



Saskatchewan Water Corporation

***Second Quarter Report
September 30, 2019***



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 63 communities, 10 rural municipalities, 81 rural pipeline groups, 17 industrial and 242 commercial and end user customers. SaskWater serves approximately 102,000 people in Saskatchewan.

The corporation owns nine water treatment plants, three wastewater facilities, 140 kilometres of canal and 967 kilometres of pipeline. SaskWater also owns or leases 39 booster and pump stations. 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 | | Six Months | |
|---|--------------------|------------|--------------------|------------|
| | Ended September 30 | | Ended September 30 | |
| | 2019 | 2018 | 2019 | 2018 |
| FINANCIAL HIGHLIGHTS (\$ thousands): | | | | |
| Total revenue | \$ 15,091 | \$ 15,214 | \$ 31,730 | \$ 29,963 |
| Total expenses | 12,595 | 12,158 | 25,311 | 24,433 |
| Operating income | 2,496 | 3,056 | 6,419 | 5,530 |
| Net finance income (expense) | (342) | (492) | (894) | (989) |
| Net income | \$ 2,154 | \$ 2,564 | \$ 5,525 | \$ 4,541 |
| Other comprehensive income/(loss) | (38) | (213) | 312 | (176) |
| Total comprehensive income | \$ 2,116 | \$ 2,351 | \$ 5,837 | \$ 4,365 |
| Dividends | \$ 869 | \$ 397 | \$ 1,705 | \$ 785 |
| Debt Ratio | | | 47.00 % | 45.12 % |
| OPERATING HIGHLIGHTS (cubic meters): | | | | |
| Non-potable water distributed | 10,041,753 | 10,847,301 | 21,031,395 | 20,052,741 |
| Potable water distributed | 2,136,389 | 2,315,706 | 4,350,381 | 4,475,246 |



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 six months ended September 30, 2019.

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 November 27, 2019. For additional information refer to

SaskWater's 2018-19 Annual Report.

New standards impacting the financial statements

Effective April 1, 2019, the Corporation has adopted IFRS 16 – Leases (IFRS 16), which replaced IAS 17, Leases, IFRIC 4, Determining Whether an Arrangement Contains a Lease, SIC-15, Operating Leases – Incentives and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease, and related interpretations. The Corporation used the modified retrospective approach whereby the cumulative effect of any adjustments are recognized in the opening balance of retained earnings as of April 1, 2019. In adopting IFRS 16, the Corporation elected to apply practical expedients that

were available with the modified retrospective approach. IFRS 16 required that the Corporation recognize right-of-use assets and lease liabilities for ongoing leases where the Corporation is the lessee, as of April 1, 2019. The presentation of the condensed interim statements of financial position were modified to show the value of right-of-use assets and lease liabilities and there were no adjustments required to the opening balance of retained earnings. Accounting policies were updated as part of adopting the new standard as required. For a detailed discussion of the impacts of the new standard refer to Note 2(h) and Note 3 of the condensed interim financial statements as well as additional disclosures in Note 9 for the period ended September 30, 2019.

SaskWater's four measurable strategic objectives to guide the corporation are: 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 stand-alone 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. Overall year-to-date volumes have increased 4.9% with the potash sector customers making up 70% of the increase. The sector saw increased volumes in Q1 of 2019-20 compared to 2018-19; however, this somewhat reversed in Q2 with market demand decreasing across the sector. One other industrial customer's volumes and revenues are up compared to the previous year-to-date figures due to individual market conditions within their segment.

Potable Water

Potable water volumes have decreased 2.8% in the six-month period ended September 30, 2019 compared to the same period in 2018-19. This decrease is due to hot, dry weather conditions experienced in 2018 primarily around Saskatoon compared to average to above average precipitation in Q2 2019-20. 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. Rate increases have more than offset the small decrease in volumes as we were able to pass along supplier rate increases to our redistribution customers, which were required to cover increased supply costs. Renegotiation of a legacy agreement has also added to the increased revenue year over 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.

The project management line of business is based on customer need and can vary greatly year over year. Project management services were not required to date and account for the decrease in services revenue as all other service lines were relatively flat year over year.

Other

Other revenues for 2019-20 include a one-time gain on sale of property as SaskWater disposed of a property used for office and shop space that was no longer required due to leasing more optimal space.

Expenses

Expenses have increased for the six-month period ended September 30, 2019, over the same period in 2018-19. Small reductions in salaries and benefits and operations, maintenance and administration were partially offset by an increase in taxes. While increases in amortization and bulk water account for the overall increase in expenses. Amortization increases are a result of asset management and replacement program projects that were completed in 2018. Bulk water increases are associated with increased supplier costs.

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. Debt servicing costs are up year over year due to acquiring additional debt issues to support capital infrastructure projects. During the current six-month period SaskWater realized a one time gain on a debt retirement fund redemption that more than offset the increased debt service costs.

Other Comprehensive Income

Other comprehensive income primarily consists of market value gains and losses on debt retirement funds, which are outside of management's control.

Saskatchewan Water Corporation

Statement of Financial Position

(unaudited - thousands of dollars)

| | as at September 30, 2019 | as at March 31, 2019 | Change |
|--|-----------------------------|-------------------------|------------|
| Assets | | | |
| Current assets | | | |
| Cash | \$ 2,517 | \$ 2,046 | \$ 471 |
| Trade and other receivables | 9,647 | 7,603 | 2,044 |
| Prepaid expenses and inventories | 665 | 891 | (226) |
| Current portion of deferred charges | 13 | 13 | - |
| | 12,842 | 10,553 | 2,289 |
| Deferred charges | 274 | 281 | (7) |
| Investment - debt retirement funds | 13,157 | 15,057 | (1,900) |
| Right-of-use assets | 3,795 | - | 3,795 |
| Property, plant and equipment | 334,402 | 333,762 | 640 |
| | \$ 364,470 | \$ 359,653 | \$ 4,817 |
| Liabilities and Province of Saskatchewan's Equity | | | |
| Current liabilities | | | |
| Trade and other payables | \$ 7,835 | \$ 10,290 | \$ (2,455) |
| Notes payable | 4,013 | - | 4,013 |
| Infrastructure deposits | - | - | - |
| Dividends payable | 869 | 2,509 | (1,640) |
| Current portion of deferred revenue | 6,365 | 6,359 | 6 |
| Current portion of long-term debt | 5,093 | 9,593 | (4,500) |
| | 24,175 | 28,751 | (4,576) |
| Deferred revenue | 188,158 | 191,133 | (2,975) |
| Provisions | 577 | 651 | (74) |
| Lease liabilities | 3,810 | - | 3,810 |
| Long-term debt | 71,300 | 66,800 | 4,500 |
| Employee benefits | 548 | 548 | - |
| | 288,568 | 287,883 | 685 |
| Province of Saskatchewan's Equity | | | |
| Equity advance | 8,700 | 8,700 | - |
| Accumulated other comprehensive income (loss) | 499 | 187 | 312 |
| Retained earnings | 66,703 | 62,883 | 3,820 |
| | 75,902 | 71,770 | 4,132 |
| | \$ 364,470 | \$ 359,653 | \$ 4,817 |

Saskatchewan Water Corporation

Statement of Operations and Comprehensive Income

(unaudited - thousands of dollars)

| | Three months ended September 30 | | | Six months ended September 30 | | |
|--|---------------------------------|-----------------|-----------------|-------------------------------|-----------------|-----------------|
| | 2019 | 2018 | Variance | 2019 | 2018 | Variance |
| Revenue (Note 4) | | | | | | |
| Water sales and treatment | \$ 12,380 | \$ 12,207 | \$ 173 | \$ 25,808 | \$ 24,030 | \$ 1,778 |
| Services | 990 | 1,270 | (280) | 2,043 | 2,479 | (436) |
| Other | 1,721 | 1,737 | (16) | 3,879 | 3,454 | 425 |
| | <u>15,091</u> | <u>15,214</u> | <u>(123)</u> | <u>31,730</u> | <u>29,963</u> | <u>1,767</u> |
| Expenses | | | | | | |
| Salaries and benefits | 3,343 | 3,320 | (23) | 6,607 | 6,630 | 23 |
| Operations, maintenance, and administration | 2,583 | 2,469 | (114) | 5,211 | 5,282 | 71 |
| Amortization of property, plant and equipment | 3,220 | 3,030 | (190) | 6,434 | 6,056 | (378) |
| Bulk water purchases | 3,182 | 3,093 | (89) | 6,525 | 5,972 | (553) |
| Saskatchewan taxes | 267 | 246 | (21) | 534 | 493 | (41) |
| | <u>12,595</u> | <u>12,158</u> | <u>(437)</u> | <u>25,311</u> | <u>24,433</u> | <u>(878)</u> |
| Operating income | <u>2,496</u> | <u>3,056</u> | <u>(560)</u> | <u>6,419</u> | <u>5,530</u> | <u>889</u> |
| Finance income | 336 | 89 | 247 | 442 | 170 | 272 |
| Finance expense | (678) | (581) | (97) | (1,336) | (1,159) | (177) |
| Net finance income (expense) (Note 5) | <u>(342)</u> | <u>(492)</u> | <u>150</u> | <u>(894)</u> | <u>(989)</u> | <u>95</u> |
| Net income (loss) | <u>\$ 2,154</u> | <u>\$ 2,564</u> | <u>\$ (410)</u> | <u>\$ 5,525</u> | <u>\$ 4,541</u> | <u>\$ 984</u> |
| Other comprehensive income (loss) | | | | | | |
| Debt retirement fund market value gains (losses) | (38) | (213) | 175 | 312 | (176) | 488 |
| Realized gains (losses) on debt retirement fund redemptions | 190 | - | 190 | 190 | - | 190 |
| Re-classification of realized gains (losses) to net finance income (expense) | (190) | - | (190) | (190) | - | (190) |
| Net actuarial gains (losses) on retiring allowance | - | - | - | - | - | - |
| Total other comprehensive income (loss) | <u>(38)</u> | <u>(213)</u> | <u>175</u> | <u>312</u> | <u>(176)</u> | <u>488</u> |
| Total comprehensive income (loss) | <u>\$ 2,116</u> | <u>\$ 2,351</u> | <u>\$ (235)</u> | <u>\$ 5,837</u> | <u>\$ 4,365</u> | <u>\$ 1,472</u> |

Saskatchewan Water Corporation

Statement of Cash Flows

(unaudited - thousands of dollars)

| | Three months ended September 30 | | Six months ended September 30 | |
|--|---------------------------------|-----------------|-------------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Operating activities | | | | |
| Net income | \$ 2,154 | \$ 2,564 | \$ 5,525 | \$ 4,541 |
| Items not affecting cash from operations: | | | | |
| Amortization of property, plant and equipment | 3,220 | 3,030 | 6,434 | 6,056 |
| Impairment of assets | - | - | - | - |
| Amortization of deferred revenue | (1,590) | (1,584) | (3,185) | (3,168) |
| Amortization of provisions - onerous contracts | (47) | (47) | (95) | (95) |
| Employee benefits | - | - | - | - |
| Net financing (income) expense | 342 | 492 | 894 | 989 |
| Loss (gain) on disposal of property, plant and equipment | (3) | (18) | (446) | (12) |
| Change in non-cash working capital items: | | | | |
| Trade and other receivables | 237 | 605 | (2,044) | (717) |
| Prepaid expenses and inventories | (1) | 77 | 226 | 265 |
| Trade and other payables | (1,168) | 1,182 | (2,448) | 711 |
| Deferred revenue | 162 | 327 | 217 | 1,422 |
| Interest paid | (660) | (640) | (1,380) | (1,209) |
| Interest received | 21 | 6 | 37 | 15 |
| Cash provided by operating activities | 2,667 | 5,994 | 3,735 | 8,798 |
| Investing activities | | | | |
| (Addition) amortization of deferred charges | 4 | 1 | 7 | 2 |
| Additions to ROU assets | - | - | (192) | - |
| Property, plant and equipment expenditures | (3,197) | (6,100) | (7,287) | (11,953) |
| Proceeds on disposal of property, plant and equipment | 215 | 57 | 1,040 | 163 |
| Cash used in investing activities | (2,978) | (6,042) | (6,432) | (11,788) |
| Financing activities | | | | |
| Additions to lease liabilities | - | - | 192 | - |
| Lease payments | (150) | - | (297) | - |
| Proceeds from long-term debt | 4,500 | - | 4,500 | - |
| Proceeds from (Repayments of) notes payable | (2,000) | 19 | 4,013 | 35 |
| Repayment of long-term debt | (4,500) | - | (4,500) | - |
| Debt retirement fund installments | - | (135) | (588) | (498) |
| Debt retirement fund Redemptions | 3,193 | - | 3,193 | - |
| Dividends paid | (836) | (388) | (3,345) | (1,052) |
| Cash provided by financing activities | 207 | (504) | 3,168 | (1,515) |
| Change in Cash | (104) | (552) | 471 | (4,505) |
| Cash, Beginning of Period | 2,621 | 2,805 | 2,046 | 6,758 |
| Cash, End of Period | \$ 2,517 | \$ 2,253 | \$ 2,517 | \$ 2,253 |

Saskatchewan Water Corporation

Statement of Changes in Equity

(unaudited - thousands of dollars)

| | Three months ended September 30, 2019 | | | | Six months ended September 30, 2019 | | | |
|--|---------------------------------------|---|--------------------------------|------------------|-------------------------------------|---|--------------------------------|------------------|
| | Equity Advances | Accumulated other income (loss) (restated see note 3) | earnings (restated see note 3) | Total Equity | Equity Advances | Accumulated other income (loss) (restated see note 3) | earnings (restated see note 3) | Total Equity |
| Balance, beginning of period | \$ 8,700 | \$ 537 | \$ 65,418 | \$ 74,655 | \$ 8,700 | \$ 187 | \$ 62,883 | \$ 71,770 |
| Net income | - | - | 2,154 | 2,154 | - | - | 5,525 | 5,525 |
| Other comprehensive income (loss) | - | (38) | - | (38) | - | 312 | - | 312 |
| Total comprehensive income (loss) for the period | - | (38) | 2,154 | 2,116 | - | 312 | 5,525 | 5,837 |
| Dividends declared | - | - | (869) | (869) | - | - | (1,705) | (1,705) |
| Balance, end of period | <u>\$ 8,700</u> | <u>\$ 499</u> | <u>\$ 66,703</u> | <u>\$ 75,902</u> | <u>\$ 8,700</u> | <u>\$ 499</u> | <u>\$ 66,703</u> | <u>\$ 75,902</u> |

| | Three months ended September 30, 2018 | | | | Six months ended September 30, 2018 | | | |
|--|---------------------------------------|---------------------------------|------------------|------------------|-------------------------------------|---------------------------------|------------------|------------------|
| | Equity Advances | Accumulated other income (loss) | earnings | Total Equity | Equity Advances | Accumulated other income (loss) | earnings | Total Equity |
| Balance, beginning of period | 8,700 | (139) | 60,727 | 69,288 | 8,700 | (176) | 59,138 | 67,662 |
| Net income | - | - | 2,564 | 2,564 | - | - | 4,541 | 4,541 |
| Other comprehensive income (loss) | - | (213) | - | (213) | - | (176) | - | (176) |
| Total comprehensive income (loss) for the period | - | (213) | 2,564 | 2,351 | - | (176) | 4,541 | 4,365 |
| Dividends declared | - | - | (397) | (397) | - | - | (785) | (785) |
| Balance, end of period | <u>\$ 8,700</u> | <u>\$ (352)</u> | <u>\$ 62,894</u> | <u>\$ 71,242</u> | <u>\$ 8,700</u> | <u>\$ (352)</u> | <u>\$ 62,894</u> | <u>\$ 71,242</u> |

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited September 30, 2019

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

a) Statement of compliance

The unaudited condensed interim financial statements (herein referred to as the interim financial statements) have been prepared in accordance with International Accounting Standard (IAS) 34 - Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). These interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Saskatchewan Water Corporation's March 31, 2019 audited financial statements.

The interim financial statements have been prepared in accordance with International Financial Reporting Standards issued by the IASB (IFRS). The accounting policies and methods of computation used in the preparation of these interim financial statements conform with those used in the Corporation's most recent annual financial statements and have been applied consistently to all periods presented in these interim financial statements except as discussed in the "Use of estimates and judgements" and the "New standards and amendments to standards" sections of this note.

The condensed interim financial statements were authorized for issue by the Board of Directors on November 27, 2019.

b) Basis of measurement

These 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 other comprehensive income.
- Provisions.
- Employee benefit obligations.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited September 30, 2019

2. Basis of Preparation (continued)

c) 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.

d) Functional and presentation currency

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

e) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at the measurement date under current market conditions (exit price). The Corporation's own credit risk and the credit risk of the counterparty have been taken into account in determining the fair value of financial assets and liabilities. The Corporation has classified the fair value of its financial instruments as level 1, 2, or 3 (Note 8) as defined below:

- Level 1 - Fair Values are determined using inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities to which the Corporation has immediate access.
- Level 2 - Fair Values are determined using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Debt retirement funds are valued at closing period-end unit prices received from the Saskatchewan Ministry of Finance. In all other circumstances, valuations are determined with reference to similar actively traded instruments. All long-term debt obligations are estimated using discounted cash flow analysis based on current market yields for similar arrangements.
- Level 3 - Fair values are determined based on inputs for the asset or liability that are not based on observable market data.

f) Use of estimates and judgments

The preparation of these 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

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited September 30, 2019

2. Basis of Preparation (continued)

g) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended September 30, 2019, and have not been applied in preparing these financial statements. The Corporation does not expect to have any significant impact on its accounting policies on the implementation of these new accounting pronouncements.

h) New standards and amendments to standards

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2019, have been applied in preparing these interim financial statements:

IFRS 16, Leases

Effective April 1, 2019, the Corporation has adopted IFRS 16, Leases, which replaced IAS 17, Leases, IFRIC 4, Determining Whether an Arrangement Contains a Lease, SIC-15, Operating Leases - Incentives, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease, and related interpretations, using the modified retrospective approach whereby the cumulative effect of any adjustments are recognized in the opening balance of retained earnings as of April 1, 2019. The comparative information has not been restated and continues to be reported under previous accounting standards. IFRS 16 required that the Corporation recognize right-of-use assets (ROU assets) and lease liabilities for ongoing leases where the Corporation is the lessee, as of April 1, 2019. The presentation of the condensed interim statements of financial position were modified to show the value of right-of-use assets and lease liabilities. Additional disclosure has been provided in Note 9.

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, 2018 audited financial statements except for certain accounting policy disclosures which have been amended due to the adoption of IFRS 16.

a) Leases

At the inception of a contract, the Corporation determines whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited September 30, 2019

3. Significant Accounting Policies (continued)

a) Leases (continued)

As a lessee

On initial identification of a lease contract, the Corporation recognizes a ROU asset and a lease liability at the commencement of the lease contract. The lease liability is initially measured at the present value of the future lease payments under the contract, discounted using the interest rate implicit in the lease contract. Where the implicit rate cannot be readily determined, the Corporation uses its incremental borrowing rate. Lease payments include fixed payments, less any lease incentives, variable lease payments that depend on an index or a rate, the exercise price of a purchase option or optional renewal period that the Corporation is reasonably certain to exercise, and penalties for early termination of a lease contract unless the Corporation is reasonably certain not to terminate early. Subsequently, the lease liability is measured at amortized cost, using the effective interest method. The lease liability is re-measured to reflect any reassessments or lease modifications. Lease payments are allocated between the principal repayment of the lease liability and finance expense. The finance expense on the lease liability is charged to net income over the term of the lease contract to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period.

The ROU asset is initially measured at cost, which includes the initial lease liability, any lease payments made at or before the commencement date, less any lease incentives received, plus any initial direct costs and restoration costs. The ROU assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the remaining term of lease contract. The ROU assets are subsequently re-measured to reflect any reassessments or lease modifications.

The Corporation has elected not to recognize ROU assets and lease liabilities for lease contracts where the total term of the lease is less than or equal to 12 months or for low value lease contracts. The Corporation recognizes the payments relating to such leases (including principal and interest associated with these leases) as an expense on a straight-line basis over the lease term. These payments are presented within Operations, maintenance, and administration expense in net income.

As a lessor

On initial identification of a lease contract, the Corporation determines whether the contract is a finance lease or an operating lease. If a contract transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the customer, then the contract is classified as a finance lease; otherwise, it is classified as an operating lease. Finance income related to finance leases is recognized in a manner that produces a constant rate of return on the net investment in the lease. The net investment in the lease is the aggregate of net minimum lease payments and unearned finance income discounted at the interest rate implicit in the lease. Unearned finance income is deferred and recognized in net income over the lease term. Lease payments received by the Corporation under operating leases are recognized as lease revenue within other revenue on a straight-line basis over the lease term.

The Corporation applies judgment in determination of the lease term for certain lease contracts with renewal options. The assessment of whether the Corporation is reasonable certain to exercise such options impacts the lease term, which could significantly affects the amount of lease liabilities and right of use assets recorded on the initial recognition of the lease contract.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited September 30, 2019

3. Significant Accounting Policies (continued)

a) Leases (continued)

Impact of implementing IFRS 16

Prior to April 1, 2019, when the Corporation was the lessee under a contract, a lease was classified either as a finance or operating lease depending on whether substantially all the risks or rewards of ownership of the asset were transferred. Leases or other arrangements that transferred substantially all of the benefits and risks of ownership of property were classified as finance leases. All other arrangements that were determined to contain a lease were classified as operating leases. Rental income under arrangements classified as operating leases was recognized as lease revenue within other revenue, whereas rental payments under arrangements classified as operating leases were expensed on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

On implementation of IFRS 16, the Corporation applied the practical expedient, which permits the application of IFRS 16 to all contracts previously identified as leases under IAS 17. IFRS 16 was applied to all existing leases, except those with a remaining term of 12 months or less at April 1, 2019.

As a lessee, for all contracts which were classified as operating leases under IAS 17, the Corporation has recognized ROU assets and lease liabilities on the statement of financial position, initially measured at the present value of future lease payments. On initial recognition of ROU assets and lease liabilities for existing contracts at the beginning of April 1, 2019, the Corporation has elected to use the following practical expedients, where applicable:

- Assessment of contracts that are leases upon adoption. Upon transition, a lessee may elect to apply IFRS 16 to contracts that were previously identified as leases under IAS 17. The Corporation has elected to apply this expedient in order to simplify the transition.
- Measurement of the right-of-use asset. A lessee may elect (on a lease-by-lease basis) to determine the carrying amount of the right-of-use (ROU) asset upon transition at its carrying amount as if IFRS 16 had been applied since the inception of the lease, or at an amount equal to the lease liability at the transition date. The Corporation has elected to recognize ROU assets at amounts equal to the lease liabilities at the transition date. This simplified the transition and resulted in no impact to retained earnings at the transition date.
- Short term leases. A lessee can elect not to apply IFRS 16 to leases with a remaining term of 12 months or less at the date of transition. The Corporation has elected to exclude short term leases. The remaining lease payments are recognized as an expense on a straight-line basis.

The implementation of IFRS 16 on April 1, 2019, did not result in any adjustment to the opening balance of retained earnings. However, it had an impact on the statement of financial position as a result of the recognition of ROU assets and lease liabilities primarily with respect to leases for buildings, automobiles, and office equipment (printers & copiers). On the initial application of IFRS 16, the Corporation recognized ROU assets of \$3.873 million, and lease liabilities of the same amount.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

September 30, 2019

3. Significant Accounting Policies (continued)

a) Leases (continued)

The Corporation measured the present value of the future lease payments under each contract using its incremental borrowing rates as of April 1, 2019. The incremental borrowing rates were provided by the Ministry of Finance, as follows:

- For ROU assets with a value of \$100,000 or less, the Corporation used a discount rate of 1.75%, which is equal to the Corporation's short term borrowing rate.
- For ROU assets with a value greater than \$100,000 the Corporation used discount rates based on its incremental long-term borrowing rates, for debt instruments with similar terms. For terms greater than 5 years, but less than or equal to 10 years, a rate of 2.45% was used. For terms greater than 10 years, the Corporation used a rate of 2.8%.

The lease liability of \$3.873 million recognized on initial application of IFRS 16 represents the present value of lease commitments of \$4.351 million.

The ongoing impact of the application of IFRS 16 related to the Corporation's lease contracts, on the statement of operations and comprehensive income is not anticipated to be significant, as the depreciation charge on ROU assets and finance expenses on lease liabilities recognized under IFRS 16 will largely be offset by reduction in operating lease expense, which were recognized in net income before applying the new standard.

b) Deferred revenue

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. There is no change in policy for revenue recognition of government grants as a result of the implementation of IFRS 15.

Customer contributions

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 performance obligation, these amounts are recognized directly into net income. When completion of construction is not determined to be separate from the ongoing supply or services performance obligation, 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 automatically continues in effect after an initial term, the revenue shall be recognized over a period no longer than the useful life of the related assets used to provide the ongoing service. There is no change in policy for revenue recognition of customer contributions as a result of the implementation of IFRS 15.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited September 30, 2019

3. Significant Accounting Policies (continued)

c) Contract assets and liabilities

The Corporation recognizes a contract asset or contract liability for the contracts where either party has performed. A contract liability is recorded when the Corporation receives consideration before the performance obligations have been satisfied. A contract asset is recorded when the Corporation has rights to consideration for the completion of a performance obligation when that right is conditional on something other than the passage of time. The Corporation recognizes unconditional rights to consideration separately as a receivable. Contract assets and receivables are evaluated at each reporting period to determine whether there is any objective evidence that they are impaired.

4. Revenue

| | Three months ended September 30 | | Six months ended September 30 | |
|---|------------------------------------|------------------|----------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | (Thousands) | | (Thousands) | |
| Water sales and treatment | | | | |
| Potable water supply | \$ 6,622 | \$ 6,555 | \$ 13,760 | \$ 12,980 |
| Non-Potable water supply | 5,599 | 5,498 | 11,726 | 10,737 |
| Wastewater treatment | 159 | 154 | 322 | 313 |
| | <u>12,380</u> | <u>12,207</u> | <u>25,808</u> | <u>24,030</u> |
| Services | | | | |
| Certified operations & maintenance | 568 | 616 | 1,157 | 1,166 |
| Project management | - | 246 | - | 444 |
| Northern project management | 208 | 214 | 457 | 458 |
| Operator training | 199 | 183 | 406 | 387 |
| Leak detection | 9 | 2 | 12 | 6 |
| ROAM | 6 | 9 | 11 | 18 |
| | <u>990</u> | <u>1,270</u> | <u>2,043</u> | <u>2,479</u> |
| Other | | | | |
| Amortization of customer contributions | 1,509 | 1,518 | 3,022 | 3,035 |
| Amortization of government grants - capital related | 81 | 66 | 163 | 133 |
| Miscellaneous revenue | 131 | 153 | 694 | 286 |
| | <u>1,721</u> | <u>1,737</u> | <u>3,879</u> | <u>3,454</u> |
| | <u>\$ 15,091</u> | <u>\$ 15,214</u> | <u>\$ 31,730</u> | <u>\$ 29,963</u> |

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited September 30, 2019

5. Finance income and expenses

| | Three months ended September 30 | | Six months ended September 30 | |
|---|------------------------------------|-----------------|----------------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Finance income | (Thousands) | | | |
| Debt retirement fund earnings | \$ 116 | \$ 83 | \$ 200 | \$ 155 |
| Realized gains on redemption of debt retirement funds | 190 | - | 190 | - |
| Other finance income | 30 | 6 | 52 | 15 |
| | <u>336</u> | <u>89</u> | <u>442</u> | <u>170</u> |
| Finance expenses | | | | |
| Interest expense on short-term debt | 39 | 20 | 52 | 36 |
| Interest expense on long-term debt | 603 | 547 | 1,213 | 1,094 |
| Unwinding of discounts | 32 | 13 | 64 | 27 |
| Other interest expense | 1 | - | 1 | - |
| Amortization of Discounts (Premiums) and Commissions | 3 | 1 | 6 | 2 |
| | <u>678</u> | <u>581</u> | <u>1,336</u> | <u>1,159</u> |
| Net finance expense | <u>\$ (342)</u> | <u>\$ (492)</u> | <u>\$ (894)</u> | <u>\$ (989)</u> |

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.

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:

| | September 30, 2019 | March 31, 2019 |
|-----------------------|-----------------------|-------------------|
| | (Thousands) | |
| Gross long-term debt | \$ 76,393 | \$ 76,393 |
| Notes payable | 4,013 | - |
| Debt retirement funds | <u>(13,157)</u> | <u>(15,057)</u> |
| Net debt | 67,249 | 61,336 |
| Total equity | <u>75,902</u> | <u>71,770</u> |
| Capitalization | <u>\$ 143,151</u> | <u>\$ 133,106</u> |
| Debt ratio | 47.0% | 46.1% |

The Corporation has complied with all externally imposed restrictions on its debt for the period ended September 30, 2019.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited

September 30, 2019

7. Commitments and Contingencies

a) Contractual commitments (Thousands)

As of September 30, 2019, the Corporation has outstanding commitments of \$5,909 (March 31, 2019 - \$10,884) for construction contracts and consulting agreements primarily relating to assets under construction and other service contracts.

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 | Level ² | September 30, 2019 | | March 31, 2019 | | |
|------------------------------|-----------------------------|--------------------|--------------------|------------|-----------------|------------|--|
| | | | Carrying Amount | Fair Value | Carrying Amount | Fair Value | |
| | | | (Thousands) | | (Thousands) | | |
| Financial assets | | | | | | | |
| Cash | FVTPL | 1 | \$ 2,621 | \$ 2,621 | \$ 2,046 | \$ 2,046 | |
| Trade and other receivables | AC | N/A | 9,884 | 9,884 | 7,603 | 7,603 | |
| Debt retirement funds | FVOCI | 2 | 16,080 | 16,080 | 15,057 | 15,057 | |
| Financial liabilities | | | | | | | |
| Trade and other payables | OL | N/A | (8,966) | (8,966) | (10,290) | (10,290) | |
| Notes payable | OL | N/A | (6,013) | (6,013) | - | - | |
| Dividends payable | OL | N/A | (836) | (836) | - | - | |
| Infrastructure deposits | OL | N/A | - | - | - | - | |
| Long-term debt | OL | 2 | (76,393) | (79,634) | (76,393) | (81,658) | |

¹Classification details are as follows:

FVTPL - Fair value through profit and loss

AC - Amortized cost

FVOCI - Fair value through other comprehensive income (loss)

OL - Other liabilities

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited September 30, 2019

8. Financial instruments (continued)

a) Fair values (continued)

²Level details are as follows:

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.

Level 3 – Valuation for the asset or liability that are not based on observable market data.

Not applicable (N/A) – Financial instruments that are carried at values which approximate fair value.

9. Leases

a) ROU assets

| Cost | Buildings | Vehicles | Equipment | Total |
|---------------------------------------|-----------------|---------------|--------------|-----------------|
| | (Thousands) | | (Thousands) | |
| Opening balance, April 1, 2019 | \$ 3,017 | \$ 776 | \$ 80 | \$ 3,873 |
| Additions | - | 192 | - | 192 |
| Disposals | - | - | - | - |
| Balance at September 30, 2019 | \$ 3,017 | \$ 968 | \$ 80 | \$ 4,065 |
| Depreciation | | | | |
| Opening balance, April 1, 2019 | \$ - | \$ - | \$ - | \$ - |
| Amortization | 147 | 106 | 17 | 270 |
| Disposals | - | - | - | - |
| Balance at September 30, 2019 | \$ 147 | \$ 106 | \$ 17 | \$ 270 |
| Carrying amounts | | | | |
| Opening balance, April 1, 2019 | \$ 3,017 | \$ 776 | \$ 80 | \$ 3,873 |
| Balance at September 30, 2019 | \$ 2,870 | \$ 862 | \$ 63 | \$ 3,795 |

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited September 30, 2019

9. Leases (continued)

b) Lease liabilities

| | Buildings | Vehicles | Equipment | Total |
|---------------------------------------|-----------------|---------------|--------------|-----------------|
| | (Thousands) | | | |
| Opening balance, April 1, 2019 | \$ 3,017 | \$ 776 | \$ 80 | \$ 3,873 |
| Additions | - | 192 | - | 192 |
| Disposals | - | - | - | - |
| Lease payments | (166) | (114) | (17) | (297) |
| Unwind of discount | 33 | 9 | - | 42 |
| Balance at September 30, 2019 | \$ 2,884 | \$ 863 | \$ 63 | \$ 3,810 |

c) Amortization expense

| | Three months ended September 30 | | Six months ended September 30 | |
|----------------------------|------------------------------------|-----------------|----------------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | (Thousands) | | (Thousands) | |
| Amortization of PP&E | \$ 3,084 | \$ 3,030 | \$ 6,164 | \$ 6,056 |
| Amortization of ROU assets | 136 | - | 270 | - |
| Total | \$ 3,220 | \$ 3,030 | \$ 6,434 | \$ 6,056 |

d) Short term leases

The expense recorded for short term leases not included in the transition to IFRS 16 was \$24,258 for the six month period ended September 30, 2019.