



Saskatchewan Water Corporation

***Third Quarter Report
December 31, 2016***



Corporate Profile

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.

Our Vision is to be the best at connecting water for life and growth, partnering for a better tomorrow.

Our Mission is to provide safe, reliable and sustainable water and wastewater services for Saskatchewan.

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 64 communities, nine rural municipalities, 85 rural pipeline groups, 16 industrial and 236 commercial and end user customers. SaskWater serves approximately 79,000 people in Saskatchewan

The corporation owns nine water treatment plants, three wastewater facilities, 39 pump stations, 140 kilometres of canal and 935 kilometres of pipeline. SaskWater also maintains customer-owned systems and provides operator training to 29 Saskatchewan First Nations communities.

SaskWater's Values

Integrity - We act ethically with respect, honesty, courtesy and fairness.

Professionalism - We provide quality, expertise and excellence in the delivery of our services, and we are accountable for our actions.

Teamwork - We promote cooperation and commitment to achieve our common goals.

Safety - We are committed to safety in all aspects of our operations.

Innovation - We pursue continuous improvement and innovative solutions.

Environment - We respect and support the environment and communities where we live and work.



Financial and Operating Highlights

	Three Months Ended December 31		Nine Months Ended December 31	
	2016	2015	2016	2015
FINANCIAL HIGHLIGHTS (\$ thousands):				
Total revenue	\$ 13,470	\$ 11,715	\$ 40,620	\$ 37,048
Total expenses	11,186	10,686	33,558	30,635
Operating income	2,284	1,029	7,062	6,413
Net finance income (expense)	(1,178)	(156)	(1,462)	(1,729)
Other comprehensive income	-	16	-	16
Total comprehensive income	\$ 1,106	\$ 889	\$ 5,600	\$ 4,700
Unrealized gains (losses) included in net finance amount	\$ (770)	\$ 212	\$ (174)	\$ (739)
Dividends	\$ 431	\$ 596	\$ 1,206	\$ 1,442
Debt Ratio			44.50 %	44.80 %
OPERATING HIGHLIGHTS (cubic meters):				
Non-potable water distributed	8,145,349	8,832,218	27,166,972	28,669,137
Potable water distributed	1,549,547	1,563,216	5,579,324	5,581,179



Management Discussion and Analysis

Introduction

Management’s Discussion and Analysis (MD&A) highlights the primary factors that affected the financial results and operations of SaskWater for the nine months ended December 31, 2016.

The MD&A should be read in conjunction with the unaudited

condensed financial statements which have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS).

The SaskWater Board of Directors approved these interim financial statements at their meeting on February 22, 2017.

For additional information refer to SaskWater’s 2015-16 Annual Report.

SaskWater has defined four measurable strategic objectives to guide the corporation: Customer Driven, Pursuing Excellence, Valuing Employees, and Succeeding Financially.

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 operation and maintenance for water and wastewater systems.

SaskWater owns nine water treatment plants, three serving regional customers and six as standalone systems. In addition, SaskWater also operates two regional systems supplied by potable water treated by the City of Saskatoon and the Buffalo Pound Water Treatment Plant.

Non-potable water is provided primarily to industrial customers in the areas surrounding Saskatoon, Buffalo Pound Lake and along the Saskatoon South East Water Supply system.

SaskWater currently owns and operates regional wastewater treatment facilities in 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.
- By ensuring the company has the people and the training to meet anticipated demand for services.



Highlights

Non-potable Water

Non-potable water is primarily distributed to large industrial customers, especially in the potash mining sector. Non-potable revenues are up due to the addition of new customers and minimum payment obligations within contracts. The overall change in volumes is largely related to market conditions within the potash sector. Year to date 2016-17, volumes are 5% lower than the same period in 2015-16 with most potash customers decreasing their consumptions in the nine month period ended December 31, 2016.

Potable Water

Potable water volumes have decreased 0.03% in the nine month period ended December 31, 2016, compared to the same period in 2015-16. Rate increases and new customers have contributed to the additional revenue over the same period in 2015-16. Potable water is primarily supplied to municipal customers. Seasonal fluctuations are more often noted during the first and second quarters and are influenced by temperature and precipitation and the resulting impact on such uses as lawn and garden watering. Water volumes within municipalities tend to be more stable during the third and fourth quarters of the year.

Services

Service revenues include certified operation and maintenance where SaskWater provides operator expertise to run customer owned facilities; project management which is largely related to pre-construction engineering services while project proponents complete their feasibility analysis; operator training support to 29 First Nations and northern project management which relates to engineering services to northern Saskatchewan communities primarily in conjunction with the Ministry of Government Relations.

Project management revenues were 29% lower in the nine month period ended December 31, 2016, as compared to the same period in 2015-16. This was largely due to projects wrapping up, without being replaced by new projects of equal size as the project management line of business is based on customer need.

Expenses

Expenses have increased in the nine month period ended December 31, 2016, over the same period in 2015-16 across most operational categories once you take into account the decrease in project management related expenditures. These increases relate to serving new customers as well as increases from bulk water suppliers and an elevated level of repairs and maintenance year to date.

Net Finance Income (Expense)

Finance costs include debt servicing costs on funds borrowed to support investments and earnings on debt retirement funds that are set aside to retire capital market debts on their maturity. The debt retirement funds were \$15.639 million at December 31, 2016. Debt retirement funds are adjusted to reflect the change in market value of the underlying securities at each reporting period. During the nine month period ended December 31, 2016, SaskWater recorded net negative market adjustments totalling \$174. There were net negative market adjustments totalling \$739 during the same period in 2015-16. The market adjustments alone account for over \$0.56 million of the difference between the two reporting periods.

Saskatchewan Water Corporation

Statement of Financial Position

(unaudited - thousands of dollars)

	as at December 31, 2016	as at March 31, 2016	Change
Assets			
Current assets			
Cash	\$ 6,113	\$ 7,192	\$ (1,079)
Trade and other receivables	10,422	9,097	1,325
Prepaid expenses and inventories	816	1,091	(275)
	17,351	17,380	(29)
Investment - debt retirement funds	15,639	14,769	870
Property, plant and equipment	307,349	296,724	10,625
	\$ 340,339	\$ 328,873	\$ 11,466
Liabilities and Province of Saskatchewan's Equity			
Current liabilities			
Trade and other payables	\$ 9,531	\$ 8,536	\$ 995
Notes payable	10,518	12,999	(2,481)
Infrastructure deposits	5,760	5,390	370
Dividends payable	431	190	241
Current portion of deferred revenue	6,552	3,943	2,609
Current portion of long-term debt	2,600	-	2,600
	35,392	31,058	4,334
Deferred revenue	190,665	189,777	888
Provisions	1,391	1,516	(125)
Long-term debt	51,393	49,418	1,975
Employee benefits	470	470	-
	279,311	272,239	7,072
Province of Saskatchewan's Equity			
Equity advance	8,700	8,700	-
Retained earnings	52,328	47,934	4,394
	61,028	56,634	4,394
	\$ 340,339	\$ 328,873	\$ 11,466

Saskatchewan Water Corporation

Statement of Operations and Comprehensive Income

(unaudited - thousands of dollars)

	Three months ended December 31			Nine months ended December 31		
	Actual 2016	Actual 2015	Variance	Actual 2016	Actual 2015	Variance
Revenue (Note 4)						
Water sales and treatment	\$ 9,838	\$ 8,899	\$ 939	\$ 30,843	\$ 28,604	\$ 2,239
Services	882	1,636	(754)	4,775	5,486	(711)
Other	2,750	1,180	1,570	5,002	2,958	2,044
	<u>13,470</u>	<u>11,715</u>	<u>1,755</u>	<u>40,620</u>	<u>37,048</u>	<u>3,572</u>
Expenses						
Salaries and benefits	2,961	3,140	179	9,291	8,999	(292)
Operations, maintenance, and administration	1,960	3,434	1,474	8,487	9,004	517
Amortization of property, plant and equipment	3,988	2,321	(1,667)	8,388	6,196	(2,192)
Bulk water purchases	2,114	1,663	(451)	6,899	5,968	(931)
Saskatchewan taxes	163	128	(35)	493	468	(25)
	<u>11,186</u>	<u>10,686</u>	<u>(500)</u>	<u>33,558</u>	<u>30,635</u>	<u>(2,923)</u>
Operating income	<u>2,284</u>	<u>1,029</u>	<u>1,255</u>	<u>7,062</u>	<u>6,413</u>	<u>649</u>
Finance income	86	234	(148)	862	576	286
Finance expense	(1,264)	(390)	(874)	(2,324)	(2,305)	(19)
Net finance income (expense) (Note 5)	<u>(1,178)</u>	<u>(156)</u>	<u>(1,022)</u>	<u>(1,462)</u>	<u>(1,729)</u>	<u>267</u>
Net income (loss)	<u>\$ 1,106</u>	<u>\$ 873</u>	<u>\$ 233</u>	<u>\$ 5,600</u>	<u>\$ 4,684</u>	<u>\$ 916</u>
Other comprehensive income (loss)	-	16	(16)	-	16	(16)
Total comprehensive income (loss)	<u>\$ 1,106</u>	<u>\$ 889</u>	<u>\$ 217</u>	<u>\$ 5,600</u>	<u>\$ 4,700</u>	<u>\$ 900</u>

Saskatchewan Water Corporation

Statement of Retained Earnings

(unaudited - thousands of dollars)

	Three months ended December 31			Nine months ended December 31		
	Actual 2016	Actual 2015	Variance	Actual 2016	Actual 2015	Variance
Retained Earnings						
Retained Earnings, beginning of period	\$ 51,653	\$ 46,910	\$ 4,743	\$ 47,934	\$ 43,945	\$ 3,989
Total comprehensive income for the period	1,106	889	217	5,600	4,700	900
Dividends	(431)	(596)	165	(1,206)	(1,442)	236
Retained Earnings, end of period	\$ 52,328	\$ 47,203	\$ 5,125	\$ 52,328	\$ 47,203	\$ 5,125

Saskatchewan Water Corporation

Statement of Cash Flows

(unaudited - thousands of dollars)

	Three months ended		Nine months ended	
	December 31 2016	December 31 2015	December 31 2016	December 31 2015
Operating activities				
Net income	\$ 1,106	\$ 873	\$ 5,600	\$ 4,684
Items not affecting cash from operations:				
Amortization of property, plant and equipment	3,988	2,321	8,388	6,196
Impairment of assets	-	-	-	-
Amortization of deferred revenue	(2,405)	(1,062)	(4,397)	(2,535)
Amortization of provisions - onerous contracts	(63)	(6)	(189)	(127)
Employee benefits	-	32	-	32
Net financing (income) expense	1,178	156	1,462	1,729
Loss (gain) on disposal of property, plant and equipment	(22)	55	(18)	42
Change in non-cash working capital items:				
Trade and other receivables	394	11,892	(1,325)	7,486
Prepaid expenses and inventories	(32)	(299)	275	(186)
Trade and other payables	368	(1,097)	880	(1,137)
Infrastructure deposits	560	(5,109)	370	(2,511)
Deferred revenue	2,675	5,225	7,894	25,510
Interest paid	(414)	(437)	(1,430)	(1,347)
Interest received	1	2	7	8
Cash provided by operating activities	7,334	12,546	17,517	37,844
Investing activities				
Property, plant and equipment expenditures	(8,464)	(11,051)	(19,063)	(36,851)
Proceeds on disposal of property, plant and equipment	75	154	124	224
Cash used in investing activities	(8,389)	(10,897)	(18,939)	(36,627)
Financing activities				
Proceeds from long-term debt	4,575	2,407	4,575	2,407
Proceeds from (Repayments of) notes payable	(3,001)	(1,100)	(2,481)	(660)
Repayment of long-term debt	-	(2,407)	-	(2,407)
Debt retirement fund installments	(522)	(522)	(786)	(786)
Debt retirement fund Redemptions	-	2,224	-	2,224
Dividends paid	(394)	(481)	(965)	(1,143)
Cash provided by financing activities	658	121	343	(365)
Change in Cash	(397)	1,770	(1,079)	852
Cash, Beginning of Period	6,510	6,522	7,192	7,440
Cash, End of Period	\$ 6,113	\$ 8,292	\$ 6,113	\$ 8,292

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

December 31, 2016

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 December 31, 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 works 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

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 - *Interim Financial Reporting* and accordingly do not include all of the information required for full annual financial statements.

The condensed interim financial statements were authorized for issue by the Board of Directors on February 22, 2017.

Interim measurement

SaskWater's sales to municipal customers are seasonal, with the first and second quarters being the strongest periods, reflecting hotter weather and higher outdoor water usage.

Basis of measurement

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

- Financial instruments that are accounted for at fair value through profit and loss.
- Provisions.
- Employee benefit obligations.

Functional and presentation currency

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

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

December 31, 2016

2. Basis of Preparation (continued)

Use of estimates and judgments

The preparation of these condensed interim 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.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies are:

- Valuation of trade and other receivables
- Underlying estimates of useful lives and amortization of property, plant and equipment
- Underlying estimates of deferred revenue and infrastructure deposits
- Carrying amounts of provisions and underlying estimates of future cash flows
- Carrying amounts of employee benefits and underlying actuarial assumptions
- Underlying estimates for future commitments and contingencies

3. Significant Accounting Policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those disclosed in the corporation's March 31, 2016 audited financial statements.

The accounting policies have been applied consistently to all periods presented in these condensed interim financial statements.

New standards and amendments to standards

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2015, have been applied in preparing these condensed financial statements:

- IFRS 13 *Fair value measurement*
- IAS 16 *Property, plant and equipment*
- IAS 24 *Related party disclosures*

The adoption of these amended standards had no impact on the condensed financial statements.

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3. Significant Accounting Policies (continued)

New standards and interpretations not yet adopted

The following new and amended standards are not yet effective and have not been applied in preparing these financial statements:

IFRS 9, *Financial Instruments* - replaces IAS 39 *Financial Instruments: Recognition and Measurement*. This Standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers* - clarifies the principles for recognizing revenue from contracts with customers and will affect certain of the Corporation's accounting policies upon its effective date. This standard was effective for annual periods beginning on or after January 1, 2017; however on September 11, 2015 the IASB confirmed the one-year deferral of the effective date.

The Corporation is continuing to review the new and amended standards and has not yet determined the impact on its condensed financial statements.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited December 31, 2016

4. Revenue

	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
	(Thousands)		(Thousands)	
Water sales and treatment				
Potable water supply	\$ 4,721	\$ 3,970	\$ 15,505	\$ 14,026
Non-Potable water supply	4,962	4,779	14,876	14,092
Wastewater treatment	155	150	462	486
	<u>9,838</u>	<u>8,899</u>	<u>30,843</u>	<u>28,604</u>
Services				
Certified operations & maintenance	507	387	1,476	1,201
Project management	91	933	2,355	3,307
Northern project management	117	140	406	443
Operator training	162	174	517	518
Leak detection	2	3	10	18
ROAM	3	-	11	-
	<u>882</u>	<u>1,637</u>	<u>4,775</u>	<u>5,487</u>
Other				
Amortization of customer contributions	2,338	1,004	4,197	2,362
Amortization of government grants - capital related	67	57	201	171
Miscellaneous revenue	345	118	604	424
	<u>2,750</u>	<u>1,179</u>	<u>5,002</u>	<u>2,957</u>
	<u>\$ 13,470</u>	<u>\$ 11,715</u>	<u>\$ 40,620</u>	<u>\$ 37,048</u>

5. Finance income and expenses

	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
	(Thousands)		(Thousands)	
Finance income				
Debt retirement fund earnings	\$ 85	\$ 20	\$ 258	\$ 357
Positive changes in fair value of debt retirement funds	-	212	597	212
Other finance income	1	2	7	7
	<u>86</u>	<u>234</u>	<u>862</u>	<u>576</u>
Finance expenses				
Interest expense on short-term debt	20	31	63	119
Interest expense on long-term debt	508	409	1,481	1,231
Negative changes in fair value of debt retirement funds	771	-	771	950
Unwinding of discount on provisions	21	27	64	81
Other interest expense	-	1	1	2
Borrowing costs capitalized to qualifying assets	(56)	(78)	(56)	(78)
	<u>1,264</u>	<u>390</u>	<u>2,324</u>	<u>2,305</u>
Net finance expense	<u>\$ (1,178)</u>	<u>\$ (156)</u>	<u>\$ (1,462)</u>	<u>\$ (1,729)</u>

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

December 31, 2016

6. 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, 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.

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, 2016	March 31, 2016
	(Thousands)	
Gross long-term debt	\$ 53,993	\$ 49,418
Notes payable	10,518	12,999
Debt retirement funds	(15,639)	(14,769)
Net debt	48,872	47,648
Total equity	61,028	56,634
Capitalization	<u>\$ 109,900</u>	<u>\$ 104,282</u>
Debt ratio	44.5%	45.7%

The Corporation has complied with all externally imposed restrictions on its debt for the period ended December 31, 2016.

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Notes to the Financial Statements - unaudited

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7. Commitments and Contingencies

a) Contractual commitments (Thousands)

As of December 31, 2016, the Corporation has outstanding commitments of \$8,240 (March 31, 2016 - \$14,031) 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.

8. Financial instruments

a) Fair values

Fair values are the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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:

Classification ¹	December 31, 2016 Asset (Liability)		March 31, 2016 Asset (Liability)		
	Carrying Amount (Thousands)	Fair Value	Carrying Amount	Fair Value	
Financial assets					
Cash	FVTPL	\$ 6,113	\$ 6,113	\$ 7,192	\$ 7,192
Trade and other receivables	L&R	10,422	10,422	9,097	9,097
Debt retirement funds	FVTPL	15,639	15,639	14,769	14,769
Financial liabilities					
Trade and other payables	OL	9,531	9,531	8,536	8,536
Notes payable	OL	10,518	10,518	12,999	12,999
Dividends payable	OL	431	431	190	190
Infrastructure deposits	OL	5,760	5,760	5,390	5,390
Long-term debt	OL	53,993	56,264	49,418	53,593

¹Classification details are as follows:

FVTPL - Fair value through profit and loss

L&R - Loans and Receivables

OL - Other Liabilities

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Notes to the Financial Statements - unaudited

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8. Financial instruments (continued)

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.

	<u>December 31, 2016</u>		<u>March 31, 2016</u>	
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 1</u>	<u>Level 2</u>
		(Thousands)		
Debt retirement funds	\$ -	\$ 15,639	\$ -	\$ 14,769
Long-term debt	\$ -	\$ 56,264	\$ -	\$ 53,593