



# ***Saskatchewan Water Corporation***

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***First Quarter Report  
June 30, 2017***



## 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 62 communities, eight rural municipalities, 83 rural pipeline groups, 16 industrial and 242 commercial and end user customers. SaskWater serves approximately 80,000 people in Saskatchewan.

The corporation owns nine water treatment plants, three wastewater facilities, 140 kilometres of canal and 935 kilometres of pipeline. SaskWater also owns or leases 42 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 ended June 30  
2017                      2016

### **FINANCIAL HIGHLIGHTS (\$ thousands):**

Total revenue	\$	13,786	\$	12,844
Total expenses		11,123		10,316
Operating income		2,663		2,528
Net finance income (expense)		(530)		21
Net income	\$	2,133	\$	2,549
Other comprehensive income		101		-
Total comprehensive income	\$	2,234	\$	2,549
Dividends	\$	364	\$	381
Debt Ratio		45.50 %		44.70 %

### **OPERATING HIGHLIGHTS (cubic meters):**

Non-potable water distributed	8,736,775	9,833,180
Potable water distributed	1,883,535	2,071,803



# 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 three months ended June 30, 2017.

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 August 23, 2017.

For additional information refer to SaskWater's 2016-17 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 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. Non-potable revenues are up due to the addition of new customers and contractual obligations within contracts. The overall change in volumes is largely related to market conditions within the potash sector. Year to date 2017-18, volumes are 11.1% lower than the same period in 2016-17 with most potash customers decreasing their consumptions in the three-month period ended June 30.

### Potable Water

Potable water volumes have decreased 9.1% in the three-month period ended June 30, 2017, compared to the same period in 2016. Wet conditions across the central part of the province have contributed significantly to this period-over-period decrease, while rate increases and new customer revenues have contributed to the increased revenues over the same period in 2016-17. 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 operations 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 80% lower in the three-month period ended June 30, 2017, as compared to the same period in 2016-17. 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. The other service lines combined for a 5.7% increase over the same period last year.

### Expenses

Expenses have increased in the three-month period ended June 30, 2017, over the same period in 2016-17 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 \$14.584 million at June 30, 2017. Effective April 1, 2017, upon the adoption of IFRS 9 Financial Instruments (IFRS 9), the Corporation reclassified its debt retirement funds from fair value through profit or loss (FVTPL) to fair value through other comprehensive income (FVOCI). As a result, all changes in market value related to these debt instruments were recognized in other comprehensive income. For comparative purposes, there were positive market adjustments totalling \$454 during the same period in 2016-17 that were recorded in interest income.

# Saskatchewan Water Corporation

## Statement of Financial Position

(unaudited - thousands of dollars)

	as at June 30, 2017	as at March 31, 2017	Change
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$ 5,451	\$ 4,147	\$ 1,304
Trade and other receivables	7,266	6,796	470
Prepaid expenses and inventories	860	1,104	(244)
Current portion of deferred charges	4	4	-
	<u>13,581</u>	<u>12,051</u>	<u>1,530</u>
Deferred charges	41	42	(1)
Investment - debt retirement funds	14,584	16,502	(1,918)
Property, plant and equipment	308,857	309,484	(627)
	<u>\$ 337,063</u>	<u>\$ 338,079</u>	<u>\$ (1,016)</u>
<b>Liabilities and Province of Saskatchewan's Equity</b>			
<b>Current liabilities</b>			
Trade and other payables	\$ 5,880	\$ 7,868	\$ (1,988)
Notes payable	5,700	7,200	(1,500)
Infrastructure deposits	3,524	4,140	(616)
Dividends payable	364	440	(76)
Current portion of deferred revenue	6,160	6,518	(358)
Current portion of long-term debt	5,000	7,600	(2,600)
	<u>26,628</u>	<u>33,766</u>	<u>(7,138)</u>
Deferred revenue	188,607	189,716	(1,109)
Provisions	1,215	1,254	(39)
Long-term debt	56,793	51,393	5,400
Employee benefits	479	479	-
	<u>273,722</u>	<u>276,608</u>	<u>(2,886)</u>
<b>Province of Saskatchewan's Equity</b>			
Equity advance	8,700	8,700	-
Accumulated other comprehensive income (loss)	(203)	-	(203)
Retained earnings	54,844	52,771	2,073
	<u>63,341</u>	<u>61,471</u>	<u>1,870</u>
	<u>\$ 337,063</u>	<u>\$ 338,079</u>	<u>\$ (1,016)</u>

# Saskatchewan Water Corporation

## Statement of Operations and Comprehensive Income

(unaudited - thousands of dollars)

	Three months ended June 30		
	2017	2016	Variance
<b>Revenue (Note 4)</b>			
Water sales and treatment	\$ 11,058	\$ 10,315	\$ 743
Services	1,016	1,410	(394)
Other	1,712	1,119	593
	13,786	12,844	942
<b>Expenses</b>			
Salaries and benefits	3,222	3,208	(14)
Operations, maintenance and administration	2,282	2,419	137
Amortization of property, plant and equipment	2,800	2,200	(600)
Bulk water purchases	2,579	2,324	(255)
Saskatchewan taxes	240	165	(75)
	11,123	10,316	(807)
<b>Operating income</b>	2,663	2,528	135
Finance income	76	549	(473)
Finance expense	(606)	(528)	(78)
<b>Net finance income (expense) (Note 5)</b>	(530)	21	(551)
<b>Net income (loss)</b>	\$ 2,133	\$ 2,549	\$ (416)
<b>Other comprehensive income (loss)</b>			
Debt retirement fund market value gains (losses)	101	-	101
Net actuarial gains (losses) on retiring allowance	-	-	-
<b>Total other comprehensive income (loss)</b>	101	-	101
<b>Total comprehensive income (loss)</b>	\$ 2,234	\$ 2,549	\$ (315)

# Saskatchewan Water Corporation

## Statement of Changes in Equity

(unaudited - thousands of dollars)

	Three months ended June 30, 2017			
	Equity Advances	Accumulated other comprehensive income (loss) (restated see note 3)	Retained earnings (restated see note 3)	Total Equity
<b>Balance, beginning of period</b>				
As previously reported	\$ 8,700	\$ -	\$ 52,771	\$ 61,471
Impact of adoption of IFRS 9	-	(304)	304	-
As restated	8,700	(304)	53,075	61,471
Net income	-	-	2,133	2,133
Other comprehensive income (loss)	-	101	-	101
Total comprehensive income (loss) for the period	-	101	2,133	2,234
Dividends declared	-	-	(364)	(364)
<b>Balance, end of period</b>	<b>\$ 8,700</b>	<b>\$ (203)</b>	<b>\$ 54,844</b>	<b>\$ 63,341</b>

	Three months ended June 30, 2016			
	Equity Advances	Accumulated other comprehensive income (loss) (restated see note x)	Retained earnings (restated see note x)	Total Equity
<b>Balance, beginning of period</b>				
Net income	-	-	2,549	2,549
Other comprehensive income (loss)	-	-	-	-
Total comprehensive income (loss) for the period	-	-	2,549	2,549
Dividends declared	-	-	(381)	(381)
<b>Balance, end of period</b>	<b>\$ 8,700</b>	<b>\$ -</b>	<b>\$ 50,102</b>	<b>\$ 58,802</b>



# Saskatchewan Water Corporation

## Statement of Cash Flows

(unaudited - thousands of dollars)

	<b>Three months ended</b>	
	<b>June 30 2017</b>	<b>June 30 2016</b>
<b>Operating activities</b>		
Net income	\$ 2,133	\$ 2,549
Items not affecting cash from operations:		
Amortization of property, plant and equipment	2,800	2,200
Impairment of assets	-	-
Amortization of deferred revenue	(1,541)	(996)
Amortization of provisions - onerous contracts	(60)	(63)
Employee benefits	-	-
Net financing (income) expense	530	(21)
Loss (gain) on disposal of property, plant and equipment	(4)	-
Change in non-cash working capital items:		
Trade and other receivables	(470)	(1,805)
Prepaid expenses and inventories	244	257
Trade and other payables	(2,030)	(2,612)
Infrastructure deposits	(616)	(1,875)
Deferred revenue	74	2,396
Interest paid	(544)	(412)
Interest received	3	5
<b>Cash provided by operating activities</b>	<b>519</b>	<b>(377)</b>
<b>Investing activities</b>		
(Addition) amortization of deferred charges	1	-
Property, plant and equipment expenditures	(2,176)	(4,049)
Proceeds on disposal of property, plant and equipment	7	-
<b>Cash used in investing activities</b>	<b>(2,168)</b>	<b>(4,049)</b>
<b>Financing activities</b>		
Proceeds from long-term debt	5,400	-
Proceeds from (Repayments of) notes payable	(1,500)	1,020
Repayment of long-term debt	(2,600)	-
Debt retirement fund installments	(129)	(129)
Debt retirement fund redemptions	2,222	-
Dividends paid	(440)	(190)
<b>Cash provided by financing activities</b>	<b>2,953</b>	<b>701</b>
<b>Change in Cash</b>	<b>1,304</b>	<b>(3,725)</b>
<b>Cash, Beginning of Period</b>	<b>4,147</b>	<b>7,192</b>
<b>Cash, End of Period</b>	<b>\$ 5,451</b>	<b>\$ 3,467</b>

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited

June 30, 2017

### 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

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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, 2017 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 "Application of revised International Financial Reporting Standards" and the "Use of estimates and judgments" sections of this note.

The condensed interim financial statements were authorized for issue by the Board of Directors on August 23, 2017.

#### Interim measurement

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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.

#### Functional and presentation currency

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

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited June 30, 2017

### 2. Basis of Preparation (continued)

#### Basis of measurement

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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.

#### Use of estimates and judgments

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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.

Based on the review of estimates of useful lives and amortization of property, plant and equipment it was determined that the Corporation's assets that utilized the diminishing balance method of depreciation no longer accurately reflected the pattern in which those assets future economic benefits were expected to be consumed. For the affected assets it was determined that they should have a more constant depreciation rate as the residual value would not change based on the intended use of the assets future economic benefits. It was further determined that these assets effective useful life should not materially change which assisted in determining the appropriate straight line depreciation rates as follows:

Property, plant and equipment	Prior depreciation rate and method	New depreciation rate and method
Water facilities		
Controls, instrumentation & remote monitoring equipment	30% Declining Balance	10% Straight Line
Water metering equipment	30% Declining Balance	10% Straight Line
Maintenance and office equipment		
Controls, instrumentation & remote monitoring equipment	30% Declining Balance	10% Straight Line
Water metering equipment	30% Declining Balance	10% Straight Line
Vehicles & mobile equipment	30% Declining Balance	10% Straight Line
Major mobile equipment	15% Declining Balance	5% Straight Line

The impact of this change in estimates results in approximately \$435,000 less expense under the straight line methodology for the 2017/18 fiscal year; over the life of the asset the change in estimates will have no impact. The current year amount is based on assets depreciated value within the affected categories at the time of the review and may change based on operational decisions throughout the year.

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited June 30, 2017

### 2. Basis of Preparation (continued)

#### Use of estimates and judgments (continued)

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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, 2017, 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

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The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2017, have been applied in preparing these interim financial statements:

##### **IAS 7, *Statement of Cash Flows***

Effective April 1, 2017, the Corporation has prospectively adopted the disclosure requirements in *Disclosure Initiative (amendments to IAS 7)* in accordance with the provisions of the standard. The amendments require a reconciliation of the opening and closing liabilities that form part of an entity's financing activities, including both changes arising from cash flows and non-cash changes. Consequently, the corporation will provide additional disclosure in relation to the changes in liabilities arising from financing activities in the 2017-18 annual report.

##### **IFRS 9, *Financial Instruments***

Effective April 1, 2017, the Corporation has early adopted *IFRS 9 Financial Instruments* issued in July 2014 (IFRS 9) with a date of initial application of April 1, 2017. The Corporation has elected to adopt the standard retrospectively with impacts recorded in retained earnings as of April 1, 2017. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, the Corporation adopted consequential amendments to *IAS 1 Presentation of Financial Statements* which requires impairment of financial assets to be presented in a separate line item in the statement of operations and comprehensive income. Previously, the Corporation's approach was to include the impairment of trade receivables in operations, maintenance and administration. Additionally, the Corporation adopted consequential amendments to *IFRS 7 Financial Instruments: Disclosures* that are applied to disclosures about 2017-18 but generally have not be applied to comparative information.

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited

June 30, 2017

### 3. Significant Accounting Policies (continued)

#### IFRS 9, *Financial Instruments* (continued)

The key changes resulting from the adoption of IFRS 9 are summarized below.

##### *Classification of financial assets and financial liabilities*

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The debt retirement funds were classified as FVTPL under IAS 39. The debt retirement funds are administered and managed by the Ministry of Finance. The business model objective is to both hold to collect contractual cash flows and to sell. The contractual terms of the debt retirement funds give rise on specified to cash flows that are solely payments of principal and interest on the principal amount outstanding. As a result, these assets have therefore been classified as financial assets at FVOCI under IFRS 9.

The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies for financial liabilities.

##### *Impairment of financial assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost and debt instruments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

##### *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except comparative periods have not been restated for retrospective application. Differences in the carrying amounts of financial assets and financial liabilities resulting from adoption of IFRS 9 are recognized in retained earnings as at April 1, 2017.

The following table summarizes the impact of transition to IFRS 9 on retained earnings and accumulated other comprehensive income at April 1, 2017:

Impact of adopting IFRS 9 at April 1, 2017	Retained Earnings (Thousands)	Accumulated other comprehensive loss (Thousands)
Closing balance under IAS 39 (March 31, 2017)	\$ 52,771	\$ -
Reclassification of debt retirement funds as FVOCI	304	(304)
Recognition of expected credit losses under IFRS 9	-	-
Opening balance under IFRS 9 (April 1, 2017)	\$ 53,075	\$ (304)

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited June 30, 2017

### 3. Significant Accounting Policies (continued)

#### **IFRS 9, *Financial Instruments* (continued)**

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##### *Classification of financial assets and financial liabilities on the date of initial application of IFRS 9*

Each class of the Corporation's financial assets and financial liabilities has maintained the same measurement category under IFRS 9 as its original measurement category under IAS 39, with the exception of the following:

- All financial assets previously classified as loans and receivables under IAS 39 are now classified as amortized cost under IFRS 9; and
- Debt retirement funds classified as FVTPL are now classified as FVOCI.

#### **New standards and interpretations not yet adopted**

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A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended June 30, 2017, and have not been applied in preparing these financial statements. In particular, the Corporation is currently reviewing the following new standards to determine the potential impact, if any:

- IFRS 9, *Revenue from Contracts with Customers* effective January 1, 2018
- IFRS 16, *Leases* effective January 1, 2019

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited June 30, 2017

### 4. Revenue

	Three months ended June 30	
	2017	2016
(Thousands)		
<b>Water sales and treatment</b>		
Potable water supply	\$ 5,676	\$ 5,616
Non-Potable water supply	5,220	4,543
Wastewater treatment	162	156
	11,058	10,315
<b>Services</b>		
Certified operations & maintenance	519	494
Project management	114	557
Northern project management	172	159
Operator training	200	192
Leak detection	7	8
ROAM	4	-
	1,016	1,410
<b>Other</b>		
Amortization of customer contributions	1,475	929
Amortization of government grants - capital related	67	67
Miscellaneous revenue	171	123
	1,713	1,119
	\$ 13,787	\$ 12,844

### 5. Finance income and expenses

	Three months ended June 30	
	2017	2016
(Thousands)		
<b>Finance income</b>		
Debt retirement fund earnings	\$ 73	\$ 90
Positive changes in fair value of debt retirement funds	-	454
Other finance income	3	5
	76	549
<b>Finance expenses</b>		
Interest expense on short-term debt	20	19
Interest expense on long-term debt	508	487
Unwinding of discount on provisions	21	21
Other interest expense	-	1
	549	528
Net finance expense	\$ (473)	\$ 21

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited

June 30, 2017

### 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:

	<b>June 30, 2017</b>	<b>March 31, 2017</b>
	(Thousands)	
Gross long-term debt	\$ 61,793	\$ 58,993
Notes payable	5,700	7,200
Debt retirement funds	(14,584)	(16,502)
Net debt	52,909	49,691
Total equity	63,341	61,471
Capitalization	<u>\$ 116,250</u>	<u>\$ 111,162</u>
Debt ratio	45.5%	44.7%

The Corporation has complied with all externally imposed restrictions on its debt for the period ended June 30, 2017.

### 7. Commitments and Contingencies

#### a) Contractual commitments (Thousands)

As of June 30, 2017, the Corporation has outstanding commitments of \$7,250 (March 31, 2017 - \$8,123) for construction contracts and consulting agreements primarily relating to assets under construction and other service contracts.



# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited June 30, 2017

### 7. Commitments and Contingencies (continued)

#### 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 <sup>1</sup>	Level <sup>2</sup>	June 30, 2017 Asset (Liability)		March 31, 2017 Asset (Liability)		
			Carrying Amount (Thousands)	Fair Value (Thousands)	Carrying Amount (Thousands)	Fair Value (Thousands)	
<b>Financial assets</b>							
Cash	FVTPL	1	\$ 5,451	\$ 5,451	\$ 4,147	\$ 4,147	
Trade and other receivables	AC	N/A	7,266	7,266	6,796	6,796	
Debt retirement funds	FVOCI	2	14,584	14,584	16,502	16,502	
<b>Financial liabilities</b>							
Trade and other payables	OL	N/A	5,880	5,880	7,868	7,868	
Notes payable	OL	N/A	5,700	5,700	7,200	7,200	
Dividends payable	OL	N/A	364	364	440	440	
Infrastructure deposits	OL	N/A	3,524	3,524	4,140	4,140	
Long-term debt	OL	2	61,793	66,248	58,993	61,357	

<sup>1</sup>Classification details are as follows:

- FVTPL - Fair value through profit and loss
- L&R - Loans and Receivables
- OL - Other Liabilities

<sup>2</sup>Level 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.

# Saskatchewan Water Corporation

## Notes to the Financial Statements - unaudited

June 30, 2017

### 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**

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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.

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.