

This management discussion and analysis (MD&A) dated March 31, 2013 should be read in conjunction with the unaudited financial statements for the period ended March 31, 2013.

Management Discussion and Analysis

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 63 communities, seven rural municipalities, 81 rural pipeline groups, 15 industrial and 236 commercial and end user customers.

The corporation owns eight water treatment plants, three wastewater facilities, 39 pump stations and over 862 kilometres of pipeline. SaskWater also maintains customer-owned systems and provides operator training to 41 Saskatchewan First Nations communities.

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

SaskWater employs provincially certified operators supported by a team of highly qualified technicians, technologists and professional engineers. In addition to operating its own systems, the company also provides certified operations and maintenance for water and wastewater systems.

SaskWater currently owns and operates regional wastewater treatment facilities at Nipawin and Fort Qu'Appelle and a municipal wastewater facility serving Pierceland.

SaskWater can address new demands for water and wastewater services from municipal customers through further:

- Development of service clusters for cost-effective delivery of services to customers;
- Implementation of proven treatment plant technologies that exceed regulatory requirements and ensure quality control is maintained; and
- By ensuring the company has the people and the training to meet anticipated demand for services.

The March 31, 2013 unaudited interim condensed financial statements follow the same accounting policies as disclosed in SaskWater's December 31, 2012 audited financial statements. Readers should refer to those financial statements for information on all of SaskWater's financial statement accounting policies.

Financial and Operating Performance (\$000's)

Revenues for the quarter were \$9,241, a decrease of \$55 compared to 2012. Potable revenues are up \$275, due to increased overall usage as well as contract rate increases. Even though non-potable volumes are down by 8.2% revenues are up \$254 as a result of contract rate increases and revenue from minimums which are up \$336 more than 2012 with the majority of the increase due to industrial customers triggering minimum payment requirements. Services are down \$1,109 for the quarter with the majority of the decrease being attributable to Project Management due to projects moving into the construction phase.

Expenses for the quarter were \$7,814, a decrease of \$22 from 2012. The largest decrease is attributable to the operations, maintenance and administration expense of \$1,028 with the majority of the decrease being attributable to Project Management and the progression of projects into the construction phase. Depreciation costs increased \$610 due to the capitalization of completed projects. Salaries and benefits as well as bulk water purchases are up by \$263 and \$161 respectively.

The result for the first quarter of 2013 was a net income from operations of \$950, compared to a net income from operations of \$859 in the same quarter for 2012.

1. Capital Investments (\$000's)

Capital expenditures for the period totalled \$4,233. \$3,242 was spent towards projects to supply new customers, \$84 was spent on system expansion projects for existing customers, and \$907 was spent on system upgrades and infrastructure management of existing assets. Net capital expenditures, after considering customer contributions, were \$971.

Quarter ended March 31		
	2013	2012
Project Investments (thousands of dollars)	\$ 4,233	\$ 6,612

2. Long-Term Debt (\$000's)

Total accumulated long-term debt outstanding at March 31, 2013 was \$43,700. No additions or repayments were made during the first quarter. Debt retirement fund contributions for the quarter totalled \$992, and the balance at March 31, 2013 is \$11,478.

3. Water Sales and Treatment (\$000's)

Water sales and treatment consists of sales and services related to potable water supply and delivery, non-potable water supply and delivery and collection and treatment of wastewater.

SaskWater owns and operates eight water treatment plants. Two of the water treatment plants are part of regional potable water supply systems, supplying quality drinking water to 17 communities in the Humboldt and Melfort areas. The other six treatment plants serve the communities of White City, Gravelbourg, Edenwold, Elbow, Pierceland and Cupar.

SaskWater also purchases and resells potable water produced by other suppliers. Regional transmission systems supply water to municipal customers, as well as various industrial customers and rural water co-operatives.

SaskWater sources and supplies various industrial and municipal users with non-potable water from a variety of different sources throughout the province.

SaskWater owns and operates three regional wastewater treatment facilities. Two of the facilities are regional wastewater treatment facilities, the first serves the Town of Nipawin, the Village of Codette and Bunge Canada and the second serves the Town of Fort Qu'Appelle and the Rural Municipality of North Qu'Appelle. The third wastewater facility services the community of Pierceland.

Revenues were \$7,148 for the quarter, an increase of \$531 over 2012. Volumes are up across all water sales and treatment lines of business including new customers and connections in the potable and non-potable lines of business. \$275 relates to potable water increases, there is an increase of \$254 related to non-potable water and an increase of \$2 from wastewater.

4. Services (\$000's)

SaskWater has a number of water related services which consist of Certified Operations and Maintenance, Project Management, Northern Project Management, Operator Training and Leak Detection.

SaskWater provides certified Operations and Maintenance (O&M) of their water and wastewater utilities, including water supply, treatment, storage, distribution and wastewater disposal. SaskWater also provides regulatory reporting, 24/7 monitoring, emergency planning and customer support services. SaskWater currently provides O&M services to 10 municipal customers, one industrial customer and four regional water supply systems.

O&M revenues are up \$25 for the quarter due to new services being provided to Caron/Mortlach as well as additional billings for non-contract services that were provided during the period are above 2012 levels.

Project Management recorded revenues that were \$1,126 lower than 2012 for services rendered in 2013 on potash related projects. This variance relates to projects moving into the construction phase at the end of 2012. Consequently, this line of business accounts for the majority of the total variance for services, as compared to 2012.

Northern Project Management revenues were down \$8 for the quarter due to lower demand for contract work compared to the same quarter in 2012.

Operator Training revenues are approximately the same as compared to 2012.

No Leak Detection services were required in the first quarter of 2013.

5. Salaries and Benefits (\$000's)

Salaries and benefits have increased \$263 over 2012 levels. This variance is a result of salary increases between 2012 and 2013 and higher staffing levels year over year required to achieve the increased water sales and work related to new customers not yet online.

6. Operations, Maintenance and Overhead (\$000's)

Operations, maintenance and overhead expenses have decreased \$1,028 which has direct correlation with the activity in the Project Management line of business, which has seen several projects move to the construction phase. We can attribute \$974 of the variance to the decrease in activity in Project Management. The remaining variance of \$54 represents a 3.4% decrease in operations, maintenance and overhead costs for the period, when compared with the first quarter in 2012.

7. Amortization of Property, Plant and Equipment (\$000's)

Additional amortization costs of \$610 represent additions to the asset base during the latter half of 2012 as some major projects that were previously in progress have come to completion. The majority of this difference relates to the assets to serve a new industrial customer, as there was no matching amortization expense in the first quarter of 2012. The majority of this increase is offset by other revenue, in the form of amortized customer contributions related to the new assets.

8. Bulk Water Purchases (\$000's)

SaskWater purchases and resells potable water produced by other suppliers. Increased pricing from these suppliers as well as new customer volumes have resulted in \$161 of increased volume and costs for the first quarter compared to 2012.

9. Saskatchewan Taxes (\$000's)

SaskWater pays Corporate Capital Tax to the Province of Saskatchewan based on the estimate level of paid-up capital it has at the end of a fiscal year. Corporate Capital Tax was \$120 for 2013, compared to \$148 for 2012 based on our estimates.

10. Net Finance Expense (\$000's)

Overall, net finance expense is down \$124 over the same quarter in 2012. Finance income is up \$35. \$27 of the increase is from interest charges on overdue accounts receivable, and \$8 is due to increased revenues from debt retirement funds.

Finance costs have decreased by \$89. A negative market adjustment on debt retirement funds of \$228 was recorded in the first quarter of 2012. In the same period of 2013, a negative market adjustment of \$145 was recorded. This accounts for \$83 of the decrease in finance expense. Interest on long term debt was unchanged, while interest on short term debt and other financing charges account for the remaining decrease of \$6.