supply;
- wastewater treatment and management;
- certified operations and maintenance (COM);
- project management;
- water and wastewater training;
- remote monitoring; and
- water leak detection.

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 rural pipeline groups and businesses.

The majority of SaskWater's municipal customers own and operate their local distribution systems and manage the relationship with their residents. SaskWater provides wholesale water delivery service to the community, who then delivers the service to its residents.

Stand-alone systems

SaskWater's mandate enables the corporation 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.

Regional systems

For many rural communities, regional water systems are the most cost-effective and sustainable solutions to their water needs.

SaskWater owns and operates the Wakaw-Humboldt and Melfort 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 17 communities and several rural pipeline groups.

SaskWater also owns and operates 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, industries, other commercial businesses, and pipeline groups 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 surrounding communities and industries.

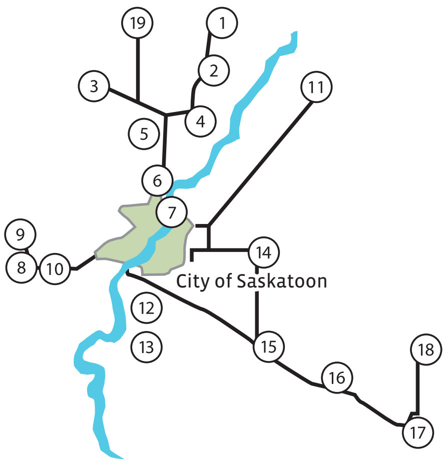
In 2011, SaskWater delivered 6.0 billion litres of high-quality drinking water (2010: 5.4 billion litres).

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.

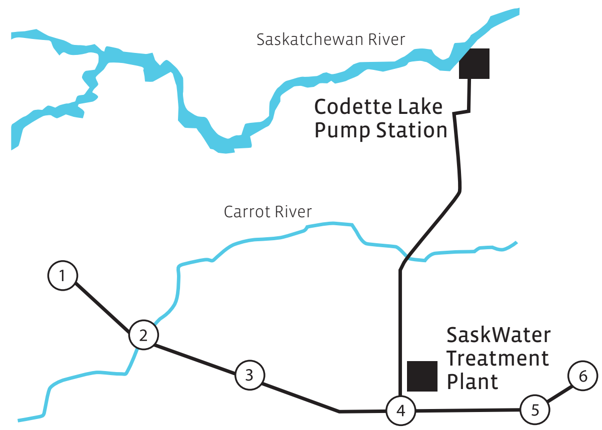
The majority of SaskWater's non-potable water supply is delivered in large volumes to industrial customers for

Saskatoon Area:
Potable Water Supply System



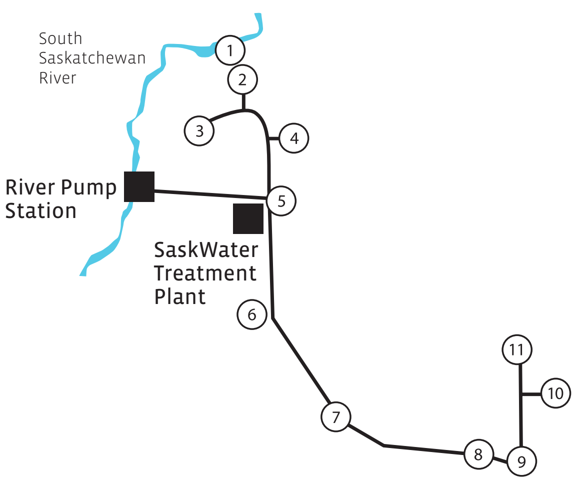
1. Hague
2. Osler
3. Dalmeny
4. Warman
5. Martensville
6. ERCO Worldwide
7. Akzo Chemicals
8. Prairie Pride Chick Sales Ltd.
9. Perkins Ag Marketing Inc.
10. Chemtrade West
11. Aberdeen
12. Grasswood
13. Casa Rio/Wood Meadow
14. Sunset Estates
15. Clavet
16. Bradwell
17. Allan
18. Elstow
19. Hepburn

Melfort Area:
Potable Water Supply System



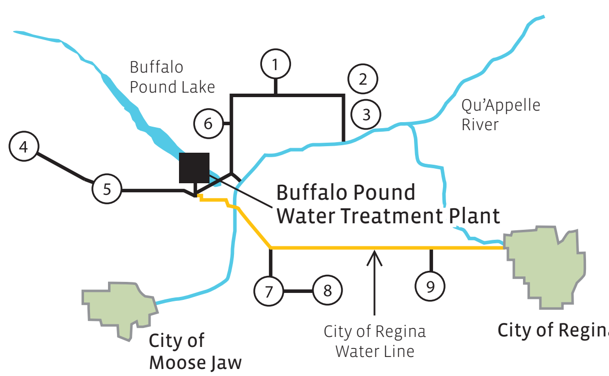
1. Weldon
2. Kinistino
3. Beatty
4. Melfort
5. Star City
6. Star City Colony

Wakaw-Humboldt Area:
Potable Water Supply System



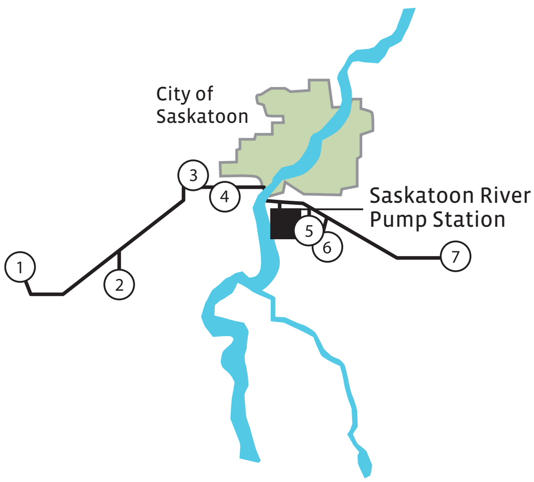
1. St. Louis
2. Hoey
3. St. Isidore-de-Bellevue
4. Domremy
5. Wakaw
6. Cudworth
7. Bruno
8. Humboldt
9. Muenster
10. Annaheim
11. Lake Lenore

Buffalo Pound Area:
Potable Water Supply System



1. Bethune
2. Arm River Colony
3. Disley
4. Marquis
5. Tuxford
6. Buffalo Plains Cattle Company
7. Yara Belle Plaine Inc.
8. Canadian Salt
9. Grand Coulee

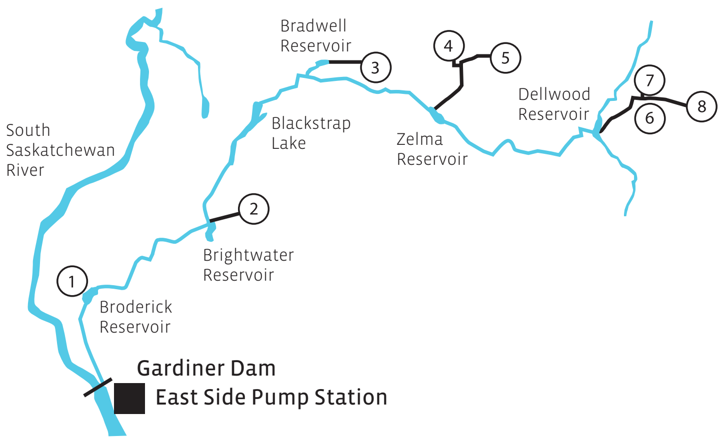
Saskatoon Area:
Non-Potable Water Supply System



1. Agrium Potash
2. Vanscoy
3. PCS Cory and Cory Cogen
4. Cedar Villa
5. Riverside Estates
6. Golf Courses (WGCC/SGCC/Greenbryre)
7. Cargill

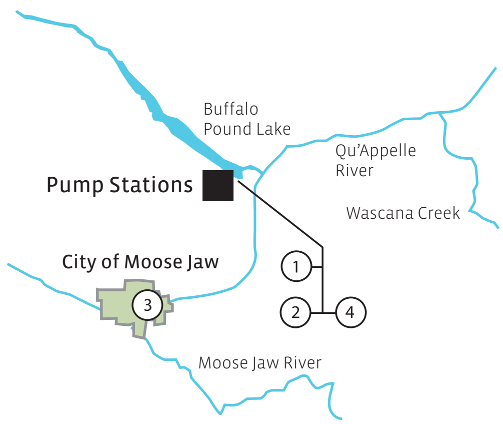
Regina East:
Non-Potable Water Supply System

Saskatoon Southeast:
Non-Potable Water Supply System



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

Buffalo Pound Area:
Non-Potable Water Supply System



1. Terra Grain Fuels Inc.
2. Yara Belle Plaine Inc.
3. Temple Gardens Mineral Spa
4. Mosaic Potash Belle Plaine

processing and manufacturing operations, including 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 water systems in the areas surrounding Saskatoon, Buffalo Pound Lake and Regina.

In 2011, SaskWater delivered 28.1 billion litres of non-potable water (2010: 14.2 billion litres).

Wastewater treatment and management

SaskWater currently owns and operates wastewater facilities in Nipawin, Pierceland and the Echo Regional Wastewater facility in Fort Qu'Appelle.

In 2011, SaskWater completed construction of an effluent irrigation demonstration research site and had its first year of operations. This research project is expected to operate for five years and gather data on applying an alternative waste disposal technique to Saskatchewan conditions.

The project, which uses wastewater effluent to irrigate tree plots, is expected to require significantly lower capital and operating costs and result in zero discharge into surface water bodies. One of the issues being studied is to determine which of several tree varieties is potentially most suited to this type of application.

This project is a partnership between SaskWater, the City of Moose Jaw, Communities of Tomorrow, Prairie Adaptation Research Collaborative (PARC), the Ministry of Agriculture and the Agroforestry Development Centre (ADC).

Certified operations and maintenance (COM)

SaskWater contracts with 15 communities and rural pipeline groups to provide certified operations and maintenance of their water and wastewater systems, including:

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

The above services are supervised or performed by certified operators.

We also provide: regulatory reporting and consultation; emergency planning; and customer support services.

SaskWater is able to offer the services of its qualified certified operators to communities and rural pipeline groups located near our existing operating centres.

Project management

SaskWater provides project management services, when appropriate, to plan and manage the design and construction of water and wastewater infrastructure projects.

In 2011, SaskWater's project management activities were significantly increased to support the potash industry as companies investigate water supplies for potential new mines.

Northern activities

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

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.

Water and wastewater training

SaskWater works on behalf of Aboriginal Affairs and Northern Development Canada (AANDC) to provide operating training to Saskatchewan First Nations. In 2011, SaskWater trained approximately 80 water and wastewater operators at 41 First Nations.

The goal of SaskWater's training program is to assist in providing a safe water supply to residents and to safeguard their valuable water and wastewater infrastructure investment. The program began in 1978 and has evolved and expanded over the years to suit the specific water and wastewater operational needs of First Nations communities as they adapt to frequently changing technology and increasingly stringent regulatory requirements.

Benefits to First Nations communities include:

- enhanced quality of water and wastewater operation;
- emergency technical assistance as required;
- limited service disruptions and threats to public water quality and supply;
- progressive operator development, including certification tutorial support; and,
- annual water consumption records collection and reporting representation at project management team meetings on behalf of First Nations receiving new facilities or significant facility upgrades and, upon request, participation in relevant stakeholder meetings.

Remote monitoring

Partnering with TransGas, SaskWater uses a Supervisory Control and Data Acquisition (SCADA) system to remotely monitor 38 of SaskWater's owned and contracted systems across the province, 24 hours a day 365 days a year.

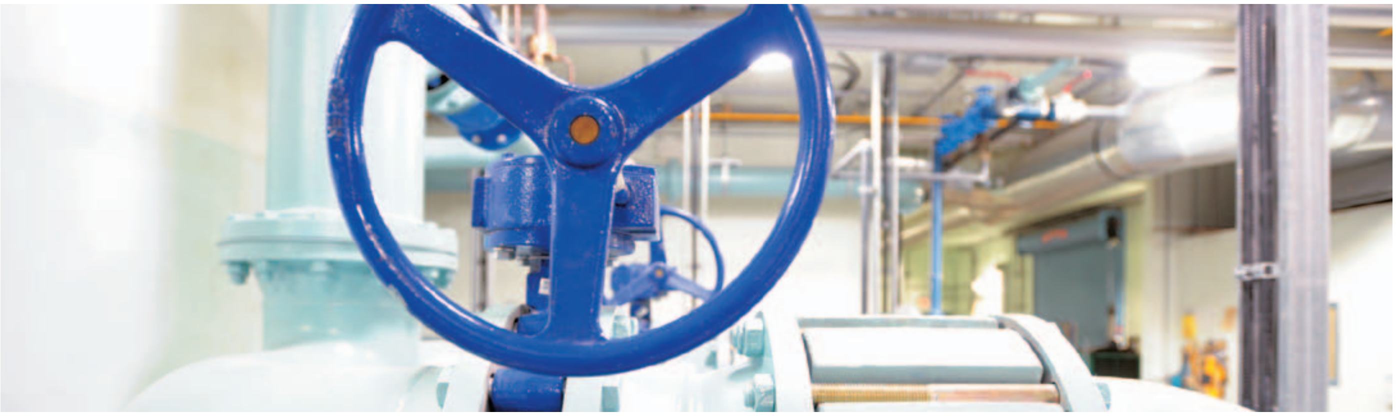
SCADA helps SaskWater improve services and reduce costs. Operating water and wastewater systems for communities in a province the size of Saskatchewan can be challenging. SaskWater serves approximately 50,000 people in 59 communities in a province that covers 140,000 square kilometres.

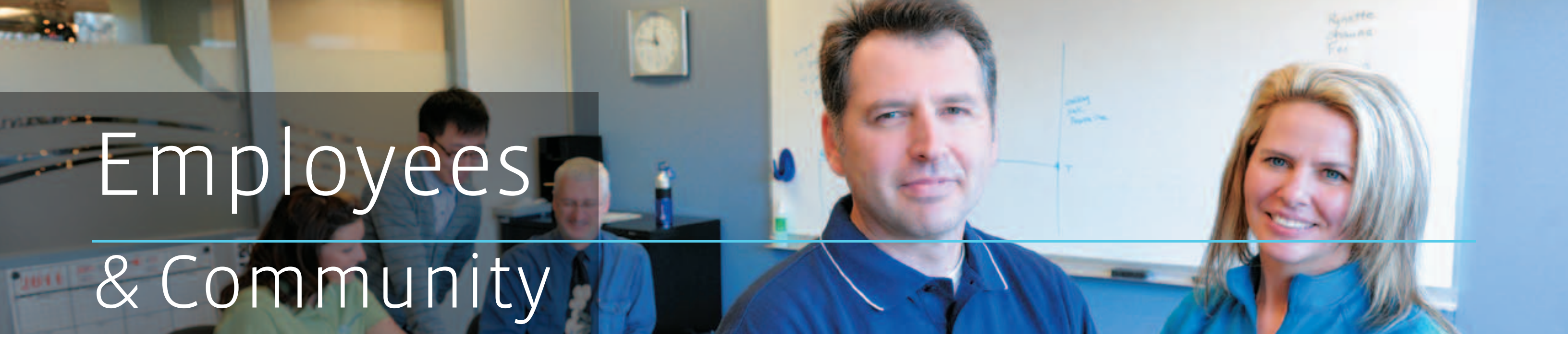
By remotely monitoring SaskWater facilities, cost for travel to sites is reduced and field staff can focus more time on preventative maintenance and facility improvements, providing a higher level of service to our customers.

Water leak detection

SaskWater provides leak detection services using noise correlation technology to detect subsurface water leaks and conduct leak audits on distribution systems.

This service strengthens SaskWater's commitment to provide safe, quality water to Saskatchewan communities as leaks of any size can damage infrastructure, contaminate a water supply, deprive a community of considerable revenue and waste a valuable natural resource.





Employees & Community

At SaskWater, employees are the corporation's most important asset and provide a valuable connection to our customers, industry contacts and the general public.

Headquartered in Moose Jaw, SaskWater has approximately 105 employees working in 14 provincial locations: Moose Jaw, Watrous, Prince Albert, Saskatoon, Hanley, Wakaw, Melfort, Regina, White City, Elbow, Gravelbourg, Meota, Cochin and La Ronge.

At SaskWater, we operate in a unionized environment; 69 of our permanent employees are members of the Communications, Energy and Paperworkers Union, Local 820.

Diversity

At SaskWater, we also understand the importance of a diverse workforce to support not only our operations, but to help us continue to be an innovative and forward-looking corporation in Saskatchewan.

In 2011, designated equity group members—Aboriginal persons, persons with disabilities, women in under-represented roles and visible minorities—represented 24.8% of SaskWater's workforce.

To further support diversity at SaskWater, we continue to deliver an Aboriginal Cultural Awareness Program (ACAP) to SaskWater employees. In 2011, nine of our employees attended this program, bringing the total employees trained to 91.43%.

Our employees also attend Respect in the Workplace interactive workshops. Employees develop an understanding of how beliefs and values shape behaviour, and they learn how to bridge differences in the workplace. Ten of our employees attended this training in 2011, bringing the total employees trained to 87.62%.

One Building Successful Working Relationships workshop was delivered in 2011. This workshop, which was developed in 2009, is the next step in building and maintaining a respectful workplace environment. Eleven SaskWater employees participated in this workshop in 2011, as a supplement to Respect in the Workplace, bringing the total employees trained to 38.1%.

Training

To further support SaskWater employees, we encourage and support training in the areas of ongoing education and professional development.

Training is offered to upgrade the knowledge and skills of employees. This increases organizational effectiveness by raising overall employee performance.

In 2011, 93 employees took part in training initiatives that included continuing their formal education and attending conferences, workshops, seminars, occupational health and safety and mandatory training for new employees.

Community investment

As one of the province's commercial Crown corporations, part of SaskWater's role is to support Saskatchewan communities. This includes a commitment to improving the social health and well-being of Saskatchewan's people.

SaskWater achieves this objective through its Community Investment program, by awarding scholarships and bursaries and helping celebrate the success of local business.

Through its Community Investment program, SaskWater supports Saskatchewan communities by providing sponsorships and donations.

SaskWater invests in activities which represent the greatest impact possible—supporting its customers, employees, as well as communities where employees live and work. Priority is given to activities that demonstrate environmental stewardship and diversity and Aboriginal peoples involvement in business and employment.

In 2011, SaskWater supported 77 events and activities that benefitted more than 32 communities throughout the province. These sponsorships included events such as the Saskatchewan Festival of Words, the Riverhurst Walleye Classic Fish Derby, the Gravelbourg Summer Solstice Festival and the Saskatchewan First Nations 2011 Summer Games.

Education

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

Investing in post-secondary education is investing in SaskWater's future employees and the future workforce of Saskatchewan. SaskWater's scholarships, co-op terms and internships show our commitment to recruit promising young talent in Saskatchewan.

The SaskWater SIAST Bursary provides $2,000 per year to recognize the achievement of students in the Water Resources Engineering Technology program at SIAST Palliser Campus and to provide them with encouragement and support upon graduation from the program.

In addition to providing work placements for SIAST co-op students, SaskWater participates in the Gradworks Intern Development Program, established by Crown Investments Corporation, with the goal of providing valuable work experience to talented, high-potential post-secondary graduates.

SaskWater also supported the Saskatchewan Association of Watersheds (SAW) multimedia and video contest on "The Importance of Watersheds" in 2011 with a $1,500 educational post-secondary RESP for the winning presentation. The contest is open to high school students in Grades 9 to 12 in SAW's member watersheds.

In 2011, two Gradworks interns secured full-time employment with SaskWater, two completed their 12-month internships and one obtained permanent employment with a new employer. Also in 2011, three new interns were provided work placement opportunities with SaskWater in Human Resources and Engineering.

Business

SaskWater shows its support for local businesses by sponsoring events such as the Saskatchewan Municipal Awards, the SIAST Business & Industry Banquet in Moose Jaw and the ABEX (Awards of Business Excellence) Gala in Nipawin.

SaskWater also sponsors the Environment award at the annual Saskatchewan Chamber of Commerce ABEX Awards, as well as the Business Innovation Award at the Moose Jaw Chamber of Commerce ABEX Awards.

Partnerships

SaskWater's commitment to provide reliable and professional water and wastewater services would not be realized without key industry partners.

SaskWater has a memorandum of understanding with the Consulting Engineers of Saskatchewan (CES) that guides our relationship and provides for an effective use of private sector resources within the Crown umbrella. SaskWater collaborates with CES in many areas, including the review of technology and exchange of information, experiences and best practices.

Every other year, SaskWater partners with CES on a Technical Exchange. Consultants, operators and regulators, including Saskatchewan Environment, meet and share knowledge to the benefit of Saskatchewan's entire water and wastewater industry. The next technical exchange will be held in 2013.

SaskWater also values its ongoing partnership agreement with the Saskatchewan Urban Municipalities Association (SUMA). This relationship includes a Diamond sponsorship of SUMA's annual convention, and allows the corporation 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 also supports the work of organizations such as Western Canada Water, the Saskatchewan Water and Wastewater Association, the Saskatchewan Association of Watersheds and the Urban Municipal Administrators Association of Saskatchewan.

Strategic Plan & Balanced Scorecard

SaskWater is a subsidiary of Crown Investments Corporation (CIC) and receives strategic direction from the shareholder. SaskWater's five-year Strategic Plan was developed in 2009 to enable the company to achieve its key goals of financial and business success and to meet shareholder expectations.

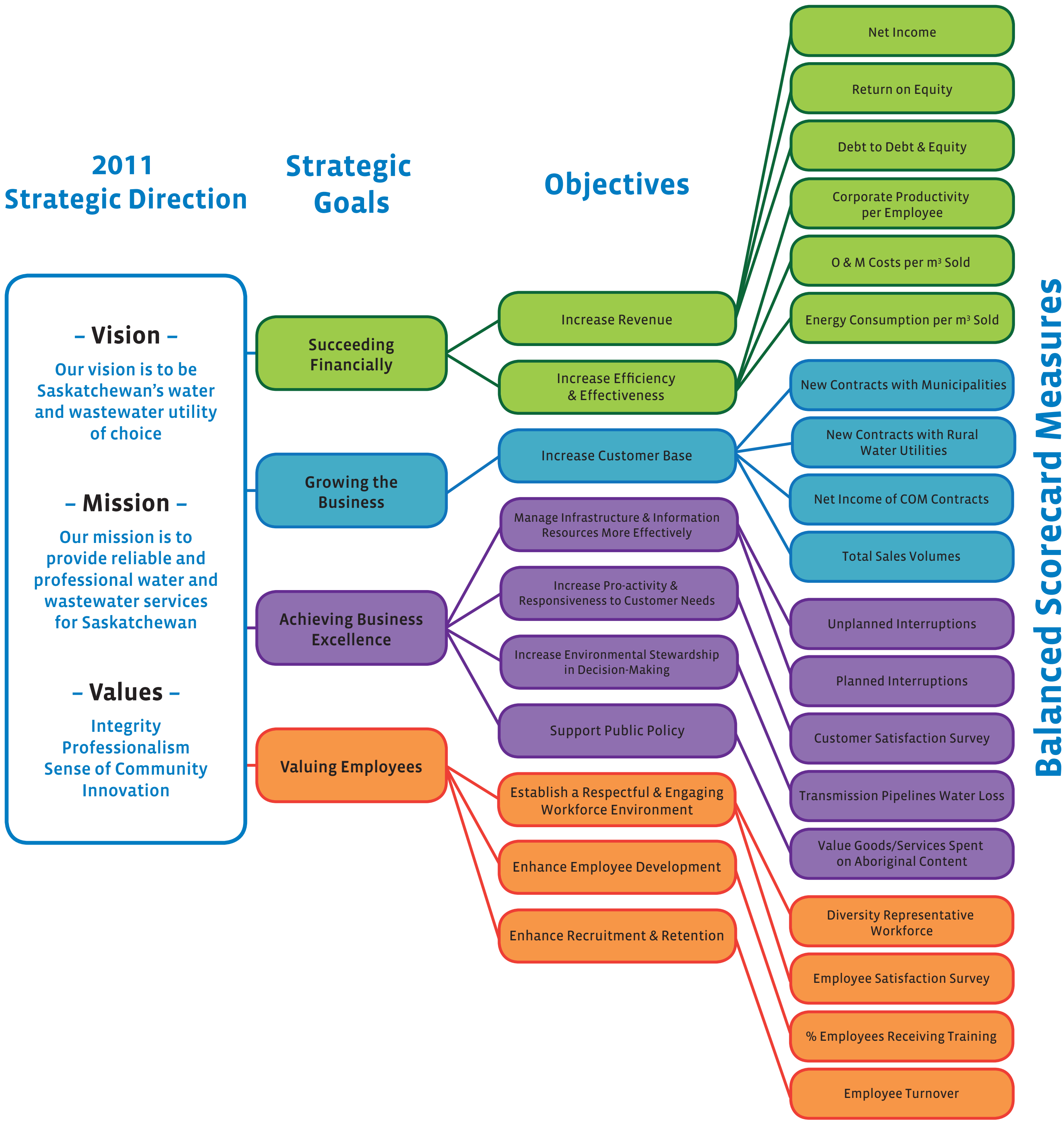
The Strategic Plan is comprised of four strategic goals including Succeeding Financially, Growing the Business, Achieving Business Excellence and Valuing Employees.

These strategic goals support the mandate, vision, mission and values of the organization and provide direction for the organization, including where employees are to focus their attention. Within each strategic goal, a number of objectives have been identified as necessary to ensure success.

The strategic plan is revisited by the Board of Directors on an annual basis to review and establish priorities for the organization. In 2011, the key priorities for the organization included improving corporate financial performance and growing the business by adding new industrial and municipal customers. These priorities are to continue into 2012.

SaskWater measures its progress on its strategic goals and objectives through the balanced scorecard. Results are reported to CIC on a quarterly basis, and the corporation is accountable to its shareholder in meeting its targets. The measures and targets identified in the balanced scorecard are used to evaluate progress in the four strategic goals.

Each year, SaskWater comprehensively reviews its measures and targets to ensure they continue to be appropriate and challenging. In 2011, the balanced scorecard was streamlined to focus on priorities and areas considered essential to the corporation's success.


2011 Strategic Direction
Strategic Goals
Objectives
Balanced Scorecard Measures
– Vision –
Our vision is to be Saskatchewan's water and wastewater utility of choice
– Mission –
Our mission is to provide reliable and professional water and wastewater services for Saskatchewan
– Values –
Integrity
Professionalism
Sense of Community
Innovation
Succeeding Financially
Growing the Business
Achieving Business Excellence
Valuing Employees
Increase Revenue
Increase Efficiency & Effectiveness
Increase Customer Base
Manage Infrastructure & Information Resources More Effectively
Increase Pro-activity & Responsiveness to Customer Needs
Increase Environmental Stewardship in Decision-Making
Support Public Policy
Establish a Respectful & Engaging Workforce Environment
Enhance Employee Development
Enhance Recruitment & Retention
Net Income
Return on Equity
Debt to Debt & Equity
Corporate Productivity per Employee
O & M Costs per m³ Sold
Energy Consumption per m³ Sold
New Contracts with Municipalities
New Contracts with Rural Water Utilities
Net Income of COM Contracts
Total Sales Volumes
Unplanned Interruptions
Planned Interruptions
Customer Satisfaction Survey
Transmission Pipelines Water Loss
Value Goods/Services Spent on Aboriginal Content
Diversity Representative Workforce
Employee Satisfaction Survey
% Employees Receiving Training
Employee Turnover

Succeeding Financially

Strategic Objective		Measure	2011 Target	2011 Result	Indicator Light	2012 Target	2013 Target	2014 Target	2015 Target	2016 Target
Increase Revenue	1	Net Income (000's)	$211	$3,513		$1,648	$2,610	$2,927	$3,264	$3,072
	2	Return on Equity	0.6%	9.4%		4.2%	6.3%	6.7%	6.9%	6.1%
	3	Debt to Debt & Equity	61.8%	57.6%		57.8%	58.8%	59.3%	59.3%	59.1%
Increase Efficiency & Effectiveness	4	Corporate Productivity per Employee (000's)[1]	$310	$339		$367	$374	$414	$446	$445
	5	O&M Costs per m^3 Sold	$0.28	$0.30		$0.27	$0.26	$0.28	$0.27	$0.30
	6	Energy Consumption per m^3 Sold	0.68 kWh	0.62 kWh		0.720 kWh	0.720 kWh	0.720 kWh	0.705 kWh	0.700 kWh

- SaskWater began reporting financial results using the International Financial Reporting Standards (IFRS) system in 2011. Before 2011, the corporation was using Generally Accepted Accounting Principles (GAAP).
- In 2011, SaskWater transitioned to a reporting system based on cubic metres. To reflect this transition, all measurements previously recorded in sales units are now being reported in cubic metres, including measures on O&M costs, energy consumption, and total sales volumes.
- SaskWater's *Net Income* measure experienced successful results in 2011 due to higher than anticipated revenues across all of the company's lines of business, and from expenses being lower than budgeted. Increased water volumes for the potable and non-potable lines of business also contributed to the success of this measure. The company was also involved in more project management work than anticipated, resulting in project management agreement revenues being higher than budgeted.
- The *Corporate Productivity per Employee* measure now uses a Crown full-time equivalent (FTE) count based on hours worked and includes overtime. Gradworks interns are not included in the count as they are Gradworks employees and not direct Crown employees. Previously, this measure used a head count of all SaskWater employees and Gradworks interns. This measure was 9.4% above its target in 2011.

[1] *Corporate Productivity per Employee* will change to *Corporate Productivity per FTE* in the 2012 balanced scorecard.

Legend

- Exceeded target by 20% or greater
- On target
- Slightly off target by up to 20%
- Off target by greater than 20%
- Target information not available

Growing the Business

Strategic Objective		Measure	2011 Target	2011 Result	Indicator Light	2012 Target	2013 Target	2014 Target	2015 Target	2016 Target
Increase Customer Base	7	New Contracts with Municipalities	3	3	Green	–	–	–	–	–
	8	New Contracts with Rural Water Utilities/ Associations	2	1	Red	–	–	–	–	–
	9	Net Income of COM Contracts (000's)[2]	$102	$358	Blue	$382	$422	$454	$488	$525
	10	Total Sales Volumes (000's) m^3	38,039	35,156	Green	45,731	51,134	52,260	52,267	50,733

- SaskWater signed three new water supply contracts in 2011 with One Arrow First Nation, the Town of Gravelbourg and the Village of Hepburn. The company also signed one new rural water utilities/associations contract with the Caron/Mortlach Regional Public Utility Board.
- SaskWater has experienced growth in its Certified Operations and Maintenance (COM) line of business, most significantly with the addition of the Lac La Ronge Regional Water Corporation. In 2011, the company tracked this growth through the *Net Income of COM Contracts* measure and posted higher than expected results due to rate adjustments and charge-out costs applied to this line of business.
- *Total Sales Volumes* measures the volume of potable water, non-potable water and wastewater that the company sold during the period. SaskWater experienced significant growth in each of these areas compared to 2010 results. With the addition of a new industrial customer in 2011, it significantly boosted non-potable volumes. However, overall, the lower than estimated non-potable water volumes affected SaskWater's ability to meet its 2011 target.
- In addition to four new contracts included in Measures 7 and 8, a new potable water supply contract was also signed with K+S Potash Canada GP in 2011. Beginning in 2012, SaskWater will amalgamate its *new contracts* measures into one new measure that will track growth from all new contracts with potable and non-potable water, wastewater and COM.

[2] *Net Income of COM Contracts* will change to *Net Margin of COM Agreements* in the 2012 balanced scorecard.

Legend

- Blue: Exceeded target by 20% or greater
- Green: On target
- Yellow: Slightly off target by up to 20%
- Red: Off target by greater than 20%
- Grey: Target information not available

Achieving Business Excellence

Strategic Objective		Measure	2011 Target	2011 Result	Indicator Light	2012 Target	2013 Target	2014 Target	2015 Target	2016 Target
Manage Our Infrastructure & Information Resources More Effectively	11	Unplanned Service Interruptions	35	34		35	35	35	35	35
	12	Planned Service Interruptions	22	25		25	25	25	25	25
Increase Pro-activity & Responsiveness to Our Customer Needs	13	Customer Satisfaction Survey	N/A	N/A		8.10	N/A	8.20	N/A	8.30
Increase Environmental Stewardship in Decision-Making	14	Transmission Pipelines Water Loss	3.35%	2.30%		3.00%	2.95%	2.90%	2.85%	2.80%
Support Public Policy Initiatives	15	Value of Goods & Services Spent on Aboriginal Content (000's)[3]	$4	$220		–	–	–	–	–

- SaskWater is committed to environmental stewardship, and seeks to reduce water loss in its systems. The *Transmission Pipelines Water Loss* measure outperformed expectations as leaks and other water losses were much lower than anticipated. Improvements to SaskWater's meter read program and its operators' expertise in managing leaks have contributed to the success of this measure.
- *Value of Goods & Services Spent on Aboriginal Content* significantly exceeded the 2011 target of $4 thousand, with a year-to-date result of $220 thousand. In 2011, SaskWater developed a new tracking system for Aboriginal spending that allows the corporation to record spending on Aboriginal businesses as well as non-Aboriginal businesses that have a percentage of Aboriginal content within their workforce.

[3] *Value of Goods & Services spent on Aboriginal Content* will change in 2012 to *Percentage of Total Procurement Spent on Aboriginal Content.*

Legend

- Exceeded target by 20% or greater
- On target
- Slightly off target by up to 20%
- Off target by greater than 20%
- Target information not available

Valuing Employees

Strategic Objective		Measure		2011 Target	2011 Result	Indicator Light	2012 Target	2013 Target	2014 Target	2015 Target	2016 Target
Establish a Respectful & Engaging Workplace Environment	16	Diversity Representative Workforce[4]	Women in Under-Represented Groups	21.80%	14.29%		–	–	–	–	–
			Aboriginals	4.00%	4.76%		–	–	–	–	–
			People with Disabilities	4.00%	1.90%		–	–	–	–	–
			Visible Minorities	3.00%	3.81%		–	–	–	–	–
	17	Employee Satisfaction Survey[5]		3.4	3.45		N/A	70%	N/A	70%	N/A
Enhance Employee Development	18	Percentage of Employees Receiving Training		65%	80%		70%	70%	70%	70%	72%
Enhance Recruitment & Retention	19	Employee Turnover[6]		5.00%	4.95%		–	–	–	–	–

- The *Diversity Representative Workforce* measure tracks SaskWater's efforts toward achieving a representative workforce. The company encountered challenges with hiring women in under-represented groups due to low turnover in management positions and a low number of interested and/or qualified individuals for engineering and operating positions. However, SaskWater has been successful in attracting individuals from the visible minorities group; in 2011, the company exceeded its target of 3.00%, achieving 3.81%. SaskWater continues to participate in career fairs and provide job opportunity information to organizations representing diversity groups.
- SaskWater conducts an employee satisfaction survey biennially to track the level of employee morale within the company and to measure the effectiveness of its management initiatives. The survey was conducted in 2011, resulting in a score of 3.45 out of 5. Key areas where the company experienced improvement include overall company culture, overall performance feedback and overall customer focus.
- SaskWater is committed to supporting and encouraging its employees to perform their best through professional and personal development opportunities. SaskWater tracks employee training through its *Percentage of Employees Receiving Training* measure. In 2011, 80% of staff received training in the form of non-mandatory safety training, professional development training and/or formal education training.

[4] The *Diversity Representative Workforce* sub-measures will be amalgamated into one measure with one target beginning in 2012.

[5] In 2012, *Employee Satisfaction Survey* results will change from a five-point scale to a percentage scale.

[6] *Employee Turnover* will no longer exist as a measure in the balanced scorecard beginning in 2012.

Legend

- Exceeded target by 20% or greater
- On target
- Slightly off target by up to 20%
- Off target by greater than 20%
- Target information not available

Management's Discussion & Analysis

2011 Highlights and Results

Net Income

SaskWater had net income from operations of $3.5M for 2011, this is the fourth year a surplus was generated since being re-mandated as a commercial Crown in 2002, and is substantially higher than previous posted surpluses due to new and existing customer growth and a significant amount of project management work during 2011.

Water and Wastewater Volumes

- Total sales volumes increased to 35.2 million cubic meters, up from 20.7 million cubic meters in 2010. A significant portion of the increase relates to new major industrial non-potable water customers. Additional factors were increases in existing non-potable major industrial customer use, and a return to normal levels with some growth from potable customers following the wet conditions of 2010.

Operating Revenues

Operating revenues increased by $9.6M or 39.0% to $34.2M, up from $24.6M in 2010.

- Water sales and treatment revenue increased $5.9M from 2010. Water sales and treatment include:
  - potable water supply;
  - non-potable water supply; and
  - wastewater treatment.

Potable water supply revenue increased by $1.1M over 2010 to $11.7M in 2011, this is mainly a result of the extremely wet year we experienced in 2010. Essentially potable volumes returned to normal levels as we experienced a 3.3% growth in volumes over 2009.

Non-potable water supply revenue increased by $4.7M over 2010 to $13.2M in 2011, this relates to new industrial customer revenues and an increase in existing industrial customer volumes of 10.5% over 2010.

Wastewater treatment revenue increased marginally due to the larger than normal amount of run-off in the spring which resulted in increased volumes over 2010.

- Services revenue increased by $3.1M from 2010. Services include:
  - project management;
  - program and project management for the northern water and sewer program funded by the Ministry of Municipal Affairs;
  - First Nations operator training and technical support; and
  - water leak detection services.

  Project management contracts account for an increase of $2.5M. This line of business provides services on an as-needed basis and, in 2011, related to services to potential potash mine developers. Certified operations and maintenance revenues increased $0.5M due to services provided to new customers during 2011. There were also marginal increases in the Northern Project Management and First Nations Operator Training and Technical Support lines of business.

- Other revenue increased by $0.6M and primarily consists of amortization of contributions on newly operational capital projects.

Operating Expenses

Total operating expenses increased by $6.7M or by 29.2% to $29.6M from $22.9M in 2010.

- Salaries and benefits have increased $0.7M over 2010 and is mainly attributable to higher staffing levels in order to service new customers in both the non-potable and certified operations and maintenance lines of business.
- Operations, maintenance and overhead expenses have increased $3.9M over 2010, which predominantly has direct correlation with the significant activity in project management to which we can attribute $2.2M of the increase. Additional costs to supply and service additional potable, non-potable and certified operations and maintenance customers and volumes represent the additional increases in operations, maintenance and overhead costs over 2010 with utility costs being a significant factor, increasing $0.9M.

- Additional amortization of property, plant and equipment costs year over year of $1.6M represent additions to the asset base during 2011 as some major projects that were previously in progress have been completed and are now in service .
- SaskWater purchases and resells potable water produced by other suppliers. Increased volumes as well as pricing increases from these suppliers have resulted in a $0.8M increase over 2010.
- SaskWater pays Corporate Capital Tax to the Province of Saskatchewan based on the level of paid-up capital it has at the end of a fiscal year. Corporate Capital Tax was over estimated by $0.2M in 2010; therefore, the Tax provision was reduced by this same amount in 2011 to bring the total expense in line over the two years.
- Overall, net finance expense is down $0.2M compared to 2010. Financing costs associated with operations have increased $0.3M due to a higher level of long-term debt related to capital projects coming to completion in 2010. Finance income is up $0.5M from the previous year. Associated revenues from debt retirement funds account for the majority of the increase and include a significant positive market adjustment over the previous year.

Capital Investment

In 2011, $31.3M was spent on capital projects including new construction and expansion, existing infrastructure refurbishment and asset management programs. SaskWater invested $8.9M from own source funds and the remainder was received from customers as contributions in aid of capital. Significant projects include:

- completion of construction of the Buffalo Pound Non-Potable Water Supply System – Expansion Project to supply water for the mine expansion at Mosaic Belle Plaine;
- design and construction of the Saskatoon Non-Potable Water Supply System – West pipeline expansion to supply increased water for the PCS Cory plant expansion;
- design and construction of the Main Booster Station Expansion on the Saskatoon Potable Water Supply System – East system to accommodate growth in communities and rural users east and south of Saskatoon;
- design and construction of the Cupar Water Treatment Plant to replace the existing water treatment plant, which was at the end of its useful life;
- design and construction of the Buffalo Pound Non-Potable Water Supply System – North project, which will supply water to the new K+S potash mine north of Buffalo Pound Lake; and,
- design and construction of the Gravelbourg Water Treatment Plant Upgrades required to meet Saskatchewan's Drinking Water Quality Standards.

Key Performance Factors

- Approximately 75% of water volume sales and almost half of total revenue derived from the sale of non-potable water to industrial customers for use in their processes. Changes in their production cycles due to market factors affect SaskWater's sales.
- Weather affects sales to municipal customers. Drought increases sales while cool, wet weather reduces sales.

Key Financial Data

- Assets total $179.3M (2010 – $153.8M)
- Return on equity (net income as a percentage of equity) is 9.4%
- Debt ratio (debt as a percentage of debt plus equity) is 57.6%
- SaskWater did not declare a dividend to CIC in 2011

2012 Outlook

- SaskWater expects total revenues from all lines of business to increase by $4.3M to $38.5M (12.6%).
- The corporation expects to report net income of $1.6M in 2012.
- SaskWater expects to invest a maximum of $7.0M net *($102.1M gross, with the difference made up from customer contributions in aid of capital)* into water and wastewater infrastructure projects in the province. Investments include:
  - Buffalo Pound North Non-Potable Pump Station and Pipeline
  - Cupar Water Treatment Plant
  - Gravelbourg Water Treatment Plant Upgrade
  - Katepwa Southeast Water Supply System (VALE) Pump Station and Pipeline
  - Saskatoon East Potable Main Booster Growth
  - Saskatoon North Potable Warman Growth
  - Saskatoon Southeast Water Supply (SSEWS) System Structure Replacements
  - SSEWS Zelma East (BHP) Pump Station, Booster Station and Pipeline
  - White City Potable Water Treatment Plant Reservoir Growth and Capacity Upgrade
  - General Asset Management Projects

Internal Control over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. The President/CEO, along with the CFO, have certified that SaskWater conducted its assessment of the effectiveness of the corporation's internal controls over financial reporting and, based on the results of this assessment, SaskWater can provide reasonable assurance that internal controls over financial reporting as of December 31, 2011 were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting. At the end of 2010, there were three material weaknesses identified and throughout 2011, SaskWater mitigated all of them, resulting in no material weaknesses for 2011.

International Financial Reporting Standards (IFRS)

The Corporation's financial statements were previously prepared in accordance with Canadian GAAP. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). As these financial statements represent the Corporation's initial presentation of comprehensive income, financial position and cash flows under IFRS, they were prepared in accordance with IFRS 1, First-time Adoption of IFRS.

In preparing the financial statements, the Corporation reclassified amounts previously reported under Canadian GAAP to conform to presentation requirements of IFRS. The Corporation was also required to determine its IFRS accounting policies and apply them retrospectively to establish its statement of financial position under IFRS. Upon transition, IFRS 1 provides a number of exemptions upon first-time adoption of IFRS. A summary of the adjustments to the financial statements resulting from transition to IFRS as well as the exemptions applied are as follows:

- Estimates – IFRS 1 prohibits retrospective application of some aspects of certain IFRS. Hindsight is not used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.
- Business combinations – IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. As the Corporation has not had any business combinations in the past it has elected to prospectively apply IFRS 3.
- Deemed cost – IFRS 1 provides an optional exemption to use the fair value of an item of property, plant and equipment as at the date of transition to IFRS as its deemed cost. The Corporation did not elect to revalue any items of property, plant and equipment at the Transition Date.
- Restatement of capitalized overhead – Under IFRS, property, plant and equipment is recorded at historical cost and includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes materials and direct labour. Under Canadian GAAP, the Corporation's accounting policy was to capitalize costs including material direct labour and overhead. On transition to IFRS, the Corporation derecognized certain capitalized costs, including general and administrative overhead, which were not eligible to be capitalized under IFRS. This resulted in a decrease to property, plant and equipment and a decrease to retained earnings at December 31, 2010 of $2.1M respectively.
- Restatement of customer contributions – Under Canadian GAAP, the Corporation netted the customer contributions against property, plant and equipment and amortized these contributions over the estimated useful life of the related assets. The amortization of these contributions was netted against the amortization of property, plant and equipment expense. On transition to IFRS, the Corporation is required to account for the customer contributions as deferred revenue. The deferred revenue is recognized into income over the shorter of the contract life or the estimated useful life of the related assets. This resulted in an increase to property plant and equipment and an increase to deferred revenue at December 31, 2010 of $2.7M respectively.
- Restatement of government grants – Under Canadian GAAP, the Corporation netted the government grants against property, plant and equipment and amortized these grants over the estimated useful life of the related assets. The amortization of these grants was netted against the amortization of property, plant and equipment expense. On transition to IFRS, the Corporation is required to account for the government grants as deferred revenue. The deferred revenue is recognized into income over the estimated useful

life of the related assets. This resulted in an increase to property plant and equipment and an increase to deferred revenue at December 31, 2010 of $6.6M respectively.

- Recognition of impairments – Under Canadian GAAP, the Corporation evaluated its property, plant and equipment for impairment and determined that there was no impairment on any property, plant and equipment using the criteria required under Canadian GAAP. Under IFRS, an impairment is recognized when the carrying amount of an asset or cash generating unit (CGU) exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the present value of the future cash flows to be derived from a CGU. On transition to IFRS, the Corporation recognized an impairment for CGUs where the carrying amount exceeded the recoverable amount. This effectively resulted in a decrease to property, plant and equipment and a decrease to retained earnings at December 31, 2010 of $1.2M respectively.
- Recognition of onerous contracts – Under IFRS, a provision for onerous contracts is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Under Canadian GAAP, no obligations were recognized for onerous contracts. On transition to IFRS, the Corporation recognized a provision for onerous contracts for which the expected benefits to be derived from the contracts are lower than the unavoidable cost of meeting the obligations under the contracts. This resulted in the addition of a liability provision and a decrease to retained earnings at December 31, 2010 of $2.4M respectively.

In summary, the transition to IFRS adjusted the financial statements as follows:

Assets increased	$ 6.0 M
Liabilities increased	$ 11.7 M
Retained earnings decreased	$ (5.7) M
	$ 6.0 M

Future Accounting Changes

The following standards and amendments to standards have been issued but are not effective for the year ended December 31, 2011:

- IFRS 9 Financial Instruments, effective January 1, 2015
- IFRS 10 Consolidated Financial Statements, effective January 1, 2013
- IFRS 11 Joint Arrangements, effective January 1, 2013
- IFRS 12 Disclosure of Interests in Other Entities, effective January 1, 2013
- IFRS 13 Fair Value Measurement, effective January 1, 2013
- IAS 19 Employee Benefits, effective January 1, 2013
- IAS 27 Consolidated and Separate Financial Statements, effective January 1, 2013
- IAS 28 Investments in Associates, effective January 1, 2013

All of the above standards and amendments to standards take effect for annual periods beginning on or after the noted effective date (earlier application is permitted in all cases).

The extent of the impact of these new standards and amendments to standards has not been determined.

Risk Management

Risk management is the set of processes through which management identifies, analyzes and, where necessary, responds appropriately to risks that might adversely affect the corporation's ability to achieve its business objectives. The response to risks typically depends on their perceived gravity, and involves controlling, avoiding, accepting or transferring them to a third party.

The Board and management of SaskWater consider the risks and risk mitigation strategies of the corporation on an annual basis. The major risks and strategies to deal with them are summarized as follows:

Financial Risk

Broadly speaking, financial risk refers to the adequacy of revenues to meet expenses, allow for asset refurbishment and fund growth opportunities. SaskWater's customer base is relatively small, serving approximately 50,000 people disbursed over a wide geographic area plus a limited number of larger industrial customers operating outside of major urban centres.

As a water service provider, revenues are impacted by the amount of precipitation received each year and by the market conditions impacting the production needs of large industrial customers. A significant portion of the company's revenues are concentrated in a few larger customers.

The corporation employs a number of strategies to mitigate these risks, including:

- an annual review of its service rates using an industry standard cost of service methodology;
- minimum charges are built into service delivery contracts to offset the effect of volatility in service needs;
- business policies are in place to govern the amount of investment SaskWater will make in systems that can be supported by the expected revenues;
- capital programs are managed to remain within a sustainable ratio of debt to equity;
- business development activities focus on expanding the customer base with emphasis on leveraging capacity within existing regional service areas;
- the corporate culture reinforces a need for cost efficient operations; and
- an annual assessment of insurance adequacy is conducted.

The company also has a number of long-term service contracts that were entered into before SaskWater was directed to operate as a commercial self-sustaining entity. Many of these contracts include rates and rate adjustment mechanisms that are not in accordance with the cost of service model currently in use. As these contracts come up for renewal over the next several years, or if significant new capital needs emerge, the company strategy is to move these contracts to the current rating methodology.

Human Resources

The provision of water services requires a highly-trained and committed work force with a wide range of skills. The growing Saskatchewan economy results in competitive market pressures for retention and recruitment of staff.

SaskWater's risk mitigation strategies include:

- a commitment to staff training;
- recruitment of youth through the Co-op student and Gradworks programs;
- maintaining a competitive remuneration package;
- a commitment to safe work environments and Occupational Health and Safety committees;
- implementation of employee performance systems designed to link corporate objectives with individual work plans and to provide constructive feedback on performance; and
- human resource policies designed to further an engaged workforce.

Contamination of Potable Water

Water is a fundamental requirement for life and has a high inherent risk of containing contaminants. Consequently, water is a highly regulated resource and requires urgent responses to any difficulties encountered.

SaskWater meets or exceeds the regulatory requirements for treatment on all systems, including extensive water quality testing and reporting; ensures its system operators meet or exceed the regulatory requirements for education and training; and has established a remote monitoring system that is operated 24 hours a day 365 days a year to augment manual operations.

Service Interruptions and Asset Failure

Water and wastewater treatment plants are subject to operational risks including mechanical failure, accidents, storms and power failure. A significant part of SaskWater infrastructure was built in the 1960s and is approaching end of life.

Strategies to mitigate these risks include:

- emergency response plans are in place for individual facilities;
- vulnerability assessments completed including site security;
- contact procedures in place to notify customers;
- remote monitoring in place 24 hours a day 365 days a year to provide instant alarms in case of problems;
- systems designed with some level of redundancy, spare parts, to minimize down time;
- SaskWater has stepped up planned maintenance (and planned service interruptions) to reduce the number of unplanned service interruptions;
- back up power supply does not exist for most facilities; therefore, customers have been encouraged to have storage reserves to meet their needs. In extreme circumstances, water may be hauled from other locations; and
- system audits are conducted every five years by third parties to identify potential issues.

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, 2011 financial statements and their report follows. The Board of Directors of SaskWater has examined and approved the statements.

On behalf of the Corporation,

Doug Matthies,
President
March 5, 2012

Management's Report on Internal Control over Financial Reporting

I, Doug Matthies, the President and Chief Executive Officer of SaskWater, and I, Marie Alexander, Vice President and Chief Financial Officer of SaskWater, certify the following:

a. That we have reviewed the financial statements included in the Annual Report of SaskWater. Based on our knowledge, having exercised reasonable diligence, the financial statements included in the Annual Report, fairly present, in all material respects the financial condition, results of operations, and cash flows, as of December 31, 2011.

b. That based on our knowledge, having exercised reasonable diligence, the financial statements and included in the Annual Report of SaskWater do not contain any untrue statements of material fact, or omit to state a material fact that is either required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made.

c. That SaskWater is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable legislative authorities; and SaskWater has designed internal controls over financial reporting that are appropriate to the circumstances of SaskWater.

d. That SaskWater conducted its assessment of the effectiveness of the corporation's internal controls over financial reporting and, based on the results of this assessment, SaskWater can provide reasonable assurance that internal controls over financial reporting as of December 31, 2011 were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

On behalf of management,

Doug Matthies
President and CEO
March 5, 2012

Marie Alexander
Vice President and CFO

Independent Auditor's Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the accompanying financial statements of Saskatchewan Water Corporation, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Water Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP.

Chartered Accountants

March 5, 2012
Regina, Saskatchewan

Statements of Comprehensive Income

for the year ended December 31

(thousands of dollars)

	2011	2010
Revenue (note 4)		
Water sales and treatment	$ 25,493	$ 19,623
Services	7,118	4,037
Other	1,637	984
	34,248	24,644
Expenses		
Salaries and benefits	9,335	8,614
Operations, maintenance and administration	10,312	6,394
Amortization of property, plant and equipment	5,702	4,056
Bulk water purchases	4,031	3,275
Saskatchewan taxes	247	599
	29,627	22,938
Net income before the following	**4,621**	**1,706**
Finance income	742	275
Finance expense	(1,850)	(1,561)
Net finance expense (note 5)	**(1,108)**	**(1,286)**
Net income	**3,513**	**420**
Other comprehensive income	–	–
Total comprehensive income	**$ 3,513**	**$ 420**

See accompanying notes

Statements of Financial Position

as at

(thousands of dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash (note 6)	$ 19,667	$ 25,609	$ 236
Trade and other receivables (note 7)	12,637	9,449	4,371
Prepaid expenses and inventories	396	329	253
Current portion of long-term receivables (note 8)	–	249	235
	32,700	35,636	5,095
Long-term receivables (note 8)	–	–	111
Investment – debt retirement funds (note 9)	7,648	4,661	2,813
Property, plant and equipment (note 10)	138,951	113,454	93,477
	$ 179,299	**$ 153,751**	**$ 101,496**
Liabilities and Province's Equity			
Current liabilities			
Trade and other payables (note 11)	$ 7,944	$ 6,047	$ 4,972
Notes payable (note 12)	17,209	15,066	23,426
Infrastructure deposits (note 13)	19,131	25,979	–
Current portion of deferred revenue (note 13)	1,362	564	534
Current portion of long-term debt (note 15)	–	–	–
	45,646	47,656	28,932
Deferred revenue (note 13)	48,216	27,953	16,560
Provisions (note 14)	2,182	2,353	2,744
Long-term debt (note 15)	43,700	39,800	25,707
Employee benefits (note 16)	388	335	319
	140,132	118,097	74,262
Province's equity			
Equity advance (note 17)	8,700	8,700	700
Retained earnings	30,467	26,954	26,534
	39,167	35,654	27,234
	$ 179,299	**$ 153,751**	**$ 101,496**

Commitments and Contingencies (note 19)

See accompanying notes

on behalf of the Board:

Chair

Director

Statement of Changes in Equity

for the years ended

(thousands of dollars)

	Retained Earnings	Equity Advances	Total
Province's Equity			
Balance, January 1, 2010	**$ 26,534**	**$ 700**	**$ 27,234**
Equity advances	–	8,000	8,000
Total comprehensive income	420	–	420
Balance, December 31, 2010	**26,954**	**8,700**	**35,654**
Total comprehensive income	3,513	–	3,513
Balance, December 31, 2011	**$ 30,467**	**$ 8,700**	**$ 39,167**

See accompanying notes

Statement of Cash Flows

for the year ended December 31

(thousands of dollars)

	2011	2010
Operating activities		
Net income	$ 3,513	$ 420
Items not affecting cash from operations:		
Amortization of property, plant and equipment	5,702	4,056
Impairment of assets	4	3
Amortization of deferred revenue	(1,767)	(629)
Amortization of provisions – onerous contracts	(330)	(576)
Employee benefits	53	16
Net financing expense	1,108	1,286
Loss on disposal of property, plant and equipment	46	–
Change in non-cash working capital items:		
Trade and other receivables	(3,188)	(5,078)
Prepaid expenses and supplies	(67)	(76)
Trade and other payables	1,889	976
Infrastructure deposits	(6,848)	25,979
Deferred revenue	22,828	12,052
Interest paid	(1,918)	(1,396)
Interest received (refunded)	20	(10)
Cash provided by operating activities	21,045	37,023
Investing activities		
Repayments of long-term receivables	249	97
Property, plant and equipment expenditures	(31,104)	(23,917)
Proceeds on disposal of property, plant and equipment	90	–
Cash used in investing activities	(30,765)	(23,820)
Financing activities		
Proceeds from long-term debt	3,900	14,093
Proceeds from (Repayments of) notes payable	2,143	(8,360)
Debt retirement fund installments	(2,265)	(1,563)
Equity contributions	–	8,000
Cash provided by financing activities	3,778	12,170
Change in Cash	(5,942)	25,373
Cash, Beginning of Year	25,609	236
Cash, End of Year	$ 19,667	$ 25,609

See accompanying notes

Notes to the Financial Statements

December 31, 2011

1. General information

The Saskatchewan Water Corporation (the Corporation) is a corporation located in Canada. The address of the Corporation's registered office and principal place of business is 200-111 Fairford Street East, Moose Jaw, SK, S6H 1C8.

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 Corporations 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.

The principal activity of the Corporation is to construct, acquire, manage or operate water facilities and to provide services in accordance with any agreements that it enters into pursuant to *The Saskatchewan Water Corporation Act*.

2. Basis of preparation

Statement of compliance

The Corporation's financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). As these financial statements represent the Corporation's initial presentation of comprehensive income, financial position and cash flows under IFRS, they were prepared in accordance with IFRS1, First-time Adoption of IFRS.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in Note 22.

The financial statements were authorized for issue by the Board of Directors on March 5, 2012.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments that are accounted for according to the financial instrument categories defined in Note 3(m).
- Provisions defined in Note 3(e).
- Employee benefit obligations defined in Note 3(i).

Functional and presentation currency

These financial statements are presented in Canadian Dollars, which is the Corporation's functional currency.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Basis of preparation – continued

Use of estimates and judgments – continued

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 7 – valuation of trade and other receivables
- Note 10 – amortization of property, plant and equipment
- Note 13 – deferred revenue and infrastructure deposits
- Note 14 – provisions
- Note 16 – measurement of employee benefits
- Note 19 – commitments and contingencies

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

a) Inventories

Maintenance materials and treatment supplies inventory are recorded at the lower of weighted average cost and net realizable value. The net realizable value of inventory is the estimated market price for the same or similar items. Materials and supplies are charged to inventory when purchased and then expensed or capitalized when used.

b) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and any accumulated provisions for impairment. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets for those projects that are under construction for a period greater than six months. Assets under construction are recorded as in progress until they are available for use, at which time they are transferred to property, plant and equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

When property, plant and equipment is disposed of or retired, the related cost, accumulated depreciation and any accumulated impairment losses are eliminated. Any resulting gains or losses are reflected in net income for the period.

3. Significant accounting policies – continued

c) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in net income on a straight-line or diminishing balance basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The depreciation rates used for asset classes are as follows:

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 equipment and office equipment	diminishing balance or straight-line, as appropriate	10% to 30%

Depreciation methods, estimated useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

d) Impairment

i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Corporation considers evidence of impairment for receivables at a specific asset level. All individual receivables are assessed for specific impairment.

In assessing the individual impairments, the Corporation takes into account information related to each individual customer's current receivable position and any other factors related to the customer that are known to allow management to make estimates as to the collectability of each specific receivable.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income.

ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

3. Significant accounting policies – continued

d) Impairment – continued

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit, or CGU”).

The Corporation’s corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. Where a reasonable and consistent basis can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

e) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance expense. Currently, the only provision recognized relates to onerous contracts.

f) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Corporation recognizes any impairment loss on the assets associated with that contract.

g) Government grants

Government grants are recognized initially as deferred revenue at fair value when there is reasonable assurance that they will be received and the Corporation will comply with the conditions associated with the grant. Grants that compensate the Corporation for expenses incurred are recognized in net income on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Corporation for the cost of an asset are recognized in net income on a systematic basis over the useful life of the asset.

3. Significant accounting policies – continued

h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the services provided, net of discounts and sales taxes. Revenue from the rendering of services is recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured.

Customer contributions are received from customers, generally in the form of cash, to assist in the construction of assets to provide services to the contributing customers. Prior to the commencement of construction, these amounts are recorded as infrastructure deposits. As construction occurs, these amounts are transferred to deferred revenue.

When completion of the construction is determined to be a separately identifiable service, these amounts are recognized directly into net income. When completion of construction is not determined to be separate from the ongoing supply or services, these amounts are transferred to deferred revenue and recognized in net income over the term of the contract with the customer. If the contract does not specify a period or evergreens, the revenue shall be recognized over a period no longer than the useful life of the related assets used to provide the ongoing service.

i) Employee benefits

i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

ii) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Corporation pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income in the periods during which services are rendered by employees.

iii) Defined benefit retirement allowance plan

The Corporation's obligation is the amount of future benefit that employees have earned in return for their service in the current and prior periods. At each year end, the future benefit is actuarially determined using the projected benefit method. Any actuarial gains or losses are recognized in net income.

j) Lease payments

Payments made under operating leases are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

k) Finance income and expense

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in net income, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net income using the effective interest method.

3. Significant accounting policies – continued

l) Equity advance

The Corporation periodically receives funding from its parent and sole equity holder, Crown Investments Corporation of Saskatchewan. Funding is first analyzed to determine whether the funding is a transaction with the equity holder in their capacity as an equity holder, i.e. equity injection, or whether the funding would be available to other parties for a specific purpose. If there is no requirement to comply with certain conditions relating to the operating activities of the Corporation, the funding is recorded as an equity advance. If the Corporation must comply with certain past or future conditions relating to the operating activities of the Corporation, and the funding could be available to other parties for a specific purpose, the funding is recorded as a government grant (see Note 3(g)).

m) Financial Instruments

i) Non-derivative financial assets

The Corporation initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in net income as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income. The Corporation has classified sinking funds as financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables and long-term receivables.

3. Significant accounting policies – continued

m) Financial Instruments – continued

Cash

Cash includes short-term investments with original maturities of three months or less. Bank indebtedness when incurred, forms a part of the Corporation's cash management and is included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

The Corporation does not have any assets classified as held-for-trading or held-to-maturity.

ii) Non-derivative financial liabilities

The Corporation initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

iii) Other liabilities

Other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

The Corporation does not have any financial liabilities classified as fair value through profit or loss.

n) New standards and interpretations not yet adopted

The following standards and amendments to standards have been issued but are not effective for the year ended December 31, 2011:

Standards or amendments to standards	Effective Date
IFRS 9 Financial Instruments	January 1, 2015
IFRS 10 Consolidated Financial Statements	January 1, 2013
IFRS 11 Joint Arrangements	January 1, 2013
IFRS 12 Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13 Fair Value Measurement	January 1, 2013
IAS 19 Employee Benefits	January 1, 2013
IAS 27 Consolidated and Separate Financial Statements	January 1, 2013
IAS 28 Investments in Associates	January 1, 2013

For all of the above, standards and amendments to standards are effective for annual periods beginning on or after the noted effective date (earlier application is permitted in all cases).

The extent of the impact of these new standards and amendments to standards have not been determined.

4. Revenue

	December 31, 2011	December 31, 2010
	(Thousands)	
Water sales and treatment		
Potable water supply	$ 11,684	$ 10,561
Non-Potable water supply	13,197	8,502
Wastewater treatment	612	560
	25,493	19,623
Services		
Certified operations & maintenance	1,289	787
Project management	4,527	2,038
Northern project management	496	462
Operator training	804	737
Leak detection	2	13
	7,118	4,037
Other		
Amortization of customer contributions	1,059	205
Amortization of government grants – capital related	260	266
Government grants – operations related	7	43
Miscellaneous revenue	311	470
	1,637	984
	$ 34,248	$ 24,644

5. Finance income and expenses

	December 31, 2011	December 31, 2010
	(Thousands)	
Finance income		
Debt retirement fund earnings	$ 494	$ 248
Change in fair value of debt retirement funds	228	37
Other finance income	20	(10)
	742	275
Finance expenses		
Interest expense on short-term debt	199	168
Interest expense on long-term debt	1,727	1,323
Unwinding of discount on provisions	159	185
Other interest expense	1	4
Borrowing costs capitalized to qualifying assets	(236)	(119)
	1,850	1,561
Net finance expense	$ (1,108)	$ (1,286)
Interest capitalization rate	0.80%	0.50%

6. Cash

Cash consists of cash available for current purposes and restricted use cash. Restricted use cash is only available for a specific capital project as it relates to an infrastructure deposit agreement and will be drawn upon as actual expenses are incurred.

	December 31, 2011	December 31, 2010	January 1, 2010
		(Thousands)	
Cash available for current purposes	$ 519	$ 159	$ 236
Restricted use cash	19,148	25,450	–
	$ 19,667	$ 25,609	$ 236

7. Trade and other receivables

	December 31, 2011	December 31, 2010	January 1, 2010
		(Thousands)	
Trade receivables	$ 5,496	$ 5,833	$ 3,273
Accrued receivables	7,190	3,871	1,334
Other receivables	16	5	12
	12,702	9,709	4,619
Allowance for doubtful accounts	(65)	(260)	(248)
	$ 12,637	$ 9,449	$ 4,371

The Corporation's exposure to credit risks and impairment losses related to trade and other receivables is disclosed in Note 21.

8. Long-term receivables

	December 31, 2011	December 31, 2010	January 1, 2010
		(Thousands)	
Year receivable			
2010	$ –	$ –	$ 235
2011	–	249	111
	–	249	346
Less: Current portion of long-term receivables	–	(249)	(235)
	$ –	$ –	$ 111

Amounts represent accounts receivable balances from various clients that the Corporation entered into non-interest bearing long-term repayment plans in order to ensure collection.

9. Investment – debt retirement funds

Under conditions attached to the Canada Pension Plan Investment Board long-term debt issues from the Province of Saskatchewan's General Revenue Fund (GRF), the Corporation is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. The investments, referred to as debt retirement funds, are administered by Saskatchewan's Ministry of Finance. The investments in debt retirement funds are held by the Province of Saskatchewan. The yield on the investments was 11.36% for 2011 (7.95% for 2010). Debt retirement funds are held for trading financial assets and are recorded at fair value on the statement of financial position. The changes in the carrying amount of debt retirement funds are as follows:

	December 31, 2011	December 31, 2010
	(Thousands)	
Debt retirement funds, beginning of year	$ 4,661	$ 2,813
Installments	2,265	1,563
Earnings	494	248
Change in fair value of debt retirement funds	228	37
Debt retirement funds, end of year	$ 7,648	$ 4,661

Debt retirement fund installments due in each of the next five years are as follows:

	(Thousands)
2012	$ 387
2013	387
2014	387
2015	387
2016	363
	$ 1,911

10. Property, plant and equipment

	Buildings	Water Facilities	Maintenance & Office Equipment	Assets under Construction	Land	Total
			(Thousands)			
Cost						
Balance at January 1, 2010	$ 2,458	$ 128,063	$ 3,145	$ 14,811	$ 1,551	$ 150,028
Additions	64	9	79	23,829	55	24,036
Transfers	–	5,614	49	(5,663)	–	–
Balance at December 31, 2010	**$ 2,522**	**$ 133,686**	**$ 3,273**	**$ 32,977**	**$ 1,606**	**$ 174,064**
Additions	–	16	548	30,776	–	31,340
Transfers	–	34,258	94	(34,352)	–	–
Disposals	–	(259)	(66)	–	–	(325)
Balance at December 31, 2011	**$ 2,522**	**$ 167,701**	**$ 3,849**	**$ 29,401**	**$ 1,606**	**$ 205,079**
Depreciation and impairment losses						
Balance at January 1, 2010	$ 1,009	$ 53,462	$ 2,080	$ –	$ –	$ 56,551
Depreciation	126	3,584	346	–	–	4,056
Impairment adjustment	–	3	–	–	–	3
Balance at December 31, 2010	**$ 1,135**	**$ 57,049**	**$ 2,426**	**$ –**	**$ –**	**$ 60,610**
Depreciation	127	5,301	274	–	–	5,702
Impairment adjustment	–	4	–	–	–	4
Disposals	–	(133)	(55)	–	–	(188)
Balance at December 31, 2011	**$ 1,262**	**$ 62,221**	**$ 2,645**	**$ –**	**$ –**	**$ 66,128**
Carrying amounts						
Balance at January 1, 2010	$ 1,449	$ 74,601	$ 1,065	$ 14,811	$ 1,551	$ 93,477
Balance at December 31, 2010	$ 1,387	$ 76,637	$ 847	$ 32,977	$ 1,606	$ 113,454
Balance at December 31, 2011	$ 1,260	$ 105,480	$ 1,204	$ 29,401	$ 1,606	$ 138,951

At December 31, 2011, the Corporation had property, plant and equipment that was fully depreciated and still in use with a cost of $13,825 (December 31, 2010 $10,983) (January 1, 2010 $9,376).

For the year, capitalized borrowing costs related to the acquisition of land and construction of new assets amounted to $236 (December 31, 2010 $119), with a capitalization rate of 0.8% (2010 0.5%).

11. Trade and other payables

	December 31, 2011	December 31, 2010	January 1, 2010
		(Thousands)	
Trade payables	$ 3,190	$ 2,882	$ 1,160
Interest payable	385	376	276
Other payables	4,369	2,789	3,536
	$ 7,944	$ 6,047	$ 4,972

The Corporation's exposure to liquidity risk related to trade and other payables is disclosed in Note 21.

12. Notes payable

	December 31, 2011	December 31, 2010	January 1, 2010
		(Thousands)	
Amount outstanding	$ 17,209	$ 15,066	$ 23,426
Interest Rate	1.09%	1.13%	0.28%
Due Date	31-Mar-12	31-Mar-11	31-Mar-10

By Orders-in-Council, SaskWater is authorized to borrow up to $30 million (2010 – $55 million) by way of temporary loans from the Province of Saskatchewan's General Revenue Fund (GRF). $25 million of this amount expired on December 31, 2011. This $25 million was authorized in order to finance the construction phase of a major capital project being undertaken by the Corporation.

The Corporation's exposure to interest rate and liquidity risk related to notes payable is disclosed in Note 21.

13. Deferred revenue and infrastructure deposits

	December 31, 2011	December 31, 2010
	(Thousands)	
Deferred revenue		
Balance, beginning of year	$ 28,517	$ 17,094
Deferred revenue additions	13,405	12,052
Transferred from infrastructure deposits	9,423	–
Amortization of deferred revenue	(1,767)	(629)
	49,578	28,517
Less: Current Portion of Deferred Revenue	(1,362)	(564)
Non-current balance, end of year	$ 48,216	$ 27,953
Infrastructure deposits		
Balance, beginning of period	$ 25,979	$ –
Customer contributions received	2,575	25,979
Transferred to deferred revenue	(9,423)	–
Balance, end of period	$ 19,131	$ 25,979

14. Provisions

	December 31, 2011	December 31, 2010
	(Thousands)	
Balance, beginning of year	$ 2,353	$ 2,744
Provisions used during the year	(259)	(288)
Provisions reversed during the year	(71)	(288)
Unwinding of the discount on provisions	159	185
	$ 2,182	$ 2,353

The Corporation has onerous contracts related to two potable systems. The systems have significant contracts in effect until December 31, 2022 and December 31, 2026 respectively. The reversal of the provision was due to both systems performing better than anticipated during 2011 and 2010.

15. Long-term debt

Date of Maturity	Coupon Rate (per cent)	December 31, 2011 Effective Rate (per cent)	December 31, 2011 Outstanding Amount (Thousands)	December 31, 2010 Effective Rate (per cent)	December 31, 2010 Outstanding Amount (Thousands)	January 1, 2010 Effective Rate (per cent)	January 1, 2010 Outstanding Amount (Thousands)
1-Dec-13	3.80	3.80	$ 5,000	3.80	$ 5,000	3.80	$ 5,000
12-Dec-15	4.30	4.30	2,407	4.30	2,407	4.30	2,407
10-Jan-16	4.21	4.21	2,400	4.21	2,400	4.21	2,400
11-May-17	4.46	4.46	2,600	4.46	2,600	4.46	2,600
3-Mar-18	4.45	4.45	5,000	4.45	5,000	4.45	5,000
1-Sep-19	4.16	4.16	4,500	4.16	4,500	4.16	4,500
1-Mar-20	4.14	4.14	5,093	4.14	5,093		–
1-Dec-21	2.96	2.96	3,900		–		–
1-Mar-24	5.32	5.32	2,100	5.32	2,100	5.32	2,100
10-Apr-25	5.05	5.05	1,700	5.05	1,700	5.05	1,700
3-Dec-30	4.32	4.32	9,000	4.32	9,000		–
			43,700		39,800		25,707
Less: Current portion of long-term debt			–		–		–
			$ 43,700		$ 39,800		$ 25,707

These loans are payable to the Province of Saskatchewan's GRF with interest payable semi-annually. The Corporation's exposure to interest rate and liquidity risk related to long-term debt is disclosed in Note 21.

Long-term debt repayments in each of the next five years are as follows:

	(Thousands)
2012	$ –
2013	5,000
2014	–
2015	2,407
2016	2,400
Thereafter	33,893
	$ 43,700

Under conditions attached to certain advances from the Province of Saskatchewan the Corporation is required to pay annually, into debt retirement funds administered by the Saskatchewan Ministry of Finance, amounts at least equal to 1% of certain debt outstanding (Note 9).

16. Employee benefits

a) Defined benefit retiring allowance plan

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:

	December 31, 2011	December 31, 2010	January 1, 2010
		(Thousands)	
Accrued benefit liability	$ 388	$ 335	$ 319
Benefits paid during the year	$ 10	$ 42	$ –
Net expense	$ 63	$ 58	$ 63

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

Discount rate	4.00%	4.70%	5.50%
Inflation rate	2.50%	2.50%	2.50%
Average remaining service life	12.7 years	18.8 years	16.5 years

The discount rate has been determined using the most recent information available on corporate bond market yields whose duration approximates the duration of the liabilities.

b) Defined contribution pension plan

The Corporation's employees participate in the Capital Pension Plan (the Plan), a defined contribution pension plan that is sponsored by CIC. The Corporation's contributions to the Plan include making regular payments into the Plan equal to 160% of the required amounts contributed by employees for current service. The total amount paid to the Plan to date was $579 (year ended December 31, 2010 – $524).

17. Equity advance and capital disclosure

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.

The Corporation's debt management plan is built on the goal of ensuring the capacity to meet long term obligations and ensuring financial health, while achieving the growth plans of the Corporation.

As a Crown corporation, SaskWater receives its long-term capital funding primarily from the Saskatchewan Ministry of Finance. SaskWater also has access to a $30 million line of credit (Note 12) extended by the Saskatchewan Ministry of Finance, which is used to manage short-term liquidity.

The Corporation's capital consists of notes payable, long-term debt and equity, less debt retirement funds.

17. Equity advance and capital disclosure – continued

The Corporation monitors capital on the basis of the debt ratio. The current long-term debt ratio target is 60%, which is consistent with the prior period. The debt ratio is calculated as net debt divided by end of period capitalization as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
		(Thousands)	
Gross long-term debt	$ 43,700	$ 39,800	$ 25,707
Notes payable	17,209	15,066	23,426
Debt retirement funds	(7,648)	(4,661)	(2,813)
Net debt	53,261	50,205	46,320
Total equity	39,167	35,654	27,234
Capitalization	$ 92,428	$ 85,859	$ 73,554
Debt ratio	57.6%	58.5%	63.0%

The Corporation has complied with all externally imposed restrictions on its debt for the year ended December 31, 2011.

18. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
		(Thousands)	
Less than one year	$ 329	$ 330	$ 301
Between one and five years	1,099	1,146	1,077
More than five years	–	262	524
	$ 1,428	$ 1,738	$ 1,902

The Corporation leases a number of vehicles, office equipment and the head office facilities under operating leases. During the year an amount of $341 (2010 – $309) was recognized as an expense in net income with respect to operating leases.

19. Commitments and contingencies

a) Contractual commitments

As of December 31, 2011, the Corporation has outstanding commitments of $25,295,000 (December 31, 2010 – $32,860,000) for construction contracts and consulting agreements primarily relating to assets under construction and other service contracts.

b) Litigation

The Corporation has provided, in its accounts, for any known claims from lawsuits or other legal proceedings for which there is material risk of liability to the Corporation 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.

20. Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, 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"). The Corporation has elected to take partial exemption under IAS 24 *Related Party Disclosures* which allows government related entities to limit the extent of disclosures about related party transactions with government and other government related entities.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. The Corporation also pays Saskatchewan provincial sales tax on all its taxable purchases to the Saskatchewan Ministry of Finance. Taxes paid are recorded as part of the cost of those purchases.

21. Financial instruments and risk management

a) Fair values

Fair values are approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following summarizes the classification, carrying amounts and fair values of the Corporation's financial instruments:

		December 31, 2011 Asset (Liability)		**December 31, 2010 Asset (Liability)**		**January 1, 2010 Asset (Liability)**	
	Classification[1]	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
				(Thousands)			
Financial assets							
Cash	FVTPL	$ 19,667	$ 19,667	$ 25,609	$ 25,609	$ 236	$ 236
Trade and other receivables	L&R	12,637	12,637	9,449	9,449	4,371	4,371
Long-term receivables	L&R	–	–	249	249	346	346
Debt retirement funds	FVTPL	7,648	7,648	4,661	4,661	2,813	2,813
Financial liabilities							
Trade and other payables	OL	7,944	7,944	6,047	6,047	4,972	4,972
Notes payable	OL	17,209	17,209	15,066	15,066	23,426	23,426
Infrastructure deposits	OL	19,131	19,131	25,979	25,979	–	–
Long-term debt	OL	43,700	48,798	39,800	41,743	25,707	26,586

21. Financial instruments and risk management – continued

a) Fair values – continued

[1] Classification details are as follows:

FVTPL – Fair value through profit and loss

L&R – Loans and Receivables

OL – Other Liabilities

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 are estimated using discounted cash flow analysis based on current market yields for similar arrangements (Level 2). Debt retirement funds are valued at closing period-end unit prices received from the Saskatchewan Ministry of Finance (Level 2).

b) Determination of fair values

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, trade and other receivables, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.

Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

	December 31, 2011		December 31, 2010		January 1, 2010	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
			(Thousands)			
Debt retirement funds	$ –	$ 7,648	$ –	$ 4,661	$ –	$ 2,813
Long-term debt	$ –	$ 48,798	$ –	$ 41,743	$ –	$ 26,586

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Debt retirement funds are monies set aside to retire outstanding debt upon maturity. The Corporation is required to pay annually into debt retirement funds which are held and invested by the Saskatchewan Ministry of Finance. The Corporation has classified these investments as fair value through profit or loss and therefore recognized the change in the market value in net earnings for the period. The impact of fluctuations in market prices related to these investments will not be significant, therefore management has not provided a sensitivity analysis of the impact.

The Corporation is exposed to interest rate risk on the maturity of its long-term debt. However, in the current low interest rate environment, these risks are considered low. Interest rate risk on these expected future borrowings are managed, based on the refinancing needs of the Corporation, using derivative financial instruments when deemed appropriate. The Corporation had no derivative financial instruments in place to offset interest rate risk as of December 31, 2011, December 31, 2010 and January 1, 2010. The change in rate would have no impact on net income due to classification of long-term debt as other liabilities.

21. Financial instruments and risk management – continued

d) Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial commitments as they become due. SaskWater manages the Corporation's cash resources based on financial forecasts and anticipated cash flows. The following summarizes the contractual maturities of the Corporation's financial liabilities:

	December 31, 2011				
	6 months or less	7 – 12 months	Subsequent 1 Year	Subsequent 3 – 5 years	More than 5 years
			(Thousands)		
Trade and other payables	$ 7,944	$ –	$ –	$ –	$ –
Notes payable	17,256	–	–	–	–
Long-term debt	916	917	6,833	9,582	43,172
	$ 26,116	$ 917	$ 6,833	$ 9,582	$ 43,172

	December 31, 2010				
	6 months or less	7 – 12 months	Subsequent 1 Year	Subsequent 3 – 5 years	More than 5 years
			(Thousands)		
Trade and other payables	$ 6,047	$ –	$ –	$ –	$ –
Notes payable	15,108	–	–	–	–
Long-term debt	859	858	1,717	12,179	42,469
	$ 22,014	$ 858	$ 1,717	$ 12,179	$ 42,469

Future cash flows from operations and availability under existing credit facilities will be adequate to support these financial liabilities.

e) Credit risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk relate to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

21. Financial instruments and risk management – continued

e) Credit risk – continued

The Corporation is not exposed to a significant concentration of credit risk. The maximum credit risk to which the Corporation is exposed as at the following dates, is limited to the fair value of the financial assets recognized as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
		(Thousands)	
Cash	$ 19,667	$ 25,609	$ 236
Trade receivables			
Current	3,646	5,190	2,261
31 – 60 days	1,702	279	101
61 – 90 days	5	7	153
Over 90 days	143	357	758
Subtotal	5,496	5,833	3,273
Allowance	(65)	(260)	(248)
	5,431	5,573	3,025
Accrued and other receivables	7,206	3,876	1,346
Debt retirement funds	7,648	4,661	2,813
	$ 39,952	$ 39,719	$ 7,420

Provisions for credit losses are maintained and regularly reviewed by the Corporation based on an estimate of outstanding amounts that are considered uncollectible. Historically, the Corporation has not written-off a significant portion of its accounts receivable balances. At December 31, 2011, the Corporation had a balance of $65 (December 31, 2010 – $260) recorded in the allowance for doubtful accounts.

Debt retirement funds are on deposit with, and being administered by, the Saskatchewan Ministry of Finance. At December 31, 2011, the Ministry has invested these funds primarily in Provincial government and Federal government bonds with varying maturities to coincide with related long-term debt maturities and are managed based on this maturity profile and market conditions. As such, the related credit risk associated with these investments as at December 31, 2011, is considered low.

22. Transition to IFRS

As stated in Note 2, these are the Corporation's first financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied consistently in preparing the financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010 and the opening IFRS statement of financial position as at January 1, 2010 (the Corporation's date of transition to IFRS).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted certain amounts reported previously in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following reconciliations and accompanying notes.

22. Transition to IFRS – continued

a) Reconciliation of financial position at January 1, 2010 (Thousands)

Canadian GAAP Accounts	Notes	Canadian GAAP	IFRS Adjustments	IFRS Reclass	IFRS	IFRS Accounts
Assets						
Current assets						
Cash		$ 236	$ –	$ –	$ 236	Cash
Accounts receivable and advances		4,371	–	–	4,371	Trade and other receivables
Prepaid expenses and supplies		253	–	–	253	Prepaid expenses and inventories
Current portion of long-term receivables		235	–	–	235	Current portion of long-term receivables
		5,095	–	–	5,095	
Long-Term Receivables		111	–	–	111	Long-term receivables
Investment – Debt Retirement Funds		2,813	–	–	2,813	Investment – debt retirement funds
Property, Plant and Equipment	iv, v, vi, vii	86,947	(3,199)	9,729	93,477	Property, plant and equipment
		$ 94,966	$ (3,199)	$ 9,729	$ 101,496	
Liabilities and Province's equity						
Current liabilities						
Accounts payable and accrued liabilities		$ 4,972	$ –	$ –	$ 4,972	Trade and other payables
Notes payable		23,426	–	–	23,426	Notes payable
Infrastructure deposits		–	–	–	–	Infrastructure deposits
Current portion of deferred revenue		–	–	534	534	Current portion of deferred revenue
Current portion of long-term debt		–	–	–	–	Current portion of long-term debt
		28,398	–	534	28,932	
Deferred Revenue	v, vi	7,365	–	9,195	16,560	Deferred revenue
	viii	–	2,744	–	2,744	Provisions
Long-Term Debt		25,707	–	–	25,707	Long-term debt
Other Long-Term Obligations		319	–	–	319	Employee benefits
		61,789	2,744	9,729	74,262	
Province of Saskatchewan's equity						
Equity advance		700	–	–	700	Equity advance
Retained earnings	iv, v, vii, viii	32,477	(5,943)	–	26,534	Retained earnings
		33,177	(5,943)	–	27,234	
		$ 94,966	$ (3,199)	$ 9,729	$ 101,496	

22. Transition to IFRS – continued

b) Reconciliation of financial position at December 31, 2010 (Thousands)

Canadian GAAP Accounts	Notes	Canadian GAAP	IFRS Adjustments	IFRS Reclass	IFRS	IFRS Accounts
Assets						
Current assets						
Cash		$ 25,609	$ –	$ –	$ 25,609	Cash
Accounts receivable and advances		9,449	–	–	9,449	Trade and other receivables
Prepaid expenses and supplies		329	–	–	329	Prepaid expenses and inventories
Current portion of long-term receivables		249	–	–	249	Current portion of long-term receivables
		35,636	–	–	35,636	
Long-Term Receivables		–	–	–	–	Long-term receivables
Investment – Debt Retirement Funds		4,661	–	–	4,661	Investment – debt retirement funds
Property, Plant and Equipment	*iv, v, vi, vii*	107,449	(3,724)	9,729	113,454	Property, plant and equipment
		$ 147,746	$ (3,724)	$ 9,729	$ 153,751	
Liabilities and Province's equity						
Current liabilities						
Accounts payable and accrued liabilities		$ 6,047	$ –	$ –	$ 6,047	Trade and other payables
Notes payable		15,066	–	–	15,066	Notes payable
Infrastructure deposits		25,979	–	–	25,979	Infrastructure deposits
Current portion of deferred revenue		340	–	224	564	Current portion of deferred revenue
Current portion of long-term debt		–	–	–	–	Current portion of long-term debt
		47,432	–	224	47,656	
Deferred Revenue	*v, vi*	18,822	(374)	9,505	27,953	Deferred revenue
	viii	–	2,353	–	2,353	Provisions
Long-Term Debt		39,800	–	–	39,800	Long-term debt
Other Long-Term Obligations		335	–	–	335	Employee benefits
		106,389	1,979	9,729	118,097	
Province of Saskatchewan's equity						
Equity advance		8,700	–	–	8,700	Equity advance
Retained earnings	*iv, v, vii, viii*	32,657	(5,703)	–	26,954	Retained earnings
		41,357	(5,703)	–	35,654	
		$ 147,746	$ (3,724)	$ 9,729	$ 153,751	

22. Transition to IFRS – continued

c) Reconciliation of comprehensive income at December 31, 2010 (Thousands)

Canadian GAAP Accounts	Notes	Canadian GAAP	IFRS Adjustments	IFRS Reclass	IFRS	IFRS Accounts
Revenue						
Non-potable water supply		$ 8,511	$ –	$ 11,112	$ 19,623	Water sales and treatment
Potable water supply		10,736	–	(10,736)	–	
Wastewater treatment		560	–	(560)	–	
Operations and maintenance		786	–	(786)	–	
Services		3,251	–	786	4,037	Services
Other	*v, vi*	415	374	195	984	Other
		24,259	374	11	24,644	
Expenses						
Non-potable water supply		2,108	–	6,506	8,614	Salaries and benefits
Potable water supply	*iv, vii, viii*	6,204	(183)	373	6,394	Operations, maintenance and administration
Wastewater treatment		170	–	(170)	–	
Operations and maintenance		647	–	(647)	–	
Services		2,303	–	(2,303)	–	
Overhead and administration		7,633	–	(7,633)	–	
Amortization of property plant and equipment	*iv, v, vi, vii*	3,924	132	–	4,056	Amortization of property plant and equipment
Interest		1,090	–	2,185	3,275	Bulk water purchases
		–	–	599	599	Saskatchewan taxes
		24,079	(51)	(1,090)	22,938	
Results from operating activities		**180**	**425**	**1,101**	**1,706**	**Net income before the following:**
		–	–	275	275	Finance income
	viii	–	(185)	(1,376)	(1,561)	Finance expense
		–	(185)	(1,101)	(1,286)	Net finance expense
Net income (loss)		**180**	**240**	**–**	**420**	**Net income**
Other comprehensive income		–	–	–	–	Other comprehensive income
Comprehensive income		**$ 180**	**$ 240**	**$ –**	**$ 420**	**Total comprehensive income**

22. Transition to IFRS – continued

d) Reconciliation of Province of Saskatchewan's equity

	Notes	January 1, 2010	December 31, 2010
		(Thousands)	
Province of Saskatchewan's equity under Canadian GAAP		$ 32,477	$ 32,657
Restatement of capitalized overhead	*iv*	(1,897)	(2,133)
Recognition of impairments	*vii*	(1,302)	(1,217)
Recognition of onerous contracts	*viii*	(2,744)	(2,353)
Province of Saskatchewan's equity under IFRS		$ 26,534	$ 26,954

e) Reconciliation of cash flows

Under Canadian GAAP, infrastructure deposits were included in financing activities. Under IFRS, infrastructure deposits were included in operating activities. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP other than to comply with IFRS formatting requirements.

f) Notes to the reconciliations

The Corporation is required to determine its IFRS accounting policies and apply them retrospectively to establish its opening statement of financial position under IFRS. IFRS 1 *First-time Adoption of IFRS* provides a number of exemptions upon first-time adoption of IFRS. The exemptions the Corporation applied in preparing the January 1, 2010 statement of financial position are described below.

In preparing the financial statements, the Corporation reclassified amounts previously reported under Canadian GAAP to conform to presentation requirements of IFRS. These reclassifications are separately identified in the previous reconciliations and therefore have not been described below.

The Adjustments to the financial statements resulting from transition to IFRS as well as the exemptions applied in preparing the opening statement of financial position were as follows:

i) Estimates

IFRS 1 prohibits retrospective application of some aspects of certain IFRS. Hindsight is not used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

ii) Business combinations

IFRS 1 provides the option to apply IFRS 3, *Business Combinations,* retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. As the Corporation has not had any business combinations in the past, it has elected to prospectively apply IFRS 3.

iii) Deemed cost

IFRS 1 provides an optional exemption to use the fair value of an item of property, plant and equipment as at the date of transition to IFRS as its deemed cost. The Corporation did not elect to revalue any items of property, plant and equipment at the Transition Date.

22. Transition to IFRS – continued

f) Notes to the reconciliations – continued

iv) Restatement of capitalized overhead

Under IFRS, property, plant and equipment is recorded at historical cost and includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes materials and direct labour. Under Canadian GAAP, the Corporation's accounting policy was to capitalize costs including material direct labour and overhead.

On transition to IFRS, the Corporation derecognized certain capitalized costs, including general and administrative overhead, which were not eligible to be capitalized under IFRS. The impact arising from the change is summarized as follows:

	Increase (decrease)	
	January 1, 2010	**December 31, 2010**
	(Thousands)	
Statement of financial position		
Property, plant and equipment	$ (2,218)	$ (2,608)
Accumulated depreciation and impairment losses	(321)	(475)
Adjustment to retained earnings	$ (1,897)	$ (2,133)
Statement of comprehensive income		
Operations, maintenance and administration		$ 390
Amortization of property, plant and equipment		(154)
Adjustment to total comprehensive income		$ 236

v) Restatement of customer contributions

Under Canadian GAAP, the Corporation netted the customer contributions against property, plant and equipment and amortized these contributions over the estimated useful life of the related assets. The amortization of these contributions was netted against the amortization of property, plant and equipment expense.

On transition to IFRS, the Corporation is required to account for the customer contributions as deferred revenue. The deferred revenue is recognized into income over the shorter of the contract life or the estimated useful life of the related assets. The impact arising from the change is summarized as follows:

	Increase (decrease)	
	January 1, 2010	**December 31, 2010**
	(Thousands)	
Statement of financial position		
Property, plant and equipment	$ 4,212	$ 4,212
Accumulated depreciation and impairment losses	1,366	1,474
Deferred revenue	2,846	2,738
Adjustment to retained earnings	$ –	$ –
Statement of comprehensive income		
Other revenue		$ 108
Amortization of property, plant and equipment		108
Adjustment to total comprehensive income		$ –

22. Transition to IFRS – continued

f) Notes to the reconciliations – continued

vi) Restatement of government grants

Under Canadian GAAP, the Corporation netted the government grants against property, plant and equipment and amortized these grants over the estimated useful life of the related assets. The amortization of these grants was netted against the amortization of property, plant and equipment expense.

On transition to IFRS, the Corporation is required to account for the government grants as deferred revenue. The deferred revenue is recognized into income over the estimated useful life of the related assets. The impact arising from the change is summarized as follows:

	Increase (decrease)	
	January 1, 2010	**December 31, 2010**
	(Thousands)	
Statement of financial position		
Property, plant and equipment	$ 9,678	$ 9,678
Accumulated depreciation and impairment losses	2,795	3,061
Deferred revenue	6,883	6,617
Adjustment to retained earnings	$ –	$ –
Statement of comprehensive income		
Other revenue		$ 266
Amortization of property, plant and equipment		266
Adjustment to total comprehensive income		$ –

22. Transition to IFRS – continued

f) Notes to the reconciliations – continued

vii) Recognition of impairments

Under Canadian GAAP, the Corporation evaluated its property, plant and equipment for impairment and determined that there was no impairment on any property, plant and equipment using the criteria required under Canadian GAAP. Under IFRS, an impairment is recognized when the carrying amount of an asset or cash generating unit (CGU) exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the present value of the future cash flows to be derived from a CGU.

On transition to IFRS, the Corporation recognized an impairment for CGUs where the carrying amount exceeded the recoverable amount. The impact arising from the change is summarized as follows:

	Increase (decrease)	
	January 1, 2010	**December 31, 2010**
	(Thousands)	
Statement of financial position		
Accumulated depreciation and impairment losses	$ 1,302	$ 1,217
Adjustment to retained earnings	$ (1,302)	$ (1,217)
Statement of comprehensive income		
Operations, maintenance and administration		$ 3
Amortization of property, plant and equipment		(88)
Adjustment to total comprehensive income		$ (85)

22.Transition to IFRS – continued

f) Notes to the reconciliations – continued

viii) Recognition of onerous contracts

Under IFRS, a provision for onerous contracts is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Under Canadian GAAP, no obligations were recognized for onerous contracts.

On transition to IFRS, the Corporation recognized a provision for onerous contracts for which the expected benefits to be derived from the contracts are lower than the unavoidable cost of meeting the obligations under the contracts. The impact arising from the change is summarized as follows:

	Increase (decrease)	
	January 1, 2010	**December 31, 2010**
	(Thousands)	
Statement of financial position		
Provisions	$ 2,744	$ 2,353
Adjustment to retained earnings	$ (2,744)	$ (2,353)
Statement of comprehensive income		
Operations, maintenance and administration		$ (576)
Finance expense		185
Adjustment to total comprehensive income		$ (391)

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, board of directors and management 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 the Minister Responsible for Saskatchewan Water Corporation the Honourable Dustin Duncan. The Minister is a key link between SaskWater, CIC Board, 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 seven (7) times in 2011.

C. Board Composition

The SaskWater Board consists of eight (8) independent directors. 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,
- Corporate Social Responsibility and Sustainability.

Audit and Finance Committee – held six (6) meetings

Members: Ken Hookway (Chair), Glen Rittinger, Larry Burechailo, Garry Moroz

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 four (4) meetings

Members: Gary Vidal (Chair), Lionel LaBelle, Brenda Merasty, Jordan Bergermann

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;
- recommending Board and Committee structure, composition and mandate;
- ensuring Board orientation and opportunities for professional development; and
- articulating the roles and responsibilities of the Board.

Corporate Social Responsibility and Sustainability Committee – held three (3) meetings

Members: Brenda Merasty (Chair), Lionel LaBelle, Gary Vidal, Jordan Bergermann

The Corporate Social Responsibility and Sustainability Committee was established 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 the Corporate Secretary to the Board.

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. SaskWater's Corporate Governance Policies and Practices can be found at www.saskwater.com.

Board of Directors

From left to right: Glen D. Rittinger, Garry G. Moroz, Jordan C. Bergermann, Larry Burechailo, Lionel LaBelle, Ken Hookway, Gary Vidal, Brenda Merasty.

Chair, Glen D. Rittinger FCA, CFP
Swift Current

- Partner with Stark & Marsh, Chartered Accountants
- Past instructor at the University of Regina and Athabasca College
- Past council member for Institute of Chartered Accountants of Saskatchewan and a past member of the Liability Insurance Committee for the Institute of Chartered Accountants of Saskatchewan, and Saskatchewan representative to the Interprovincial Task Force on Multidisciplinary Activities. Current member of the professional conduct committee
- Holds a B. Comm. from the University of Saskatchewan
- C.A. 1976 F.C.A 1992
- C.F.P. 1999
- Past president of the Swift Current Kiwanis and the Swift Current Minor Hockey Association

Vice Chair, Lionel LaBelle
Saskatoon

- President and CEO of Saskatchewan Trade and Export Partnership
- Previously worked as manager, partner, president and chairman of the board for several public and private corporations focused on agri-business, construction and the manufacturing industry
- In 2001 took on an advocacy role in the development of the biofuels industry both in Saskatchewan and Canada

Larry Burechailo
Rosetown

- Past Councillor and Deputy Mayor of Coteau Beach Resort Village
- Works at SaskPower, has represented CEP provincially on the SaskPower Safety Network Committee, and operates a farm
- Previously worked in the automotive wholesale industry in sales and as working partner, and served in the 2NSR Army Reserves
- Long time member of the Royal Canadian Legion and served seven years elected to Provincial Command
- Appointed as director on the Mid Sask Enterprise Region Board in 2009

Ken Hookway
Melfort

- Agricultural Lending Specialist with Advantage Credit Union
- Employed in the banking industry for the past 35 years, 28 years in Western Canada and serving the Saskatchewan Farming Community since 1988
- Served as director and/or treasurer on many boards and committees such as the local Kinsmen Club, local United Church, Melfort Mustangs Junior Hockey Club, Melfort Chamber of Commerce and the University of Saskatchewan Regional Advisory Committee
- Since 2001 has worked at home as a bookkeeper for many farm operations

Gary Vidal CGA
Meadow Lake

- Elected Mayor of the City of Meadow Lake in September 2011
- Partner in the firm Pliska Vidal & Co.
- Over 23 years of experience in the accounting profession
- Serves on various boards and committees in his community
- Earned designation as Certified General Accountant in 1994

Garry G. Moroz
Pelly

- Operates a registered seed farm with both registered and commercial grain, and promotes crop care products for major chemical companies
- Previously worked as credit manager and regional sales manager for a major farm equipment manufacturer, and as owner of a farm equipment business
- Helped to establish a breeder hog barn in the Pelly area, and has been involved with the RM of St. Phillips
- Graduate of Assiniboine Community College at Brandon – Agricultural Sales and Management

Brenda Merasty
Saskatoon

- Senior Policy Analyst, Education, Federation of Saskatchewan Indian Nations (FSIN)
- Previously worked at the Assembly of First Nations (AFN) as a Senior Policy Analyst
- Formerly worked at the Saskatchewan Indian Institute of Technologies (SIIT) and as educational consultant and teacher
- Researched and implemented programs, strategies and conferences designed to advance and promote child and youth education, mentorship, community asset mapping/building, and address First Nations health issues
- Received a Masters Degree in Educational Administration from the University of Saskatchewan

Jordan C. Bergermann
Muenster

- Councillor of the RM of Humboldt since 2005 (Reeve 2007 – present)
- Grain and livestock farmer, semi-retired in 2005
- Represents the RM of Humboldt on the Lanigan/Dellwood Watershed Association Board
- Appointed municipal representative to the Lake Lenore – Houghton Lake Planning Committee
- Began public office service in 1974 with the Muenster School Board as board member from 1974 to 1988 (chairman for nine years)
- Elected to the Humboldt Rural School Division 1988 to 1997 (chairman for six years)

Tanya Thome

- Corporate Secretary to the Board of Directors, Crown Investments Corporation

Corporate Directory

Doug Matthies, President
Dean Bellegarde, Aboriginal Advisor to the President

Operations and Engineering

Mart Cram, Vice President, Operations and Engineering
Eric Light, Director, Engineering
Jeff Mander, Director, District Operations
Rynette Moore-Guillaume, Manager, Special Services
Glen Gillis, Manager, Northern Engineering
Shahid Khan, Manager, Water and Wastewater Engineering

Business Development and Corporate Services

Marie Alexander, Vice President, Business Development and Corporate Services
Randy Avery, Director, Business Development
Brenda Stewart, Manager, Human Resources
Danny Bollinger, Manager, Financial Services
Ingrid Newton, Manager, Policy and Planning
Kim Cave, Manager, Administration and Facility Services
Monty Gendall, General Counsel
Gayle Zimmerman, Manager, Corporate Communications

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SaskWater

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