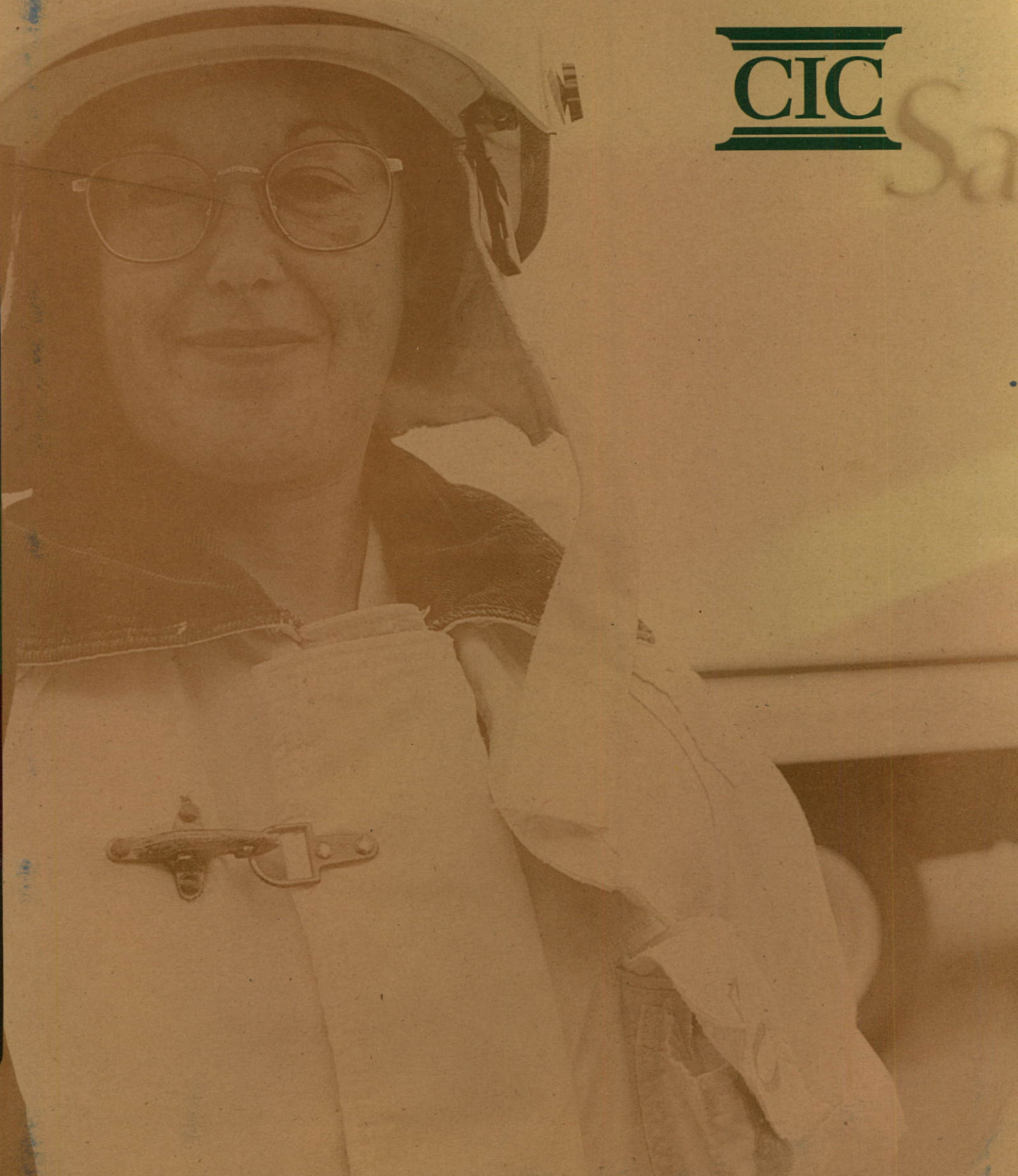


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Crown Investments Corporation of Saskatchewan  
1997 Annual Report



## Letter of Transmittal

Regina, Saskatchewan  
March 31, 1998

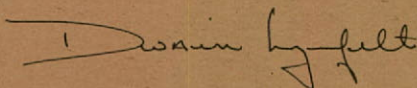
To His Honour  
The Honourable J. E. N. Wiebe  
Lieutenant Governor of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the twentieth Annual Report of Crown Investments Corporation of Saskatchewan for the year ended December 31, 1997 in accordance with **The Crown Corporations Act, 1993**. The Consolidated and Non-Consolidated Financial Statements included in this Annual Report are in the form approved by the Treasury Board and have been reported on by our auditors.

I have the honour to be, Sir,

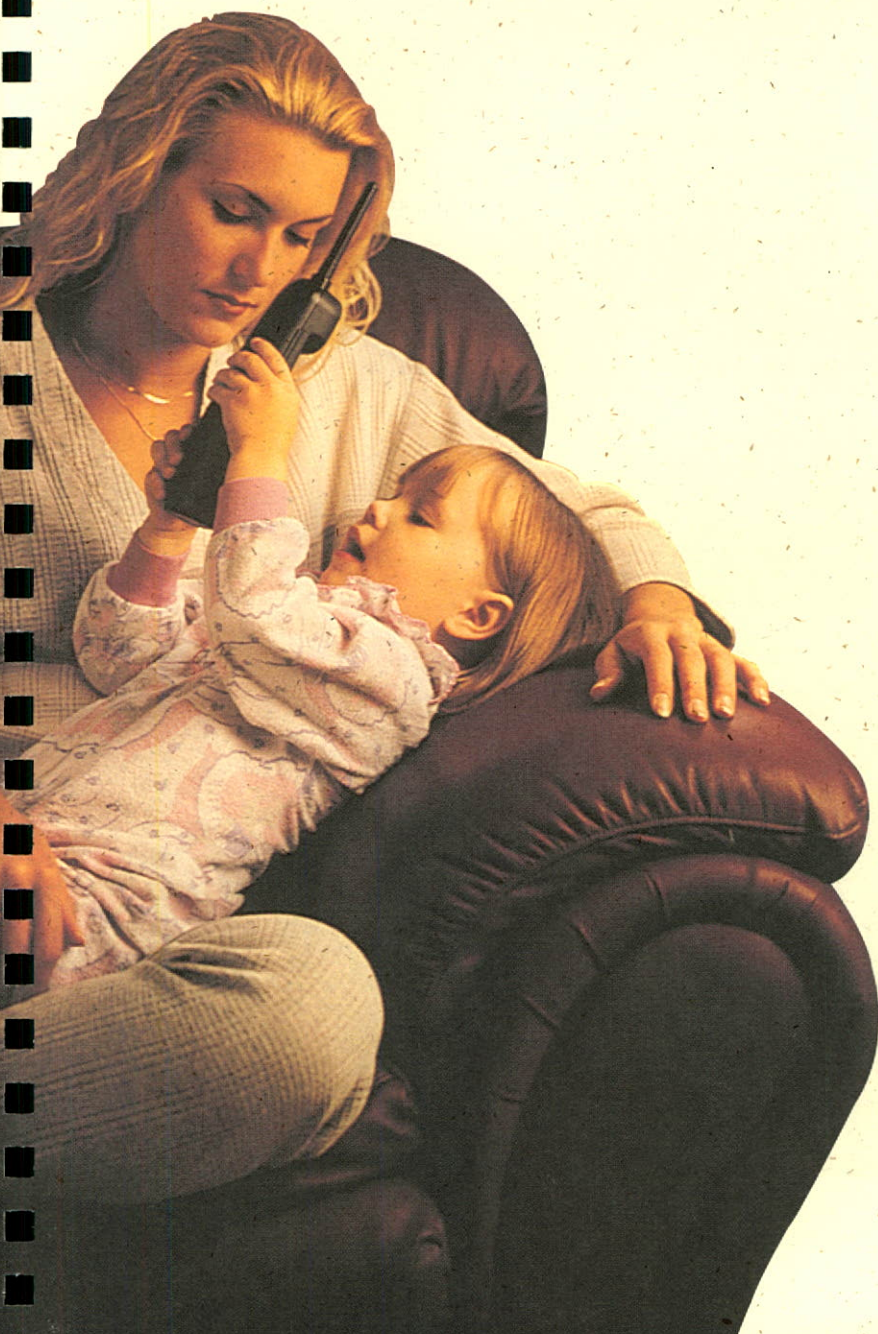
Your obedient servant,



Dwain M. Lingenfelter  
Deputy Premier  
Minister of CIC



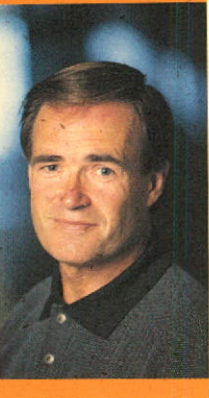




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## Chairman's Message



Public enterprise has played a vital role in our province's economy and in the lives of Saskatchewan people for much of the 20th century. Since the early 1900s, governments in Saskatchewan have established and invested in utilities and other businesses to meet the needs of Saskatchewan people and help develop the province's economy. These holdings provide quality, reliable services as well as revenue, jobs and other economic benefits that we have all come to value and enjoy.

Our public enterprises must adapt and grow to meet the challenges and the opportunities of a rapidly changing world. In 1997 we committed to making changes that will ensure the continued strength and growth of this important sector.

This commitment grew out of the 1996 Crown Review, a wide-ranging review of Saskatchewan's major Crown corporations and public investments conducted by Crown Investments Corporation of Saskatchewan (CIC). The review identified areas of concern and made recommendations for improvement. The Government's response to the review was released in 1997 in a document called "Saskatchewan's Crown Corporations: A New Era".

Our commitment includes measures to strengthen Crown boards and ensure that they set and meet both business and public policy objectives. Under proposed legislative changes, Cabinet Ministers will no longer be appointed to individual Crown boards. Instead, they will sit on CIC's board, which will have a stronger role in the policy direction and performance management of the Crowns. We have changed the composition of Crown boards by appointing people with industry-specific expertise, and we are implementing training and evaluation programs for all board members.

We are also improving the way Crowns report their activities to the public. This annual report includes a more detailed Management's Discussion and Analysis section. We produced our first semi-annual financial report in 1997, and we intend to continue this practice. We are also expanding our public education and communications programs to include more and better information about how our Crowns operate.

Many of these commitments will be implemented by CIC, which celebrated its 50th anniversary in 1997. CIC has helped Saskatchewan's Crowns and investments grow and prosper over the years. It will carry on this tradition so all Saskatchewan people will enjoy the social and economic benefits of public enterprise well into the next century.

Dwain M. Lingenfelter  
Deputy Premier  
Minister of CIC  
Chairman of the Board of Directors



## President's Message



CIC marked its 50th anniversary in 1997 by renewing its commitment to being responsive, open and accountable to the people of Saskatchewan.

CIC began implementing a number of the recommendations of the Crown Review. The objective of this thorough review of CIC's holdings was to determine the changes needed to prepare the Crown sector for the opportunities and challenges of the 21st century.

In 1997, CIC concentrated on strengthening corporate governance and accountability in the Crown sector. CIC developed a new governance model which gives Crown boards additional responsibilities for implementing their corporations' business and strategic plans, and setting operating goals and objectives.

CIC has also developed a process called the "Balanced Scorecard". It will evaluate each Crown's financial performance as well as its progress in meeting targets for innovation, customer satisfaction and public policy objectives. This approach will provide strategic focus to the Crowns while balancing their business needs with the need for public accountability.

With regard to finances, new policies have been implemented to determine dividends to CIC from its four major commercial Crowns, and from CIC to the General Revenue Fund (GRF). These policies will help the Crowns meet their targets for growth and debt reduction, while allowing CIC to pay higher dividends to the GRF.

The overall financial position of CIC and its subsidiary Crowns improved significantly in 1997, mainly due to continued aggressive debt reduction. On a consolidated basis, CIC reduced its debt by \$593.3 million. Debt now stands at \$3,575.0 million, compared with \$4,168.3 million in 1996. Since 1993, debt has been reduced by \$785 million, representing a decline of 13 percentage points in the debt ratio.

1997 was the third consecutive year that CIC declared a dividend to the GRF. It paid a regular dividend of \$50 million, along with a special dividend of \$191.5 million arising from the receipt of the second instalment from the sale of Cameco Corporation shares in 1996. Continued debt reduction and lower interest payments on debt will allow CIC to double its regular dividend to \$100 million in 1998.

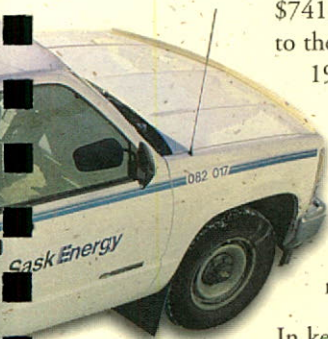
While CIC's debt position improved in 1997, both earnings and revenues declined. CIC recorded earnings of \$293.6 million on revenues of \$2,915.6 million. That compares with earnings of \$741.3 million on revenues of \$3,042.9 million in 1996. Earnings were higher in 1996 mainly due to the \$515.8 million gain from the sale of CIC's Cameco Corporation shares. Lower revenues in 1997 reflected a decline in sales revenue and investment earnings.

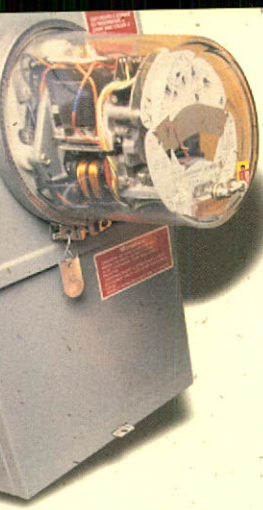
CIC's most significant investment transaction in 1997 was the sale of its Wascana Energy Inc. shares, which resulted in a gain of \$72.6 million. Proceeds went toward debt reduction. Subsequent to year end, CIC sold its 50 per cent interest in the Bi-Provincial Upgrader Joint Venture to Husky Oil Operations Ltd. for \$310 million. CIC expects to declare a special dividend of \$100 million to the GRF and expects to repay equity advances of \$85 million as a result of this sale.

In keeping with the tradition of the past 50 years, CIC will continue to provide positive financial and strategic policy direction to its subsidiary Crowns. The corporation will also continue to manage wisely its diverse investment portfolio. As always, our obligation is to serve Saskatchewan people to the best of our abilities. We are confident that CIC is up to the challenge.

A handwritten signature in cursive script that reads "John Wright".

John Wright  
President





## 1997 Objectives and Accomplishments

CIC carried out the following activities to meet its objectives:

**To develop and define the role of CIC in relation to its subsidiary Crowns, investment portfolio and the government, and as a centre of knowledge.**

- completed the Crown Review and began to implement the government's response to its findings.

**To provide strategic direction to the Crown corporations and facilitate their initiatives to position them for the future.**

- improved the Crown business planning process by implementing a single integrated review and analysis process for Crown corporation business plans.

**To maximize the return from CIC's investment portfolio and create financial self-sufficiency for CIC.**

- sold the Province's investment in Wascana Energy Inc. for a gain of \$72.6 million.
- reduced CIC (non-consolidated) debt by \$429.2 million.

**To provide a major role in fostering regional economic growth through Crown corporations.**

- developed a policy framework to assist Crown corporations in implementing the government's response to the Crown Review beginning with the 1998 planning cycle.





**To provide a major role in fostering regional economic growth through new investment opportunities.**

- began development of a CIC investment strategy.
- the sale of Wascana Energy Inc. shares led to a commitment by Canadian Occidental Petroleum Ltd. to support continued research into, and development of, Saskatchewan's heavy oil resource.

**To develop and support the people who work at CIC.**

- encouraged and supported CIC staff in professional development to enhance skills and performance.

**To support the government's financial objectives.**

- paid a \$50 million regular dividend and a \$191.5 million special dividend to the GRF from the receipt of the second instalment of sales proceeds from the 1996 sale of Cameco Corporation shares.

**To improve accountability and transparency to CIC's customers and stakeholders.**

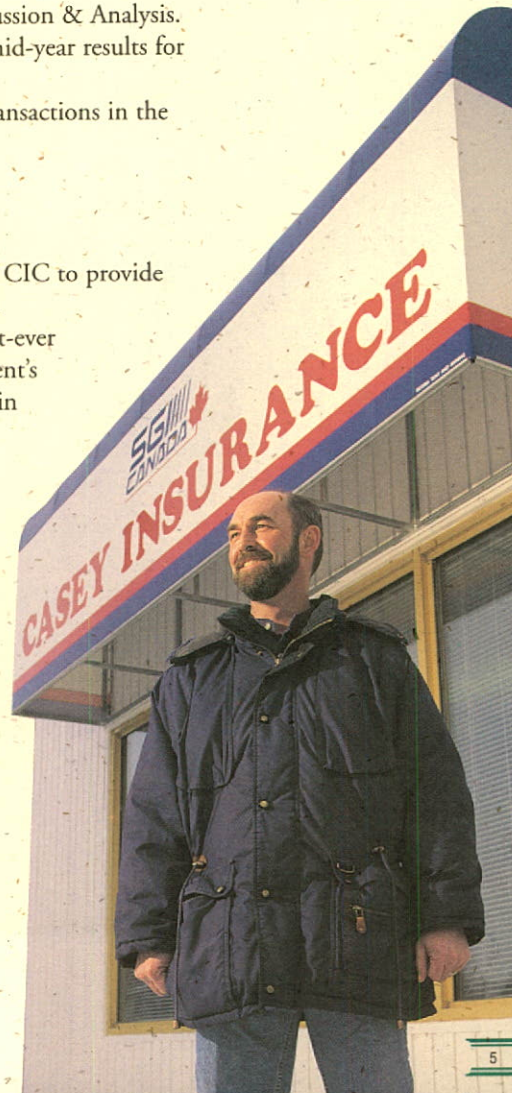
- 1996-CIC Annual Report contained a Management's Discussion & Analysis.
- produced the first-ever Semi-Annual Financial Report on mid-year results for CIC and the Crowns.
- developed a policy for the timely reporting of significant transactions in the Crown sector.

**To communicate effectively with customers and stakeholders.**

- co-ordinated a series of public meetings for the Minister of CIC to provide information on the role of Crowns and to receive feedback.
- produced and distributed the 1996 Annual Report, the first-ever Semi-Annual Financial Report, "A New Era", the government's response to the Crown Review, and the "Public Enterprise in Saskatchewan" booklet.

**To develop and define the public policy framework for Crown corporations and investments.**

- developed and began to implement governance changes as directed by the government's response to the Crown Review.
- began development of the "Balanced Scorecard" approach for setting public policy, customer satisfaction, financial, and innovation and growth objectives for the Crown sector beginning with the 1998 planning cycle.
- developed new policies for dividends to CIC and from CIC to the GRF.



## 1998 Objectives

CIC's objectives for the coming year are a product of its vision, mission, values and principles. The objectives and action plans for 1998 are to:

### **Implement a public policy framework for Crown corporations and investments.**

- continue development and implementation of the "Balanced Scorecard" approach for setting public policy, customer, financial innovation and growth and innovation objectives, measures and targets for the Crown sector.
- continue implementation of the government's response to governance changes called for in the Crown Review.

### **Optimize the return from CIC's investment portfolio and create financial self-sufficiency for CIC while supporting the Government's fiscal objectives.**

- further reduce CIC's non self-supporting debt.
- declare a regular dividend of \$100 million to the GRF.

### **Foster economic growth throughout Saskatchewan through Crown corporations and new investment opportunities.**

- begin implementation of CIC's investment strategy.

### **Provide strategic direction to Crown corporations.**

- provide training to enhance skills of board members.
- develop programs to evaluate performance of boards.

### **Develop and support the people who work at CIC.**

- encourage and support CIC staff in professional development to enhance skills and performance.

### **Communicate effectively with stakeholders.**

- release Annual Report and Semi-Annual Financial Report on a timely basis.
- co-ordinate public meetings for the Minister of CIC to provide information and to receive feedback on the role of Crown corporations.
- establish Internet access to CIC public information.



## Vision

CIC provides a strategic focus to the Crown corporation sector (Crowns) and is a centre of excellence for public investment. CIC is financially self-sufficient and is a leader in facilitating economic growth through commercially viable investments in Saskatchewan.

## Mission

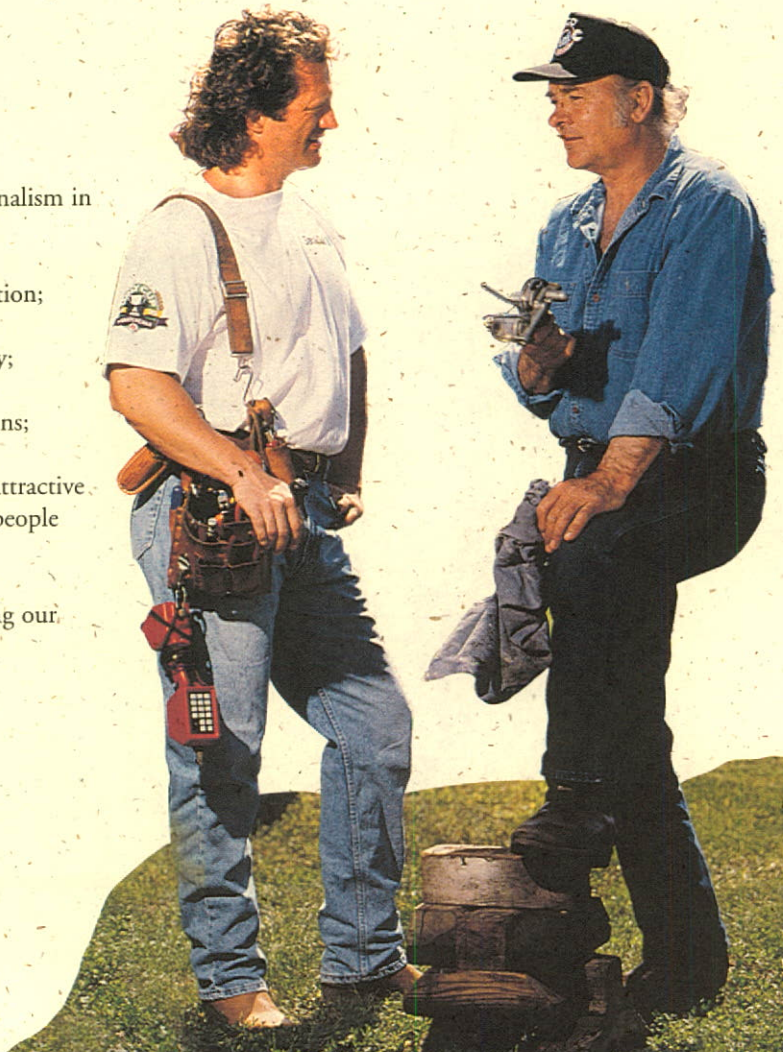
CIC's mission is to:

- co-ordinate the strategic direction of its subsidiary Crown corporations and monitor and evaluate their performance;
- manage prudently a diversified portfolio of commercially viable investments; and,
- enhance Saskatchewan's long term economic growth and diversification through investments and Crown corporations.

## Values and Principles

CIC is committed to:

- using honesty, integrity and professionalism in dealing with all stakeholders;
- demonstrating leadership and innovation;
- communicating openly and effectively;
- taking full responsibility for our actions;
- creating a work environment that is attractive to highly skilled and knowledgeable people who work effectively together; and,
- being a model employer by developing our employees' knowledge and skills.



# Financial Statement Reporting Structure

CIC's 1997 Annual Report contains three sets of financial statements.

■ **CIC Consolidated financial statements**

These show CIC's results consolidated with those of its subsidiaries.

■ **CIC Non-Consolidated financial statements**

These show the results of activities of CIC as the holding company.

■ **CIC Industrial Interests Inc. (CIC III) Non-Consolidated financial statements**

These show the results of activities that CIC manages through its subsidiary, CIC Industrial Interests Inc.

## CIC Consolidated Financial Statements

CIC Non-Consolidated Financial Statements	CIC Industrial Interests Inc. Non-Consolidated Financial Statements	Subsidiary Crown Corporations' Financial Statements
<b>Include:</b>	<b>Include:</b>	<b>Include:</b>
<p>Income (expense):</p> <ul style="list-style-type: none"> <li>Dividends from subsidiary Crowns and Cameco Corporation</li> <li>Net interest and operating costs</li> <li>Grants paid to Saskatchewan Transportation Company</li> </ul>	<ul style="list-style-type: none"> <li>HARO Financial Corporation</li> <li>Meadow Lake Pulp Limited Partnership</li> <li>Bi-Provincial Upgrader Joint Venture</li> <li>Wascana Energy Inc. (sold in 1997)</li> <li>Saskferco Products Inc.</li> <li>Saskfor MacMillan Limited Partnership</li> <li>Former Saskatchewan Economic Development Corporation holdings</li> <li>Cornwall Centre mortgages</li> <li>National Pig Development (Canada) Co. Ltd.</li> <li>Canadian Western Bank</li> <li>SGI CANADA Insurance Services Limited</li> <li>Former Saskatchewan Diversification Corporation holdings</li> </ul>	<ul style="list-style-type: none"> <li>Saskatchewan Power Corporation</li> <li>Saskatchewan Telecommunications and Saskatchewan Telecommunications Holding Corporation</li> <li>SaskEnergy Incorporated</li> <li>Saskatchewan Government Insurance</li> <li>Saskatchewan Opportunities Corporation</li> <li>Saskatchewan Water Corporation</li> <li>Saskatchewan Transportation Company</li> <li>Saskatchewan Development Fund Corporation</li> <li>Saskatchewan Government Growth Fund Management Corporation</li> <li>Saskatchewan Forest Products Corporation (inactive)</li> <li>CIC Mineral Interests Corporation (wound-up in 1997)</li> </ul>
<p>Assets:</p> <ul style="list-style-type: none"> <li>Equity advances to subsidiary Crowns</li> <li>Investment in Cameco Corporation and NewGrade Energy Inc.</li> </ul>		
<p>Liabilities:</p> <ul style="list-style-type: none"> <li>Debt</li> </ul>		





## Management's Discussion and Analysis

CIC is involved in a broad array of industries through various forms of investment. A number of investments are held as wholly-owned subsidiaries, while others are joint ventures, partnerships and loans, held either directly by CIC or through its wholly-owned subsidiaries.

Management's Discussion and Analysis (MD&A) of CIC's consolidated 1997 financial results should be read in conjunction with the audited consolidated financial statements. While this MD&A is as complete as possible, CIC is bound by confidentiality agreements with its investment partners. In some cases, these agreements limit the information that CIC can release.

For purposes of the MD&A on CIC's consolidated results, "CIC" refers to the consolidated entity.

CIC has the following lines of business:

Business Line	Investment	Form of Investment
<b>Utilities:</b>		
Electricity	Saskatchewan Power Corporation (SaskPower)	wholly-owned subsidiary
Telecommunications	SaskTel Holding Corporation and Saskatchewan Telecommunications (collectively SaskTel)	wholly-owned subsidiary
Natural Gas	SaskEnergy Incorporated (SaskEnergy)	wholly-owned subsidiary
Water Management	Saskatchewan Water Corporation (Sask Water)	wholly-owned subsidiary
<b>Insurance:</b>		
Property and Casualty	Saskatchewan Government Insurance (SGI)	wholly-owned subsidiary
Life	HARO Financial Corporation (HARO) via its subsidiary, Crown Life Insurance Company (Crown Life)	non-voting equity interest and loans
<b>Commodity-Based Investments:</b>		
Heavy Oil/Oil & Gas	NewGrade Energy Inc. (NewGrade)	50 per cent equity interest
	Bi-Provincial Upgrader Joint Venture <sup>1</sup> (BI-Provincial)	50 per cent joint venture interest
	Wascana Energy Inc. <sup>2</sup> (Wascana Energy)	—
Forestry	Meadow Lake Pulp Limited Partnership (MLPLP)	49 per cent partnership interest & loans
	Saskfor MacMillan Limited Partnership (SMLP)	50 per cent partnership interest
Fertilizer	Saskferco Products Inc. (Saskferco)	49 per cent equity interest
Mining	Cameco Corporation (Cameco)	9.4 per cent equity interest
<b>Economic Growth:</b>		
Infrastructure and Small Business Investment	Saskatchewan Opportunities Corporation (SOCO)	wholly-owned subsidiary
Immigrant Investor Program	Saskatchewan Government Growth Fund Management Corporation (SGGF)	wholly-owned subsidiary
<b>Transportation:</b>		
Passenger and Freight Transportation	Saskatchewan Transportation Company (STC)	wholly-owned subsidiary

<sup>1</sup> Sold subsequent to year end.

<sup>2</sup> During 1997, CIC sold its 7.4 per cent equity interest in Wascana Energy.

Profiles of each subsidiary Crown corporation and major investment are included in this section. Each subsidiary Crown corporation prepares an annual report which is tabled in the Legislative Assembly. For additional information please refer to these annual reports.

# Management's Discussion and Analysis

## Results of Operations

Earnings for the year were \$293.6 million (1996 - \$741.3 million). The \$447.7 million decrease was mainly due to a reduction of \$499.0 million in non-recurring items, partially offset by \$51.4 million higher earnings from ongoing operations. 1996 non-recurring items consisted primarily of a \$515.8 million gain from CIC's sale of 10.1 million Cameco shares. Non-recurring items for 1997 consisted of a \$72.6 million gain on the sale of Wascana Energy shares, partially offset by a \$55.7 million provision taken on telecommunication assets. This provision follows an industry-wide practice of reflecting the decline in value of local service assets due to competition in local phone service.

Revenues were \$2,915.6 million (1996 - \$3,042.9 million), reflecting a decline in sales revenue.

Revenues from sales of products and services were \$2,800.4 million (1996 - \$2,909.1 million). Utility sales revenues were \$1,889.1 million (1996 - \$1,977.5 million), a decline of \$88.4 million. This resulted primarily from lower natural gas sales. Sales of products by commodity-based investments were \$707.4 million (1996 - \$746.2 million): The decline of \$38.8 million primarily reflected lower commodity prices.

Investment earnings were \$82.5 million (1996 - \$102.1 million). The \$19.6 million decline was primarily due to lower earnings from Saskferco.

The decline in revenues was more than offset by a decline in expenses. Expenses were \$2,638.3 million (1996 - \$2,817.0 million). The \$178.6 million decrease primarily reflects a \$156.1 million decrease in operating costs, mainly in utility operations and commodity-based investments; and a \$45.6 million decrease in interest expense due to declining debt, partially offset by a \$24.2 million increase in amortization.

CIC spent \$644.2 million on new investment and capital acquisitions in 1997 (1996 - \$682.1 million). The \$37.9 million decrease primarily reflects higher capital spending that was more than offset by lower investment purchases by SGI in its normal course of business.

Debt at year end was \$3,575.0 million (1996 - \$4,168.3 million). The \$593.3 million reduction was mainly due to CIC placing proceeds from the sale of Wascana Energy shares (\$119.8 million) and part of the net proceeds from the sale of Cameco shares into sinking funds (\$188.0 million), along with debt reduction by SaskPower (\$145.0 million) and SaskEnergy (\$22.1 million).



# Management's Discussion and Analysis

## Liquidity and Capital Resources

### Cash Flow Highlights

(millions of dollars)

	1997	1996
Funds from Operations-----	\$ 657.1	\$ 616.7
Net Proceeds from Investments-----	160.2	15.2
Dividends Paid-----	(241.5)	(224.2)
Debt Proceeds Received-----	84.2	53.6
Debt Repaid-----	(666.7)	(455.2)
Other Financing Activities-----	8.2	(1.2)
Increase in Cash-----	<u>\$ 1.5</u>	<u>\$ 4.9</u>

### Liquidity

CIC and its subsidiary Crowns finance their capital requirements through internally generated cash flow and borrowing. The GRF borrows in capital markets on behalf of Crowns. The GRF has ample access to capital markets for anticipated Crown borrowing requirements.

### Province of Saskatchewan Credit Ratings on Long-Term Debt

as at December 31, 1997

Moody's Investors Service-----	A3
Standard & Poor's-----	A
Canadian Bond Rating Service-----	A
Dominion Bond Rating Service-----	A(low)

## Management's Discussion and Analysis

### **Operating, Investing and Financing Activities**

Cash from operations was \$657.1 million (1996 - \$616.7 million). The increase of \$40.4 million is primarily due to an increase in earnings from ongoing operations. Significant factors were lower operating and interest costs.

Cash provided by investing activities was \$160.2 million (1996 - \$15.2 million). The \$145.0 million decline primarily reflects the receipt of the second instalment from the 1996 sale of Cameco shares, the sale of Wascana Energy shares and lower new investment and capital spending.

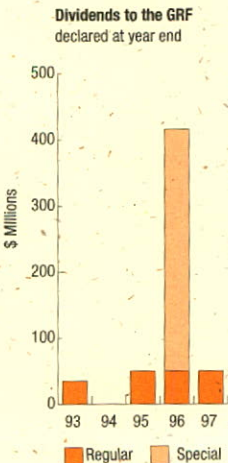
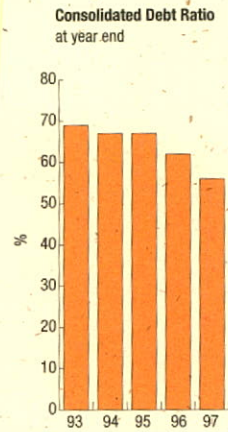
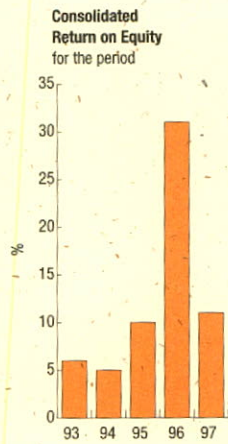
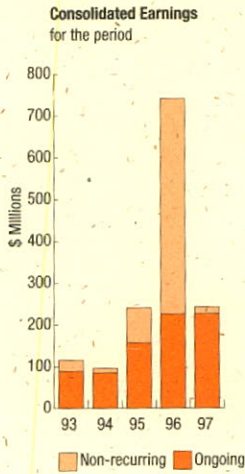
Cash used in financing activities was \$815.8 million (1996 - \$627.0 million). The \$188.8 million increase reflects higher debt repayment and dividends paid to the GRE.

### **Debt Management**

CIC and its subsidiary Crowns prudently manage their debt to maintain and enhance their financial flexibility. The CIC Board has approved debt targets for CIC and its commercial subsidiaries that take into account their individual circumstances.

In 1997, the CIC Board approved a policy for dividends from CIC to the GRE. As part of the policy, once CIC has achieved its self-supporting debt level, cash flow surplus to approved internal reinvestment needs is available to be paid to the GRE. This policy is described in the "Capital Allocation in the Crown Sector" section.

# Management's Discussion and Analysis



## Consolidated Financial Summary

- Since 1993, CIC has realized significant gains from the sale of major investments such as Wascana Energy (1993 and 1997) Cameco (1994 and 1996), LCL Cable Communications Ltd. (1995) and ISM Information Systems Management (1995).
- In 1997, non-recurring items included a \$56 million provision against SaskTel's assets, offset by a \$73 million gain on the sale of Wascana Energy shares.
- CIC's earnings from ongoing operations from its subsidiaries and investments increased from \$89 million in 1993 to \$277 million in 1997.
- Return on equity is the ratio of earnings to the average amount of shareholder's equity invested.
- The improvement in CIC's net earnings increased the return on equity from six per cent in 1993 to 11 per cent in 1997.
- The debt ratio is the ratio of consolidated debt to debt plus equity.
- Debt reduction of \$785 million since 1993 has strengthened CIC's consolidated financial position.
- The debt ratio has declined from 69 per cent in 1993 to 56 per cent in 1997.
- 1997 is the third consecutive year that CIC has declared a dividend to the GRF.
- In 1996, CIC was able to declare a special dividend of \$366 million with the cash it received from the sale of 10.1 million Cameco Corporation shares.
- Debt reduction has significantly improved the overall financial position of CIC and its subsidiary Crowns. CIC expects to declare significantly higher dividends as a result.
- In 1998, CIC expects to declare a \$100 million regular dividend to the GRF and a \$100 million special dividend related to the sale of CIC III's interest in the Bi-Provincial upgrader.

# Management's Discussion and Analysis

## Segmented Information

At December 31  
(millions of dollars)

	Utilities		Commodity Based		Insurance		Transportation		Economic Growth		Other & Adjustments		Total	
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
<b>Income Statement for period</b>														
Sales and other revenue	1,998	2,096	731	786	187	183	13	16	15	14	(28)	(52)	2,916	3,043
Operating expenses & other	1,442	1,489	653	721	156	153	21	21	11	11	(22)	0	2,261	2,395
Debt costs	290	314	38	38	0	0	1	1	2	2	46	67	377	422
Earnings before the following	266	293	40	27	31	30	(9)	(6)	2	1	(52)	(119)	278	226
Non-recurring items	(56)	(2)	(1)	0	0	0	84	0	0	0	(11)	517	16	515
Net earnings	210	291	39	27	31	30	75	(6)	2	1	(63)	398	294	741

### Balance Sheet

Current assets	536	564	125	130	112	107	4	4	6	8	8	385	791	1,198
Investments & other	301	339	249	298	650	641	0	0	17	13	227	223	1,444	1,514
Capital assets	4,780	4,829	1,042	1,057	22	21	14	17	73	54	(718)	(708)	5,213	5,270
	5,617	5,732	1,416	1,485	784	769	18	21	96	75	(483)	(100)	7,448	7,982
Current liabilities	673	767	160	230	534	573	3	25	43	70	(332)	(300)	1,081	1,365
Long-term debt	2,652	2,788	444	457	0	0	0	0	47	1	106	535	3,249	3,781
Other	329	293	0	0	3	4	0	0	0	0	(3)	(6)	329	291
	3,654	3,848	604	687	537	577	3	25	90	71	(229)	229	4,659	5,437
Province's equity	1,963	1,884	812	798	247	192	15	(4)	6	4	(254)	(329)	2,789	2,545
	5,617	5,732	1,416	1,485	784	769	18	21	96	75	(483)	(100)	7,448	7,982

### Statement of Cash Flows

Operating activities	588	645	80	40	16	28	20	(6)	4	6	(51)	(96)	657	617
Investing Activities														
Capital asset purchases	(379)	(361)	(7)	(11)	(4)	(6)	0	(4)	(21)	(15)	23	16	(388)	(381)
Other	2	9	(18)	1	(6)	(24)	0	2	(4)	(4)	574	411	548	395
	(377)	(352)	(25)	(10)	(10)	(30)	0	(2)	(25)	(19)	597	427	160	14
Financing Activities														
Debt proceeds	1	23	(4)	6	0	0	0	0	46	(2)	42	27	85	54
Debt repayments	(212)	(167)	(20)	(12)	0	0	0	0	0	0	(337)	(49)	(569)	(228)
Dividend paid	(163)	(159)	(3)	0	(11)	(3)	0	0	0	0	177	162	0	0
Dividend paid to GRF	0	0	0	0	0	0	0	0	0	0	(242)	(224)	(242)	(224)
Other	101	43	0	(12)	0	0	(21)	8	(27)	15	(143)	(306)	(90)	(228)
	(273)	(260)	(27)	6	(11)	(3)	(21)	8	19	13	(503)	(390)	(816)	(626)
Change in Cash	(62)	33	28	36	(5)	(5)	(1)	0	(2)	0	43	(59)	1	5

# Management's Discussion and Analysis

## Five-Year Operational Review

At corporate fiscal year end

	1997	1996	1995	1994	1993
<b>SaskPower</b>					
Number of permanent full time employees	1,994	1,986	2,175	2,329	2,317
Total customers	423,678	420,147	417,923	415,820	413,574
Avg. annual usage/residential customer (kilowatt hours)	8,520	8,802	8,447	8,424	8,352
Power lines (kilometres of poles)	149,421	148,590	148,056	147,219	146,093
<b>SaskTel</b>					
Number of full time employees	4,085	3,896	3,845	3,863	3,699
Long distance revenue (\$millions)	295,681	328,612	297,912	316,768	332,352
Conversation minutes	969,533	1,008,200	906,200	821,200	760,300
Cumulative change in average revenue per minute since 1990	-53%	-50%	-47%	-39%	-31%
<b>SaskEnergy</b>					
Number of permanent full time employees	806	803	805	777	739
Total customers	309,171	304,575	301,020	298,160	295,935
Residential annual average usage (cubic metres)	3,504	4,328	3,804	3,674	3,764
Pipelines (km)	61,674	60,746	60,046	59,347	58,745
<b>SGI</b>					
Number of full time employees	1,372	1,337	1,290	1,272	1,242
Premiums written (\$millions)	156,545	148,318	140,277	130,183	125,662
Average cost per claim (\$) - Auto business	628	610	593	555	454
Average cost per claim (\$) - Other business	4,270	3,698	2,926	2,687	2,806
<b>NewGrade</b>					
Number of employees	175	178	175	179	187
Average industry differentials (\$Cdn/barrel)	5.53	3.61	2.73	3.21	4.95
Crude oil processed (barrels per day)	50,100	54,200	48,300	47,300	46,900
<b>Bi-Provincial</b>					
Number of employees	317	322	348	431	600
Average industry differentials (\$Cdn/barrel)	5.53	3.61	2.73	3.21	4.95
Average annual daily shipments (barrels per day)	72,000	72,000	68,000	62,000	52,000
<b>MLPLP</b>					
Number of employees	201	203	201	197	204
Safety (lost time accidents)	0	2	1	2	3
Value of exports (\$millions)	100	95	184	118	63
Volume of trees delivered (cubic metres)	770,499	545,182	795,752	840,388	584,001
<b>SMLP (formed in 1995)<sup>1</sup></b>					
Number of employees	402	427	441	n/a	n/a
Safety (lost time accidents)	15	19	71	n/a	n/a
Volume of wood used (cubic metres)	851,349	910,360	568,536	n/a	n/a
Production volume (thousands of sq. ft. of 3/8 inch panel)	275,283	295,482	191,809	n/a	n/a
Production volume (thousands of foot board measure)	67,773	66,473	39,208	n/a	n/a
<b>Saskferco</b>					
Number of employees	136	131	130	129	123
Safety (lost time accidents)	1	2	0	0	0
Natural gas consumption (millions of gigajoules)	21	20	21	19	9

<sup>1</sup> Statistics for 1995 include the period from start-up in April through the end of December.

# Management's Discussion and Analysis

## Utilities

### Profile

### 1997 Results

## SaskPower

SaskPower is the principal supplier of electricity in Saskatchewan. Through its province-wide system, SaskPower generates, purchases, transmits, distributes and sells electricity and related products and services. SaskPower has more than 2,000 employees serving approximately 420,000 customers in an area covering more than a half-million square kilometres.

SaskPower operates four thermal generation plants with capacity of 1,997 Megawatts (MW), seven hydro plants with capacity of 847 MW, and three gas turbine plants with a capacity of 136 MW.

- Earnings were \$132 million (1996 - \$139 million).
- Revenues of \$915 million (1996 - \$884 million) increased largely due to increased demand from oil and potash producers.
- Operating expenses of \$607 million (1996 - \$550 million) were up mainly to meet the increased demand (e.g. fuel and purchased power, and staffing costs), and charges for future asset removal and site restoration.
- Long-term debt fell by \$145 million to \$1.7 billion in 1997 (1996 - \$1.8 billion).
- Finance charges declined to \$180 million (1996 - \$193 million).
- Channel Lake Petroleum Ltd. was sold for net proceeds of \$15 million.
- Capital spending of \$160 million (1996 - \$117 million) included additional expenditures for the Condie-Queen Elizabeth transmission line, Boundary Dam Power Station and oilfield customer connections.

## SaskTel

The Saskatchewan Telecommunications Holding Corporation (SaskTel) is Saskatchewan's leading full service communications company, providing voice, data, Internet, text and messaging services over a fiber-optics based, fully digital network, as well as cellular, paging and Fleetnet 800 service through its SaskTel Mobility division. SaskTel has 3,900 employees across Saskatchewan.

SaskTel also maintains investments in companies that provide management, project design, telephone directory and multimedia services. SaskTel International, a subsidiary of SaskTel, markets management and technical expertise around the world. Through an interconnection agreement with the Stentor alliance of telephone companies, SaskTel is part of the national and global communications network.

- Earnings were \$40.6 million (1996 - \$84.0 million).
- The earnings decline was primarily due to a one-time non-cash provision of \$55.7 million consistent with industry wide practice. This reflects a decline in value of local service assets due to the advent of competition in local access service.
- Revenues of \$693.7 million (1996 - \$696.9 million) were down marginally. Declining long distance revenues were largely offset with growth in non-traditional services and diversification initiatives. These included local calling features, wireless communication, Internet, directory operations and international consulting.
- Competitive pricing, combined with strong customer focus, has enabled SaskTel to retain more than 90 per cent of the Saskatchewan long distance market.
- Operating expenses were \$562.5 million (1996 - \$572.3 million).
- Debt grew by \$6.4 million to \$389.4 million in 1997 (1996 - \$383.0 million).
- Interest charges fell to \$33.6 million (1996 - \$40.4 million).
- SaskTel acquired a 35 per cent interest in Saturn Communications, a cable and telecommunications company in New Zealand for \$27.0 million.
- Capital spending was \$175.0 million (1996 - \$177.9 million).

# Management's Discussion and Analysis

## 1998 Outlook

- All provinces, including Saskatchewan, have committed to opening their transmission systems for cross-territory wheeling by the year 2000.
- To prepare for competition, SaskPower is continuing to: contain costs, reduce debt, rebalance rates, maintain a no price increase policy for residential and farm customers until 2000, and secure long-term contracts with key customers.
- SaskPower is studying estimated provisions for future asset removal and site restoration. Further provisions may be recorded when amounts can be reasonably determined.

## Key Factors Affecting Performance

- Weather conditions.
- Fuel and maintenance costs.
- Competition from other energy sources.
- Ability to adjust rates to levels closer to the cost of serving various customers (rate rebalancing).
- Heavy dependence on a few major accounts for a significant portion of revenues.
- Vulnerability to loss of major accounts from cogeneration, self-generation or relocation.

## Key Financial Data

- Total assets of \$3.2 billion (1996 - \$3.3 billion).
- Debt ratio (total debt as a percentage of debt and equity) of 61 per cent (1996 - 64 per cent).
- Return on equity (earnings as a percentage of average equity) of 12.7 per cent (1996 - 14.1 per cent).
- Dividend declared of \$72 million to CIC (1996 - \$76 million).

- Local service competition begins in April, 1998.
- Reduced long distance revenues will be supplemented with growth in diversified operations and new local service access rates.
- No significant change in operating income is expected.

- Impact of competition on revenues and customer base.
- Diversification into non-traditional operations, as traditional services are increasingly exposed to competition.
- Ability to adjust local access rates to levels closer to the cost of providing service (rate rebalancing).
- Potential expiry of moratorium from CRTC regulation in 1998.

- Total assets of \$1.2 billion (1996 - \$1.2 billion).
- Debt ratio of 39 per cent (1996 - 39 per cent).
- Return on equity of 6.8 per cent including the provision for local service assets (1996 - 14.6 per cent).
- Return on net assets<sup>1</sup> (operating income as a percentage of net assets) of 12.9 per cent (1996 - 11.6 per cent).
- Dividend declared of \$36.6 million to CIC (1996 - \$46.2 million).

<sup>1</sup> a performance indicator widely used by the telecommunications industry

# Management's Discussion and Analysis

## Utilities (continued)

### Profile

### 1997 Results

## SaskEnergy

SaskEnergy is Saskatchewan's natural gas transmission and distribution company, providing low-cost energy to more than 309,000 residential, farm, commercial and industrial customers over a 60,000 kilometre distribution system. SaskEnergy has 850 permanent employees.

SaskEnergy has four wholly-owned subsidiaries:

- TransGas Limited - natural gas transportation and storage;
  - Many Islands Pipe Lines (Canada) Limited - transports natural gas interprovincially and internationally;
  - Bayhurst Gas Limited - holds natural gas royalty interests; and,
  - SaskEnergy International Incorporated - international consulting.
- Earnings were \$39.4 million (1996 - \$73.3 million).
  - Revenues were \$353.8 million (1996 - \$390.3 million). The decrease was largely due to the impact of warmer weather on gas consumption. Weather in 1997 was two per cent warmer than the 30-year average, while 1996 weather was 16 per cent colder than the average.
  - Expenses were \$314.4 million (1996 - \$317.0 million). The decrease was mainly due to lower operating and interest expenses, partly offset by an increase in amortization.
  - Long-term debt was reduced by \$26.5 million to \$682.2 million at year end (1996 - \$708.7 million).
  - Capital spending was \$47.9 million (1996 - \$40.4 million).
  - SaskEnergy customers paid the lowest residential natural gas rates of any province in Canada in 1997.
  - 4,600 new customers were added to the distribution system in 1997 (1996 - 3,500).



Sask Water manages, administers, develops and protects the water and related land resources in Saskatchewan. Sask Water, with its head office in Moose Jaw, has approximately 235 employees.

- Loss was \$1.9 million (1996 - earnings of \$2.4 million).
- Operating revenues were \$23.1 million (1996 - \$21.9 million). The increase was largely due to increased water sales related to the first year of operations of the Wakaw-Humboldt water supply system.
- Operating expenses were \$24.8 million (1996 - \$19.4 million). The increase was mainly due to increased operating, amortization and interest costs related to Wakaw-Humboldt water supply system.
- Although the Wakaw-Humboldt water supply system will lower Sask Water's earnings in the near term, capital and operating costs will be recovered by Sask Water from customers over the long term.
- 1997 was the first year of operations for the SPUDCO division which facilitated 2,200 acres of new potato production.
- Debt decreased by \$1.1 million to \$40.0 million (1996 - \$41.1 million).
- Capital spending was \$3.6 million (1996 - \$31.9 million). The decrease was due to the completion of the Wakaw-Humboldt water supply system.
- A public discussion paper on key water management issues was released.



# Management's Discussion and Analysis

## 1998 Outlook

## Key Factors Affecting Performance

## Key Financial Data

- Retail natural gas supply competition for residential, farm and small business markets is planned for November 1, 1998.
- 4,000 - 6,000 new customer connections forecast for 1998.
- Effective January 1, 1998, rate increases were implemented for TransGas (3.9 per cent) and SaskEnergy (6.9 per cent). The SaskEnergy increase is subject to rebate at mid-year if gas prices decline.
- SaskEnergy is adding new services and consulting in Canada and internationally to complement its traditional services.
- Volumes transported by TransGas are expected to recover as a result of new pipelines from western Canada to other markets, and increased drilling and production activity from reduced Saskatchewan natural gas royalty rates.
- Weather - a one per cent change in winter temperature affects net income by \$1 million.
- Natural gas prices - a one cent change in natural gas prices for a year affects net income by \$600,000.
- SaskEnergy has a natural gas purchasing and hedging program to manage these risks.
- Transmission volumes can be affected by the amount of natural gas drilling activity in the province.
- Total assets of \$1.1 billion (1996 - \$1.1 billion).
- Debt ratio of 73 per cent (1996 - 75 per cent).
- Return on equity of 16 per cent (1996 - 33 per cent).
- Dividend declared of \$21.7 million to CIC (1996 - \$40.3 million).

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- The SPUDCO division will facilitate 1,800 acres of potato production.
  - Sask Water will develop a provincial water management strategy with public-input and consultation with other provincial agencies.
  - Work will continue on the Upper Assiniboine River Basin Study.
  - The Buffalo Pound water control structure will be repaired to protect the water supply for one-quarter of the province's population.
  - **Water Power Act** sales fluctuate with water levels.
  - Spring floods or droughts increase associated water management costs.
  - Two-thirds of water sales depend on the state of the potash industry.
  - Water sales to municipalities are affected by spring runoff and summer rainfall.
  - Total assets of \$88.2 million (1996 - \$93.0 million).
  - Sask Water receives subsidies from the GRF and is not expected to declare a dividend to CIC.

# Management's Discussion and Analysis

## Insurance

### Profile

### 1997 Results



Saskatchewan Government Insurance (SGI) under the trade name SGI CANADA, conducts a competitive general insurance business offering home, tenant, farm, automobile extension and commercial coverages. SGI administers the Saskatchewan Auto Fund, the province's compulsory vehicle insurance program (see below).

SGI has more than 1,500 employees. It operates 19 claims centres and five salvage centres in 13 communities in Saskatchewan. SGI CANADA Insurance Services Ltd. (SCISL), a subsidiary of SGI, sells insurance in other provinces.

### Saskatchewan Auto Fund

The Saskatchewan Auto Fund (the Fund) is a compulsory provincial vehicle insurance program administered by SGI. The Fund provides vehicle registrations, driver's licenses and related services for more than 850,000 vehicles and 650,000 drivers in Saskatchewan. The Fund is intended to operate on a break-even basis over time.

Although the Fund is not a CIC subsidiary Crown corporation, its results are included in this report because of SGI's administration of the Fund. The results of the Fund are not included in CIC's or SGI's consolidated financial statements.

- Earnings were \$24.3 million (1996 - \$21.6 million).
- Revenues were \$179.8 million (1996 - \$174.3 million). The increase was mainly due to growth in premiums from Commercial Auto policies and SCISL, partly offset by a decline in interest, dividends and gains on sale of investments.
- Total claims and other expenses were \$155.3 million (1996 - \$152.8 million). The increase was due to growth in business, offset partly by a reduction in claims expense due to fewer summer storms and crime-related claims.
- Capital spending was \$3.6 million (1996 - \$5.8 million). The majority of capital expenditures in both years relates to a new insurance computer system which will be completed in 1998.
- SCISL invested \$2 million in Palliser Insurance Company Limited, a Saskatchewan-based crop hail insurance business operating in three prairie provinces.

- Loss in 1997 was \$15.2 million (1996 - \$7.2 million).
- 1996 revenues were lower due to the implementation of the Daily Vehicle Expiry program which results in reduced premiums in the first year. In 1997, premiums returned to normal levels, but were partially offset by lower investment earnings.
- Total claims and other expenses were \$433.6 million (1996 - \$415.4 million). The increase in expenses was mainly due to increased claims costs.
- With no general rate increase since 1993, a public review of auto insurance rates was undertaken.
- Annual rate increases of five per cent, two per cent and two per cent commencing in 1998, along with increases to deductibles were approved to help address the growing deficit.

## HARO Financial Corporation (HARO)

(and its subsidiary, Crown Life Insurance Company)

HARO is a Regina-based company created to acquire an ownership interest in Crown Life Insurance Company (Crown Life). CIC owns 68 million non-voting, common shares of HARO at a cost of \$68 million, as well as two loans to HARO totalling \$353.7 million. HARO holds a 64 per cent ownership interest in Crown Life and \$149.5 million in convertible debentures.

Crown Life ranks among the top six per cent of North American life insurers in terms of size of assets managed, and offers life insurance, health insurance and pension programs on a participating and nonparticipating basis to individuals and groups, and reinsurance services to other insurance companies.

Crown Life has 1,050 employees.

- Crown Life's performance determines HARO's capacity to service its loans from CIC.
- Crown Life earned \$45.4 million and paid interest on debt owed to HARO. HARO consequently paid interest to CIC on its \$149.5 million of convertible debentures.
- Crown Life has not paid any common share dividends for several years. HARO was thus not required to pay interest on its \$204.2 million term loan from CIC.

# Management's Discussion and Analysis

1998 Outlook	Key Factors Affecting Performance	Key Financial Data
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- In 1998, the general insurance computer system will be implemented. This state of the art, Year 2000 compliant system will be much quicker and more flexible in responding to required product changes.

- The biggest challenge is reducing the accumulated deficit to ensure the long-term affordability of auto insurance in Saskatchewan.
- With approved rate increases, the accumulated deficit is projected to stabilize in 1998 with gradual improvements thereafter.
- Additional funds will be allocated to traffic safety initiatives to further reduce traffic accidents and claim costs.

- If Crown Life's strong financial performance continues, HARO will continue to receive regular payments from Crown Life on its convertible debentures. HARO, in turn, will continue to make all interest payments to CIC on its second loan.
- If Crown Life pays dividends on its common shares, HARO will, in turn, begin making interest payments to CIC on its initial loan.

- Weather conditions (particularly summer storms) affect underwriting results.
- Level of interest rates affects investment returns.
- To mitigate the effect of catastrophic events, SGI CANADA purchases reinsurance protection which passes part of the risk to other insurers.

- Weather significantly affects financial results (e.g., summer storms and winter driving conditions).
- Reinsurance protection is purchased to mitigate the effect of catastrophic events.

- Since HARO's only investment is in Crown Life, the financial performance of HARO is wholly dependent upon that of Crown Life.
- Crown Life's performance is largely affected by:
  - sales growth in insurance and investment products;
  - appropriate risk management;
  - retention of existing policyholders; and,
  - investment performance and claims experience.

- Total assets of \$351.5 million (1996 - \$333.8 million).
- Net risk ratio<sup>1</sup> (premiums written divided by shareholder's equity) of 1.6 (1996 - 1.6).
- Return on equity of 23 per cent (1996 - 21 per cent).
- Dividend of \$21.9 million to CIC (1996 - \$11.9 million).

- Assets at year end were \$535.3 million (1996 - \$537.2 million).
- At year end, the Fund had an accumulated deficit of \$127.9 million (1996 - \$112.6 million).

<sup>1</sup>A performance indicator widely used in the insurance industry.

- Contribution to consolidated financial results:

revenue	- \$6.9 million
(1996)	- \$8.6 million)
earnings	- \$6.9 million
(1996)	- \$8.6 million)
assets	- \$421.7 million
(1996)	- \$421.2 million)

## Commodity-Based Investments

Profile

1997 Results

### NewGrade Energy Inc.

(NewGrade)

NewGrade operates a heavy oil upgrading plant in Regina. It is owned equally by CIC and Consumers' Co-operative Refineries Limited, (a wholly-owned subsidiary of Federated Co-operatives Limited of Saskatoon). NewGrade has annual processing capacity of approximately 20 million barrels of heavy crude oil.

NewGrade has approximately 175 permanent employees.

- NewGrade was profitable for the second consecutive year.
- The average price difference (price differential) between NewGrade's heavy crude oil feedstock and its reconstituted crude product was well above break-even levels.
- CIC was not required to provide cash deficiency funding.

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### Bi-Provincial Upgrader Joint Venture

(Bi-Provincial)

Bi-Provincial is a joint venture heavy oil upgrading plant near Lloydminster, Saskatchewan. In 1997, it was owned equally by CIC and Husky Oil Operations Ltd. (Husky), a wholly-owned subsidiary of Husky Oil Ltd. Bi-Provincial has the annual capacity to produce approximately 20 million barrels of synthetic crude oil and four million barrels of recycled diluent.

Bi-Provincial has approximately 317 permanent employees.

- Bi-Provincial was profitable in 1997.
- The average price differential remained well above break-even levels.
- During 1997, Bi-Provincial repaid \$20 million in operating loans to each of Husky and CIC.

# Management's Discussion and Analysis

## 1998 Outlook

## Key Factors Affecting Performance

## Key Financial Data

- Industry analysts forecast price differentials will continue to be above historic average.
- NewGrade expects to process higher volumes of heavy crude than in 1997 because of a more aggressive operating plan.
- The combination of above average price differentials and higher volumes is expected to result in strong financial performance.
- No cash deficiency funding is expected to be required.
- Price differentials. At current operating levels, a \$0.50 per barrel change in the price differential affects annualized earnings and cash flow by \$9.0 million.
- Changes in the U.S./Canada exchange rate affect crude oil prices in Canada, and proportionately affect the price differential. A lower exchange value for the Canadian dollar increases the price differential and vice versa.
- The effect of the U.S./Canada exchange rate on price differentials is partially offset by its effect on the cost of servicing U.S. dollar debt.
- Natural gas input costs.
- Contribution to consolidated financial results:
  - revenue - \$274.5 million
  - (1996 - \$282.9 million)
  - earnings - \$16.2 million
  - (1996 - \$3.8 million)
  - assets - \$144.5 million
  - (1996 - \$158.1 million)

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- In February, 1998, CIC sold its interest in Bi-Provincial to Husky for \$310 million.
  - Price differentials.
  - Changes in the U.S./Canada exchange rate affect crude oil prices in Canada, and proportionately affect the price differential. A lower exchange value for the Canadian dollar increases the price differential and vice versa.
  - Natural gas input costs.
  - Contribution to consolidated financial results:
    - revenue - \$343.9 million
    - (1996 - \$361.2 million)
    - earnings - \$25.3 million
    - (1996 - \$1.9 million)
    - assets - \$219.9 million
    - (1996 - \$210.6 million)

## Commodity-Based Investments (continued)

Profile

1997 Results

### Meadow Lake Pulp Limited Partnership

(MLPLP)

MLPLP operates one of the world's first zero-effluent chemi-thermomechanical pulp (CTMP) mills.

The mill has produced up to an annualized rate of 280,000 tonnes per year of chlorine-free hydrogen peroxide bleached CTMP. CIC owns 49 per cent of MLPLP, with Millar Western holding the remaining 51 per cent. The state-of-the-art environmentally friendly mill is located near Meadow Lake and uses Saskatchewan aspen as its fibre source.

MLPLP has 201 employees and provides an additional 245 jobs in the woodlands.

- As a result of poor market conditions, MLPLP posted a loss.
- The decline in many Asian economies combined with associated currency depreciations negatively affected market pulp producers.

### Saskfor MacMillan Limited Partnership

(SMLP)

SMLP is a 50/50 partnership between CIC and MacMillan Bloedel Limited.

SMLP operates three mills:

- an Oriented Strand Board (OSB) mill at Hudson Bay with an annual capacity of 210 million square feet of 3/8 inch OSB;
- a plywood mill at Hudson Bay with an annual capacity of 87 million square feet of 3/8 inch plywood; and,
- a sawmill at Carrot River with an annual capacity of 61 million foot board measure of eight and ten foot dimension lumber.

SMLP has 402 employees at its mills and head office in Hudson Bay, and provides a further 258 woodland jobs.

- OSB prices were low throughout most of the year, with modest recovery toward year end.
- Low OSB prices resulted in shut-downs for approximately three and one half weeks at the OSB plant, as well as delay in construction of a new OSB mill.
- Plywood and lumber prices were strong through most of the year, but declined toward year end.
- SMLP shut down its plywood mill for approximately two weeks due to a shortage of softwood peeler logs.
- SMLP changed its year end from April 30 to December 31 to conform with the year end of the partners.
- SMLP was profitable for the shortened year to December 31, 1997.

# Management's Discussion and Analysis

## 1998 Outlook

## Key Factors Affecting Performance

## Key Financial Data

- As a result of low forecast prices, MLPLP expects a net loss for 1998.
- Prices are expected to continue to decline in early 1998 with slow recovery later in the year.
- The medium term outlook is for higher prices, however, this depends upon stronger economic growth in key pulp markets.
- Less capacity expansion is anticipated in the near term than in recent years.

- Market pulp prices.
- Industry over-supply leads to curtailed production.
- U.S./Canada exchange rate. Most pulp sales are in U.S. dollars. A lower exchange value for the Canadian dollar increases the price received. The effect of the exchange rate on pulp prices is partially offset by its effect on the cost of servicing MLPLP's U.S. debt.
- Input costs such as bleaching chemicals and wood (including stumpage and reforestation costs).
- Demand for environmentally-friendly product, which plays a role in the marketing of CTMP.

- Contribution to consolidated financial results:

revenue	- \$49.1 million
(1996)	- \$46.6 million)
loss	- \$20.7 million
(1996)	- \$22.8 million)
assets	- \$137.7 million
(1996)	- \$146.7 million)

- SMLP expects a small net loss for 1998 due to low product prices.
- Near term North American OSB production is expected to exceed demand, leading to price declines.
- Plywood prices are expected to remain relatively stable, with potential for modest declines.
- Analysts project plywood losing significant volumes to OSB, especially in low end applications, but retaining some premium pricing by refocusing on exports and developing industrial/specialty markets to capitalize on plywood's attributes.
- Lumber prices are expected to be lower than in 1997.

- Market prices for OSB, plywood and lumber.
- Wood quality. The amount of finished product for a given level of wood input can vary significantly due to decreased wood quality (e.g., age, disease, size).
- Changes in major direct input costs such as wood costs including stumpage, reforestation, etc.
- Availability of softwood supply.

- Contribution to consolidated financial results:

revenue	- \$41.1 million
(1996)	- \$45.9 million)
earnings	- \$3.4 million
(1996)	- \$8.3 million)
assets	- \$56.1 million
(1996)	- \$70.8 million)

# Management's Discussion and Analysis

## Commodity-Based Investments (continued)

### Profile

### 1997 Results

## Saskferco Products Inc.

(Saskferco)

Saskferco is a nitrogen-based fertilizer plant located near Belle Plaine with its head office in Regina. It produces an annual average of 176,000 tonnes of anhydrous ammonia and 750,000 tonnes of granular urea, marketed in Canada and the northern United States.

CIC owns 49 per cent of Saskferco, Cargill Limited (Canada), 50 per cent and Citibank Canada 1 per cent.

Saskferco has 136 permanent employees and 36 contract positions.

- Overall, Saskferco had strong earnings in 1997, although a sharp drop in ammonia and urea prices weakened earnings in the last half of the year.
- A \$37.2 million expansion was completed in September. It will increase Saskferco's annual urea production by 180,000 tonnes, while reducing the average ammonia tonnes for sale by 103,000 tonnes. This expansion was financed entirely from earnings.

## Cameco Corporation

(Cameco)

Cameco is one of the world's largest, low-cost uranium mining and processing companies. Its head office is in Saskatoon. Its uranium products are used to generate electricity in nuclear plants around the world.

It also has a significant presence in gold exploration and mining.

CIC assumed the former Saskatchewan Mining Development Corporation's (SMDC) ownership in Cameco after SMDC's wind-up in 1993. Various share transactions have reduced CIC's ownership to 9.4 per cent at December 31, 1997.

Cameco has approximately 1,300 employees in Canada.

- CIC received \$2.7 million in dividends from Cameco.
- Cameco issued four million common shares in 1997 at \$51 per share. This diluted CIC's ownership from 10.3 per cent to 9.4 per cent.
- In March, 1997, CIC received the \$382 million second instalment of the net proceeds from the 1996 sale of 10.1 million Cameco shares. Half of the net proceeds was used to reduce CIC's debt. The other half was paid to the GRF.
- Cameco's share price was \$46.40 at the end of 1997 compared to \$54.90 at the end of 1996.



# Management's Discussion and Analysis

## 1998 Outlook

## Key Factors Affecting Performance

## Key Financial Data

- Ramp-up and adjustments of the expanded facility will continue in 1998 to achieve targeted capacity rates.
- Low prices for urea and ammonia are expected to continue. This is expected to result in significantly lower earnings in 1998.
- The longer term demand outlook remains positive.
- Urea and ammonia market prices.
- U.S./Canada exchange rate. A large portion of Saskferco's sales are in U.S. dollars. A lower exchange value of the Canadian dollar increases the price received. The effect of the exchange rate on sales prices is partially offset by its effect on the cost of servicing Saskferco's U.S. debt.
- Major input costs such as natural gas.
- Contribution to consolidated financial results:

revenue	-	\$19.1 million
(1996)	-	\$31.2 million)
earnings	-	\$19.1 million
(1996)	-	\$31.2 million)
assets	-	\$100.1 million
(1996)	-	\$100.3 million)

- Dividends of \$0.50 per share are expected to continue in 1998.
  - Spot market demand is anticipated to remain low for the first half of 1998 as many utilities have switched to long-term supply contracts.
  - The expected longer term outlook remains positive, as uranium production remains at half of current consumption, and excess inventories are being used up. As well, reliance on nuclear power for future electricity needs is increasing, especially in Asia.
  - Uranium prices, and to a lesser extent, gold prices.
  - U.S./Canada exchange rate. Uranium and gold are sold in U.S. dollars. A lower exchange value of the Canadian dollar increases the price received.
  - Contribution to consolidated financial results:

revenue	-	\$2.7 million
(1996)	-	\$6.9 million)
earnings	-	\$2.7 million
(1996)	-	\$522.7 million)
assets	-	\$114.9 million
(1996)	-	\$114.9 million)
- 1996 net earnings contribution includes a \$515.8 million gain on the sale of 10.1 million Cameco shares.

# Management's Discussion and Analysis

## Economic Growth

### Profile



SASKATCHEWAN  
OPPORTUNITIES  
CORPORATION

Saskatchewan Opportunities Corporation (SOCO) supports economic growth and job creation through investment in businesses and infrastructure. SOCO targets projects where goods or services are exported, or replace products previously imported. It focuses on sectors that make a significant contribution to the province's economy and have continued potential for growth.

SOCO has 47 employees.

### 1997 Results

- Earnings were \$2.3 million (1996 - \$0.8 million restated).
- Revenues of \$13.3 million (1996 - \$11.7 million) included grants from the GRF of \$5.3 million (1996 - \$3.8 million). An increase in grant funding was the primary reason for the rise in total revenue.
- Expenses were \$11.0 million (1996 - \$10.8 million).
- Debt at year end increased by \$19.5 million to \$86.2 million (1996 - \$66.7 million) to fund SOCO's capital expenditure program.
- Capital spending was \$25.3 million (1996 - \$16.9 million). The increase was the result of continued growth of SOCO's investment portfolio and Innovation Place, the research and development park in Saskatoon.



SASKATCHEWAN  
GOVERNMENT  
GROWTH FUND

Saskatchewan Government Growth Fund Management Corporation (SGGF) participates in the federal government's immigration program to acquire lower cost capital for investment in Saskatchewan on commercial terms. This provides small and medium-sized businesses with capital to grow and prosper, creating jobs, generating sales revenue and providing long-term economic benefits for Saskatchewan.

Investment funds are raised through four subsidiary fund companies (SGGF Ltd., SGGF II, SGGF III and SGGF IV) and are managed by SGGF. These funds are not consolidated with CIC's results because SGGF Management Corporation does not share in the risks or rewards of ownership of these funds.

SGGF has raised more than \$173 million of immigrant investor capital, making it not only one of the largest immigrant investor funds, but also one of the largest venture capital funds in Canada.

SGGF has seven employees.

- Loss was \$229 thousand (1996 - earnings of \$32 thousand).
- Revenues were \$1.7 million (1996 - \$1.8 million). Revenues are based on expenditure levels of SGGF, as ongoing management expenses are charged to the fund companies at a modest mark-up.
- Total expenses of \$1.9 million (1996 - \$1.8 million) included costs related to an internal review. Certain costs cannot be recovered from the fund companies.
- To the end of 1997, SGGF has invested, through its funds, \$132 million in 48 new or expanding businesses.

# Management's Discussion and Analysis

## 1998 Outlook

## Key Factors Affecting Performance

## Key Financial Data

- SOCO plans to start construction of a new building in support of a research and development park in Regina.
- Innovation Place in Saskatoon will continue to grow in response to demand from both new and existing tenants.
- SOCO will continue to seek new investment partnerships with the private, public and co-operative sectors.
- Credit and investment risks.
- Rental property vacancy.
- Interest rates - a one per cent change in interest rates affects earnings by \$0.5 million.
- Total assets of \$92.6 million (1996 - \$70.4 million).
- Debt ratio of 93 per cent (1996 - 95 per cent).
- SOCO receives subsidies from the GRF and is not expected to pay a dividend to CIC.

- 
- Each of SGGF's fund companies is at a different stage in its investment life cycle.
    - SGGF Ltd. is in liquidation phase.
    - SGGF II has been fully invested.
    - SGGF III and SGGF IV are in a growth phase.
    - Marketing of a fifth fund is expected in 1998.
  - Ability to recover costs from revenues earned on investment funds under management.
  - SGGF operates primarily on a cost-recovery basis and hence operates at or near break-even.
  - Total assets of \$291 thousand (1996 - \$611 thousand).

# Management's Discussion and Analysis

## Transportation

Profile

1997 Results

### **SASKATCHEWAN** TRANSPORTATION COMPANY

Saskatchewan Transportation Company (STC) is a common bus carrier providing passenger transportation, parcel express and freight services throughout Saskatchewan. STC owns and operates terminals in Prince Albert, Regina and Saskatoon. STC serves 276 communities throughout the province.

STC has approximately 265 employees.

- Loss (before debt extinguishment) was \$6.6 million (1996 - \$6.2 million).
- Operating revenues were \$13.1 million (1996 - \$15.6 million). Operating revenues declined mainly due to declining passenger revenue, and discontinuing the unprofitable segment of parcel delivery services.
- Operating expenses were \$21.7 million (1996 - \$21.7 million). Operating expenses include one-time restructuring and information system rationalization costs of \$2.1 million, and staff reductions. Staff levels declined from 308 employees to 265 at year end.
- STC had no debt at year end (1996 - \$20.5 million). As part of a financial restructuring in July, STC's \$26.0 million in debt was extinguished by CIC. Subsequently, CIC financed STC's cash shortfalls with grants. CIC provided operating grants of \$2.0 million (1996 - nil).
- Capital spending of \$0.1 million (1996 - \$3.8 million) was primarily miscellaneous capital replacement, including one bus engine.
- STC went through a financial restructuring which resulted in the cancellation of \$55.5 million of non-recoverable equity advances from CIC.

## Management's Discussion and Analysis

### 1998 Outlook

- STC's operating loss is projected to be limited to \$2.5 to \$3.0 million.
- Public-private partnerships for passenger transportation will be studied for potential to reduce costs while maintaining service levels.
- Bus parcel deregulation in 1998 is projected to lead to higher prices and improved profitability if STC competes successfully.

### Key Factors Affecting Performance

- Declining-passenger customer base.
- Continent-wide decline in the use of intercity bus lines.

### Key Financial Data

- Total assets of \$18.3 million (1996 - \$20.9 million).
- Operating loss of \$8.6 million (1996 - \$6.2 million).
- STC receives grants from CIC and is not expected to pay a dividend.





ATTENZIONE: PERICOLO DI UCCISIONE  
NEL MANIPOLARE LE SECCIONI  
DELLA TRONCATRICE DA  
MONTARE SOTTO IL  
COPRILETTA

**Manutenzione**  
COMPARTO PER IL CARICO DI MONTAGGIO  
A TUTTO IL CARICO DI MONTAGGIO  
SOTTO IL COPRILETTA. PER IL CARICO  
SOTTO IL COPRILETTA, PER IL CARICO  
SOTTO IL COPRILETTA, PER IL CARICO  
SOTTO IL COPRILETTA, PER IL CARICO

**Caution**  
Do not touch the hot surfaces  
of the engine or the engine  
components. The engine  
components are very hot  
and can cause serious  
burns.

SeaPower





### Initiatives Related To The Crown Review

In February, 1996, CIC announced a wide-ranging review of its major holdings. The Crown Review focused on five Crowns - SaskPower, SaskTel, SGI, SaskEnergy and STC - and CIC's major investments. The review's objective was to determine changes necessary to prepare the Crown sector for the opportunities and challenges of the 21st Century.

The Crown Review was released in November, 1996. It had three key findings:

- the commercial Crowns are financially viable and perform a public policy purpose;
- changes in corporate governance are needed if the Crowns are to operate with greater autonomy in competitive environments; and,
- more autonomy must be balanced with proper accountability to protect stakeholder interests.

In June, 1997, the government released its response to the Crown Review which outlined changes needed to strengthen governance and accountability. The following measures have been taken to implement these changes:

#### **Governance and Public Policy Objectives**

CIC has developed and continues to refine a new governance structure for the Crown sector to provide more autonomy while maintaining accountability. The CIC Board is responsible for setting financial, public policy, innovation and growth and customer satisfaction targets for the Crowns, and evaluating performance of the Crowns and their boards. Crown boards of directors are responsible for directing the business activities of the Crowns. The CIC Board is also responsible for capital allocation in the Crown sector.

These changes and the respective roles of the provincial Cabinet, the CIC Board, and the boards of subsidiary Crowns are discussed in the "Corporate Governance" section. Legislative changes proposed for 1998 would remove the requirement for government ministers to sit on Crown boards.

The CIC Board continues to be responsible for determining the allocation of capital within the Crown sector, specifically dividends, capital budgets and capital structure. CIC developed a new dividend policy governing commercial Crowns dividends to CIC and CIC's dividends to the GRF in 1997. This policy is described in detail in the "Capital Allocation in the Crown Sector" section.

These new dividend policies are part of an integrated approach to setting public policy, customer, financial and innovation and growth objectives, measures and targets for the Crown sector. CIC continues the development and implementation of this approach, called the "Balanced Scorecard". This is discussed in detail in the "The Balanced Scorecard" section.

#### **Accountability**

In August, 1997, CIC released its first-ever Semi-Annual Financial Report. This report provided timely information on the interim financial results and outlook for the Crown sector. CIC also developed a new policy for reporting significant transactions to ensure transparency and accountability. This policy is discussed in further detail in the "Reporting Significant Transactions" section.

## Initiatives

### Corporate Governance

Corporate governance describes the process and structure for overseeing the direction and management of the Crown sector so that it effectively fulfills its mandate.

The Crown Review found that Crown governance could be improved. The following table highlights the primary changes in governance in the Crown sector:

Responsibility	Pre-Crown Review			New Governance Model		
	Crown Board	CIC Board	Cabinet	Crown Board	CIC Board	Cabinet
Board Appointments		Recommend	Approve	Nominate	Recommend	Approve
Public Policy Initiatives		Recommend	Approve	Report	Recommend	Approve
Crown Board Performance		Assess		Assess	Assess/Recommend	Approve
Performance Measures	Approve	Review		Review	Approve	
Dividends	Assist	Approve		Recommend	Approve	
Strategic Plan	Recommend	Approve		Approve		
Business Plan	Approve/Recommend	Approve		Approve		
Capital Budget	Recommend	Approve		Recommend	Approve	
Foreign Investment	Approve	Review		Recommend	Review/Recommend	Approve
Human Resource Policy		Recommend	Approve	Approve		

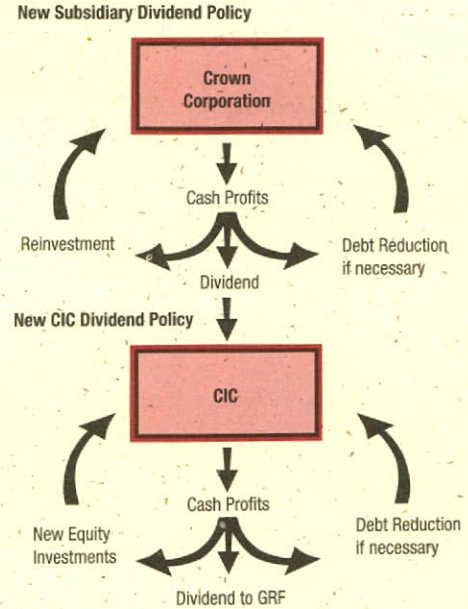
### Crown Board Development

In the new governance model, Crown boards have additional responsibilities for the implementation of their corporation's strategic plan, business plan and operating goals and objectives. To assist the Crown boards in discharging these responsibilities, CIC is conducting a training program for members of the Crown boards. The program will lead to strengthened decision-making, governance, and risk and strategic management capabilities.

## Capital Allocation in the Crown Sector

In 1997, the CIC Board approved and implemented a new policy to determine dividends to CIC from its four commercial subsidiary Crowns (SaskPower, SaskTel, SaskEnergy and SGI). It allocates cash profits from the commercial Crown business operations among three potential uses. The three uses are reinvestment, debt reduction and dividend payments.

The CIC Board also approved a policy to determine CIC's dividends to the GRF that is based on the same principles. Together, the two dividend policies form an integrated framework (see diagram) for capital allocation in the Crown sector:



### Commercial Crown Dividends to CIC

Each commercial Crown's ability to pay dividends is determined after the CIC Board allocates a portion of cash profits to reinvestment to sustain operations, to grow and to diversify. If necessary, the CIC Board also approves an allocation of cash profits to achieve the commercial Crown's approved target capital structure. In general, if a commercial Crown has not achieved its approved target capital structure (with the exception of SGI, the ratio of debt to total assets), it needs to reduce debt<sup>1</sup>. Thus the amount of dividends depends upon how much is first allocated to these other uses of cash profits.

Through this allocative process, the revised dividend policy moves a commercial Crown closer to its approved target capital structure. Once achieved, the revised policy maintains the Crown at or near that target. CIC expects that all commercial Crowns will achieve targets consistent with industry standards by 2002.

### CIC's Dividends to the GRF

In a similar way, cash surplus to CIC's requirements can be paid to the GRF after the CIC Board approves amounts for reinvestment and, if required, debt reduction to achieve CIC's target self-supporting debt level (\$220 million at December 31, 1997). As CIC reduces its debt toward its target self-supporting level, it can pay sustainably higher dividends to the GRF. As a consequence of its improved financial position, CIC expects to double its regular dividend to the GRF from \$50 million in 1997 to \$100 million in 1998.

In summary, the revised dividend policy is an integrated framework for allocating capital in the Crown sector. It determines dividends on the public's investment in a way that allows CIC and its commercial Crown subsidiaries to achieve their target capital structures, and provides for reinvestment to sustain operations, to grow and to diversify.

<sup>1</sup> SGI has no debt. The comparable measure of capital structure in the insurance industry is the net risk ratio, the ratio of premiums written (as a proxy for liabilities) to shareholder's equity. It is used in the property and casualty insurance industry to measure claims-paying ability.

## The Balanced Scorecard

The Crown Review recommended a governance process that balances the need for public accountability with the Crown corporation's need to respond to market forces. The system of objectives, targets and performance measures set by CIC for the Crowns will ensure that corporate management and the Crown boards remain accountable to the public for their decisions.

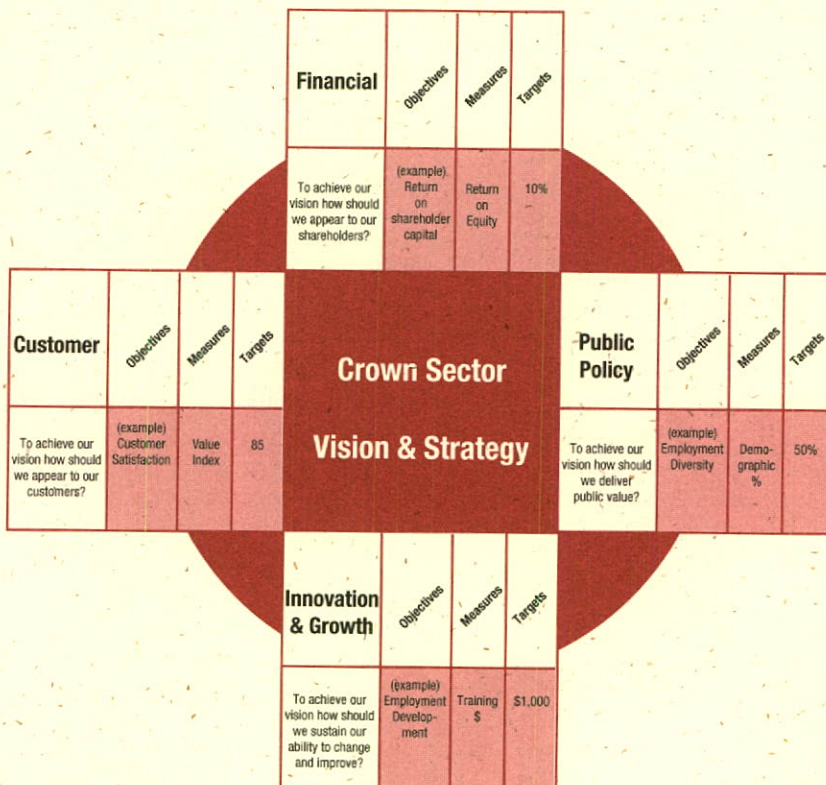
CIC is committed to providing strategic focus to the Crown sector. Like their counterparts in the private sector, Crowns are faced with pressures to evolve and redefine themselves in response to opportunities and threats in their competitive, market, customer and technological environments. What differentiates Saskatchewan's Crowns from private sector corporations is the requirement to achieve public policy objectives.

CIC has introduced a process called the Balanced Scorecard. The objective is to balance the Crowns' business needs with meaningful accountability to the people of Saskatchewan.

The Balanced Scorecard evaluates financial performance as well as the achievement of targets for innovation and growth, customer satisfaction, and public policy. It will be introduced during 1998 for each Crown.

Full development and implementation of the Balanced Scorecard will take several years. Once objectives, measures and targets are developed and approved, the Balanced Scorecard will be used to communicate, review, update and promote the continuous improvement of each Crown's performance.

### Sample Balanced Scorecard



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## Initiatives

### Reporting Significant Transactions

CIC is committed to making the Crown corporation sector more open and accountable. In 1997, CIC developed guidelines for reporting on significant transactions. These guidelines were approved by the Legislature's Standing Committee on Crown Corporations (Crown Corporations Committee).

The policy requires that all CIC Crowns, CIC itself and CIC Industrial Interests Inc., report all significant transactions to the Crown Corporations Committee within 90 days of the transaction, generally the date upon which funds are advanced or received. Where a Crown owns subsidiaries, significant transactions will be reported whether undertaken by the Crown or its subsidiary. Reports, which may be made verbally before the Crown Corporations Committee, must describe the objectives of the transaction and its financial implications, and the authority for the transaction.

A significant transaction is one which is material (value greater than one per cent of the Crown's assets) and outside the ordinary course of business. This includes the purchase or sale of a major asset or investment, assuming a major liability, or a major change in the terms and conditions of an existing investment.

Transactions must also be reported under the guidelines if they are judged by the Crown to be sensitive and likely of interest to legislators and the public. Such transactions include international investments and the creation of new corporations.

The need for disclosure must be balanced with the legitimate need for confidentiality when required to protect commercially sensitive competitive information, or where bound by transaction confidentiality agreements. If a Crown is required to hold information confidential by these considerations, it is exempted from submitting these details in a written significant transactions report.

# Initiatives

## Other Initiatives

### **CIC's Investment Strategy**

CIC has developed an investment strategy. It is designed to complement strategies of other agencies that support economic development in Saskatchewan and is linked to government economic growth strategies.

CIC's investment strategy is designed to:

- target equity investments which result in a significant ownership interest;
- make investments in Saskatchewan which generate both financial returns and employment;
- invest in industries which benefit from Saskatchewan's competitive strengths;
- invest in a way which results in diversified holdings; and,
- sell investments when goals are met and sale conditions are favourable.

The strategy targets new investments in Saskatchewan if suitable opportunities arise. However, CIC plans to sell certain of its investments as goals are met, and some loans are scheduled to be repaid. As a result, CIC's total investment holdings are expected to decline somewhat in the next few years.

### **The Year 2000 Issue**

CIC and its subsidiaries must ensure that all systems operate properly once the year 2000 arrives. Many older computer programs were written in code which does not recognize that the year 2000 follows 1999. In these programs, the year 2000 becomes 00, which may be interpreted by programs as the year 1900, with the result that programs may not function properly. If left uncorrected, this may lead to a breakdown of important business processes.

CIC and its subsidiaries are assessing the effects the Year 2000 issue will have on financial, operational, environmental, production, control, service, security and other systems. The Year 2000 readiness of CIC's major investments is also key since CIC may incur significant costs if their systems prove to be non-compliant.

To date, SaskTel, SGI and SaskEnergy have assessed their Year 2000 risks and developed plans to deal with all issues. These CIC Crown corporations intend to carry out their plans during 1998. SaskPower and Sask Water use many systems that are Year 2000 compliant. However, Year 2000 issues associated with their many operational systems have not yet been addressed. Both plan to address all issues in 1998. SOCO, STC and SGGF have completed assessments of their purchased computer packages and have concluded that they are Year 2000 compliant.

CIC plans to evaluate its Year 2000 issues in 1998. This evaluation will identify the operational and financial software and hardware requiring corrective action, assess the importance of these systems and review and develop contingency plans. In addition, CIC will evaluate the Year 2000 readiness of its major investments. These evaluations will result in formal plans, timetables and actions as required.

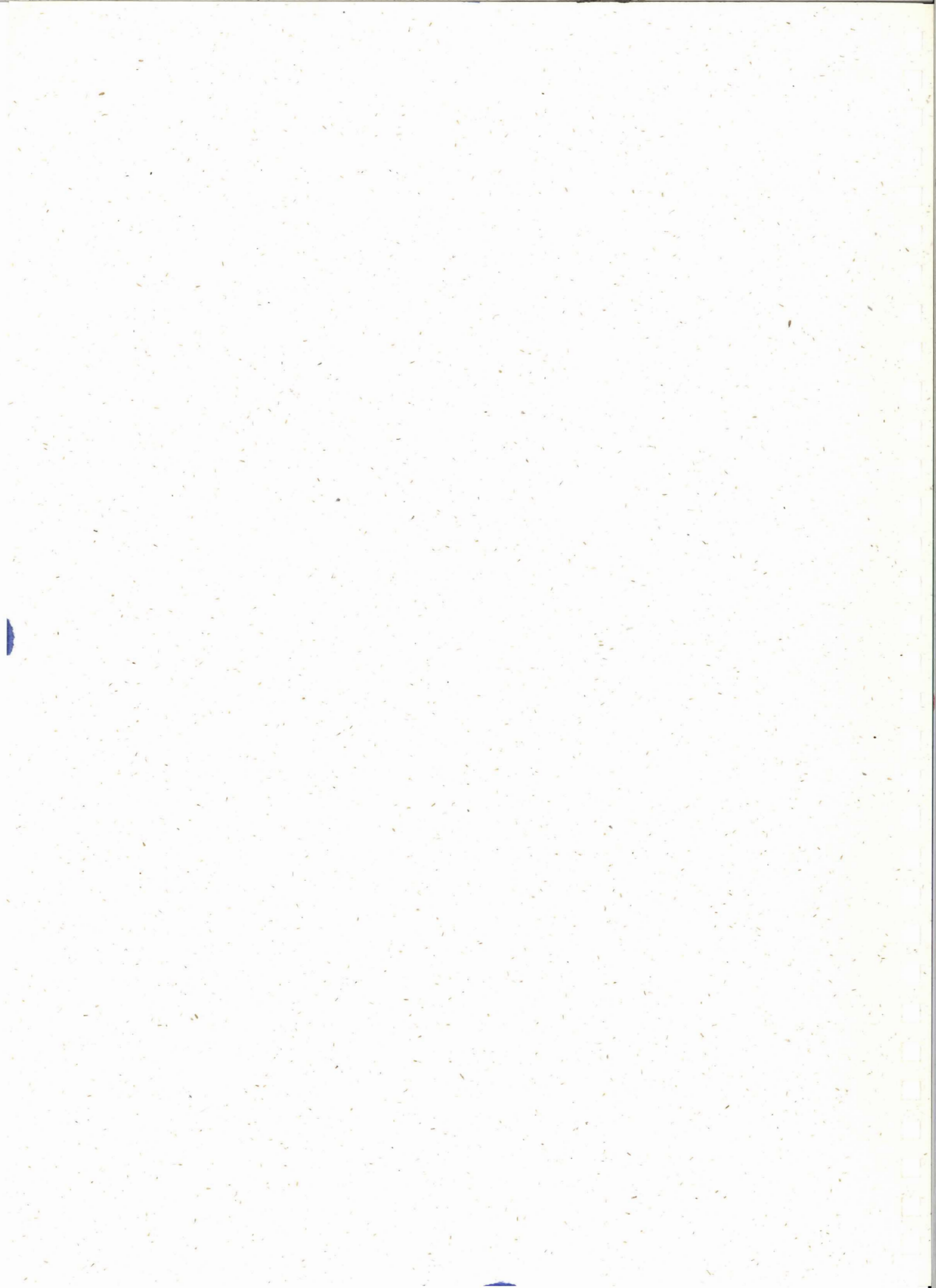
## Initiatives

### **Review of Environmental Management Systems**

CIC recognizes the importance of ensuring that its investments are practising sound environmental management. In 1997, CIC commissioned a review of the environmental management systems of its major investments outside the Crowns. The review looked at each investment's environmental management system and compared it to regulations in place at the time of the review. The review also looked at each investment's preventive management action plan based on applicable environmental concerns. Results of the review were used to evaluate whether CIC's investments have the policies, procedures and resources to deal with environmental issues that may arise.

The review found that, in general, all of CIC's investments are operating with adequate environmental management systems. The review did not find any serious deficiencies or concerns with the various investments' environmental management systems, although some of the investments would benefit from a thorough review and update of their environmental management programs.

The review contained several recommendations for suggested improvements. CIC and its investment partners are now considering these recommendations and will take steps to implement many of these in 1998.

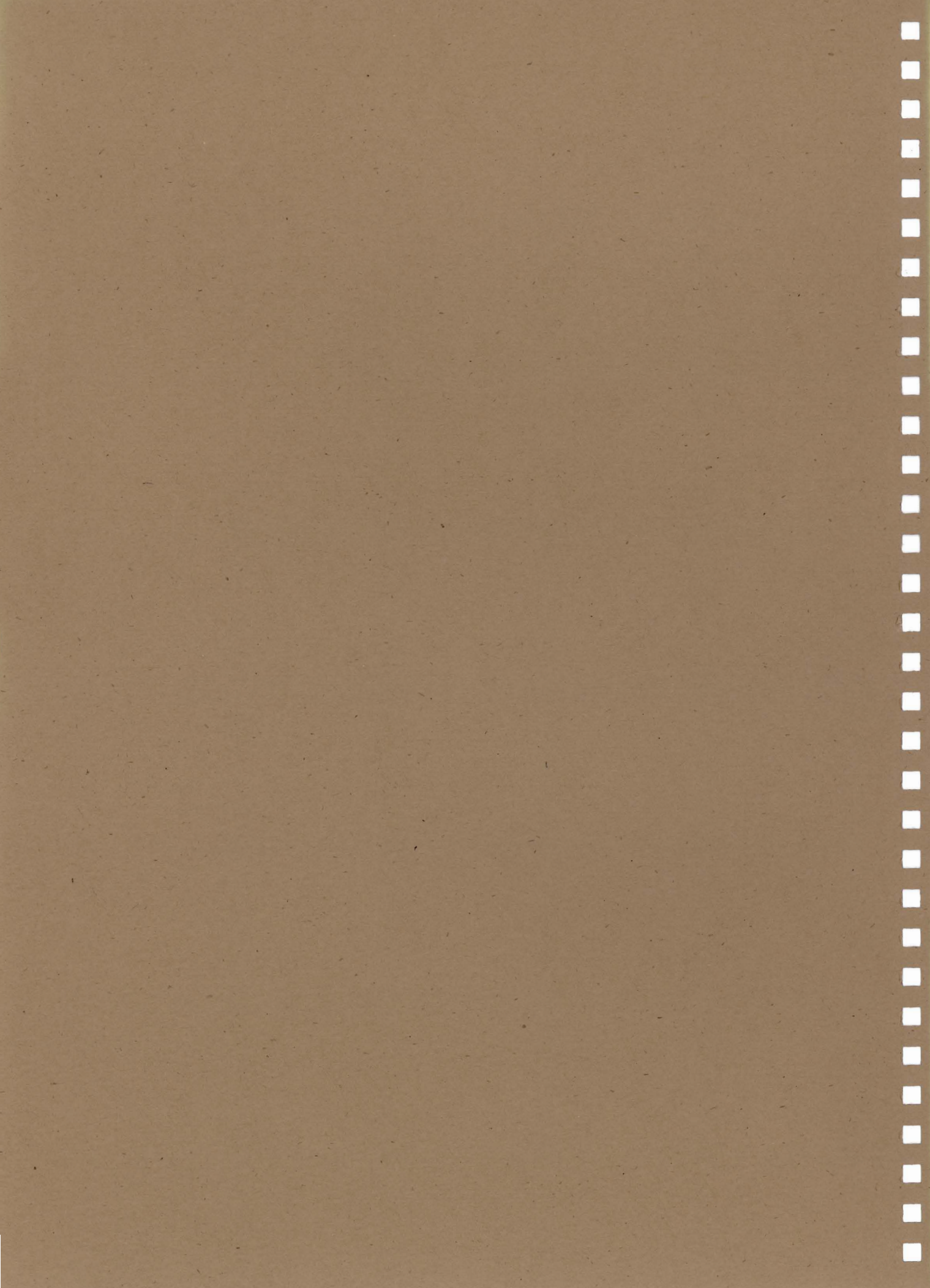






SEMI CANADA  
**CASEY INSURANCE**

ARS DAILY  
**DELI**  
OFFICE SHOP



# Crown Investments Corporation of Saskatchewan Consolidated Financial Statements

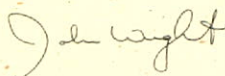
## Responsibility for Financial Statements

The accompanying Consolidated Financial Statements have been prepared by management of Crown Investments Corporation of Saskatchewan. They have been prepared in accordance with generally accepted accounting principles in Canada, consistently applied, using management's best estimates and judgements where appropriate. Management is responsible for the reliability and integrity of the Consolidated Financial Statements and other information contained in this Annual Report.

The Corporation's Board of Directors is responsible for overseeing the business affairs of the Corporation and also has the responsibility for approving the financial statements. The Board of Directors has delegated certain of the responsibilities to its Audit Committee including the responsibility for reviewing the annual financial statements and meeting with management and the Provincial Auditor of Saskatchewan on matters relating to the financial process.

Management maintains a system of internal controls to ensure the integrity of information that forms the basis of the financial statements. The internal controls provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly guarded against unauthorized use and that reliable records are maintained. The Provincial Auditor of Saskatchewan has reported to the Legislative Assembly that these controls are adequately functioning.

The Provincial Auditor of Saskatchewan has audited the Consolidated Financial Statements. His report to the Members of the Legislative Assembly, stating the scope of his examination and opinion on the Consolidated Financial Statements, appears opposite.



John Wright  
President

March 12, 1998



Sheldon Schwartz  
Vice-President,  
Finance & Administration

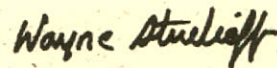
## Auditor's Report

To the Members of the Legislative Assembly  
of Saskatchewan

I have audited the consolidated statement of financial position of **Crown Investments Corporation of Saskatchewan** as at December 31, 1997 and the consolidated statements of operations and reinvested earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Regina, Saskatchewan  
March 12, 1998

W. K. Strelieff, CA  
Provincial Auditor

# Crown Investments Corporation of Saskatchewan Consolidated Statement of Financial Position

As at December 31  
(thousands of dollars)

## ASSETS

### Current

Cash-----	\$ 7,964	\$ 11,527
Short-term investments-----	145,470	173,999
Accounts receivable (Note 3(b))-----	424,554	805,552
Inventories-----	50,074	45,594
Prepaid expenses-----	163,186	161,399

791,248 1,198,071

Long-term investments (Note 3)-----	1,147,256	1,237,859
Capital assets (Note 4)-----	5,212,612	5,269,590
Other assets (Note 5)-----	297,304	276,559

\$ 7,448,420 \$ 7,982,079

## LIABILITIES AND PROVINCE'S EQUITY

### Current

Bank indebtedness-----	\$ 41,749	\$ 46,812
Accounts payable and accrued liabilities-----	547,016	582,078
Notes payable (Note 6)-----	86,773	184,652
Dividend payable to General Revenue Fund-----	50,000	241,501
Deferred revenue-----	116,204	107,014
Long-term debt due within one year (Note 7)-----	238,861	202,351

1,080,603 1,364,408

Long-term debt (Note 7)-----	3,249,337	3,781,294
Deferred revenue and other liabilities (Note 8)-----	329,565	291,107

4,659,505 5,436,809

### Province of Saskatchewan's Equity

Equity advances (Note 9)-----	1,447,452	1,447,452
Reinvested earnings-----	1,341,463	1,097,818

2,788,915 2,545,270

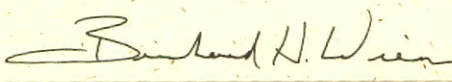
\$ 7,448,420 \$ 7,982,079

Commitments and contingencies (Note 10)  
(See accompanying notes)

On behalf of the Board:



Director



Director

# Crown Investments Corporation of Saskatchewan Consolidated Statement of Operations and Reinvested Earnings

For the Year Ended December 31

(thousands of dollars)

	1997	1996
<b>REVENUE</b>		
Sales of products and services-----	\$ 2,800,401	\$ 2,909,097
Investment (Note 3(f))-----	82,539	102,099
Other-----	32,629	31,721
	<u>2,915,569</u>	<u>3,042,917</u>
<b>EXPENSES</b>		
Operating costs other than those listed below-----	1,765,849	1,921,935
Interest (Note 11)-----	376,876	422,484
Amortization of capital assets-----	406,175	381,978
Saskatchewan taxes and resource payments (Note 12)-----	89,422	90,652
	<u>2,638,322</u>	<u>2,817,049</u>
Earnings before the following-----	277,247	225,868
Non-recurring items (Note 13)-----	16,398	515,382
<b>NET EARNINGS</b> -----	293,645	741,250
<b>REINVESTED EARNINGS, BEGINNING OF YEAR</b> -----	1,097,818	772,267
	<u>1,391,463</u>	<u>1,513,517</u>
<b>DIVIDEND TO GENERAL REVENUE FUND</b> -----	50,000	415,699
<b>REINVESTED EARNINGS, END OF YEAR</b> -----	<u>\$ 1,341,463</u>	<u>\$ 1,097,818</u>

(See accompanying notes)

# Crown Investments Corporation of Saskatchewan Consolidated Statement of Cash Flows

For the Year Ended December 31

(thousands of dollars)

## OPERATING ACTIVITIES

	1997	1996
Net earnings -----	\$ 293,645	\$ 741,250
Items not affecting cash from operations (Note 14)-----	357,796	(132,173)
	651,441	609,077
Net change in non-cash working capital balances related to operations-----	5,613	7,659
	657,054	616,736

## INVESTING ACTIVITIES

Purchase of investments-----	(255,539)	(302,492)
Proceeds from sales and collections of investments-----	408,433	1,071,579
Second instalment receivable (Note 3(b))-----	382,049	(382,049)
Purchase of capital assets-----	(388,674)	(379,567)
Proceeds from sale of capital assets-----	24,812	5,504
(Increase) decrease in other assets-----	(10,857)	2,213
	160,224	15,188

## FINANCING ACTIVITIES

Decrease in notes payable-----	(97,879)	(227,010)
Increase (decrease) in deferred revenue and other liabilities--	8,222	(1,232)
Long-term debt proceeds from General Revenue Fund-----	76,297	20,000
Long-term debt proceeds from other lenders-----	7,948	33,626
Long-term debt repayments to General Revenue Fund-----	(567,708)	(199,080)
Long-term debt repayments to other lenders-----	(1,157)	(29,147)
Dividends paid to General Revenue Fund-----	(241,501)	(224,198)
	(815,778)	(627,041)

**NET INCREASE IN CASH DURING YEAR**-----

1,500                      4,883

**CASH POSITION, BEGINNING OF YEAR**-----

(35,285)                      (40,168)

**CASH POSITION, END OF YEAR**-----

\$ (33,785)                      \$ (35,285)

Cash position consists of:

Cash-----	\$ 7,964	\$ 11,527
Bank indebtedness-----	(41,749)	(46,812)
	\$ (33,785)	\$ (35,285)

(See accompanying notes)

# Crown Investments Corporation of Saskatchewan Notes to Consolidated Financial Statements

December 31, 1997

## 1. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles. The preparation of periodic financial statements involves the use of estimates because the precise determination of financial data frequently depends upon future events. These consolidated financial statements have been prepared by management within reasonable limits of materiality using the accounting policies summarized below:

### a) Consolidation principles and basis of presentation

Certain Saskatchewan provincial Crown corporations are designated as subsidiary Crown corporations of Crown Investments Corporation of Saskatchewan (CIC) under **The Crown Corporations Act, 1993** (the Act). In addition, certain Saskatchewan provincial Crown corporations created under the Act are CIC Crown corporations. The Act assigns specific financial and other responsibilities regarding these corporations to CIC.

In addition to the Crown corporations listed below, the accounts of CIC Industrial Interests Inc. (CIC III), a wholly-owned share capital subsidiary of CIC, as well as the proportionate share of jointly controlled enterprises are consolidated in these financial statements.

Separate audited financial statements for CIC and for CIC III have been prepared on a non-consolidated basis to show the financial position and results of operations of these corporate entities. In addition, separate audited financial statements for each of the undernoted Crown corporations are prepared and submitted annually to the Legislative Assembly.

The following Crown corporations have been designated or created as subsidiary Crown corporations of CIC:

CIC Mineral Interests Corporation (i)	Saskatchewan Opportunities Corporation
SaskEnergy Incorporated	Saskatchewan Power Corporation
Saskatchewan Development Fund Corporation	Saskatchewan Telecommunications
Saskatchewan Forest Products Corporation	Saskatchewan Telecommunications
Saskatchewan Government Growth Fund	Holding Corporation
Management Corporation	Saskatchewan Transportation Company
Saskatchewan Government Insurance	Saskatchewan Water Corporation

Throughout these financial statements the phrase "the Corporation" is used to collectively describe the activities of the consolidated entity.

- i) CIC Mineral Interests Corporation was wound-up pursuant to **The Miscellaneous Statutes Repeal (Regulatory Reform) Act, 1997**, which came into force on June 30, 1997.

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 1. Summary of Significant Accounting Policies (continued)

#### b) Joint ventures

The Corporation's share of jointly controlled enterprises included in these financial statements are as follows:

NewGrade Energy Inc. -----	50.0%
Bi-Provincial Upgrader Joint Venture (Note 20) -----	50.0%
Saskfor MacMillan Limited Partnership -----	50.0%
Meadow Lake Pulp Limited Partnership -----	49.0%

#### c) Inventories

Inventories for resale are generally valued at the lower of average cost and net realizable value. Other supplies inventories are valued at the lower of cost and replacement cost.

#### d) Investments

Short-term investments are valued at cost which approximates their market value.

Long-term investments in bonds, debentures and mortgages are recorded at amortized cost. Long-term investments in shares of private and public companies in which the Corporation does not exercise significant influence are recorded at cost and dividends from these shares are recorded as income when receivable. Other long-term investments are recorded at cost.

Where the Corporation has investments in shares and exercises significant influence other than joint control, the investments are accounted for by the equity method and the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

Where there has been a decline in the value of a long-term investment that is not considered temporary, the investment is written down to its fair value.

#### e) Capital assets

Capital assets are recorded at cost and include materials, services, direct labour and overhead costs which are readily identifiable with the construction activity or asset acquisition. Interest associated with major capital and development projects is capitalized during the construction period at a weighted average interest rate of long-term borrowings in the current year.

The costs of maintenance, repairs, renewals or replacements which do not extend productive life are charged to operations as incurred. The costs of replacements and improvements which extend productive life are capitalized.

When capital assets are disposed of or retired, the related costs and accumulated amortization are eliminated from the accounts. Any resulting gains or losses are reflected in net earnings for the year with three exceptions. Electrical utility and natural gas utility operations apply this general policy only to complete asset units. Gains or losses on the disposal or retirement of incomplete asset units are included in accumulated amortization. Telecommunication operations include all gains or losses in accumulated amortization.



# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 1. Summary of Significant Accounting Policies (continued)

#### f) Amortization of capital assets

Amortization is recorded on machinery and equipment, buildings and improvements, as well as equipment under capital leases, primarily on the straight-line basis over the estimated productive life of each asset.

#### g) Other assets

Natural gas in storage is recorded at the lower of cost or net realizable value. Gas removed from storage is accounted for on an average cost basis.

Deferred financing charges applicable to the issue of long-term debt are amortized on a straight-line basis over the respective term of each obligation.

#### h) Deferred revenue

Non-current deferred revenue includes contributions in aid of construction relating to new service connections. These contributions are amortized over the estimated service life of the related asset.

#### i) Revenue recognition

Revenue from utility services is recognized when the services are delivered to customers. The estimate of services rendered but not billed is included in accounts receivable.

Interest earned on long-term investments is recognized on the accrual basis except where uncertainty exists as to ultimate collection. In cases where collectibility of interest is not reasonably assured, interest income is recorded when it is received, and accrued interest receivable is offset by deferred interest income.

#### j) Foreign exchange translation

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at year end. Revenues, expenses and non-monetary items are translated at rates prevailing at the transaction date. Exchange gains and losses are included in earnings in the current year.

Long-term debt and related accrued interest payable in foreign currencies are recorded at exchange rates prevailing at the year end. Where the translation of long-term debt results in a difference from the previously recorded amount (i.e. translation gains and losses), the difference is deferred and amortized on a straight-line basis over the remaining term of the debt.

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 1. Summary of Significant Accounting Policies (continued)

#### k) Leases

As lessee, where the Corporation has substantially all of the benefits and risks incident to the ownership of capital assets, the lease is classified as a capital lease. Capital assets recorded as capital leases are amortized on a basis similar to other assets in the same amortization category. All other leases are classified as operating leases and lease payments are expensed as incurred.

As lessor, where the Corporation transfers substantially all of the benefits and risks incident to the ownership of a capital asset to the lessee, the lease is classified as a sales-type lease or direct financing lease. All other leases are classified as operating leases and lease payments are recorded as income.

#### l) Fair value of short-term financial instruments

For certain of the Corporation's financial instruments including:

- i) cash
- ii) short-term investments
- iii) accounts receivable
- iv) bank indebtedness
- v) accounts payable and accrued liabilities
- vi) notes payable
- vii) dividend payable to General Revenue Fund

the carrying amounts approximate fair value due to their immediate or short-term maturity.

### 2. Status of Crown Investments Corporation of Saskatchewan

Crown Investments Corporation of Saskatchewan was established by Order-in-Council 535/47 dated April 2, 1947, and is continued under the provisions of **The Crown Corporations Act, 1993**. The Corporation is an agent of Her Majesty in Right of the Province of Saskatchewan and as a Provincial Crown corporation is subject to neither Federal nor Provincial income tax. Certain jointly controlled enterprises are not Provincial Crown corporations and are subject to Federal and Provincial income tax.

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 3. Long-Term Investments

(thousands of dollars)

	Voting Percentages	1997	1996
<b>Equity Investments</b>			
Saskferco Products Inc. (a) 68,449,080 (1996 - 68,449,080) Class B common shares -----	49.0%	\$ 100,087	\$ 100,261
Other share investments - equity basis-----		21,890	6,511
		<hr/> 121,977	<hr/> 106,772
<b>Portfolio Investments</b>			
Cameco Corporation (b) 5,423,123 (1996 - 5,423,123) common shares -----	9.4%	114,898	114,898
Wascana Energy Inc. (c) Nil (1996 - 5,842,910) common shares --	-	-	47,044
HARO Financial Corporation (d) 68,000,000 (1996 - 68,000,000) Class B non-voting common shares -----	-	68,000	68,000
Other share investments - cost basis -----		69,494	67,059
		<hr/> 252,392	<hr/> 297,001
<b>Bonds, Debentures, Loans and other Receivables</b>			
HARO Financial Corporation (d)-----		353,661	353,246
Meadow Lake Pulp Loans (e) -----		66,891	66,445
Other bonds and debentures-----		185,110	218,477
Cornwall Centre Mortgages-----		37,653	38,345
Other loans and notes receivable -----		65,350	93,587
		<hr/> 708,665	<hr/> 770,100
Property Holdings -----		57,239	56,601
Leases Receivable-----		6,983	7,385
		<hr/> \$ 1,147,256	<hr/> \$ 1,237,859

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 3. Long-Term Investments (continued)

- a) The Corporation owns all of the outstanding Class B common shares of Saskferco Products Inc. (Saskferco) representing a 49% voting interest.
- b) At December 31, 1997, the Corporation owns 5,423,123 voting common shares of Cameco Corporation (Cameco) representing a 9.4% (1996 - 10.3%) interest. Included in the investment in Cameco is one Class B share which provides the Corporation with the ability to exercise special voting rights with respect to the location of Cameco's head office.

During 1996 the Corporation sold 10,120,500 shares of Cameco for net proceeds of \$731.4 million. The Corporation recorded a gain on sale of \$515.8 million. As a result of this transaction, the Corporation ceased to have significant influence over Cameco and therefore changed its accounting on the date of the sale from the equity method to the cost method. On March 20, 1997 the Corporation collected \$382.0 million receivable from the second instalment, thereby completing the sales transaction.

- c) In April 1997, the Corporation sold its remaining 5.8 million shares of Wascana Energy Inc. for net proceeds of \$119.8 million generating a gain on sale of \$72.6 million.
- d) i) To date, the Corporation has advanced \$272.2 million (1996 - \$271.7 million) to HARO Financial Corporation (HARO) to finance HARO's ownership interest in Crown Life Insurance Company (Crown Life). The Term Loan was for an initial five-year term commencing on December 15, 1992 with a maximum of four five-year renewal terms at the option of HARO. HARO did not exercise its option to renew on December 15, 1997. Hence, the Term Loan is now due and payable on demand.

Interest on the Term Loan of 5.89% (1996 - 4.56%) is calculated quarterly. Payment of principal and interest is subject to available cash flow as defined in the loan agreement. Due to the timing uncertainty of cash payments, the Corporation will record interest income when payments are received. HARO made no interest payments during the year. Total interest owing to the Corporation is \$94.8 million (1996 - \$81.3 million).

If renewed, all unpaid principal and interest is due on December 15, 2017. On that date, any amounts outstanding will be converted into a maximum of 94% of HARO equity shares. The Corporation has a unilateral right, prior to December 15, 2017, to convert no less than 25% of the loan to either HARO non-voting, HARO voting or Crown Life shares. The number of Crown Life shares acquired by the Corporation may not exceed 94% of the Crown Life shares owned by HARO. Any conversion may be subject to regulatory approval. The security for the loan is 100% of HARO's assets.

During 1995, the Corporation exercised its right to convert \$68.0 million of the loan into 68,000,000 non-voting, fully participating equity shares of HARO. The Corporation has a unilateral right to exchange these for voting shares or 94% of HARO's assets. Both exchange rights may be subject to regulatory approval. The Corporation's right to dividends and property of HARO on liquidation is limited to 94% regardless of the number or class of HARO shares owned.

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 3. Long-Term Investments (continued)

- ii) An Additional Loan Agreement between the Corporation and HARO was entered into on June 15, 1995, and \$149.5 million (Additional Loan) was advanced to HARO on July 31, 1995. HARO used the proceeds of this loan to purchase \$74.8 million of each of Series A and Series B convertible Crown Life debentures.

The Additional Loan's initial term expired December 15, 1997. At that time, HARO had the option to renew for a maximum of four five-year terms. The Corporation also has the option of extending the repayment term by two five-year terms, with no renewals by HARO or the Corporation extending beyond December 15, 2017, when all remaining balances of interest and principal become due. HARO did not exercise its option to renew by year end. Hence, the Additional Loan is due and payable on demand.

Interest on the Additional Loan of 4.88% (1996 - 4.99%) is calculated and payable on January 31 and July 31 annually. Payment of principal and interest is based on 100% of the cash flow received by HARO from the Crown Life Debentures. No principal payments were made during the year.

The Corporation has a right to exchange the balance owing on the Additional Loan for either the Debentures of Crown Life owned by HARO or Crown Life shares. The security for the Additional Loan consists of all Crown Life Debentures owned by HARO. In the event of conversion to Crown Life shares by HARO, any securities acquired by HARO become security for the Additional Loan.

- e) The Corporation through its wholly-owned subsidiary, CIC Pulp Ltd., owns a 49% joint venture interest in a pulp mill located near Meadow Lake, Saskatchewan.

The Corporation has provided the following loans:

- The Participating Debenture (\$51.2 million) bears interest at 11.15% calculated on October 31 each year.
- The Term Loan (\$10.2 million) bears interest at prime plus 2%, which is 8.0% at December 31, 1997 (1996 - 5.0%). Interest on this loan is being paid monthly.
- The Contingency Loan (\$5.5 million) bears interest at prime plus 1%, which is 7.0% at December 31, 1997 (1996 - 5.75%). Any interest outstanding and not paid on October 31 of each year is added to the principal balance.

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 3. Long-Term Investments (continued)

The Corporation records, as a separate loan (Interest Loan) the accrued interest receivable from the Participating Debenture. Interest on the Interest Loan, at 11.15%, is calculated on October 31 of each year and is added to the principal balance outstanding on the loan. Interest income earned and forming part of the Interest Loan is recorded as deferred interest income due to the timing uncertainty of future cash payments. The deferred interest income will be recorded as income when payments are received under the cash availability formula.

Any payments to be made on the Participating Debenture, the Contingency Loan and the Interest Loan are subject to available cash flows as defined in the loan agreements. Payments towards principal outstanding on the Term Loan are due in two equal instalments after the joint venture has fully repaid an external bank loan. The Contingency Loan, Term Loan, Participating Debenture and Interest Loan mature in the year 2014. The remaining balance outstanding on the Interest Loan and Participating Debenture on October 31, 2014 shall bear interest at a rate equal to the short-term cost of borrowing for the Province of Saskatchewan, which is 4.76% at December 31, 1997 (1996 - 3.13%), until paid in full.

The underlying value of the above loans is contingent upon the cash flows provided from the operations of the pulp mill. The present value of the cash flows is measured by using management's best estimates based on assumptions that reflect the most probable set of economic circumstances. However, given the wide fluctuations in world commodity prices for pulp, the projected cash flows could change materially from the estimate. As a result, the recorded amount of these loans could change by a material amount in the near term.

Due to uncertainty of cash flows from the joint venture, the Corporation's Participating Debenture is shown net of provision for loan losses of \$30.0 million (1996 - \$30.0 million).

- f) Included in investment revenue are earnings (losses) from equity investments as follows (thousands of dollars):

	1997	1996
Cameco (Note 3(b))-----	\$ -	\$ 4,900
Saskferco-----	19,133	31,209
Other-----	(332)	(1,198)
	\$ 18,801	\$ 34,911
	\$ 18,801	\$ 34,911

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 4. Capital Assets

(thousands of dollars)

	1997			1996
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Machinery & equipment	\$ 7,137,406	\$ 2,887,624	\$ 4,249,782	\$ 4,320,997
Buildings & improvements	1,047,079	335,975	711,104	719,569
Land, coal properties & rights	159,352	46,236	113,116	118,089
Plant under construction	135,741	-	135,741	106,934
Equipment under capital leases	3,764	2,297	1,467	1,660
Deferred development costs	1,402	-	1,402	2,341
	<u>\$ 8,484,744</u>	<u>\$ 3,272,132</u>	<u>\$ 5,212,612</u>	<u>\$ 5,269,590</u>

### 5. Other Assets

(thousands of dollars)

	1997	1996
Natural gas in storage -----	\$ 71,805	\$ 67,028
Deferred financing charges, net of amortization -----	16,806	21,812
Deferred foreign exchange translation losses, net of amortization -----	148,140	115,705
Other deferred charges, net of amortization -----	60,553	72,014
	<u>\$ 297,304</u>	<u>\$ 276,559</u>

### 6. Notes Payable

Notes payable are primarily due to the General Revenue Fund. These notes are interest-bearing, due on demand and have an average interest rate of 4.78% (1996 - 3.19%).

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 7. Long-Term Debt (thousands of dollars)

	1997		1996		
	Principal Outstanding	Average Interest Rate	Principal Outstanding	Average Interest Rate	
<b>Years to Maturity</b>	U.S. Dollars	Canadian Dollars			
<b>A. General Revenue Fund</b>					
Canadian Dollar Issues					
1 - 5 years		\$ 894,819	9.74	\$ 934,406	9.62
6 - 10 years		1,271,290	10.65	1,351,543	11.04
11 - 15 years		213,565	9.79	297,784	9.71
16 - 20 years		6,537	8.13	7,888	8.10
21 - 25 years		265,000	9.60	15,000	9.60
26 - 30 years		175,000	8.75	425,000	8.75
		<u>2,826,211</u>		<u>3,031,621</u>	
United States Dollar Issues					
6 - 10 years	\$ 50,000	71,525	6.63	68,530	6.63
11 - 15 years	194,000	277,517	7.13	279,602	7.13
16 - 20 years	75,000	107,287	7.38	102,795	7.38
21 - 25 years	400,000	572,200	9.08	548,240	8.94
	<u>\$ 719,000</u>	<u>1,028,529</u>		<u>999,167</u>	
		3,854,740		4,030,788	
Less sinking fund balance		<u>(660,675)</u>		<u>(358,276)</u>	
<b>Total due to General Revenue Fund</b>		<u>3,194,065</u>		<u>3,672,512</u>	
<b>B. Other long-term debt</b>					
Canadian Dollar Issues					
SaskTel					
TeleBonds (due March 1, 1999)		33,712	6.50	34,109	6.50
Other (due 1998 to 2013)		94,180	Various	106,208	Various
		<u>127,892</u>		<u>140,317</u>	
United States Dollar Issues					
Other (due 1998 to 2007)	<u>\$ 117,464</u>	<u>166,241</u>	9.50	<u>170,816</u>	9.74
Total other long-term debt		<u>294,133</u>		<u>311,133</u>	
		3,488,198		3,983,645	
Less due within one year		<u>(238,861)</u>		<u>(202,351)</u>	
<b>TOTAL LONG-TERM DEBT</b>		<u>\$3,249,337</u>		<u>\$3,781,294</u>	



# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 7. Long-Term Debt (continued)

There is a requirement attached to certain interest-bearing issues from the General Revenue Fund to make annual payments into sinking funds in amounts representing 1% to 3% of the original issue. These annual payments are invested with the General Revenue Fund. The cumulative annual payments plus interest earned are used for the retirement of debt issues, upon maturity, with the General Revenue Fund on a net basis.

Certain issues received from the General Revenue Fund totalling \$670.9 million (1996 - \$670.9 million) are subject to redemption on six months notice by the lender.

Saskatchewan Telecommunications TeleBonds pay interest monthly by way of credit to the designated customer's telephone account.

Principal repayments (net of sinking funds) due in each of the next five years are as follows (thousands of dollars):

1998 -----	\$ 247,541
1999 -----	\$ 122,071
2000 -----	\$ 71,244
2001 -----	\$ 246,541
2002 -----	\$ 108,772

Long-term debt payable in United States dollars has been translated into Canadian dollars at a year-end exchange rate of 1.425 (1996 - 1.363).

### 8. Deferred Revenue and Other Liabilities

(thousands of dollars)

	1997	1996
Contributions in aid of construction -----	\$ 65,880	\$ 55,352
Other liabilities -----	77,585	86,088
Deferred income -----	6,589	8,630
Site restoration -----	179,511	141,037
	<u>\$ 329,565</u>	<u>\$ 291,107</u>

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 9. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from the General Revenue Fund to form its equity capitalization. The advances are an equity investment in the Corporation by the General Revenue Fund.

### 10. Commitments and Contingencies

The following significant commitments and contingencies exist at December 31, 1997:

- a) The Corporation has forward purchase commitments of \$1,788.0 million for coal contracted for future minimum deliveries valued at current prices.
- b) The Corporation has capital expenditure commitments amounting to \$248.7 million.
- c) The Corporation has a contingent liability as endorser of certain promissory notes due in 2003 and 2004, arising from the sale of a dragline. In addition, there is a contingent liability for lease payments on certain leased mining equipment. The lease expires in 2004. The total amount of these contingencies is \$52.0 million (1996 - \$75.0 million).
- d) The Corporation had unconditionally guaranteed payment of indebtedness incurred by IPSCO Inc. (IPSCO) under the terms of an operating lease which was to expire in 2007. On July 2, 1997, IPSCO exercised their option to purchase equipment under the lease thereby releasing the Corporation from any further obligation.
- e) The Corporation has indemnified the Government of Canada for its guarantee of NewGrade Energy Inc.'s (NewGrade) long-term debt, to a maximum of \$275.0 million. The fair value of the Corporation's guarantee is \$134.6 million (1996 - \$152.5 million).
- f) The Corporation has guaranteed the exchange risk that exists upon default of NewGrade's U.S. denominated debt to the extent that the default amount would exceed the \$360.0 million guaranteed by the General Revenue Fund. At December 31, 1997, the General Revenue Fund's guarantee does not exceed \$360.0 million. The Corporation does not expect any exposure under this guarantee in 1998.
- g) The Corporation is the defendant to several unresolved statements of claim, and has provided for these claims in its accounts in accordance with 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.

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 11. Interest Expense

(thousands of dollars)

	1997	1996
Interest on long-term debt -----	\$ 416,760	\$ 436,190
Amortization of foreign exchange gains and losses -----	10,807	7,240
Amortization of deferred financing costs -----	6,936	5,136
	<u>434,503</u>	<u>448,566</u>
Less: Sinking fund earnings -----	(51,683)	(35,064)
Interest capitalized -----	(7,645)	(4,293)
Gain on retirement of long-term debt -----	(3,751)	-
	<u>(63,079)</u>	<u>(39,357)</u>
Long-term debt interest expense -----	371,424	409,209
Short-term debt interest expense -----	5,452	13,275
	<u>\$ 376,876</u>	<u>\$ 422,484</u>

### 12. Saskatchewan Taxes and Resource Payments

(thousands of dollars)

	1997	1996
Oil, gas and coal royalties -----	\$ 27,851	\$ 26,981
Grants in lieu of taxes to municipalities -----	28,230	29,481
Saskatchewan capital tax -----	22,935	23,678
Insurance premium tax -----	6,223	5,966
Other -----	4,183	4,546
	<u>\$ 89,422</u>	<u>\$ 90,652</u>

Saskatchewan taxes and resource payments as stated above do not include Saskatchewan Education and Health Tax payments. Saskatchewan Education and Health Taxes are recorded as part of the cost of all of the Corporation's taxable purchases.

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 13. Non-Recurring Items

Non-recurring items include the following  
(thousands of dollars):

	1997	1996
Gain on sale of Cameco Corporation shares (Note 3(b))-----	\$ -	\$ 515,841
Gain on sale of Wascana Energy Inc. shares (Note 3(c)) -----	72,604	-
Provision for local service assets (a) -----	(55,665)	-
Public policy expenditure-----	(541)	(459)
	<u>\$ 16,398</u>	<u>\$ 515,382</u>

- a) The telecommunications industry in Canada is characterized by rapid technological developments, new service offerings, aggressive pricing practices and competition for market share, regulatory and legislative changes and increasing customer demands. The combination of these factors has resulted in the Corporation facing increased market risk in a fully competitive market place for its services. The Saskatchewan local service revenues will be impacted by the introduction of competition in 1998 and the reduced ability of the Corporation to continue to cross-subsidize this service with long distance revenues.

In such markets, the Corporation can no longer be assured that prices will be maintained at levels that will recover the net carrying value of its existing local service plant and equipment. Accordingly, the Corporation recorded a \$55.7 million non-cash adjustment to the net carrying value of the assets involved in providing local access service throughout the province. This reduction in the carrying value was determined by an analysis which identified asset values not fully recoverable from future cashflows.

### 14. Items Not Affecting Cash from Operations

(thousands of dollars)

	1997	1996
Amortization of capital assets -----	\$ 406,175	\$ 381,978
Sinking fund earnings -----	(51,683)	(35,064)
Non-recurring items -----	(16,939)	(515,841)
Other non-cash items -----	20,243	36,754
	<u>\$ 357,796</u>	<u>\$ (132,173)</u>

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 15. Financial Instruments

The Corporation manages its exposure to risks of fluctuations in foreign currency exchange rates, interest rates and commodity prices by operating in a manner that minimizes its exposure to the extent practical, and through the use of derivative financial instruments and commodity contracts. Board of Directors' approval is required before entering into significant derivative financial instruments and commodity contracts.

#### a) Hedging transactions

The Corporation purchases natural gas for the purpose of resale. Approximately 79% of annual purchases are made under long term contracts with natural gas suppliers. These contracts are subject to annual price renegotiation. Prices may be fixed for a one year period or referenced to a floating index price. In order to reduce its exposure to rising natural gas prices, the Corporation fixes the price of a portion of its annual purchases through a natural gas price hedging program. Natural gas purchase prices can be hedged by using financial instruments such as swap contracts with counterparties, option contracts with counterparties and futures contracts on the New York Mercantile Exchange. For those hedges denominated in United States (U.S.) dollars, the Corporation also hedges against the foreign exchange risk through the issue of forward contracts.

#### Swaps and Options

At December 31, 1997, the Corporation has entered into natural gas price swaps and options to effectively manage the price for approximately 24%, or 16.0 million gigajoules (GJ's), of its forecast 1998 system gas supply.

As at December 31, 1997, the Corporation has fixed the sales price of 2.8 million GJ's of its 1998 natural gas brokering sales at a total value of \$4.2 million and 0.9 million GJ's of its 1999 natural gas brokering sales at a total value of \$1.8 million.

Net receipts or payments resulting from settlement of hedged transactions are recorded upon settlement of the contract as cost of gas.

The Corporation is exposed to possible credit losses in the event of non-performance by counterparties to natural gas price swap and option contracts. The Corporation mitigates this credit risk by (i) utilizing only counterparties with an A credit rating or better for at least 75% of notional volumes purchased and Baa rated counterparties to hedge up to 25% of gas purchase volumes provided they do not extend beyond six months from transaction date; and (ii) limiting the notional gas volumes hedged to a maximum of 25% with any one counterparty. During 1997, the Corporation entered into transactions with 17 different counterparties. The Corporation expects all swap and option obligations to be met.

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 15. Financial Instruments (continued)

The fair value of the Corporation's financial instruments that pertain to natural gas price hedges is listed below (millions of dollars):

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Natural gas price hedges:				
- swaps -----	\$ -	\$ (6.5)	\$ -	\$ 21.0
- options -----	-	3.1	-	-
- futures-----	-	0.4	-	-
- foreign exchange--	-	(0.2)	-	-

The fair values of the above instruments were based on the following:

- Natural gas price swaps - The relevant index price in effect on December 31, 1997.
  - Natural gas price options - The relevant index price in effect on December 31, 1997.
  - Natural gas futures contracts - The closing quotation from the New York Mercantile Exchange on December 31, 1997.
  - Foreign exchange - The Bank of Canada exchange rate on December 31, 1997.
- b) The Corporation has entered into contracts to manage its exposure to interest and foreign exchange rate fluctuations. The following summarizes instruments held at each year end (millions of dollars):

	1997			Repricing or Maturity Date
	Notional Principal	Fair Value Asset (Liability)	Interest Rate (%)	
Cross currency swaps -----	\$ 286.0	\$ (3.0)		2003-2013 (i)
	1996			
	Notional Principal	Fair Value Asset (Liability)	Interest Rate (%)	Repricing or Maturity Date
Interest rate swaps -----	\$ 1,114.0	\$ (18.0)	(ii)	1997
Interest rate caps -----	306.0	0.0	5.75-6.00 (iii)	1997
Forward rate agreements----	32.0	0.0	5.50 (iv)	1997
Foreign exchange contracts-	45.0	1.3	(v)	1997

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 15. Financial Instruments (continued)

Notional principal represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. As such, these amounts are not receivable or payable, and therefore do not exchange hands at the maturity or repricing date.

Fair value for the above instruments reflects the amount that would be paid (liability) or received (asset) if the contracts were terminated at balance sheet date.

- i) Swaps are contractual agreements between two parties to exchange cash flows. Cross currency swap contracts effectively convert foreign currency principal and interest payments on selected debt issues into Canadian dollars.
- ii) Interest rate swaps allow the Corporation to exchange certain fixed interest rate commitments to floating rates and vice versa. In 1987 and 1988, the Corporation entered into a notional \$271.0 million U.S. of interest rate swaps, agreeing to pay a weighted average fixed interest rate of 13.13% and receive six month floating London Interbank Offering Rate (LIBOR). In 1991 and 1992, the Corporation entered into a notional \$542.0 million U.S. of interest rate swaps, agreeing to pay six month floating LIBOR and receive a weighted average fixed interest rate of 6.90%. All interest rate swaps matured in 1997.
- iii) Interest rate caps establish the maximum rate payable on certain floating interest rate debt obligations. Disclosed interest rates reflect the rates in effect when the caps are exercised.
- iv) Forward rate agreements mitigate interest rate risk by effectively fixing interest costs on certain debt obligations for terms up to six months as at December 31, 1996.
- v) Foreign exchange contracts allow the Corporation to settle future U.S. dollar obligations through the purchase of U.S. dollars at a specified future date at a pre-agreed price. These contracts mitigate foreign exchange risk by effectively fixing the U.S. exchange rate at approximately \$0.75 Canadian on certain U.S. debt obligations.

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 15. Financial Instruments (continued)

#### c) Fair value of financial instruments

The fair value of the Corporation's financial instruments is as follows (millions of dollars):

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term investments (d)-----	\$ 939.8	\$ 1,109.8	\$ 1,046.0	\$ 1,286.7
Sinking fund equity -----	660.7	709.3	358.3	413.2
Long-term debt -----	3,488.2	4,225.0	3,983.6	4,612.5

The fair values of the above instruments were based on the following:

#### i) Long-term investments

Share investments - Publicly traded share investments fair value is based on their final trade price per share on December 31, 1997 less estimated selling costs.

Bonds, debentures, loans, notes and mortgages receivable - The fair value of bonds, debentures, loans, notes and mortgages receivable is determined by discounting scheduled cash flows through estimated maturity, using estimated discount rates that reflect the credit and interest rate risk inherent in the loan less disposition costs.

#### ii) Sinking fund equity

The fair value of the investments held in the sinking fund are based on their December 31, 1997 quoted market value.

#### iii) Long-term debt

The fair value of long-term debt is determined by the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.



# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 15. Financial Instruments (continued)

d) The Corporation has not attempted to determine the fair value of its investments in its equity holdings (\$122.0 million), non-publicly traded common shares (\$21.3 million), property holdings (\$57.2 million) or leases receivable (\$7.0 million) due to the relative insignificance of the amounts and the costs associated with this type of valuation.

e) Credit risk

The Corporation provides credit to its customers in the normal course of business. The Corporation does not have a significant credit exposure to any individual customer. For 1997, credit losses were insignificant.

### 16. Leases

Future minimum lease payments for operating leases entered into by the Corporation, as lessee, are as follows (thousands of dollars):

1998 -----	\$ 20,143
1999 -----	18,221
2000 -----	16,597
2001 -----	13,901
2002 -----	12,847
Thereafter -----	5,011
	<hr/>
	\$ 86,720
	<hr/> <hr/>

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 17. Related Party Transactions

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year end are as follows (millions of dollars):

	1997	1996
Accounts receivable-----	\$ 14.5	\$ 8.9
Accounts payable and accrued liabilities-----	84.1	104.0
Sales of products and services-----	87.0	89.5
Operating costs-----	62.2	77.6

During 1997, the Corporation received \$10.3 million (1996 - \$9.1 million) in grants from the General Revenue Fund.

As at December 31, 1997, \$1.2 million (1996 - \$39.0 million) is invested with the General Revenue Fund, at negotiated rates, and is included in short-term investments.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these consolidated financial statements and the notes thereto.

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 18. Joint Ventures

The Corporation has joint control over the operating, investing and financing policies of Meadow Lake Pulp Mill Limited Partnership (MLPLP), Saskfor MacMillan Limited Partnership, NewGrade Energy Inc., and Bi-Provincial Upgrader Joint Venture (Note 20). The Corporation's pro-rata share of its interest in these joint ventures is as follows (thousands of dollars):

	1997	1996
Current assets-----	\$ 125,657	\$ 134,194
Long-term assets-----	\$ 499,507	\$ 497,275
Current liabilities-----	\$ 90,785	\$ 97,891
Long-term liabilities-----	\$ 225,014	\$ 244,964
Equity-----	\$ 309,365	\$ 288,614
Revenue-----	\$ 708,605	\$ 747,329
Expenses-----	\$ 684,105	\$ 765,323
Net earnings (loss)-----	\$ 24,500	\$ (17,994)
Cash flows from operating activities-----	\$ 58,486	\$ 23,199
Cash flows from financing activities-----	\$ (44,167)	\$ 10,772
Cash flows from investing activities-----	\$ 3,208	\$ 1,617

# Crown Investments Corporation of Saskatchewan

## Notes to Consolidated Financial Statements

December 31, 1997

### 19. Pensions

Substantially all employees of the Corporation are participants in either defined contribution or defined benefit pension plans.

The Corporation's responsibility to the defined contribution plans is limited to making regular payments into the plans to match the required amounts contributed by employees for current service.

Based on the latest actuarial valuations, the fair value of the defined benefit pension funds' assets are \$1,346.9 million which exceeds the present value of the accrued pension benefits of the defined benefit pension plans of \$1,189.1 million by \$157.8 million. The actuarial present value of the accrued pension benefits is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. This estimate therefore involves risks that the actual amount may differ materially from the estimate.

### 20. Subsequent Events

On February 19, 1998, the Corporation sold its interest in the Bi-Provincial Upgrader Joint Venture to Husky Oil Operations Ltd. The sale proceeds of \$310.0 million are receivable in two equal instalments. The first instalment was received February 19, 1998 and the second instalment is due January 29, 1999.

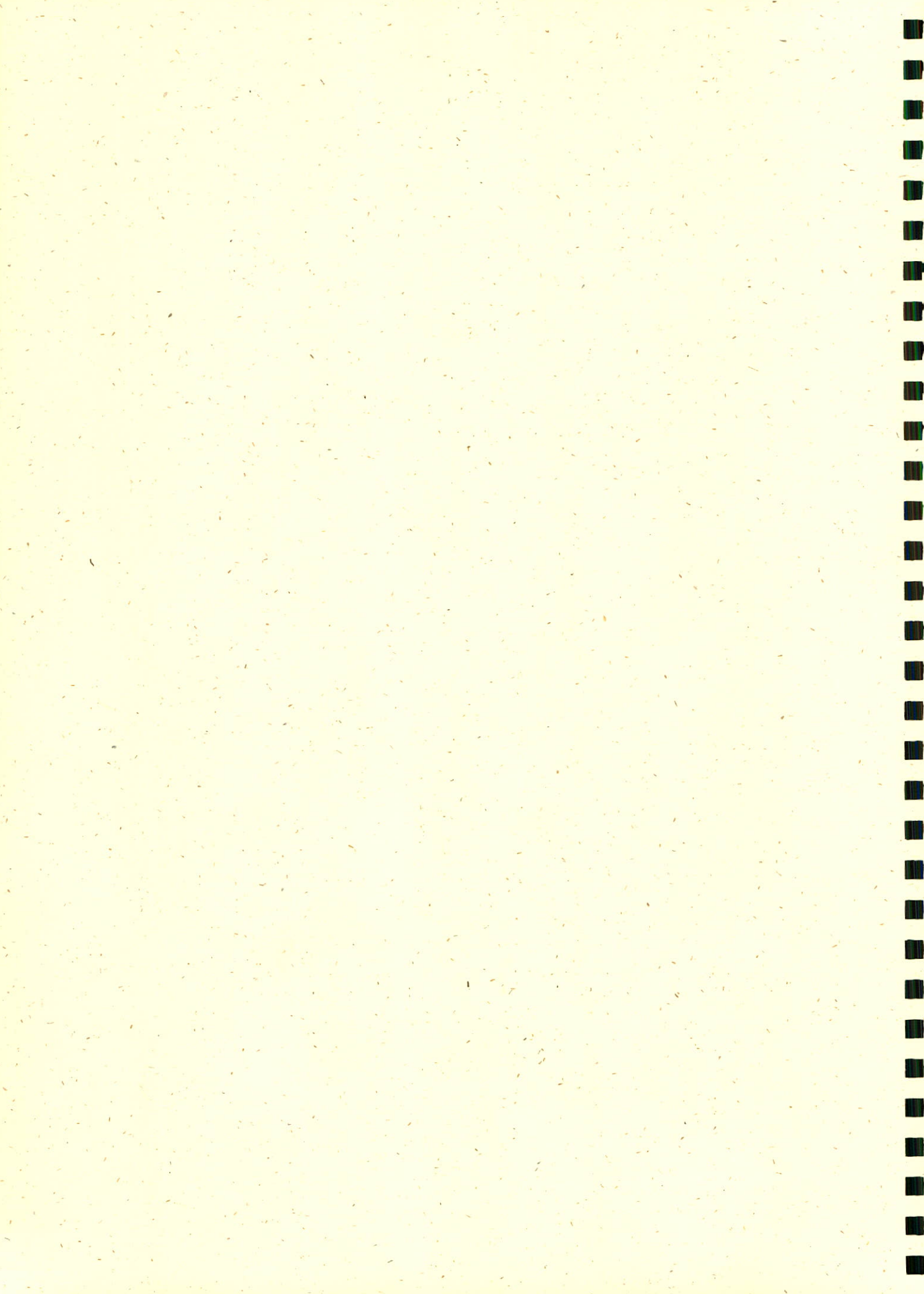
On February 23, 1998, the Corporation signed a power purchase agreement. The agreement is expected to cost \$2 billion over its twenty-five year term and provide approximately 210 megawatts of electrical power annually beginning in late 1999.

Subsequent to year end, the Corporation began a restructuring of the finances of MLPLP. With regards to the financial restructuring the Corporation will fulfil its obligations under an \$8 million guarantee entered into during 1997. In addition, the Corporation has given assurance that arrangements will be made to reduce MLPLP's long-term bank loan from \$122 million to an amount deemed reasonable by the lender by August, 1999. Also, the Corporation has agreed to fund any operation shortfalls of MLPLP until August 1999. The Corporation does not expect these shortfalls to exceed \$10 million during 1998.

### 21. Comparative Figures

Certain of the 1996 comparative figures have been reclassified to conform with current year's presentation.







Natural Gas  
The Smart Choice

Sask





# Crown Investments Corporation of Saskatchewan (Non-Consolidated)

## CIC Consolidated Financial Statements

### CIC Non-Consolidated Financial Statements

#### Include:

#### Income (expense):

- Dividends from subsidiary Crowns and Cameco Corporation
- Net interest and operating costs
- Grants paid to Saskatchewan Transportation Company

#### Assets:

- Equity advances to subsidiary Crowns
- Investment in Cameco Corporation and NewGrade Energy Inc.

#### Liabilities:

- Debt

CIC is the provincial government's holding company for its commercial Crowns and CIC III. CIC has invested equity in its subsidiary Crown corporations and collects dividends from these corporations based upon their profitability. CIC also holds the Province's investment in Cameco and NewGrade.

This narrative on CIC's non-consolidated 1997 financial results should be read in conjunction with the audited non-consolidated financial statements. For purposes of this narrative on CIC's non-consolidated results, "CIC" refers to the holding company.

## Results of Operations

Earnings for 1997 were \$75.6 million (1996 - \$598.4 million). 1996 results include a \$543.6 million gain on sale from CIC's sale of 10.1 million Cameco shares. Excluding the Cameco gain, earnings for 1997 were \$20.8 million higher than 1996 earnings of \$54.8 million.

Revenues for the year were \$156.7 million (1996 - \$179.1 million excluding the Cameco share sale). The \$22.4 million decline in revenues excluding Cameco reflects lower dividends from SaskEnergy and SaskTel partially offset by a higher dividend from SGI.

SaskEnergy experienced lower earnings related to warmer winter weather, and hence paid a lower dividend. SaskTel had a strong year operationally, but took a \$55.7 million non-cash provision against its assets which reduced its earnings and in turn its dividend to CIC. The provision follows an industry-wide practice to reflect a decline in value of local service assets due to competition in local phone service. SGI paid a higher dividend as a result of higher earnings and the application of a new policy for dividends from Crown subsidiaries in 1997.

Expenses were \$73.6 million (1996 - \$91.5 million). This \$17.9 million decline was due to lower interest expense, reflecting CIC's improved debt position. Interest expense was \$64.3 million (1996 - \$81.8 million), a reduction of \$17.5 million.

CIC received cash from investments totalling \$574.6 million (1996 - \$418.9 million), reflecting second instalment receipts from the 1996 sale of Cameco shares (\$382.0 million) and repayment of advances by CIC III (\$192.5 million). CIC III repaid these advances using proceeds from the sale of Wascana Energy shares. New investments and capital acquisitions were nominal in 1997, amounting to \$0.2 million (1996 - \$0.2 million). CIC advanced \$5.5 million to STC to cover cash shortfalls for the first half of the year (1996 - \$8.1 million). All loans to STC were extinguished at mid-year as part of a financial restructuring. CIC funded STC's cash shortfalls for the remainder of 1997 with grants of \$2.0 million.

Debt at year end was \$431.7 million (1996 - \$860.9 million), a reduction of 50 per cent. CIC accomplished this \$429.2 million in debt reduction primarily through the collection of Cameco second instalment receipts in March, 1997 and the sale of CIC III's holding in Wascana Energy in April, 1997.

# Crown Investments Corporation of Saskatchewan (Non-Consolidated)

## Liquidity and Capital Resources

### Cash Flow Highlights

(millions of dollars)

	1997	1996
Cash from Operations -----	\$ 94.7	\$ 68.3
Net Proceeds from Investments -----	568.8	410.6
Dividends Paid -----	(241.5)	(224.2)
Debt Repaid -----	(417.6)	(254.7)
Increase in Cash -----	\$ 4.4	\$ -

### Liquidity

CIC finances its capital requirements through internally-generated cash flow and through borrowing by the GRF in capital markets on its behalf.

### Operating, Investing and Financing Activities

Cash from operations was \$94.7 million (1996 - \$68.3 million). The \$26.4 million increase was primarily due to a decrease in working capital.

Cash provided by investing activities was \$568.8 million (1996 - \$410.6 million). The \$158.2 million increase is primarily due to the receipt of the proceeds from the sale of Wascana Energy shares.

Cash used in financing activities was \$659.2 million (1996 - \$478.9 million). The \$180.3 million increase was due primarily to application of the proceeds from the sale of Wascana Energy shares and the second instalment from the sale of Cameco shares to reduce debt.

### Debt Management

CIC has borrowed at the holding company level to fund certain investments held by CIC and CIC III. One of CIC's key objectives is to achieve financial self-sufficiency. To achieve financial self-sufficiency, CIC has determined that based upon its current investment portfolio, its self-supporting level of debt is \$220 million at December 31, 1997.

Investments are characterized as self-supporting when they have a high degree of certainty that the amounts and timing of their cash flows can make required interest payments and retire the associated debt at maturity. Under current projections, CIC expects to attain its self-supporting debt target in 1999. CIC's targeted amount of self-supporting debt will change according to the composition of its investment portfolio as new investments are made and existing investments are sold.

### Outlook and Key Factors Affecting Performance

The key factors affecting CIC's earnings are the level of dividends from subsidiary Crowns and interest expense. Also affecting CIC's earnings are items attributable to its investments, such as write-downs.

Factors affecting the level of CIC's dividends from subsidiary Crowns are discussed in the "Capital Allocation in the Crown Sector" section. CIC expects aggregate dividends declared from subsidiary Crowns in 1998 to be similar to 1997. Interest expense is determined by CIC's level of debt and by the investment earnings of its sinking funds, which are offset against interest expense. CIC expects to reduce its debt in 1998, and thus expects interest expense to be lower than in 1997.

CIC regularly assesses the appropriateness of the carrying value for its investments, and writes down an investment if it judges there to be a permanent impairment in carrying value. CIC regularly reviews its investments with private sector partners to determine the appropriateness of retention or sale.

# Crown Investments Corporation of Saskatchewan Non-Consolidated Financial Statements

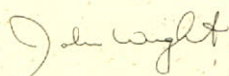
## Responsibility for Financial Statements

The accompanying Non-Consolidated Financial Statements have been prepared by management of Crown Investments Corporation of Saskatchewan to illustrate the financial position and results of operations of the corporate entity only. They have been prepared, on a non-consolidated basis, in accordance with generally accepted accounting principles in Canada, consistently applied, using management's best estimates and judgements where appropriate. Management is responsible for the reliability and integrity of the Non-Consolidated Financial Statements, the notes to the Non-Consolidated Financial Statements and other information contained in this Annual Report.

The Corporation's Board of Directors is responsible for overseeing the business affairs of the Corporation and also has the responsibility for approving the financial statements. The Board of Directors has delegated certain of the responsibilities to its Audit Committee including the responsibility for reviewing the annual financial statements and meeting with management and the Provincial Auditor of Saskatchewan on matters relating to the financial process.

Management maintains a system of internal controls to ensure the integrity of information that forms the basis of the financial statements. The internal controls provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly guarded against unauthorized use and that reliable records are maintained. The Provincial Auditor of Saskatchewan has reported to the Legislative Assembly that these controls are adequately functioning.

The Provincial Auditor of Saskatchewan has audited the Non-Consolidated Financial Statements. His report to the Members of the Legislative Assembly, stating the scope of his examination and opinion on the Non-Consolidated Financial Statements, appears opposite.



John Wright  
President

March 12, 1998



Sheldon Schwartz  
Vice-President,  
Finance & Administration

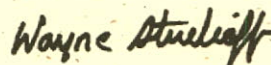
## Auditor's Report

To the Members of the Legislative Assembly  
of Saskatchewan

I have audited the non-consolidated statement of financial position of **Crown Investments Corporation of Saskatchewan** as at December 31, 1997 and the non-consolidated statements of operations and reinvested earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles except that they are prepared on a non-consolidated basis and use the cost method to account for investments that would normally be accounted for by the equity method as explained in Note 1.



Regina, Saskatchewan  
March 12, 1998

W. K. Strelieff, CA  
Provincial Auditor

# Crown Investments Corporation of Saskatchewan Non-Consolidated Statement of Financial Position

As at December 31

(thousands of dollars)

## ASSETS

	1997	1996
Cash and short-term investments -----	\$ 4,744	\$ 315
Interest and accounts receivable -----	209	382,122
Dividends receivable -----	153,486	175,686
Equity advances to Crown corporations (Note 4) -----	1,038,382	1,038,382
Investments in share capital corporations (Note 5) -----	962,517	1,155,035
Other assets (Note 6) -----	6,789	9,694

\$ 2,166,127	\$ 2,761,234
--------------	--------------

## LIABILITIES AND PROVINCE'S EQUITY

Interest and accounts payable -----	\$ 27,102	\$ 27,133
Dividend payable to General Revenue Fund -----	50,000	241,501
Notes payable to General Revenue Fund -----	-	102,418
Long-term debt (Note 7) -----	431,667	758,434

508,769	1,129,486
---------	-----------

### Province of Saskatchewan's Equity

Equity advances (Note 8) -----	1,447,452	1,447,452
Reinvested earnings -----	209,906	184,296

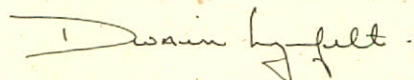
1,657,358	1,631,748
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\$ 2,166,127	\$ 2,761,234
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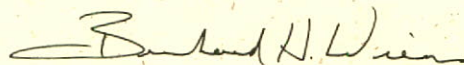
Commitments and Contingencies (Note 9)

(See accompanying notes)

On behalf of the Board:



Director



Director

# Crown Investments Corporation of Saskatchewan

## Non-Consolidated Statement of Operations and Reinvested Earnings

For the Year Ended December 31

(thousands of dollars)

	1997	1996
<b>REVENUE</b>		
Dividends (Note 10)-----	\$ 155,518	\$ 177,796
Interest-----	971	826
Gain on sale of investment-----	-	543,598
Other-----	252	516
	<u>156,741</u>	<u>722,736</u>
<b>EXPENSES</b>		
Interest - long-term debt-----	63,342	74,902
Interest - short-term debt-----	905	6,887
General, administrative and other-----	9,236	9,583
Amortization of capital assets-----	148	121
	<u>73,631</u>	<u>91,493</u>
Earnings before the following-----	83,110	631,243
Grants to Saskatchewan Transportation Company-----	(2,000)	-
Grants to NewGrade Energy Inc.-----	-	(10,000)
Write-down of investments (Note 11)-----	(5,500)	(22,805)
<b>NET EARNINGS</b> -----	75,610	598,438
<b>REINVESTED EARNINGS, BEGINNING OF YEAR</b> -----	184,296	1,557
	<u>259,906</u>	<u>599,995</u>
<b>DIVIDEND TO GENERAL REVENUE FUND</b> -----	50,000	415,699
<b>REINVESTED EARNINGS, END OF YEAR</b> -----	<u>\$ 209,906</u>	<u>\$ 184,296</u>

(See accompanying notes)

# Crown Investments Corporation of Saskatchewan

## Non-Consolidated Statement of Cash Flows

For the Year Ended December 31

(thousands of dollars)

### OPERATING ACTIVITIES

	1997	1996
Net earnings -----	\$ 75,610	\$ 598,438
Add (deduct) non-cash items:		
Amortization -----	148	121
Write-down of investments -----	5,500	22,805
Gain on sale of investment -----	-	(543,598)
Sinking fund earnings -----	(11,527)	-
Other non-cash items -----	2,979	2,964
	<hr/> 72,710	<hr/> 80,730
Net change in non-cash working capital balances related to operations (Note 12) -----	22,033	(12,410)
	<hr/> 94,743	<hr/> 68,320

### INVESTING ACTIVITIES

Increase in notes receivable -----	(5,500)	(8,100)
Decrease in investments in share capital corporations -----	192,518	69,525
Disposal of capital assets -----	-	27
Net proceeds on sale of investment -----	-	731,397
Second instalment receivable (Note 5(c)) -----	382,049	(382,049)
Purchase of capital assets -----	(222)	(196)
	<hr/> 568,845	<hr/> 410,604

### FINANCING ACTIVITIES

Decrease in notes payable -----	(102,418)	(219,682)
Long-term debt repayments -----	(7,500)	(35,000)
Sinking fund instalments -----	(307,740)	-
Dividends paid to General Revenue Fund -----	(241,501)	(224,198)
	<hr/> (659,159)	<hr/> (478,880)

<b>NET INCREASE IN CASH DURING YEAR</b> -----	4,429	44
<b>CASH POSITION, BEGINNING OF YEAR</b> -----	315	271
<b>CASH POSITION, END OF YEAR</b> -----	<hr/> \$ 4,744	<hr/> \$ 315

(See accompanying notes)

# Crown Investments Corporation of Saskatchewan

## Notes to Non-Consolidated Financial Statements

December 31, 1997

### 1. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles except as noted in a), b) and c) below. The preparation of periodic financial statements involves the use of estimates because the precise determination of financial data frequently depends on future events. These financial statements have been prepared by management within reasonable limits of materiality using the accounting policies summarized below:

#### a) Basis of presentation

These financial statements have been prepared on a non-consolidated basis for the specific purpose of illustrating the financial position and results of operations of the corporate entity only. Therefore, for further information, readers should refer to the Crown Investments Corporation of Saskatchewan (CIC) consolidated financial statements. The consolidated financial statements include the accounts of CIC, the subsidiary Crown corporations listed in Note 2, CIC Industrial Interests Inc., a wholly-owned share capital subsidiary, and the proportionate shares of jointly controlled enterprises.

#### b) Equity advances to Crown corporations

Crown corporations do not have share capital. However, seven Crown corporations have received equity advances from CIC to form their equity capitalization. The equity advances are initially recorded at cost, but where there has been a decline in the value of the investment that is not considered temporary, the investment is written down to its estimated realizable value. Dividends from these corporations are recognized as income when receivable.

#### c) Investments in share capital corporations

Investments in shares of corporations are accounted for on the cost method regardless of whether or not joint control exists, or there is a parent-subsidary relationship. When there has been a decline in the value of a joint venture or a share capital subsidiary corporation that is not considered temporary, the investment is written down to its estimated net realizable value. Where there has been a decline in any other investment it is written down to its fair value. Dividends from these share investments are recognized as income when receivable.

#### d) Loans and notes receivable

Loans and notes receivable are initially recorded at cost, but where there has been a decline in the value of the loan or note that is not considered temporary, the investment is written down to its fair value.

#### e) Capital assets

Capital assets are recorded at cost. When capital assets are disposed of or retired, the related costs and accumulated amortization are eliminated from the accounts. Any resulting gains or losses are reflected in the statement of operations.

Capital assets are amortized over their estimated useful lives using the declining balance method at rates of 20% to 30% a year.

# Crown Investments Corporation of Saskatchewan

## Notes to Non-Consolidated Financial Statements

December 31, 1997

### 1. Summary of Significant Accounting Policies (continued)

#### f) Deferred charges

Costs and discounts incurred on the issue of long-term debt are recorded at cost less accumulated amortization. These deferred charges are amortized over the term of the related debt on a straight-line basis.

#### g) Fair value disclosure of short-term financial instruments

For certain of CIC's financial instruments including:

- i) cash and short-term investments
- ii) interest and accounts receivable
- iii) dividends receivable
- iv) interest and accounts payable
- v) dividend payable to the General Revenue Fund
- vi) notes payable to the General Revenue Fund

the carrying amounts approximate fair value due to their immediate or short-term maturity.

### 2. Status of Crown Investments Corporation of Saskatchewan

The Government Finance Office was established by Order-in-Council 535/47 dated April 2, 1947, and was continued under the provisions of **The Crown Corporations Act, 1993**, as Crown Investments Corporation of Saskatchewan (CIC). CIC is an agent of Her Majesty in Right of the Province of Saskatchewan and as a Provincial Crown corporation is subject to neither Federal nor Provincial income tax.

The Act assigns specific financial and other responsibilities to CIC regarding Crown corporations designated or created as subsidiary Crown corporations of CIC under the Act. The following corporations have been designated or created by Order-in-Council:

CIC Mineral Interests Corporation (a)  
SaskEnergy Incorporated  
Saskatchewan Development Fund Corporation  
Saskatchewan Forest Products Corporation  
Saskatchewan Government Growth Fund Management Corporation  
Saskatchewan Government Insurance  
Saskatchewan Opportunities Corporation  
Saskatchewan Power Corporation  
Saskatchewan Telecommunications Holding Corporation  
Saskatchewan Telecommunications  
Saskatchewan Transportation Company  
Saskatchewan Water Corporation

- a) CIC Mineral Interests Corporation was wound-up pursuant to **The Miscellaneous Statutes Repeal (Regulatory Reform) Act, 1997** which came into force on June 30, 1997.



# Crown Investments Corporation of Saskatchewan Notes to Non-Consolidated Financial Statements

December 31, 1997

### 3. Loans and Notes Receivable

(thousands of dollars)

	1997	1996
Saskatchewan Transportation Company (STC)		
- short-term notes (Note 4)-----	\$ -	\$ 20,500
Less: Allowance for loan losses-----	-	(20,500)
	\$ -	\$ -
	-	-

### 4. Equity Advances to Crown Corporations

Equity advances to Crown corporations are as follows  
(thousands of dollars):

	1997	1996
Saskatchewan Power Corporation-----	\$ 660,000	\$ 660,000
Saskatchewan Telecommunications-----	250,000	250,000
SaskEnergy Incorporated-----	71,531	71,531
Saskatchewan Transportation Company (a)-----	-	55,485
Saskatchewan Government Insurance-----	55,000	55,000
Saskatchewan Development Fund Corporation-----	1,150	1,150
Saskatchewan Water Corporation-----	700	700
Saskatchewan Government Growth Fund Management Corporation-----	1	1
	1,038,382	1,093,867
Less: Write-down of investments:		
Saskatchewan Transportation Company-----	-	(55,485)
	\$ 1,038,382	\$ 1,038,382
	-	-

- a) During 1997 CIC effected a corporate restructure of STC through two separate financial transactions. Initially, CIC forgave \$26.0 million of short-term notes receivable from STC. CIC then cancelled all outstanding equity advances to STC. This resulted in the elimination of STC's accumulated deficit.

# Crown Investments Corporation of Saskatchewan Notes to Non-Consolidated Financial Statements

December 31, 1997

## 5. Investments in Share Capital Corporations

(thousands of dollars)

Investee	Description of Investment	Voting Percentage	1997	1996
CIC Industrial Interests Inc.	34,000,000 common shares -----	100%	\$ 340,000	\$ 340,000
	Due to CIC (a) -----		674,656	867,174
			<u>1,014,656</u>	<u>1,207,174</u>
NewGrade Energy Inc.	100 Class Y voting participating common shares (b) -----	50%	50,001	50,001
	Promissory notes -----		9,568	9,568
			<u>59,569</u>	<u>59,569</u>
Cameco Corporation	5,420,567 common shares (c) ---	9.4%	100,586	100,586
			<u>1,174,811</u>	<u>1,367,329</u>
Less: Write down of investments:				
	CIC Industrial Interests Inc. -----		(152,725)	(152,725)
	NewGrade Energy Inc. -----		(59,569)	(59,569)
			<u>\$ 962,517</u>	<u>\$ 1,155,035</u>

- a) Amounts due to CIC are non-interest bearing and repayable on demand.
- b) CIC owns 50% of the outstanding voting participating shares of NewGrade Energy Inc. (NewGrade), a jointly controlled corporation. CIC also holds certain promissory notes due on demand from NewGrade, and bear interest at Bank of Montreal prime rate, which is 6.00% (1996 - 4.75%).

In addition, should there be any operating shortfall at the end of any year, CIC will loan NewGrade up to \$2.0 million, escalated by inflation, in the form of a Subordinated-Operations Fee Amount after Consumers Co-operative Refineries Ltd. (CCRL) has provided its \$2.0 million Subordinated Operations Fee Amount. If these loans do not cover all cash shortfalls then CIC will loan NewGrade up to \$4.0 million as a Cash Flow Deficiency Loan on a pro rata basis with CCRL. If this facility is exhausted, CIC will loan NewGrade the remainder to cover any other annual operating shortfall. These loans, if any, will bear interest at CCRL's rate of borrowing. CCRL's required Cash Flow Deficiency Loans cannot exceed \$40 million outstanding at any time.

# Crown Investments Corporation of Saskatchewan

## Notes to Non-Consolidated Financial Statements

December 31, 1997

### 5. Investments in Share Capital Corporations (continued)

- c) Included in the investment in Cameco is one Class B share which provides CIC with the ability to exercise special voting rights with respect to the location of Cameco's head office.

During 1996 CIC sold 10,120,500 shares of Cameco for net proceeds of \$731.4 million due in two instalments. On March 20, 1997 the Corporation collected \$382.0 million receivable from the second instalment, thereby completing the sales transaction.

The fair value of Cameco shares was calculated on the last trade value on December 31, 1997 less estimated costs of disposition. The fair value of these shares is \$241.5 million (1996 - \$285.7 million).

- d) The securities of CIC Industrial Interests Inc. and NewGrade are not publicly traded and therefore have no quoted market value.

### 6. Other Assets

(thousands of dollars)

	Cost	1997 Accumulated Amortization	Net-Book Value	1996 Net Book Value
Deferred charges -----	\$ 27,353	\$ 21,001	\$ 6,352	\$ 9,331
Capital assets -----	1,801	1,364	437	363
	<u>\$ 29,154</u>	<u>\$ 22,365</u>	<u>\$ 6,789</u>	<u>\$ 9,694</u>

### 7. Long-Term Debt

(thousands of dollars)

Maturity Date	Interest Rate (per cent)	1997	1996
June 1, 1998-----	9.410-----	\$ 8,407	\$ 8,407
July 3, 1998-----	10.125-----	250,000	250,000
November 2, 1998-----	7.650-----	100,000	100,000
July 6, 1999-----	9.875-----	25,000	25,000
July 12, 2000-----	11.250-----	17,500	25,000
January 9, 2001-----	11.000-----	25,000	25,000
June 1, 2001-----	8.750-----	150,000	150,000
February 12, 2003-----	9.055-----	154,108	154,108
June 2, 2006-----	9.620-----	10,000	10,000
July 10, 2007-----	9.830-----	4,000	4,000
March 3, 2008-----	9.620-----	3,000	3,000
August 10, 2008-----	10.060-----	3,919	3,919
		<u>750,934</u>	<u>758,434</u>
Less: Sinking Funds-----		319,267	-
		<u>\$ 431,667</u>	<u>\$ 758,434</u>

# Crown Investments Corporation of Saskatchewan Notes to Non-Consolidated Financial Statements

December 31, 1997

## 7. Long-Term Debt (continued)

- a) The long-term debt is payable to the General Revenue Fund. Sinking funds invested with the General Revenue Fund are used for the retirement of debt issues and are settled with the General Revenue Fund on a net basis.
- b) Gross long-term debt due in one year totals \$358.4 million (1996 - Nil).
- c) Certain issues totalling \$29.3 million (1996 - \$29.3 million) are subject to redemption on six months notice by the lender.
- d) Principal repayments (net of sinking funds) due in each of the next five years are as follows (thousands of dollars):

1998-----	\$	104,293
1999-----	\$	25,000
2000-----	\$	17,500
2001-----	\$	109,848
2002-----	\$	-

- e) The fair value of borrowed funds is determined by discounting the future cash flows at borrowing rates presently available to CIC for loans with similar terms and remaining maturity, less costs of settlement. The fair value of long-term debt is \$811.3 million (1996 - \$845.0 million).
- f) The fair value of securities held in the sinking funds are based on their December 31, 1997 quoted value. The fair value of sinking funds is \$318.6 million (1996 - Nil).

## 8. Equity Advances

CIC does not have share capital. However, CIC has received advances from the General Revenue Fund to form its equity capitalization. The advances are an equity investment in CIC by the General Revenue Fund.

# Crown Investments Corporation of Saskatchewan Notes to Non-Consolidated Financial Statements

December 31, 1997

## 9. Commitments and Contingencies

- a) CIC had unconditionally guaranteed payment of indebtedness incurred by IPSCO Inc. (IPSCO) under the terms of an operating lease which was to expire in 2007. On July 2, 1997, IPSCO exercised their option to purchase equipment under the lease thereby releasing CIC from any further obligations.
- b) CIC has guaranteed the exchange risk that exists upon default of NewGrade's U.S. denominated debt to the extent that the default amount would exceed the \$360.0 million guaranteed by the General Revenue Fund. At December 31, 1997, the General Revenue Fund's guarantee does not exceed \$360.0 million. CIC does not expect any exposure under this guarantee in 1998.
- c) CIC has indemnified the Government of Canada for their guarantee of NewGrade's long-term debt, to a maximum of \$275.0 million. The fair value of the guarantee is \$134.6 million (1996 - \$152.5 million).
- d) CIC has guaranteed certain bank facilities of Meadow Lake Pulp Limited Partnership (MLPLP) to a maximum of \$8.0 million.
- e) CIC has guaranteed the return on annuities for the Retirement Annuity Fund portion of the Capital Pension Plan. CIC does not expect any exposure under this guarantee in 1998.

## 10. Dividend Revenue

Dividend revenue consists of the following  
(thousands of dollars):

	1997	1996
Saskatchewan Telecommunications Holding Corporation ---	\$ 36,571	\$ 46,200
Saskatchewan Power Corporation -----	72,629	76,587
SaskEnergy Incorporated -----	21,700	40,340
Saskatchewan Government Insurance -----	21,908	11,881
Cameco Corporation -----	2,710	2,788
	\$ 155,518	\$ 177,796
	\$ 155,518	\$ 177,796

## 11. Write-Down of Investments

The write-down of investments represents management's best estimate of the decline in value of the investments in certain corporations (thousands of dollars):

	1997	1996
Saskatchewan Transportation Company -----	\$ 5,500	\$ 22,805
	\$ 5,500	\$ 22,805
	\$ 5,500	\$ 22,805

# Crown Investments Corporation of Saskatchewan

## Notes to Non-Consolidated Financial Statements

December 31, 1997

### 12. Net Change in Non-Cash Working Capital Balances Related to Operations

(thousands of dollars)

	1997	1996
(Increase) decrease in interest and accounts receivable -----	\$ (136)	\$ 137
Decrease (increase) in dividends receivable -----	22,200	(11,943)
Decrease in interest and accounts payable -----	(31)	(604)
	\$ 22,033	\$ (12,410)

### 13. Related Party Transactions

Included in these non-consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year end, are as follows (thousands of dollars):

	1997	1996
Category (as per financial statements)		
Interest and accounts receivable-----	\$ 25	\$ 13
Interest and accounts payable -----	24,302	24,691
General, administrative and other expenses-----	345	199

In addition, CIC pays Saskatchewan Education and Health Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

CIC provides management services to CIC Industrial Interests Inc. without charge.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these non-consolidated financial statements and the notes thereto.

# Crown Investments Corporation of Saskatchewan

## Notes to Non-Consolidated Financial Statements

December 31, 1997

### 14. Pension Plan

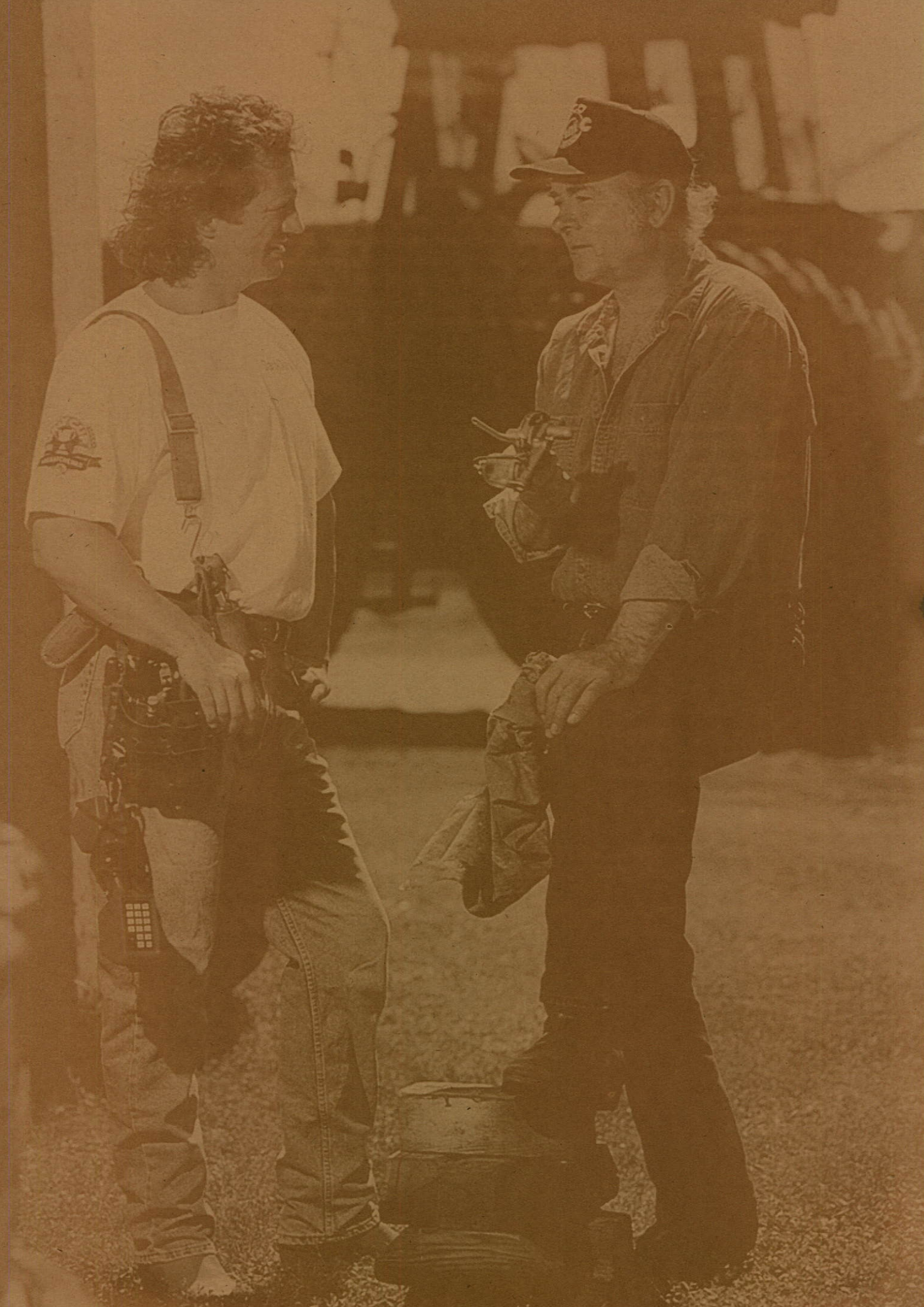
CIC's employees participate in the Capital Pension Plan (the Plan), a defined contribution pension plan which is administered by CIC. CIC's contributions to the Plan include making regular payments into the Plan to match the required amounts contributed by employees for current service. Included in the Plan is a Retirement Annuity Fund (the Fund). The Fund provides retirement annuities at the option of retiring members of the Plan. An actuarial valuation of the Fund is performed annually. The assets of the Fund at December 31, 1997 exceed the actuarially determined net present value of retirement annuities payable.

### 15. Subsequent Event

Subsequent to year end, CIC began a restructuring of the finances of MLPLP. With regards to the financial restructuring CIC will fulfil its obligations under an \$8 million guarantee entered into during 1997. In addition, CIC has given assurance that arrangements will be made to reduce MLPLP's long-term bank loan from \$122 million to an amount deemed reasonable by the lender by August, 1999. Also, CIC has agreed to fund any operation shortfalls of MLPLP until August 1999. CIC does not expect these shortfalls to exceed \$10 million during 1998.









## CIC Industrial Interests Inc. (Non-Consolidated)

### CIC Consolidated Financial Statements

#### CIC Industrial Interests Inc. Non-Consolidated Financial Statements

##### Include:

- HARO Financial Corporation
- Meadow Lake Pulp Limited Partnership
- Bi-Provincial Upgrader Joint Venture
- Wascana Energy Inc. (sold in 1997)
- Saskferco Products Inc.
- Saskfor MacMillan Limited Partnership
- Former Saskatchewan Economic Development Corporation holdings
- Cornwall Centre mortgages
- National Pig Development (Canada) Co. Ltd.
- Canadian Western Bank
- SGI CANADA Insurance Services Limited
- Former Saskatchewan Diversification Corporation holdings

CIC Industrial Interests Inc. (CIC III) was incorporated in 1979 under **The Business Corporations Act (Saskatchewan)** as a wholly-owned subsidiary of CIC. CIC III was created as a vehicle to hold certain investments of a commercial nature which involved some degree of private ownership.

This narrative on CIC III's non-consolidated 1997 financial results should be read in conjunction with the audited non-consolidated financial statements.

### Results of Operations

Earnings for 1997 were \$100.0 million (1996 - \$1.8 million). The \$98.2 million increase in earnings was due to improved earnings by commodity-based investments, and the gain on sale of 5.8 million shares of Wascana Energy to Canadian Occidental Petroleum Ltd. The sale, which took place on April 14, 1997, provided CIC III with net proceeds of \$119.8 million and a gain on sale of \$56.3 million. CIC III used the entire proceeds to pay down its non-interest bearing advances from CIC.

Revenue from loans and debentures was \$16.7 million (1996 - \$21.3 million). The \$4.6 million decrease was due to lower interest rates and the continuing orderly disposal of former Saskatchewan Economic Development Corporation assets now held by CIC III.

Earnings from equity investments were \$27.9 million (1996 - \$17.5 million). The \$10.4 million increase was primarily due to increased earnings from Bi-Provincial, partially offset by lower earnings from Saskferco.

CIC III's advances from CIC declined by \$192.5 million during the year, to \$674.7 million at year end (1996 - \$867.2 million). Strong cash flow from Saskferco, Bi-Provincial, and loans and debentures, in addition to the Wascana share sale were used to repay advances due to CIC.

# CIC Industrial Interests Inc. (Non-Consolidated)

## Liquidity and Capital Resources

### Cash Flow Highlights

(millions of dollars)

	1997	1996
Cash from Operations -----	\$ 37.8	\$ 41.4
Net Proceeds from Investments -----	154.7	28.1
Debt Reduction -----	(192.5)	(69.5)
Increase in Cash -----	\$ -	\$ -

### Liquidity

CIC III finances its capital requirements through internally generated cash flow and non-interest bearing advances from CIC.

### Operating, Investing and Financing Activities

Cash from operations was \$37.8 million (1996 - \$41.4 million).

Cash provided by investing activities was \$154.7 million (1996 - \$28.1 million). The \$126.6 million increase was primarily due to proceeds from the sale of Wascana Energy (\$119.8 million), and higher repayments on loan and debenture assets.

Advances due to CIC declined by \$192.5 million (1996 - \$69.5 million). All surplus cash is used by CIC III to repay advances due to CIC.

### Debt Management

All debt used to finance investments by CIC III is held by CIC.

### Outlook and Key Factors Affecting Performance

CIC III's earnings are affected primarily by the performance of its investments, including any associated write-downs or realized gains or losses on the disposition of its investments. The factors affecting the earnings and outlook for CIC III's major investments with private sector partners are discussed in the "Management's Discussion and Analysis" Section. CIC III regularly assesses the appropriateness of the carrying value for its investments with private sector partners, and will write-down an investment if it judges there to be a permanent impairment in its carrying value. CIC III regularly reviews its investments with private sector partners to determine the appropriateness of retention or divestiture.

# CIC Industrial Interests Inc. Non-Consolidated Financial Statements

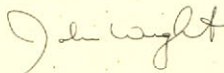
## Responsibility for Financial Statements

The accompanying Non-Consolidated Financial Statements have been prepared by management of CIC Industrial Interests Inc. to illustrate the financial position and results of operations of the corporate entity only. They have been prepared, on a non-consolidated basis, in accordance with generally accepted accounting principles in Canada, consistently applied, using management's best estimates and judgements where appropriate. Management is responsible for the reliability and integrity of the Non-Consolidated Financial Statements and other information contained in this Annual Report.

The Corporation's Board of Directors is responsible for overseeing the business affairs of the Corporation and also has the responsibility for approving the financial statements. The Board of Directors has delegated certain of the responsibilities to its Audit Committee including the responsibility for reviewing the annual financial statements and meeting with management and the Provincial Auditor of Saskatchewan on matters relating to the financial process.


Management maintains a system of internal controls to ensure the integrity of information that forms the basis of the financial statements. The internal controls provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly guarded against unauthorized use and that reliable records are maintained. The Provincial Auditor of Saskatchewan has reported to the Legislative Assembly that these controls are adequately functioning.

The Provincial Auditor of Saskatchewan has audited the Non-Consolidated Financial Statements. His report to the Members of the Legislative Assembly, stating the scope of his examination and opinion on the Non-Consolidated Financial Statements, appears opposite.



John Wright  
President

March 12, 1998



Sheldon Schwartz  
Vice-President,  
Finance & Administration

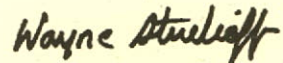
## Auditor's Report

To the Members of the Legislative Assembly  
of Saskatchewan

I have audited the non-consolidated statement of financial position of **CIC Industrial Interests Inc.** as at December 31, 1997 and the non-consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles except that they are prepared on a non-consolidated basis as explained in Note 1.



Regina, Saskatchewan  
March 12, 1998

W. K. Strelloff, CA  
Provincial Auditor

**CIC Industrial Interests Inc.**  
**Non-Consolidated Statement of Financial Position**

As at December 31

(thousands of dollars)

**ASSETS**

Interest and accounts receivable-----	\$ 3,879	\$ 3,866
Debentures and loans receivable (Note 3)-----	63,222	78,514
Investment - HARO Financial Corporation (Note 4)-----	421,661	421,246
Investments - equity basis (Note 5)-----	477,867	489,156
Investments - cost basis (Note 6)-----	7,456	69,544
Investments - properties (Note 7)-----	17,873	18,427

	\$ 991,958	\$ 1,080,753
--	------------	--------------

**LIABILITIES AND SHAREHOLDER'S EQUITY**

Accounts payable-----	\$ 3,967	\$ 199
Due to Crown Investments Corporation of Saskatchewan (Note 8)-----	674,656	867,174

	678,623	867,373
--	---------	---------

Shareholder's Equity		
Share capital (Note 9)-----	340,000	340,000
Deficit-----	(26,665)	(126,620)

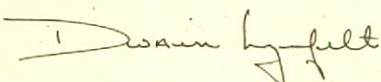
	313,335	213,380
--	---------	---------

	\$ 991,958	\$ 1,080,753
--	------------	--------------

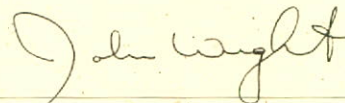
Commitments and contingencies (Note 10)

(See accompanying notes)

On behalf of the Board:



Director



Director

**CIC Industrial Interests Inc.**  
**Non-Consolidated Statement of Operations and Deficit**

For the Year Ended December 31

(thousands of dollars)

	1997	1996
<b>REVENUE</b>		
Interest and other-----	\$ 16,722	\$ 21,336
Rental properties-----	1,618	1,643
Earnings from equity investments (Note 5(f))-----	27,904	17,468
Gain on sale of investments-----	57,575	89
	103,819	40,536
<b>EXPENSES</b>		
Administrative and other-----	3,000	629
Amortization-----	242	277
Provision for (recovery of) loan losses-----	(193)	36,355
Rental properties-----	815	1,508
	3,864	38,769
<b>NET INCOME</b> -----	99,955	1,767
<b>DEFICIT, BEGINNING OF YEAR</b> -----	(126,620)	(128,387)
<b>DEFICIT, END OF YEAR</b> -----	\$ (26,665)	\$ (126,620)

(See accompanying notes)

**CIC Industrial Interests Inc.**  
**Non-Consolidated Statement of Cash Flows**

For the Year Ended December 31

(thousands of dollars)

**OPERATING ACTIVITIES**

	1997	1996
Net income -----	\$ 99,955	\$ 1,767
Dividends received from equity investments -----	19,474	19,061
Add (deduct) non-cash items:		
Gain on sale of investments -----	(57,575)	(89)
Earnings from equity investments -----	(27,904)	(17,468)
Amortization -----	242	277
Provision for property losses -----	100	405
(Reduction of) provision for loan losses -----	(193)	36,355
	34,099	40,308
Net change in non-cash working capital balances related to operations -----	3,755	1,130
Cash provided by operating activities -----	37,854	41,438

**INVESTING ACTIVITIES**

Increase in debentures and loans receivable -----	(4,408)	(1,191)
Debenture and loan repayments received -----	38,377	22,633
Purchase of investments -----	(2,611)	(3,733)
Proceeds from sale of investments -----	123,306	10,378
Cash provided by investing activities -----	154,664	28,087

**FINANCING ACTIVITIES**

Decrease in due to CIC -----	(192,518)	(69,525)
------------------------------	-----------	----------

**NET CHANGE IN CASH** -----

**CASH POSITION, BEGINNING OF YEAR** -----

**CASH POSITION, END OF YEAR** -----

-	-
\$ -	\$ -

(See accompanying notes)



# CIC Industrial Interests Inc.

## Notes to Non-Consolidated Financial Statements

December 31, 1997

### 1. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles except as noted in a) and c) below. The preparation of periodic financial statements involves the use of estimates since the precise determination of financial data frequently depends on future events. These financial statements have been prepared by management within reasonable limits of materiality using the accounting policies summarized below:

#### a) Basis of Presentation

CIC Industrial Interests Inc. (the Corporation) is a wholly-owned subsidiary of Crown Investments Corporation of Saskatchewan (CIC) as discussed in Note 2. These financial statements are prepared on a non-consolidated basis for the specific purpose of illustrating the financial position and results of operations of the corporate entity only. For further information, readers should refer to the CIC consolidated financial statements.

#### b) Advances, Debentures, Loans and Mortgages Receivable

The Corporation records advances, debentures, loans and mortgages receivable at cost. When there has been a decline in the value of an advance, debenture, loans or mortgages receivable, the asset is written down to its estimated net realizable value.

The Corporation recognizes interest earned on debentures, loans and mortgages receivable on the accrual basis except where uncertainty exists as to collection.

When collectibility of interest is not certain, interest income is recorded when interest is received. To show the total amount owing to the Corporation accrued interest receivable is offset by deferred interest income.

#### c) Investments - Equity Basis

The Corporation accounts for investments in its subsidiaries, CIC Pulp Ltd., CIC Forest Products Ltd., and National Pig Development (Canada) Co. Ltd., using the equity method. The carrying value of the Corporation's investment is adjusted for the Corporation's proportionate share of the subsidiaries' net earnings or losses and decreased by dividends received. The Corporation also uses the equity method to account for its 50% investment in the Bi-Provincial Upgrader Joint Venture and in corporations it significantly influences.

The Corporation's investments in CIC Pulp Ltd., CIC Forest Products Ltd., and the Bi-Provincial Upgrader Joint Venture consist of equity and debt instruments. Where there has been a decline in the value of a debt instrument that is not considered temporary, the instrument is written down to its estimated net realizable value.

#### d) Investments - Cost Basis

The Corporation records long-term investments in corporations not subject to significant influence at the lower of cost and fair value. Dividends from these investments are recorded as income when receivable.

# CIC Industrial Interests Inc.

## Notes to Non-Consolidated Financial Statements

December 31, 1997

### 1. Summary of Significant Accounting Policies (continued)

#### e) Investments - Properties

The Corporation records rental properties at the lower of amortized cost and estimated net recoverable value.

Properties held for sale are recorded at the lower of cost and net realizable value.

#### f) Amortization

Amortization on rental properties is calculated using a method whereby the assets are amortized over 25 years, assuming an interest cost of 8%.

#### g) Fair Value of Short-Term Financial Instruments

For certain of the Corporation's financial instruments including:

- i) interest and accounts receivable
- ii) accounts payable
- iii) due to CIC

the carrying amounts approximate fair value due to their immediate or short-term maturity.

### 2. Status of the Corporation

CIC Industrial Interests Inc. was incorporated under **The Business Corporations Act (Saskatchewan)** on November 14, 1979, as a wholly-owned subsidiary of CIC, a Provincial Crown corporation. The Corporation is not subject to Federal or Provincial income taxes by virtue of this ownership. The CIC consolidated financial statements include the financial results of the Corporation and its subsidiaries.

**CIC Industrial Interests Inc.**  
**Notes to Non-Consolidated Financial Statements**

December 31, 1997

**3. Debentures and Loans Receivable**

(thousands of dollars)

**Cornwall Centre Mortgages:**

Mortgages receivable (a)

Cornwall Centre Phase I -----

Cornwall Centre Phase II -----

**Canadian Western Bank:**

Debenture (b) -----

**Sascable Services Inc.:**

14% note receivable due February 28, 1998 -----

**Other Loans:**

Loan principal receivable (c) -----

Loan interest and costs receivable -----

Lease options (net of unearned income) -----

Less: Provision for loan losses -----

	1997	1996
	\$ 30,655	\$ 31,203
	7,691	7,771
	38,346	38,974
	3,126	2,000
	40	73
	39,219	56,261
	486	894
	3,495	4,746
	(21,490)	(24,434)
	21,710	37,467
	\$ 63,222	\$ 78,514

- a) The Corporation holds two mortgages jointly with Cadillac Fairview Corporation Limited and The T. Eaton Company Limited which aided in the construction of the Cornwall Centre Shopping Mall Complex located in Regina, Saskatchewan. Phase I is a 9 5/8% mortgage repayable in monthly blended instalments of \$289,177 compounded semi-annually, with the unamortized balance due December 1, 2001. Phase II is an 11 5/8% mortgage repayable in monthly blended instalments of \$79,866 compounded semi-annually, with the unamortized balance due December 1, 2001.
- b) On June 27, 1997, the Corporation sold its \$2.0 million convertible debenture in the Canadian Western Bank for net proceeds of \$3.1 million. The Corporation then purchased a \$3.1 million non-convertible debenture in the Canadian Western Bank. The new debenture, which matures June 30, 2007, earns 6.59% annually for the first five years, and a rate equal to the 90 day Bankers' Acceptance rate plus 1% annually thereafter. This debenture is redeemable by the Canadian Western Bank anytime on or after June 30, 2002 at par plus accrued interest.
- c) The loan portfolio primarily consists of mortgage backed loans with various interest rates ranging from 0% to 14.25%. Maturities on these loans extend to the year 2015. Included in the mortgage loan portfolio is \$3.0 million in participation loans (1996 - \$5.2 million). The profitability of the borrower determines the repayment of principal and interest on the participation loans.

**CIC Industrial Interests Inc.**  
**Notes to Non-Consolidated Financial Statements**

December 31, 1997

**3. Debentures and Loans Receivable (continued)**

d) Debentures and loans receivable maturing in 1998 total \$3.9 million (1997 - \$4.7 million).

e) Fair value of debentures and loans receivable

The fair value of debentures and loans receivable is determined by discounting expected future cash flows, using discount rates that reflect the credit and interest rate risk inherent in the loans, less costs of disposition. The fair value of the loan portfolio is \$70.2 million. (1996 - \$87.3 million).

f) Credit risk

All outstanding loans are receivable from Saskatchewan corporations or from entities doing business in Saskatchewan. The portfolio is valued yearly and all non-performing loans are contained in the provision for loan losses.

**4. Investment - HARO Financial Corporation**

(thousands of dollars)

	1997	1996
Loans receivable:		
Term loan (a(i))-----	\$ 293,984	\$ 280,069
Convertible debenture (a(ii))-----	149,506	149,506
Interest receivable on term loan -----	4,969	4,993
Less: Deferred interest-----	(94,798)	(81,322)
	353,661	353,246
68,000,000 Class B non-voting common shares (a(i))-----	68,000	68,000
	\$ 421,661	\$ 421,246

a) i) To date, the Corporation has advanced \$272.2 million (1996 - \$271.7 million) to HARO Financial Corporation (HARO) to finance HARO's ownership interest in Crown Life Insurance Company (Crown Life). The Term Loan was for an initial five-year term commencing on December 15, 1992 with a maximum of four five-year renewal terms at the option of HARO. HARO did not exercise its option to renew on December 15, 1997. Hence, the Term Loan is now due and payable on demand.

Interest on the Term Loan of 5.89% (1996 - 4.56%) is calculated quarterly. Payment of principal and interest is subject to available cash flow as defined in the loan agreement. Due to the timing uncertainty of cash payments, the Corporation will record interest income when payments are received. HARO made no interest payments during the year. Total interest owing to the Corporation is \$94.8 million (1996 - \$81.3 million).

# CIC Industrial Interests Inc.

## Notes to Non-Consolidated Financial Statements

December 31, 1997

### 4. Investment - HARO Financial Corporation (continued)

If the Corporation does not demand payment, all unpaid principal and interest is due on December 15, 2017. On that date, any amounts outstanding will be converted into a maximum of 94% of HARO equity shares. The Corporation has a unilateral right, prior to December 15, 2017, to convert no less than 25% of the loan to either HARO non-voting, HARO voting or Crown Life shares. The number of Crown Life shares acquired by the Corporation may not exceed 94% of the Crown Life shares owned by HARO. Any conversion may be subject to regulatory approval. The security for the loan is 100% of HARO's assets.

During 1995, the Corporation exercised its right to convert \$68.0 million of the loan into 68,000,000 non-voting, fully participating equity shares of HARO. The Corporation has a unilateral right to exchange these for voting shares or 94% of HARO's assets. Both exchange rights may be subject to regulatory approval. The Corporation's right to dividends and property of HARO on liquidation is limited to 94% regardless of the number or class of HARO shares owned.

- ii) An Additional Loan Agreement between the Corporation and HARO was entered into on June 15, 1995, and \$149.5 million (Additional Loan) was advanced to HARO on July 31, 1995. HARO used the proceeds of this loan to purchase \$74.8 million of each of Series A and Series B convertible Crown Life debentures.

The Additional Loan's initial term expired December 15, 1997. At this time, HARO had the option to renew for a maximum of four five-year terms. The Corporation also has the option of extending the repayment term by two five-year terms, with no renewals by HARO or the Corporation extending beyond December 15, 2017, when all remaining balances of interest and principal become due. HARO did not exercise its option to renew by year end. Hence, the Additional Loan is due and payable on demand.

Interest on the Additional Loan of 4.88% (1996 - 4.99%) is calculated and payable on January 31 and July 31 annually. Payment of principal and interest is based on 100% of the cash flow received by HARO from the Crown Life Debentures. No principal payments were made during the year.

The Corporation has a right to exchange the balance owing on the Additional Loan for either the Debentures of Crown Life owned by HARO or Crown Life shares. The security for the Additional Loan consists of all Crown Life Debentures owned by HARO. In the event of conversion to Crown Life shares by HARO, any securities acquired by HARO become security for the Additional Loan.

- iii) The fair value of the \$149.5 million Additional Loan is determined by summing the (i) discounted scheduled cash flows using discount rates that reflect the credit and interest rate risk inherent in the loan, less costs of disposition, and (ii) the estimated market premium for the conversion option. The fair value of the Corporation's Term Loan and Class B non-voting shares is based on the value of their underlying security.

Based on this valuation, the estimated fair value of the Corporation's HARO investment is between \$376.3 million (1996 - \$375.2 million) and \$473.7 million (1996 - \$430.1 million).

**CIC Industrial Interests Inc.**  
**Notes to Non-Consolidated Financial Statements**

December 31, 1997

**5. Investments - Equity Basis**

(thousands of dollars)

	Percentage Ownership	Fiscal Year End	1997	1996
<b>Bi-Provincial Upgrader Joint Venture Interest (a):</b>				
cost \$267,163,551				
(1996 - \$267,163,551) -----	50.0%	Dec. 31	\$ 165,990	\$ 140,723
Advances to Bi-Provincial -----			40,087	59,470
			<hr/> 206,077	<hr/> 200,193
<b>Saskferco Products Inc. (Saskferco) (b):</b>				
68,449,080 (1996 - 68,449,080)				
Class B common shares - cost \$68,449,080				
(1996 - \$68,449,080) -----	49.0%	May 31	100,087	100,261
<b>National Pig Development (Canada) Co. Ltd. (NPD) (c):</b>				
1,648,783 (1996 - 1,648,783 ) Class A common shares - cost \$1,486,328				
(1996 - \$1,486,328);				
1,044,000 (1996 - 1,044,000) Class B non-voting preferred shares - cost \$2,088,000 (1996 - \$2,088,000)-----	73.6%	Sep. 30	4,620	4,076
<b>SGI Canada Insurance Services Ltd.:</b>				
320,100 (1996 - 320,100) Class A common shares - cost \$2,000,100				
(1996 - \$2,000,100) -----	27.0%	Dec. 31	2,110	2,034
<b>CIC Forest Products Ltd. (d):</b>				
100 (1996 - 100) common shares cost \$100 (1996 - \$100) -----	100.0%	Dec. 31	14,600	11,187
Due from CIC Forest Products Ltd., without interest -----			36,769	38,690
			<hr/> 51,369	<hr/> 49,877

**CIC Industrial Interests Inc.**  
**Notes to Non-Consolidated Financial Statements**

December 31, 1997

**5. Investments - Equity Basis (continued)**

(thousands of dollars)

	Percentage Ownership	Fiscal Year End	1997	1996
<b>CIC Pulp Ltd. (e):</b>				
100 (1996 - 100) common shares - cost \$100 (1996 - \$100) -----	100.0%	Dec. 31	(59,622)	(38,926)
Due from CIC Pulp Ltd., without interest			13,483	12,534
Millar Western Pulp (Meadow Lake) Ltd.:				
49 (1996 - 49) common shares - cost \$49 (1996 - \$49) -----	49.0%	Dec. 31	-	-
Loans receivable from Meadow Lake Pulp Limited Partnership (MLPLP):				
Participating Debenture -----			159,000	159,000
Interest Loan -----			147,120	116,424
Term Loan -----			20,000	20,000
Contingency Loan -----			10,743	10,107
Accrued interest on Participating Debenture and Interest Loan -----			5,704	5,118
Less: Deferred interest -----			(152,824)	(121,542)
Provision for loan losses -----			(30,000)	(30,000)
			<hr/>	<hr/>
			113,604	132,715
			<hr/>	<hr/>
			\$ 477,867	\$ 489,156
			<hr/>	<hr/>

- a) The Corporation owns a 50% equity interest in the Bi-Provincial Upgrader Joint Venture located near Lloydminster, Saskatchewan.

The Corporation has a total of \$40.1 million (1996 - \$59.5 million) in advances to the joint venture. Of this, \$3.1 million (1996 - \$22.5 million) bears a return allowance of prime plus 1%, which is 7.0% at December 31, 1997 (1996 - 5.75%).

As a result of an event disclosed under Note 14, the Corporation has sold its interest in the joint venture subsequent to year end.

- b) The Corporation holds a 49% interest in Saskferco, a nitrogen fertilizer plant, located in Belle Plaine, Saskatchewan.
- c) The Corporation holds a 73.6% interest in the Class A common shares of NPD, a swine genetics company located in Regina, Saskatchewan. In addition, the Corporation holds 79.7% of the Class B non-voting preferred shares of NPD which bear a cumulative dividend of 8% per annum payable quarterly.

# CIC Industrial Interests Inc.

## Notes to Non-Consolidated Financial Statements

December 31, 1997

### 5. Investments - Equity Basis (continued)

- d) The Corporation, through its wholly-owned subsidiary, CIC Forest Products Ltd. (CICFPL), holds a 50% interest in Saskfor MacMillan Limited Partnership (Saskfor), a lumber and structural panel operation, located in Hudson Bay, Saskatchewan. The amounts due from CICFPL are non-interest bearing and repayable on demand.
- e) The Corporation through its wholly-owned subsidiary, CIC Pulp Ltd., owns a 49% interest in MLPLP, a pulp mill located near Meadow Lake, Saskatchewan. The amounts due from CIC Pulp Ltd. are non-interest bearing and repayable on demand.

The Corporation has provided the following loans to MLPLP:

- The Participating Debenture bears interest at 11.15% calculated on October 31 each year.
- The Term Loan bears interest at prime plus 2%, which is 8.0% at December 31, 1997 (1996 - 5.0%). Interest on this loan is being paid monthly.
- The Contingency Loan bears interest at prime plus 1%, which is 7.0% at December 31, 1997 (1996 - 5.75%). Any interest outstanding and not paid on October 31 of each year is added to the principal balance.

The Corporation records, as a separate loan (Interest Loan) the accrued interest receivable from the Participating Debenture. Interest on the Interest Loan, at 11.15%, is calculated on October 31 of each year and is added to the principal balance outstanding on the loan. Interest income earned and forming part of the Interest Loan is recorded as deferred interest income due to the timing uncertainty of future cash payments. The deferred interest income will be recorded as income when payments are received under the cash availability formula.

Any payments to be made on the Participating Debenture, the Contingency Loan and the Interest Loan are subject to available cash flows as defined in the loan agreements. Payments towards principal outstanding on the Term Loan are due in two equal payments after MLPLP has fully repaid an external bank loan.

If by October 31, 2014 less than \$159.0 million in aggregate has been paid on the Participating Debenture and Interest Loan, an amount equal to the difference between \$159.0 million and the aggregate amount paid is due and payable. The remaining balance outstanding on the Interest Loan and Participating Debenture on October 31, 2014 shall bear interest at a rate equal to the short-term cost of borrowing for the Province of Saskatchewan, which is 4.76% at December 31, 1997 (1996 - 3.13%), until paid in full. The Contingency Loan and Term Loan also mature in 2014.

The underlying value of the loans to MLPLP is contingent upon the cash flows provided from the operations of the pulp mill. The present value of the cash flows is measured by using management's best estimates based on assumptions that reflect the most probable set of economic circumstances. However, given the wide fluctuations in world commodity prices for pulp, the projected cash flows could change materially from the estimate. As a result, the recorded amount of these loans could change by a material amount in the near term.



**CIC Industrial Interests Inc.**  
**Notes to Non-Consolidated Financial Statements**

December 31, 1997

**5. Investments - Equity Basis (continued)**

f) Earnings (losses) from equity investments are as follows  
(thousands of dollars):

	1997	1996
Bi-Provincial Upgrader -----	\$ 25,267	\$ 1,978
Saskferco Products Inc. -----	19,133	31,209
National Pig Development (Canada) Co. Ltd. -----	711	(1,198)
SGI Canada Insurance Services Ltd. -----	76	(32)
CIC Forest Products Ltd. -----	3,413	8,312
CIC Pulp Ltd. -----	(20,696)	(22,801)
	<u>\$ 27,904</u>	<u>\$ 17,468</u>

**6. Investments - Cost Basis**

(thousands of dollars)

	1997	1996
Wascana Energy Inc. (a) -----	\$ -	\$ 63,355
Other -----	7,456	6,189
	<u>\$ 7,456</u>	<u>\$ 69,544</u>

a) In April, 1997, the Corporation sold its 5.8 million common shares of Wascana Energy Inc. for net proceeds of \$119.8 million generating a gain on sale of \$56.3 million.

**7. Investments - Properties**

(thousands of dollars)

	1997	1996
Property held for sale -----	\$ 9,536	\$ 9,870
Rental properties -----	10,514	10,526
	<u>20,050</u>	<u>20,396</u>
Less: Accumulated amortization -----	2,177	1,969
	<u>\$ 17,873</u>	<u>\$ 18,427</u>

**CIC Industrial Interests Inc.**  
**Notes to Non-Consolidated Financial Statements**

December 31, 1997

**8. Due to Crown Investments Corporation of Saskatchewan**

Amounts due to Crown Investments Corporation of Saskatchewan are non-interest bearing and payable on demand.

**9. Share Capital**  
(thousands of dollars)

**Authorized**  
Unlimited shares with no par value

**Issued and outstanding**  
34,000,000 shares (1996 - 34,000,000) -----

	1997	1996
	\$ 340,000	\$ 340,000

**10. Commitments and Contingencies**

- a) The Corporation is committed to fund NPD expansion up to \$4.0 million. To date, \$1.5 million (1996 - \$1.5 million) has been funded.
- b) The Corporation guarantees the bank loan of Fort Storage to June 30, 2000. As at December 31, 1997, this guarantee is limited to \$7.0 million. The Corporation does not expect to make any payments on this guarantee in 1998.
- c) In 1997, the duties and responsibilities for the Community Bond Program were transferred from Saskatchewan Economic and Co-operative Development to the Corporation. At December 31, 1997, the Corporation's guarantee under this program is \$3.6 million.
- d) The Corporation is committed to undertake necessary environmental clean-up activities on certain properties. Due to evolving environmental laws, enforcement and clean-up practices, it is not possible at this time to determine the full amount of this liability. To date, the Corporation has accrued \$3.0 million to carry out the clean-up activities.

**CIC Industrial Interests Inc.**  
**Notes to Non-Consolidated Financial Statements**

December 31, 1997

**11. Related Party Transactions**

Included in these non-consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year end are as follows (thousands of dollars):

Category (as per financial statements)	1997	1996
Interest and accounts receivable-----	\$ 375	\$ -
Accounts payable-----	15	-
Interest and other revenue-----	2,638	3,867
Administrative expenses-----	-	290
Property expense-----	167	-

In addition, the Corporation pays Saskatchewan Education and Health Tax to the Saskatchewan Department of Finance on all its taxable purchases. The Corporation records taxes paid as part of the cost of those purchases.

CIC provides management services to the Corporation without charge.

These non-consolidated financial statements and notes thereto separately describe other transactions and amounts due to and from related parties and the terms of settlement.

**CIC Industrial Interests Inc.**  
**Notes to Non-Consolidated Financial Statements**

December 31, 1997

**12. Joint Ventures**

The Corporation has joint control over the operating, investing and financing policies of MLPLP, through CIC Pulp; Saskfor, through CICFPL; and, the Bi-Provincial Upgrader Joint Venture. The Corporation's pro rata share of its interest in these joint ventures is as follows (thousands of dollars):

	1997	1996
Current assets-----	\$ 80,058	\$ 82,274
Long-term assets-----	\$ 400,594	\$ 412,422
Current liabilities-----	\$ 35,271	\$ 31,247
Long-term liabilities-----	\$ 67,770	\$ 70,391
Equity-----	\$ 377,611	\$ 393,058
Revenue-----	\$ 434,115	\$ 460,359
Expenses-----	\$ 424,147	\$ 472,185
Net earnings (loss)-----	\$ 9,968	\$ (11,826)
Cash flows from operating activities-----	\$ 28,521	\$ 14,394
Cash flows from financing activities-----	\$ 4,225	\$ 7,097
Cash flows from investing activities-----	\$ (19,523)	\$ 1,812

**CIC Industrial Interests Inc.**  
**Notes to Non-Consolidated Financial Statements**

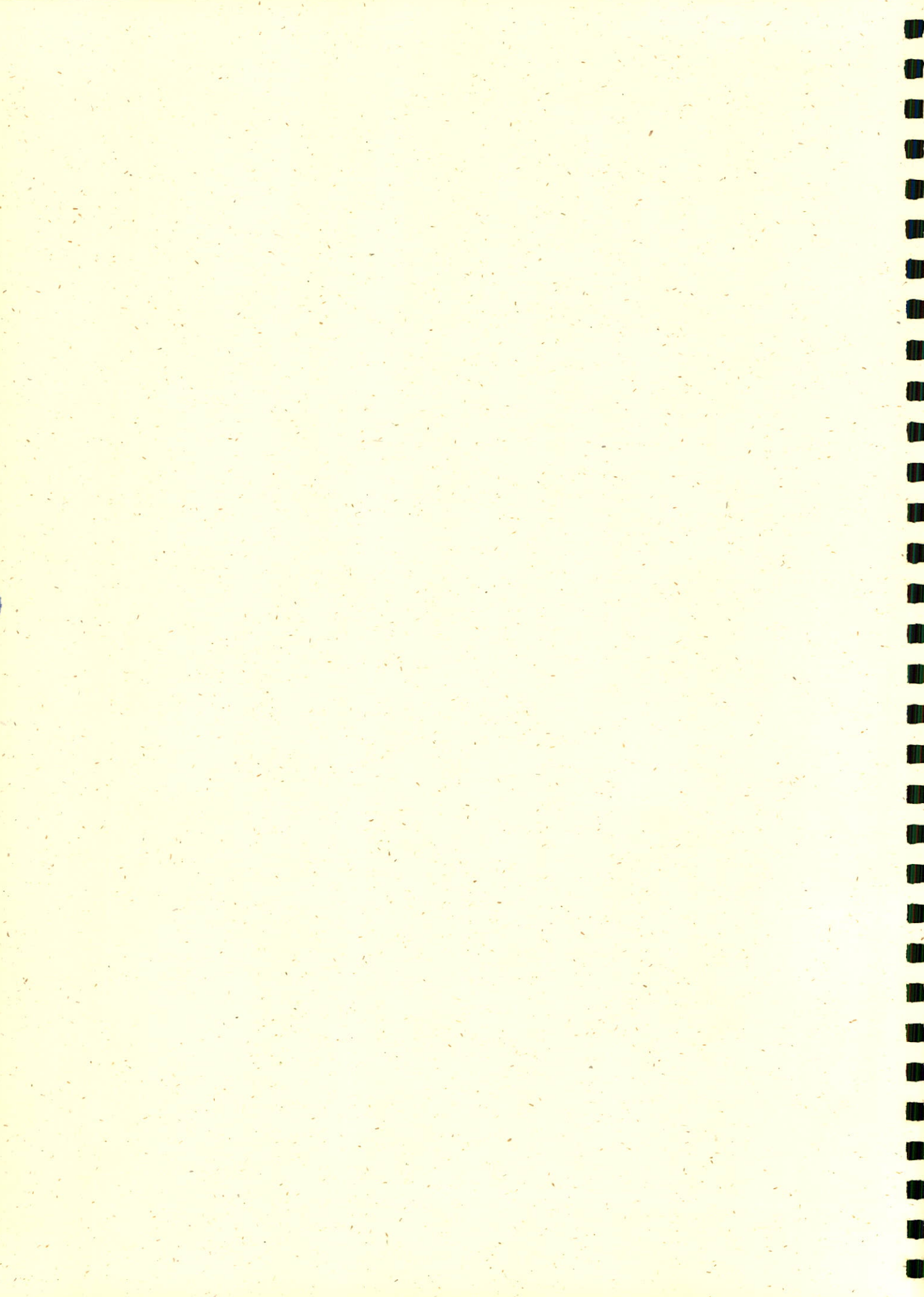
December 31, 1997

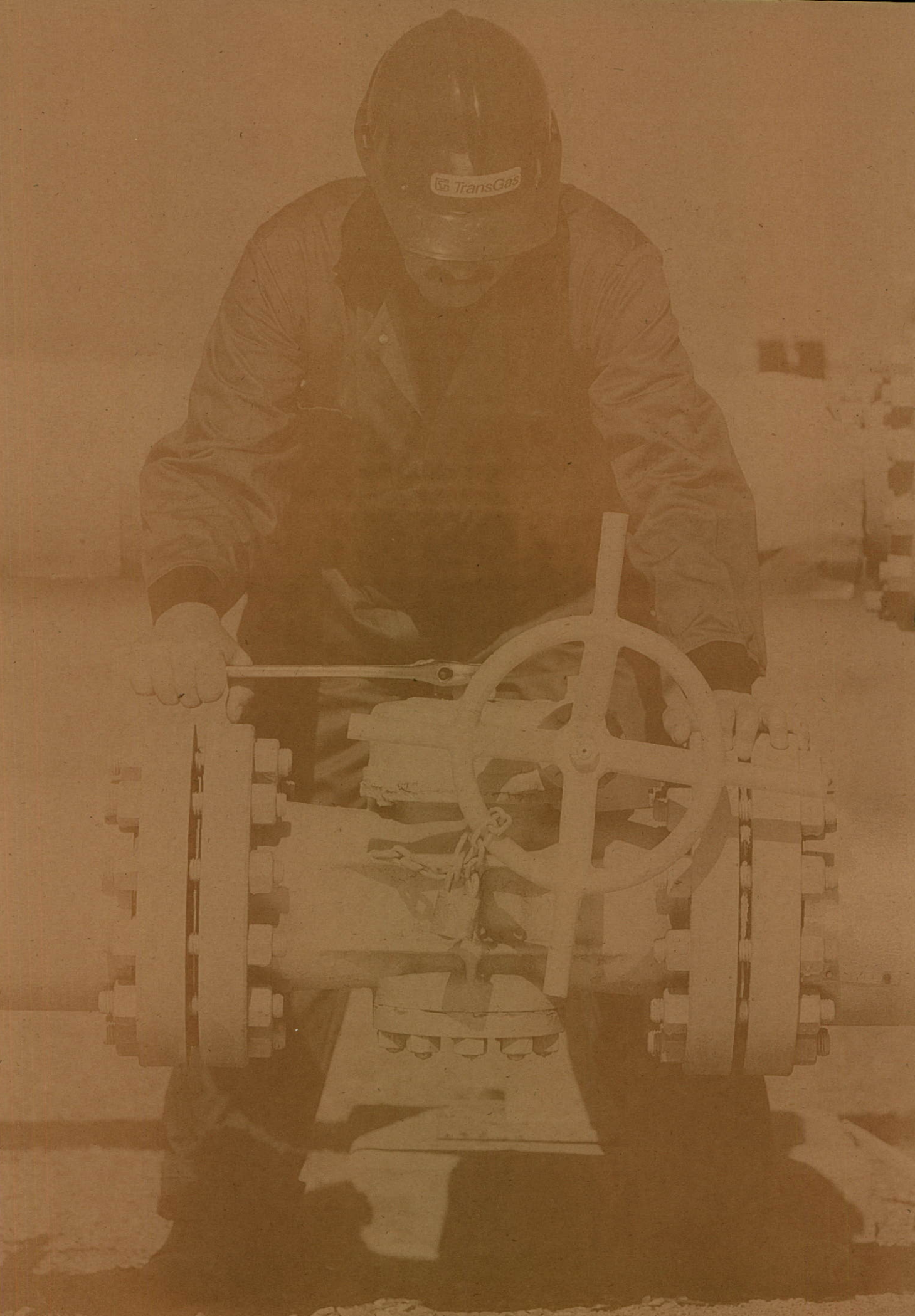
**13. Comparative Figures**

Certain of the 1996 comparative figures have been reclassified to conform with the current year's presentation.

**14. Subsequent Events**

- a) On January 2, 1998, the Corporation received \$9.8 million from Flexi-Coil Ltd. as full repayment of its loan and outstanding interest.
- b) On February 19, 1998, the Corporation sold its interest in the Bi-Provincial Upgrader Joint Venture to Husky Oil Operations Ltd. The sale proceeds of \$310.0 million are receivable in two equal instalments. The first instalment was received on February 19, 1998 and the second instalment is due January 29, 1999.

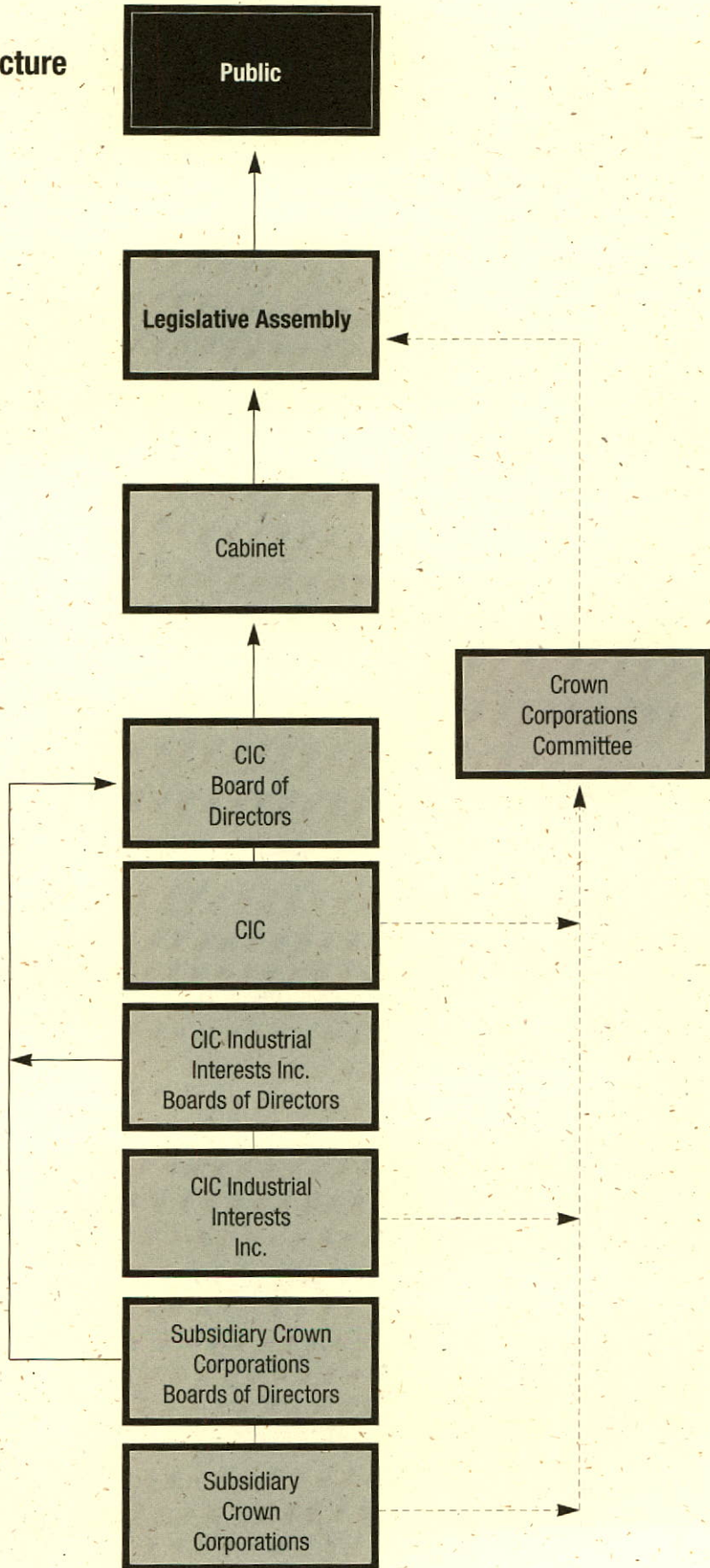




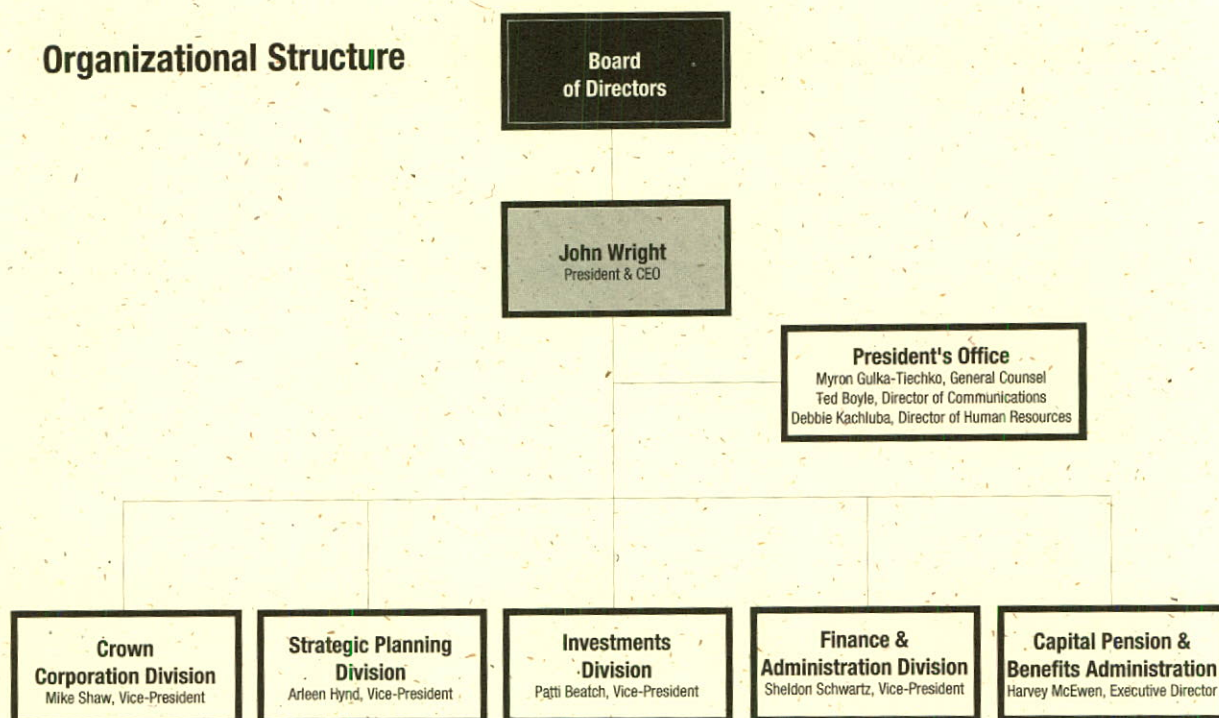




Accountability Structure



## Organizational Structure



At December 31, 1997, CIC had a staff of 67 in its six divisions.

The **President's Office** is responsible for the overall direction of CIC. Included in the President's Office are the Human Resources, Communications, and General Counsel and Corporate Secretary functions. This division has eight employees.

The **Crown Corporation Division** is the main contact with subsidiary Crown corporations, and provides them with corporate secretarial services. It deals with Crown business plans, performance management and human resource policy, and provides business analysis on decision items requiring CIC Board and/or Cabinet approval. This division has 14 employees.

The **Strategic Planning Division** oversees the development of a strategic plan for the Crown sector. It takes a broad, long-term view of issues affecting CIC and the Crown sector, and monitors and analyzes these issues from an economic, fiscal and public policy perspective. This division has three employees.

The **Investments Division** is responsible for all CIC investments with private sector partners. It manages a diversified portfolio of commercially viable investments. This division has 20 employees.

The **Finance and Administration Division** manages CIC's budget and administration, financial reporting and forecasting, dividend policy, cash and debt positions, financial transactions and information technology. It also provides financial analysis to the CIC Board on Crown corporation capital budgets. This division has 16 employees.

**Capital Pension and Benefits Administration** administers the multi-employer Capital Pension Plan and a benefits package. This division has six employees.

## Crown Investments Corporation of Saskatchewan Board of Directors



**Honourable Dwain Lingenfelter**

Chairman, Deputy Premier and Minister of CIC (June 27, 1997 - present)  
Director, Deputy Premier and Minister Responsible for Economic & Co-operative Development  
(January 1, 1997 - June 26, 1997)



**Honourable Bernhard Wiens**

Vice-Chairman and Minister Responsible for Intergovernmental and Aboriginal Affairs (June 27, 1997 - present)  
Chairman and Minister of CIC (January 1, 1997 - June 26, 1997)



**Honourable Eric Cline**

Director and Minister Responsible for Finance (June 27, 1997 - present)



**Honourable Eldon Lautermilch**

Director and Minister Responsible for Energy and Mines (January 1, 1997 - present)



**Honourable Janice MacKinnon**

Director and Minister Responsible for Economic & Co-operative Development (June 27, 1997 - present)  
Director and Minister Responsible for Finance (January 1, 1997 - June 26, 1997)



**Honourable Ned Shillington**

Director and Provincial Secretary (June 27, 1997 - present)  
Vice-Chairman and Minister Responsible for Intergovernmental Affairs (January 1, 1997 - June 26, 1997)



**Honourable Clay Serby**

Director and Minister Responsible for SPMC and Highways and Transportation (January 1, 1997 - June 26, 1997)



**Honourable Carol Teichrob**

Director and Minister Responsible for Municipal Government (January 1, 1997 - June 26, 1997)

### **Crown Investments Corporation of Saskatchewan Board of Directors (continued)**

The CIC Board is responsible for monitoring and evaluating CIC's subsidiaries and for managing CIC's investments. It is a key Cabinet committee performing a liaison function between Cabinet and Crown corporations, making decisions in its own right, and forwarding recommendations to Cabinet for consideration.

#### **The CIC Board:**

- approves CIC's strategic direction and operating plans, and budgets proposed by CIC management;
- monitors and evaluates the performance of subsidiary Crown corporations;
- allocates capital within the Crown sector;
- approves acquisition, sale and changes to the terms and conditions of major investments;
- monitors the performance of CIC's investments;
- reviews CIC's semi-annual and annual financial statements, and considers concerns of the Provincial Auditor; and,
- reviews the operation of internal controls and financial reporting systems with CIC management.

CIC management serves as staff to the CIC Board, providing analysis and recommendations on which informed decisions can be made, and helping to develop and evolve policy on Crown corporation and investment matters.

Management is also responsible for serving as the CIC Board's communications link with investment partners and Crown boards and management. As well, it co-ordinates the implementation of policy within the Crown sector, manages CIC's operations and monitors CIC's business environment.

### **CIC Industrial Interests Inc. Board of Directors**

#### **Honourable Dwain Lingenfelter**

Chairman  
(June 27, 1997 - present)

#### **John Wright**

President and CEO, CIC  
Director  
(January 1, 1997 - present)

#### **Myron Gulka-Tiechko**

General Counsel and Corporate Secretary, CIC  
Director  
(November 5, 1997 - present)

#### **Honourable Bernhard Wiens**

Chairman  
(January 1, 1997 - June 26, 1997)

#### **D. Scott Banda**

General Counsel and Corporate Secretary, CIC  
Director  
(January 1, 1997 - September 12, 1997)





**Crown Investments Corporation of Saskatchewan**

400 - 2400 College Avenue

Regina, Saskatchewan

S4P 1C8

Inquiry: (306) 787-6851



Dwain M. Lingenfelter  
Minister

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