



# Crown Management Board of Saskatchewan

**Annual Report 1986**

**Crown Investments Corporation  
of Saskatchewan**



# **CROWN MANAGEMENT BOARD OF SASKATCHEWAN**

## **ANNUAL REPORT 1986**

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Crown Investments Corporation of Saskatchewan  
2400 College Avenue  
Regina, Saskatchewan  
S4P 1C8



# LETTER OF TRANSMITTAL

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Regina, Saskatchewan,  
April 30, 1987

To His Honour,  
The Honourable F.W. Johnson,  
Lieutenant Governor of the Province of Saskatchewan.

Sir:

I have the honour to submit herewith the ninth annual report of the Crown Investments Corporation of Saskatchewan for the year ended December 31, 1986 including the consolidated financial statements therefor, duly certified by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with **The Crown Corporations Act, 1978.**

I have the honour to be, Sir,

Your obedient servant,



D. G. Devine,  
Minister Responsible,  
Crown Investments Corporation  
of Saskatchewan.



# BOARD OF DIRECTORS

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Mr. Graham H. Walker,  
Chairman

Mr. Garnet K. Wells,  
Edmonton

Mr. Frank Proto,  
Edmonton

Mr. Harold Lane,  
Saskatoon

Hon. Grant Devine,  
Vice-Chairman

Hon. J. Gary Lane, Q.C.

Hon. Eric Berntson

Hon. Bob Andrew

# OFFICERS

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W.B. Gibson,  
President

D.A. Marce,  
Secretary to the Board

T.A. Leier,  
General Counsel

I.A. Ellis,  
Director, Special Projects

G.C. Robinson,  
Director, Resource Crowns

S.D. Elbaum,  
Vice-President, Corporate Planning

G.A. Mrazek,  
Director, Accounting Services

H.J. Matthies,  
Director, Administration



# VICE-CHAIRMAN'S REMARKS

The Crown Management Board of Saskatchewan (CMB) is the holding company responsible for overseeing the operations of Saskatchewan's commercial Crown corporations. In addition, CMB also manages the Province's equity interests in certain other private corporations. This group of corporations represents an asset base of over \$7 billion, generates annual revenues in excess of \$2 billion and provides employment for over 12,000 Saskatchewan people. As such, these enterprises represent a significant portion of the Government of Saskatchewan's activities.

For 1986, the corporate group incurred an operating loss of \$128 million. Although most of the corporations maintained earnings levels similar to 1985 or showed profit improvements, the major reason for the consolidated loss must be attributed to the substantial loss incurred by the Potash Corporation of Saskatchewan in the current year. Continued oversupply and depressed worldwide demand for potash products have had a devastating effect on both prices and volumes.

The substantial losses noted above are a clear indication of what may result from the significant investment of public funds in cyclical commodity based resource industries (e.g. potash, uranium, oil and gas). The Government of Saskatchewan has therefore reviewed its position on holding such investments as an exclusive owner and as an alternative, has successfully offered to the public a sharing of risk and investment opportunities through public participation in such enterprises. The first major step in attracting the public to financially participate in Saskatchewan's Crown corporations was completed in 1986 with the successful issue and placement of Saskatchewan Oil and Gas Corporation common and preferred shares.

In 1986, the government also successfully completed the sale of certain assets of the Prince Albert Pulp Company Ltd., a single product manufacturer of pulp, to Weyerhaeuser Canada Ltd., a world-wide respected and proven manufacturer and marketer of pulp and paper products. As part of the transaction, Weyerhaeuser is committed to build, and is currently in the process of building, a world-class paper mill on the same site. The construction of the paper mill will not only ensure a stability of jobs in the pulp mill but will also create many new jobs during the construction process as well as new permanent jobs once the paper mill is completed. The paper mill is also expected to utilize the vast supply of aspen (poplar) indigenous to

the area and which is seriously underutilized at this point in time.

As well as the initial public participation offerings in 1986, the province, through the Crown Management Board, also took the first step toward the attainment of two major long-term objectives: the optimization of Saskatchewan's plentiful heavy oil reserves and the achievement of energy self-sufficiency. The catalyst in the realization of these lofty but realistic goals, a heavy oil upgrader for the province, was started in 1986. Integrating with the existing facilities of the Co-op Refinery in Regina, the \$700 million investment will have a positive long-term impact on the provincial economy. Without an upgrading process, Saskatchewan's heavy oil cannot be used to service the province's energy needs and consequently Saskatchewan has to rely on costly imported oil from Alberta. The completion of the upgrader, scheduled for late 1988 or early 1989, will in essence create a new industry in Saskatchewan. In addition the complete oil production cycle, from drilling through to domestic energy use, will be performed in our own province.

It is the stated intention of the government to continue to encourage private investment in Saskatchewan while simultaneously reducing government involvement in the business sector. It is also the full intention of the government, through the Crown Management Board, to guide and direct the province's commercial Crown corporations effectively, efficiently and according to sound business principles.

I look forward to the coming years with great optimism as further changes are implemented and other accomplishments are realized.



Premier Grant Devine,  
Vice-Chairman and  
Minister Responsible,  
Crown Management Board of Saskatchewan.



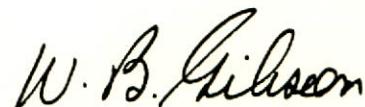
# PRESIDENT'S REMARKS

Crown Investments Corporation of Saskatchewan (CIC) is a provincial Crown corporation which operates under the authority of The Crown Corporations Act, 1978. CIC operates as a holding company and is charged with the administration of government policy as it relates to the thirteen corporations within its purview. This annual report represents the consolidation of the financial statements of these corporations under the name Crown Investments Corporation of Saskatchewan.

Each of the thirteen Crown corporations operates in one of three separate and distinct sectors: resources, utilities and financial and services. All three sectors faced a very challenging year in 1986, but those corporations operating in the resource sector were particularly affected by the strong competitive markets and diverse economic conditions that existed both domestically and internationally. The corporation most adversely affected by these tenuous market conditions, Potash Corporation of Saskatchewan, experienced a very significant loss in 1986. This loss clearly demonstrates what the results can be when corporations are faced with the downside elements of cyclical resource industries.

Although 1986 was a difficult year operationally, there were many bright spots as well: the successful issue and placement of the Saskatchewan Oil and Gas Corporation shares, the sale to Weyerhaeuser Canada Ltd. of certain assets of the Prince Albert Pulp Company Ltd. and, of course, the commencement of Canada's first heavy oil upgrader. The Crown Management Board of Saskatchewan continues to be involved in these and other exciting and innovative projects that are attempting to attract new business investment to Saskatchewan as well as to create more employment opportunities within the province.

I would like to thank the respective boards of directors and the management of each of the corporations for their efforts in the current year. I would also like to extend my appreciation to the staff of CIC who continue to contribute their technical skills and expertise to the tasks in which they are engaged.



William B. Gibson,  
President,  
Crown Management Board of Saskatchewan.



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# CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

<b>Resources</b>	<b>Utilities</b>	<b>Financial and Services</b>	<b>Major Subsidiaries</b>
Potash Corporation of Saskatchewan	Saskatchewan Power Corporation	Saskatchewan Government Insurance	CIC Industrial Interests Inc. (100%)
Saskatchewan Mining Development Corporation	Saskatchewan Telecommunications	Saskatchewan Economic Development Corporation	Meadow Lake Sawmill Ltd. *(100%)
Saskatchewan Forest Products Corporation	Saskatchewan Computer Utility Corporation	Saskatchewan Development Fund Corporation	Saskatchewan Oil and Gas Corporation (58%)
Saskatchewan Minerals	Saskatchewan Water Corporation	Saskatchewan Transportation Company	
		Agricultural Development Corporation of Saskatchewan	

\*Formerly Prince Albert Pulp Company Ltd.



# CONSOLIDATED FINANCIAL PERFORMANCE

Crown Investments Corporation of Saskatchewan (CIC) is a provincial Crown corporation, without share capital, operating under authority of The Crown Corporations Act, 1978. The Corporation operates as a holding company and is responsible for administering provincial government policy as it relates to those Crown corporations under its purview with particular emphasis on effective management and business efficiency. Crown corporations are designated as being within the CIC group by Order-in-Council. As at December 31, 1986 there were thirteen corporations so designated.

Each year the financial statements of CIC are consolidated with the aforementioned Crown corporations to provide the Legislature with financial information relating to the aggregate results of these corporations. For administrative purposes, CIC has grouped the corporations into three sectors: resources; utilities; financial and services. The corporations provide a wide variety of services and sell various commodities in both domestic and international markets. The diversified nature of the corporations within the consolidated group is such that the operating results can be affected by events and conditions occurring throughout the world.

## Overview

This is the ninth annual report of the Crown Investments Corporation of Saskatchewan. The report includes a consolidated statement of 1986 financial results of the province's commercial Crown corporations and a brief comment on the performance of each corporation. Further information on each of the thirteen commercial Crown corporations is available in their individual annual reports.

## Resource Corporations

Four Crown corporations comprise this group — Potash Corporation of Saskatchewan, Saskatchewan Mining Development Corporation, Saskatchewan Forest Products Corporation and Saskatchewan Minerals. These corporations sell natural resource based commodities (potash, uranium, forest products and sodium sulphate) in both domestic and international markets.

## Utility Corporations

The four utility corporations — Saskatchewan Power Corporation, Saskatchewan Telecommunications, Saskatchewan Computer Utility Corporation and

Saskatchewan Water Corporation — have a mandate to provide goods and services to the people of Saskatchewan at reasonable rates. Both Saskatchewan Power Corporation and Saskatchewan Telecommunications fall within the jurisdiction of the Public Utilities Review Commission (PURC). PURC was established in 1982 to review and approve rate changes requested by certain monopoly utility service Crown corporations.

## Financial and Service Corporations

The financial and service group is comprised of five corporations — Saskatchewan Government Insurance, Saskatchewan Economic Development Corporation, Saskatchewan Transportation Company, Agricultural Development Corporation of Saskatchewan and Saskatchewan Development Fund Corporation. These corporations operate in a variety of industries and provide services including general and automotive insurance, industrial and commercial lending to new and existing businesses, public transportation and the export of Saskatchewan agricultural and industrial products and technology on a national and international level.

## Major Subsidiaries

### 1) CIC Industrial Interests Inc. (CIC III)

A number of private sector companies and other investments are held by a wholly-owned subsidiary, CIC III. At year-end, CIC III held 100 per cent interests in Cablecom Corporation, Prairie Malt Limited, 148606 Canada Incorporated, 579051 Saskatchewan Ltd. as well as a 16 per cent interest in IPSCO Inc. and a 12 per cent interest in SED Systems Inc.

### 2) Meadow Lake Sawmill Ltd. (formerly Prince Albert Pulp Company Ltd.)

On September 9, 1986, Prince Albert Pulp Company Ltd. (PAPCO) sold most of its assets to Weyerhaeuser Canada Ltd. (WCL) and two of WCL's wholly-owned subsidiaries. The sale was comprised of two major agreements.

An Acquisition Agreement was signed in which PAPCO sold most of its assets including its pulp mill at Prince Albert and its chemical plant located in Saskatoon to WCL. The Acquisition Agreement also contained the sale of certain assets of Saskatchewan Forest Products Corporation to WCL. Payment for



the assets purchased will be made under the terms of an income debenture in the amount of \$236.6 million which has attached to it a nominal interest rate of 8½ per cent, with a maximum term of 30 years. The amount and timing of payments of principal and interest on the income debenture will be based on the income earned by the integrated operations (pulp mill, chemical plant, sawmill and paper mill) and therefore may be adjusted to interest rates and payment amounts above or below the original Agreement amounts.

The second major aspect of this sale was the Development Agreement which details the agreement in principle reached between the Province of Saskatchewan and WCL with respect to the construction of a new fine paper mill adjacent to the existing pulp mill in Prince Albert.

Further details of this sale can be found in the Consolidated Financial Statements (Note 19) which are presented elsewhere in this annual report. The terms of the Income Debenture will be administered in future by the staff of Crown Management Board of Saskatchewan.

PAPCO changed its legal name to Meadow Lake Sawmill Ltd. on September 18, 1986. The sawmill at Meadow Lake remains the only operating division of what was formerly PAPCO.

### **3) Saskatchewan Oil and Gas Corporation (Saskoil)**

Prior to December 1985, Saskoil was a provincial Crown corporation operating under the Saskatchewan Oil and Gas Corporation Act. In December 1985 Saskoil was continued under The Saskatchewan Business Corporations Act and became a share capital corporation. At that time all of its shares were owned by Crown Investments Corporation of Saskatchewan (CIC).

On January 14, 1986, Saskoil sold to the public 3,793,104 common shares at \$9.00 per share and 7,586,208 7.25 per cent Cumulative Redeemable Voting Convertible Second Preferred Series A shares at \$10.00 per share. The proceeds of this share issue amounted to \$110 million from which a dividend of \$75 million was paid to CIC.

As a result of the share offering CIC's voting

interest in Saskoil was reduced to 58 per cent.

## **RESOURCE CORPORATIONS**

### **Potash Corporation of Saskatchewan (PCS)**

PCS reported a net loss of \$103.4 million in 1986 (compared to a \$68.7 million net loss in 1985). Sales revenues in 1986 were \$190 million on sales of 3.8 million tonnes KCl (12% higher than in 1985). Sales in North America continue to be weak as a result of both low income levels in the farm sector and action by the United States government to limit acreages planted. Continuing excess supply of potash forced potash prices to decline still further to a level 13 per cent below the average achieved in 1985. Losses on foreign exchange contracts in the amount of \$38.1 million also contributed to the net loss for 1986.

Work on the Lanigan Phase II mine expansion was virtually completed during 1986. However, due to an extended labor dispute the facility was shut down for most of the year. In the face of relatively low market demand for potash the absence of this production caused no significant financial hardship for the company.

The company has begun work on construction of a small demonstration plant to produce industrial grade potassium sulphate at Big Quill Lake. This plant is expected to be in operation shortly.

### **Saskatchewan Mining Development Corporation (SMDC)**

SMDC reported net income of \$30.4 million in 1986 (compared to \$18.0 million in 1985) on uranium sales of \$179.9 million to Canadian, American, Western European and Asian utilities. Cash provided by operations reached \$109.2 million during 1986. This is a significant increase over the 1985 operating cashflow of \$100.8 million. A dividend of \$15.0 million was declared and represents the fifth consecutive year that SMDC has paid dividends to the Province.

After capital expenditures and dividend payments, net debt obligations of the Corporation were reduced by \$45.3 million for the year. Debt reduction for the last two years exceeded \$80 million.

The Key Lake mine located in northern Saskatchewan, in which SMDC holds a 50 per cent



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interest, produced over 12.5 million pounds of uranium oxide ( $U_3O_8$ ), or about 105 per cent of its annual rated capacity of 12 million pounds. The Cluff Lake mine also located in northern Saskatchewan, in which SMDC holds a 20 per cent interest, completed its sixth year of successful commercial operation producing 2.2 million pounds of  $U_3O_8$  in 1986.

The Cigar Lake Mining Corporation, in which SMDC is a 50.75 per cent shareholder, continued the development of a uranium mine at Cigar Lake in Northern Saskatchewan. This international joint venture operating company has a mandate to develop the Cigar Lake deposit, the world's richest uranium orebody. Drill indicated reserves are estimated at 285 million pounds  $U_3O_8$  with an average ore grade of 14 per cent and a further 100 million pounds  $U_3O_8$  at an average ore grade of nearly 5 per cent  $U_3O_8$ . During 1986 a proposal to develop an underground test mine was submitted to Saskatchewan Department of the Environment. The test mine entry will provide an opportunity to assess possible mining methods. A production decision is to be made by 1990.

Construction of the Star Lake gold mine and mill in Northern Saskatchewan, in which SMDC has a 50 per cent interest and acts as operator, was completed in 1986. Production commenced in January of 1987. Indicated reserves are approximately 230,000 tons at 0.50 ounces of gold per ton. On-going exploration on the Star Lake property is expected to increase these reserves.

SMDC continued in 1986 with a more diversified exploration program that emphasized grassroots gold exploration and to a lesser extent, participation in other precious and base metals programs. In contrast, the uranium exploration program centers on well-developed properties where work is concentrated on delineating potential orebodies or establishing reserve levels.

#### **Saskatchewan Forest Products Corporation (SFPC)**

SFPC is a provincial Crown corporation which was established in 1949. This diversified forest products company produces sawn lumber at a mill in Carrot River, plywood at a plant in Hudson Bay and treated wood products in Prince Albert. In addition, the Corporation manages a subsidiary, Northern Forest Operations Ltd., which produces specialty products such as log homes, pallets and reels, as well as dimension lumber for SFPC.

An increase in lumber prices combined with a decrease in operating costs resulted in a net profit in 1986 of \$1.1 million, compared to a loss in 1985 of \$4.3 million.

On September 9, 1986, Prince Albert Pulp Company Ltd. (PAPCO) and Saskatchewan Forest Products Corporation sold certain operating assets to Weyerhaeuser Canada Ltd. (WCL) and two wholly owned subsidiaries of WCL. PAPCO and SFPC received an income debenture in the amount of \$236.6 million as consideration for the assets sold. SFPC's interest in the income debenture amounted to \$7.8 million. On September 18, 1986, SFPC sold its interest in the income debenture to PAPCO for \$8.0 million. The proceeds of the sale were applied against a long term loan due to Crown Investments Corporation of Saskatchewan.

Further details of this sale can be found in the Consolidated Financial Statements (Note 19) which are presented elsewhere in this annual report.

#### **Saskatchewan Minerals**

Increased market competition coupled with substitution by kraft pulp customers of emulsified sulphur and caustic soda for sodium sulphate continued to adversely affect Saskatchewan Minerals in 1986. Detergent grade sodium sulphate sales improved slightly but only at lower prices, while peat moss sales improved as a result of reduced supplies caused by wet weather conditions in Central and Eastern Canada.

Despite reduced sales volumes for the year, the Corporation was able to hold its operating costs at the same level as in 1985 and record a profit of \$946 thousand. This profit was \$471 thousand lower than the profit recorded in 1985.

The assembly of the new dredge and related equipment at the Ingebrit mine was completed in 1986 and the equipment is now fully operational. It is anticipated that this dredge and other capital improvements made over the last few years will improve the overall competitive position of Saskatchewan Minerals in the industry.



## UTILITY CORPORATIONS

### Saskatchewan Power Corporation (SPC)

During 1986, SPC continued to expand and upgrade supply and distribution facilities to meet increasing provincial energy requirements. Major capital programs were undertaken by SPC to ensure that the Corporation effectively serves the needs of customers across the province, now and in the future.

In addition to ensuring that future energy needs will be met, SPC's capital projects are major stimuli to the provincial economy. The Nipawin hydro-electric project was completed during 1986. To December 31, 1986, \$530 million was spent on the project and more than 2,000 person years of employment were created at the project site. Spending on the Saskatchewan Natural Gas Distribution Program totalled \$61 million during 1986 and natural gas service was extended to an additional 4,699 new rural customers and 1,858 new small community customers.

An initiative in the government's highly successful program to promote public participation in Crown corporations continued in 1986 with the issuance of more than \$85.3 million in Saskatchewan Power Corporation Savings Bonds. These bonds, available only to residents of Saskatchewan, carry a minimum rate of interest of 8.75 per cent and are guaranteed by the province. The bond issue was designed to provide a safe, secure investment for provincial residents, to provide a vehicle through which Saskatchewan savings could be invested in the province and to provide the Corporation with an alternative to conventional lending institutions for some of its financial requirements.

The Corporation recorded an overall consolidated loss of \$10 million in 1986 (\$1 million net income in 1985). Rates for electricity increased by an average of 7.5 per cent on October 3, 1986. On March 3, 1986, the Public Utilities Review Commission ordered the Corporation to refund by May 1, 1986 a total of \$4.3 million to all gas customers on an equal cents per cubic meter basis, according to their 1985 gas consumption. This refund was reflected in the Corporation's results for 1985.

### Saskatchewan Telecommunications (SaskTel)

SaskTel recorded a profit of \$36.5 million in 1986, down just slightly from the record \$37 million attained in 1985. Revenues increased from 1985 levels, primarily due to a growth in long distance calling. For the second

year in a row, SaskTel revenues exceeded \$400 million. Interest and related costs remained at 1985 levels due to increased sinking fund earnings partially offset by a slight increase in interest on long term debt. SaskTel did not seek a general rate increase from the Public Utilities Review Commission in 1986. The Corporation's last general rate increase was in 1983.

SaskTel's experience in installing and operating the world's first large commercial fibre optic system has made it a leader in a technology that is in demand all over the world. In 1986, SaskTel International Inc., a wholly owned subsidiary, was formed to market its expertise in fiber optics and other telecommunications technologies to countries throughout the world.

During 1986, SaskTel initiated a five year, \$264 million program to virtually eliminate multi-party lines throughout the province and upgrade some 70,000 rural customers to individual line service. In conjunction with this program, SaskTel is replacing most of its older central office switching equipment with state-of-the-art digital systems. This \$128 million project has been accelerated so that both programs will be completed in 1991.

Other important developments included a record 738,709 telephones now in service in Saskatchewan and an all-time high of 110.7 million long distance messages originating in Saskatchewan.

### Saskatchewan Computer Utility Corporation (SaskCOMP)

SaskCOMP provides computing related services to government departments and Crown corporations within Saskatchewan. Revenue from these customers makes up approximately 97 per cent of total SaskCOMP revenue. Over the last few years, SaskCOMP has grown into one of the largest computer service bureaux in Western Canada and is the tenth largest service bureau in Canada.

SaskCOMP delivers a variety of products and services and counts among its major customers Saskatchewan Government Insurance, Saskatchewan Telecommunications, Saskatchewan Social Services, Saskatchewan Revenue and Financial Services, Saskatchewan Health, Workers Compensation Board, Saskatchewan Highways, Saskatchewan Energy and Mines, Saskatchewan Justice and Saskatchewan Agriculture with gross revenue from the largest of these customers at \$7 million per year.



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For 1986, corporate revenues were \$26.9 million and net earnings were \$1.9 million. During 1986 SaskCOMP's management and staff made a concerted effort to improve the productivity of their operations and to provide an effective and efficient computer service to their customers.

During 1986, a significant change began to take place in the type of products available to customers. This strategy moved toward a diversification of products to complement the Corporation's traditional shared processing service. A major component of the diversification was the development of a dedicated computer service. This product provides larger customers the opportunity to have greater control over their processing resources by using computers dedicated to their needs. The computers can be operated remotely from SaskCOMP's head office or from the customer's site.

#### **Saskatchewan Water Corporation (Sask Water)**

Sask Water was created in 1984 by an Act of the Saskatchewan Legislature. The Corporation was established to meet challenges imposed by a growing population and expanding industrial and agricultural sectors for the planning, management and provision of vital water resources. The Corporation is responsible for a variety of water-related programs previously administered by various government departments, thereby permitting water management issues to be addressed more effectively.

In 1986, its second full year of operation, Sask Water earned \$1.5 million on revenues of \$31.8 million (which included a \$25.7 million grant from the Province of Saskatchewan to continue existing programs).

### **FINANCIAL AND SERVICE CORPORATIONS**

#### **Saskatchewan Government Insurance (SGI)**

SGI is a competitive property and casualty insurer, offering a comprehensive line of insurance products and services to homes, farms and businesses throughout the province. SGI also offers optional extended automobile insurance protection and coverage beyond the basic compulsory package provided under the Saskatchewan Auto Fund. All of these insurance products and services are offered to the people of Saskatchewan through SGI's sales force of over 400 independent agents and brokers.

The Canadian property/casualty insurance market began to take an upturn in 1986 as insurers adjusted long standing pricing deficiencies particularly in Commercial and Liability insurance lines. This typifies the Saskatchewan property/casualty insurance market place and in conjunction with SGI corporate initiatives, led to a significant improvement in the profitability of SGI's insurance operations. In 1986 the Corporation recorded net income of \$3.9 million compared to a loss of \$7.7 million in 1985.

SGI also administers the Saskatchewan Auto Fund (SAF) on behalf of the Province of Saskatchewan. The SAF provides compulsory automobile insurance protection and coverage for all vehicles registered in the province and is operated independent of SGI's general insurance operations.

#### **Saskatchewan Economic Development Corporation (SEDCO)**

SEDCO is a provincial Crown corporation which was established in 1963. SEDCO's major objective is to encourage economic growth in Saskatchewan through the expansion of business opportunities and job creation, within competitive industry standards. In order to promote business in Saskatchewan, SEDCO offers a variety of financial and industrial property services, such as long-term loans, property leases and sales of commercial and industrial properties. In 1986 the Corporation created approximately 450 new jobs with an estimated wage value of \$10 million.

During 1986, SEDCO continued its efforts to reduce its investment in non-productive assets. Accordingly, a write-down of property of \$3.3 million was taken, as well as a write-down of share investments of \$3.3 million. Although a profit of \$660,000 was realized from operations, the net effect after considering bad debt expense and the above write-downs in investments was a loss of \$9.95 million.

#### **Saskatchewan Development Fund Corporation (SDFC)**

SDFC was established in 1974 under the Saskatchewan Development Fund Act to perform the duties of trustee, custodian and manager for the Saskatchewan Development Fund, an open-end investment trust. SDFC initially managed the affairs of the Saskatchewan Development Fund and in turn received management fees and sales charges for its services from the Fund. In 1976, SDFC expanded its



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operations to include an annuity business which offered several different types of annuities to the public.

SDFC continues to manage the affairs of the Saskatchewan Development Fund although it no longer offers annuities to the public. In 1985, the Corporation moved its operations to the offices of the Crown Investments Corporation of Saskatchewan (CIC) and is now administered by SDFC's Board of Directors through the use of staff and facilities provided by CIC.

SDFC reported net income in 1986 of \$386 thousand compared to net income in 1985 of \$288 thousand. Total assets in 1986 were \$24.4 million compared to \$26.1 million in 1985.

#### **Saskatchewan Transportation Company (STC)**

In 1986, STC celebrated its 40th year of service to the people of Saskatchewan. Since its inception on April 1, 1946, STC's coaches have travelled more than 156 million miles, carrying over 23 million passengers and millions of pieces of parcel express safely to their destinations. In 1986, the fleet travelled over 5.5 million miles, carrying almost 700,000 passengers, to more than 400 communities in the Province.

From a financial perspective, the Corporation experienced a particularly difficult year. It was confronted with declining passenger markets, faced severe cost pressures and extremely competitive express and charter markets. As a result, the Corporation incurred a \$2.8 million loss in 1986, a \$1.1 million increase over 1985's loss of \$1.7 million.

#### **Agricultural Development Corporation of Saskatchewan (Agdevco)**

The mandate of Agdevco is to support the development of domestic and export trade for the province's agricultural and industrial products. High priority is given to developing new international markets for Saskatchewan's products and services and to expanding sales and shipments to areas with long-standing market ties.

The Corporation manages a number of international aid and development projects. The expertise developed by Saskatchewan's agricultural industry often proves instrumental in overcoming problems faced in the developing world. Further, the exposure which comes from such project management activities aids the province in the establishment of beneficial trading relationships.

The Corporation recorded a net loss of \$265 thousand for 1986. The loss is attributable to a combination of lower grades of crop products due to the poor harvest conditions, poor trading conditions in some international markets and the costs incurred for the establishment of new project initiatives.





# CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

## Consolidated Financial Statements 1986

### Responsibility for Financial Statements

The financial statements have been prepared by the management of the Corporation in accordance with government regulations and on a basis consistent with prior years. The statements have been examined and approved by the Board of Directors.

The integrity of the Corporations' financial records, from which these financial statements are prepared, is largely dependent on the Corporations' system of internal accounting controls. The purpose of such systems is to provide reasonable assurance that transactions are executed in accordance with proper authorization; transactions are appropriately recorded in order to permit preparation of financial statements; and assets are properly accounted for and safeguarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal accounting controls based on the premise that the cost of such controls should not exceed the benefits derived therefrom.

Our independent auditor, whose report on the examination of the consolidated financial statements appears on page 15, reviews the systems of internal control in accordance with generally accepted auditing standards for the purpose of expressing his opinion.



Greg Mrazek, Director  
Accounting Services

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# Auditor's Report

To the Members of the Legislative Assembly  
of Saskatchewan

I have examined the consolidated statement of financial position of Crown Investments Corporation of Saskatchewan as at December 31, 1986 and the consolidated statements of operations, reinvested earnings and cash flows for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

Note 1a explains that, in addition to the financial results of the subsidiary companies of Crown Investments Corporation of Saskatchewan, these consolidated financial statements include the financial results of those corporations designated by the Lieutenant Governor in Council as subject to Part II of The Crown Corporations Act, 1978. Generally accepted accounting principles require that when a company has one or more subsidiaries, that company's financial statements should be prepared on a consolidated basis, except where the parent company does not have control over the subsidiary's assets or operations and in certain other specific situations. This precludes from consolidation the financial results of companies that are not subsidiaries and the financial results of subsidiaries not controlled by the parent company. Since the corporations subject to Part II of The Crown Corporations Act, 1978 are not subsidiaries and since the Legislature has not delegated control of these corporations and Saskatchewan Oil and Gas Corporation to Crown Investments Corporation of Saskatchewan, the requirements under generally accepted accounting principles for inclusion of their financial results in these consolidated financial statements have not been met. In this respect, these consolidated financial statements are not, in my opinion, presented in accordance with generally accepted accounting principles. Had consolidated financial statements been prepared for Crown Investments Corporation of Saskatchewan and the subsidiary companies it controls, virtually every account in, and the information provided by way of notes to, the accompanying financial statements would be materially different. For example, the audited financial statements of the corporations subject to Part II of The Crown Corporations Act, 1978 and Saskatchewan Oil and Gas Corporation reveal that assets of approximately \$6.3 billion, Province of Saskatchewan's equity of approximately \$1.2 billion,

and net losses of approximately \$86 million have been inappropriately included in these consolidated financial statements.

In my opinion, because these consolidated financial statements include the financial results of corporations that are not subsidiaries and the financial results of a subsidiary not controlled by Crown Investments Corporation of Saskatchewan as described in the preceding paragraph, these consolidated financial statements do not present fairly the consolidated financial position of the Corporation as at December 31, 1986 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 24, 1987, except  
as to Note 19 which  
is as of July 8, 1987.

W.G. Lutz, F.C.A.,  
Provincial Auditor



# Consolidated Statement of Financial Position

As at December 31

	<u>Note Reference</u>	<u>1986</u>	<u>1985</u>
(thousands of dollars)			
<b>Assets</b>			
Current			
Short-term investments.....		\$ 239,563	\$ 124,041
Accounts receivable.....		315,525	371,966
Inventories.....		77,793	120,518
Prepaid expenses.....		<u>126,348</u>	<u>134,683</u>
		<b>759,229</b>	<b>751,208</b>
Long-term investments.....	3	<b>704,763</b>	492,078
Property, plant and equipment.....	4	<b>5,559,805</b>	5,508,219
Deferred charges.....	5	<b>275,880</b>	<b>311,197</b>
		<b>\$ 7,299,677</b>	<b>\$ 7,062,702</b>

(See accompanying notes)



	<u>Note Reference</u>	<u>1986</u>	<u>1985</u>
(thousands of dollars)			
<b>Liabilities and Province's Equity</b>			
<b>Current</b>			
Bank indebtedness.....		\$ 81,779	\$ 110,753
Accounts payable and accrued liabilities.....		491,567	527,946
Dividend payable .....		—	25,000
Notes payable .....	6	220,657	351,920
Deferred revenue.....		78,800	102,670
Long-term debt due within one year .....	7	469,583	285,153
		1,342,386	1,403,442
Deferred revenue.....		131,442	76,280
Long-term debt.....	7	4,537,083	4,285,610
Minority interest in subsidiary.....	1 & 18	102,530	—
<b>Province of Saskatchewan's Equity</b>			
Advances.....	8	747,230	747,230
Reinvested earnings .....		303,548	431,762
Customer capital contributions.....		1,050,778	1,178,992
		135,458	118,378
		1,186,236	1,297,370
		<u>\$ 7,299,677</u>	<u>\$ 7,062,702</u>
Commitments and contingencies.....	12		

(See accompanying notes)



# Consolidated Statement of Operations

For the Year Ended December 31

	Note Reference	1986	1985
(thousands of dollars)			
<b>Revenue</b>			
Sales of products and services .....		\$ 1,979,941	\$ 1,996,406
Revenue from investments.....	3	71,017	69,836
Other .....	15	73,597	72,069
		<u>2,124,555</u>	<u>2,138,311</u>
<b>Expenses</b>			
Operating costs other than those listed below.....		1,326,269	1,316,911
Interest.....	9	527,880	484,468
Depreciation and depletion .....	4	305,984	282,724
Saskatchewan taxes and resource payments .....	10	94,098	114,359
		<u>2,254,231</u>	<u>2,198,462</u>
Loss before minority interest and extraordinary items.....		<u>(129,676)</u>	<u>(60,151)</u>
Minority interest share of loss .....	18	<u>1,462</u>	<u>—</u>
Loss before extraordinary items.....		<u>(128,214)</u>	<u>(60,151)</u>
Extraordinary items .....		<u>—</u>	<u>(19,094)</u>
Loss.....		<u>\$ (128,214)</u>	<u>\$ (79,245)</u>

(See accompanying notes)



# Consolidated Statement of Reinvested Earnings

For the Year Ended December 31

	Note Reference	1986	1985
(thousands of dollars)			
Balance, beginning of year .....		\$ 431,762	\$ 536,007
Loss.....		(128,214)	(79,245)
Dividends .....		—	(25,000)
Balance, end of year .....	11	<u>\$ 303,548</u>	<u>\$ 431,762</u>
(See accompanying notes)			



# Consolidated Statement of Cash Flows

For the Year Ended December 31

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Loss before minority interest and extraordinary items.....	\$ (129,676)	\$ (60,151)
Add (deduct) non-cash items		
— Depreciation and depletion .....	305,664	278,170
— Sinking fund earnings .....	(50,251)	(44,837)
— Other.....	8,990	27,806
	<u>134,727</u>	<u>200,988</u>
Net change to non-cash working capital balances related to operations .....	<u>(181,653)</u>	<u>227,549</u>
Cash provided by operating activities .....	<u>(46,926)</u>	<u>428,537</u>
<b>CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES</b>		
Capital expenditures .....	(565,876)	(643,025)
Proceeds on disposals of fixed assets.....	218,420	20,717
Acquisition of investments.....	(392,549)	(78,107)
Disposals and collections of investments.....	181,219	40,416
Increase in deferred revenue .....	<u>61,056</u>	<u>8,065</u>
Cash used in investment activities .....	<u>(497,730)</u>	<u>(651,934)</u>
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
Long-term debt proceeds		
— Province of Saskatchewan .....	774,485	371,257
— Other lenders .....	130,836	164,619
Long-term debt repayments		
— Province of Saskatchewan .....	(351,682)	(139,063)
— Other lenders .....	(40,396)	(125,520)
Dividends to Province of Saskatchewan .....	(25,000)	—
Issue of shares to minority interest.....	109,275	—
Dividends to minority interest .....	(5,283)	—
Customer capital contributions.....	17,080	23,702
Debt discount and other deferred charges .....	(35,685)	(2,461)
Equity advance repayment .....	<u>—</u>	<u>(91,500)</u>
Cash provided by financing activities .....	<u>573,630</u>	<u>201,034</u>
<b>NET INCREASE (DECREASE) IN CASH DURING YEAR</b>	<b>28,974</b>	<b>(22,363)</b>
<b>CASH POSITION, BEGINNING OF YEAR</b>	<b>(110,753)</b>	<b>(88,390)</b>
<b>CASH POSITION, END OF YEAR</b>	<b><u>\$ (81,779)</u></b>	<b><u>\$ (110,753)</u></b>

Cash position comprises bank indebtedness less cash

(See accompanying notes)



# Notes to Consolidated Financial Statements

December 31, 1986

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## 1. Summary of significant accounting policies

This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements.

### a) Consolidation principles

The Crown Corporations Act, 1978 (the Act) assigns certain financial and other responsibilities to Crown Investments Corporation of Saskatchewan regarding corporations subject to Part II of the Act. Saskatchewan provincial Crown corporations become subject to Part II of the Act by Order-in-Council. Accordingly, the following corporations have been designated as subject to the Act by Order-in-Council 630/84 (amended by 874/84) and are consolidated in these financial statements in accordance with the pooling of interests method. All material intercompany accounts and transactions have been eliminated on consolidation.

#### Resources

Potash Corporation of Saskatchewan and consolidated subsidiaries;  
Saskatchewan Forest Products Corporation and consolidated subsidiary;  
Saskatchewan Minerals;  
Saskatchewan Mining Development Corporation and consolidated subsidiary.

#### Utilities

Saskatchewan Computer Utility Corporation;  
Saskatchewan Power Corporation and consolidated subsidiaries;  
Saskatchewan Telecommunications and consolidated subsidiary;  
Saskatchewan Water Corporation.

#### Financial and Services

Agricultural Development Corporation of Saskatchewan;  
Saskatchewan Development Fund Corporation;  
Saskatchewan Economic Development Corporation;  
Saskatchewan Government Insurance;  
Saskatchewan Transportation Company.

The Crown corporations listed above do not have share capital. However, eleven corporations have received non-interest bearing equity advances from Crown Investments Corporation of Saskatchewan. In addition, three corporations (including Crown Investments Corporation of Saskatchewan) have received non-interest bearing equity advances directly from the Saskatchewan Heritage Fund.

For purposes of these consolidated financial statements, the equity advances from Crown Investments Corporation of Saskatchewan have been eliminated against the corresponding equity of the eleven applicable corporations. Therefore the amount reported as equity advances in these consolidated financial statements represents only those equity advances received directly from the Saskatchewan Heritage Fund (note 8).

In addition to the Crown corporations listed above, Meadow Lake Sawmill Ltd. (formerly Prince Albert Pulp Company Ltd.) and CIC Industrial Interests Inc. are wholly-owned subsidiaries of Crown Investments Corporation of Saskatchewan. These corporations are consolidated in accordance with the purchase method of accounting.

Eighty-one per cent of the outstanding common shares, representing fifty-eight per cent of the voting shares, of Saskatchewan Oil and Gas Corporation (Saskoil) are held by Crown Investments Corporation of Saskatchewan. Saskoil is accounted for by the pooling of interests method.

The proportionate ownership interest held by other investors in Saskoil is accounted for on the Statement of Financial Position as Minority Interest. The balance of Minority Interest is adjusted for the Minority Interest's share of Saskoil's net earnings (or loss) and decreased by dividends paid to Minority Interest.

### b) Inventories

Inventories for resale at various stages of manufacture are valued at the lower of average cost and net realizable value, except for certain forest products raw materials and other inventory supplies which are valued at the lower of average cost and replacement cost.

### c) Joint ventures

The joint venture investments of Saskatchewan Mining Development Corporation, Saskatchewan Oil and Gas Corporation and Saskatchewan Power Corporation are accounted for by the proportionate consolidation method.

### d) Investments

Investments maturing within one year are included with current assets and are valued at cost. This valuation approximates their quoted market value.

Long-term investments include shares held in private and public companies plus marketable securities. Shares are recorded at the lower of cost and net realizable value except as noted below. Marketable securities are recorded at cost, adjusted for the unamortized balance of related premiums and discounts incurred on purchase.



Investments in shares of companies in which the corporation exercises significant influence are recorded on the equity method of accounting. Four wholly-owned non-consolidated subsidiaries of CIC Industrial Interests Inc. namely Cablecom Corporation, Prairie Malt Limited, 148606 Canada Incorporated (formerly Saskoil Development Corporation) and 579051 Saskatchewan Ltd. are also recorded on the equity method. The annual earnings of these investee corporations are included as revenue from investments.

Where the nature of an investment in shares is such that increases in the equity of the investee corporations are not likely to accrue to the investor corporation, regardless of whether significant influence exists or there is a parent-subsidiary relationship, the investment is carried on the cost method. Dividends are recorded as income when received.

Where there has been a decline in the value of an investment that is considered other than temporary in nature, the investment is written down to net realizable value.

e) **Property, plant and equipment**

Property, plant and equipment is recorded at cost and includes materials, services, direct labour and fringe benefit costs which are readily identifiable with the construction activity or asset acquisition. The cost of funds used to finance the construction of major projects is also included.

The costs of maintenance, repairs and renewals or replacements are charged to operations as incurred. The costs of replacements and improvements which extend productive life are capitalized.

When property, plant or equipment is disposed of or retired, the related costs and accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are reflected in the statement of operations. This general policy applies only to complete asset units in the Saskatchewan Power Corporation. Saskatchewan Telecommunications includes gains or losses in accumulated depreciation.

The full cost method of accounting, whereby all costs related to exploration and development of oil and gas reserves whether productive or non-productive are capitalized, is used by Saskatchewan Power Corporation and Saskatchewan Oil and Gas Corporation.

f) **Depreciation and depletion**

Buildings and improvements as well as machinery and equipment costs are depreciated primarily on the

straight-line basis over the estimated productive life of each asset.

Deferred property, exploration and development costs, oil and gas production and gathering systems and mining assets are depleted according to the unit-of-production method.

g) **Deferred charges**

Deferred charges include debt-related charges, unamortized early retirement program costs, pre-operating and pre-acquisition costs and unamortized conversion differences arising from translation of long-term debt in foreign currencies to Canadian dollars.

Unamortized conversion differences arising from translation of foreign currency debt are amortized over the remaining period to the maturity date of each related debt obligation.

Unamortized discounts and expenses applicable to the issue of long-term debt are amortized in equal annual amounts over the respective term of each obligation. Gains earned on the retirement of sinking fund assets before maturity are included with deferred charges and are amortized over the respective initial term of each obligation.

Pre-operating and pre-acquisition costs are amortized over a period not exceeding 10 years.

h) **Customer capital contributions**

Capital contributions are required from Saskatchewan Power Corporation customers when the cost of providing service is expected to exceed estimated revenue to be earned over a period of time. These contributions are categorized in two ways:

Deferred revenue — when the deficiency is for only a portion of the life of the facilities,

Equity — when the deficiency exceeds the estimated life of the facilities.

i) **Foreign exchange translation**

Monetary items are translated at the rate of exchange in effect at the year end. Revenue and expenses are translated at rates in effect as they occur. Non-monetary items are translated at the exchange rate prevailing at the time of the transaction.

Long-term debt and related accrued interest, payable in foreign currencies, are recorded at exchange rates prevailing at the year end date. Where this conversion results in a difference from the previously recorded



amount for long-term debt, the difference is included in deferred charges and amortized on a straight-line basis over the remaining terms of the debt.

j) Leases

As lessee, where the corporation has substantially all of the benefits and risks incident to the ownership of property, plant and equipment, the lease is classified as a capital lease. Property, plant and equipment recorded as capital leases are amortized on a basis similar to other assets in the same depreciation 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 the property, plant and equipment 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.

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

The Crown Investments Corporation of Saskatchewan, then named The Government Finance Office, was established by Order-in-Council 535 dated April 1, 1947, and continues under the provisions of The Crown Corporations Act, 1978, as Crown Investments Corporation of Saskatchewan.

## 3. Long-term investments

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Loans and notes receivable.....	\$ 247,497	\$ 269,901
Bonds and debentures .....	313,519	66,609
Shares		
— cost method .....	47,862	58,741
— equity method.....	30,667	29,762
Property holdings.....	47,631	52,021
Leases receivable .....	17,587	15,044
	<u><b>\$ 704,763</b></u>	<u><b>\$ 492,078</b></u>

Included in bonds and debentures is an income debenture from Weyerhaeuser Canada Ltd. (see note 19). Bonds and debentures had a market value of \$319 million on December 31, 1986 (1985 — \$72 million).

Shares accounted for by the equity method, include an amount of \$30 million (1985 — \$28 million) which represents the Corporation's shareholdings in Prairie Malt Limited,

Cablecom Corporation, 148606 Canada Incorporated and 579051 Saskatchewan Ltd. The proportionate share of 1986 net earnings for equity investments amounted to \$2 million (1985 — \$2 million) and is included as revenue from investments.

Shares accounted for by the cost method include an amount of \$11 million (1985 — \$11 million) which represents shareholdings in Westank Industries Ltd. and loans receivable include an amount of \$10 million from Westank Industries Ltd. (1985 — \$5 million).

## 4. Property, plant and equipment

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Machinery & equipment.....	\$ 5,088,435	\$ 4,772,189
Deferred property, exploration & development costs.....	1,030,803	930,021
Buildings & improvements .....	626,732	696,209
Plant under construction .....	506,469	743,839
Capital leases.....	115,021	110,850
Land .....	71,323	87,747
	<u>7,438,783</u>	<u>7,340,855</u>
Accumulated depreciation and depletion.....	1,878,978	1,832,636
	<u><b>\$ 5,559,805</b></u>	<u><b>\$ 5,508,219</b></u>

The approximate composite rate of depreciation and depletion is 5 per cent on all property, plant and equipment excluding land, plant under construction and certain deferred capital costs of Saskatchewan Mining Development Corporation.

## 5. Deferred charges

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Unamortized foreign exchange losses on long-term debt.....	\$ 162,615	\$ 223,081
Deferred financing charges .....	53,266	46,222
Pre-operating and pre-acquisition costs.....	54,156	30,318
Other deferred charges .....	5,843	11,576
	<u><b>\$ 275,880</b></u>	<u><b>\$ 311,197</b></u>



## 6. Notes payable

Notes due to the Province of Saskatchewan's Consolidated Fund and the Saskatchewan Heritage Fund amounted to \$191 million at December 31, 1986 (1985 — \$347 million). The notes are interest bearing, having an average annual interest rate of 8.33 per cent (1985 — 8.93 per cent) and are repayable on terms of less than one year.

## 7. Long-term debt

Years to Maturity	1986		1985	
			(thousands of dollars)	
	Principal Outstanding	Average Interest Rate	Principal Outstanding	Average Interest Rate
	U.S. Dollars	Canadian Dollars		
<b>A. Province of Saskatchewan</b>				
Canadian Dollar Issues				
1-5 years	\$ 858,445	8.91	\$ 1,008,139	9.20
6-10 years	171,379	7.66	141,533	7.22
11-15 years	368,827	9.86	333,827	9.87
16-20 years	1,353,861	11.01	1,136,291	11.81
21-25 years	50,000	9.00	50,000	9.00
	<u>2,802,512</u>		<u>2,669,790</u>	
United States Dollar Issues				
1-5 years	\$ 982,813	1,356,662	10.66	814,847
6-10 years	196,452	271,202	15.31	554,319
11-15 years	—	—	—	—
16-20 years	—	—	—	—
21-25 years	375,000	517,688	8.86	524,363
	<u>1,554,265</u>	<u>2,145,552</u>		<u>1,893,529</u>
Gross Debt Due to				
Province of Saskatchewan		4,948,064		4,563,319
Less: sinking fund balance		<u>390,881</u>		<u>362,410</u>
<b>TOTAL DUE TO PROVINCE OF SASKATCHEWAN</b>		<b><u>4,557,183</u></b>		<b>4,200,909</b>



## 7. Long-term debt (continued)

	1986		1985	
	(thousands of dollars)			
	Principal Outstanding	Interest Rate	Principal Outstanding	Interest Rate
	U.S. Dollars	Canadian Dollars		
— Saskatchewan Power Corporation Savings Bonds				
Series I	53,832	11.50	55,848	11.50
Series II	84,165	9.50	90,850	9.50
Series III	85,323	8.75	—	—
— Saskatchewan Oil & Gas Corporation Participation Bonds	15,000	11.74	15,000	13.3
— Capital lease obligations (note 13)	113,664	Various	113,821	Various
— Lending institutions (due 1987)	15,000	16.625	33,042	9.5-16.625
— Other (due 1987 to 2013)	82,499	8.5-20.3	61,293	8.5-20.3
TOTAL OTHER LONG-TERM DEBT	<u>449,483</u>		<u>369,854</u>	
Total debt — all sources	<u>5,006,666</u>		<u>4,570,763</u>	
Less due within one year	<u>(469,583)</u>		<u>(285,153)</u>	
	<u><b>\$ 1,554,265</b></u>	<u><b>\$ 4,537,083</b></u>	<u><b>\$ 4,285,610</b></u>	

## B. Other long-term debt

— Saskatchewan Power Corporation

Savings Bonds

Series I	53,832	11.50	55,848	11.50
Series II	84,165	9.50	90,850	9.50
Series III	85,323	8.75	—	—

— Saskatchewan Oil & Gas Corporation

Participation Bonds

15,000	11.74	15,000	13.3
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— Capital lease obligations (note 13)

113,664	Various	113,821	Various
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— Lending institutions (due 1987)

15,000	16.625	33,042	9.5-16.625
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— Other (due 1987 to 2013)

82,499	8.5-20.3	61,293	8.5-20.3
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TOTAL OTHER LONG-TERM DEBT

<u>449,483</u>		<u>369,854</u>	
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Total debt — all sources

<u>5,006,666</u>		<u>4,570,763</u>	
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Less due within one year

<u>(469,583)</u>		<u>(285,153)</u>	
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<u><b>\$ 1,554,265</b></u>	<u><b>\$ 4,537,083</b></u>	<u><b>\$ 4,285,610</b></u>
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## 7. Long-term debt (continued)

There is a requirement, attached to certain interest-bearing advances from the Province of Saskatchewan, to make annual payments to the Province in amounts representing one per cent to three per cent of the original advance. These annual payments are invested, at interest, by the Province with the cumulative aggregate being available for the retirement of the advances on their maturity dates and are noted above as equity in sinking funds.

Certain loans received from the Province of Saskatchewan in the amount of \$678 million (1985 - \$750 million) require that the debentures be subject to redemption on six months notice.

Included in the United States dollar issues is a loan for 150 million Swiss francs fully hedged at \$77,662,684 (United States dollars) maturing on March 1, 1988, with interest payable annually and another loan for 100 million Swiss francs fully hedged at \$46,452,000 (United States dollars) maturing on June 30, 1992, with interest payable annually.

The interest rate on the Saskatchewan Power Corporation Savings Bonds can be increased at the discretion of the Minister of Finance of the Province. The bonds are subject to redemption semi-annually until maturity at the option of the bondholder. Series I bonds mature July 6, 1987 and Series II bonds mature July 6, 1988 and Series III bonds mature July 6, 1989.

Saskatchewan Oil and Gas Corporation Participation Bonds have an annual interest rate based on the sum of 10.00 per cent plus 0.03 percentage points for each full \$1.0 million of Net Sales Revenue for the preceding year. During 1986 the interest rate was 11.74 per cent (1985-13.3 per cent). The bonds carry a right of redemption on March 31, 1988 at \$1080 and March 31, 1989 at \$1050 per \$1000 of bond principal. The bonds mature March 31, 1990.

Saskatchewan Mining Development Corporation entered into several interest rate swap agreements maturing at various dates from August, 1987 to September, 1988. These agreements have the effect of converting \$140,000,000 (United States dollars) of fixed rate debt into floating rate debt. The agreements include certain covenants on behalf of both parties thereto and provide for early termination under specified conditions.

Saskatchewan Power Corporation completed a "legal defeasance" of an \$89.3 million loan from the Province of Saskatchewan by placing a note receivable into an irrevocable trust to be used solely for satisfying the principal and interest payments on the loan. The Province of Saskatchewan has accepted the promissory note as full and final satisfaction of the loan. Accordingly, neither the loan nor the note receivable are reflected in the accompanying financial statements.

Sinking fund and debt retirement requirements for the next five years are as follows (thousands of dollars):

1987 — \$469,583
1988 — \$513,390
1989 — \$430,355
1990 — \$237,739
1991 — \$780,255

Long-term debt payable in United States dollars has been translated into Canadian dollars at an average year-end exchange rate of 1.3804 (1985 — 1.3938).

## 8. Province of Saskatchewan's equity

All advances have been received directly from the Saskatchewan Heritage Fund, are non-interest bearing and are repayable at the discretion of the Province of Saskatchewan. Advances from the Saskatchewan Heritage Fund to those Crown corporations included in these consolidated financial statements are as follows:

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Crown Investments Corporation of Saskatchewan.....	\$ 109,976	\$ 109,976
Potash Corporation of Saskatchewan .....	418,554	418,554
Saskatchewan Mining Development Corporation .....	218,700	218,700
	<u>\$ 747,230</u>	<u>\$ 747,230</u>

## 9. Interest expense

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Interest on long-term debt.....	\$ 591,737	\$ 564,690
Amortization of foreign exchange losses.....	28,068	35,234
Amortization of deferred financing costs.....	7,604	5,818
	<u>627,409</u>	<u>605,742</u>
Less:		
— interest capitalized.....	80,930	107,886
— sinking funds earnings.....	50,251	44,837
— gain on debt retirement.....	427	587
	<u>131,608</u>	<u>153,310</u>
Long-term debt interest expense	<u>495,801</u>	<u>452,432</u>
Short-term debt interest expense .....	32,079	32,036
	<u>\$ 527,880</u>	<u>\$ 484,468</u>



## 10. Saskatchewan taxes and resource payments

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
<b>Resource royalties and payments</b>		
Oil, gas and coal royalties.....	\$ 30,133	\$ 55,096
Potash royalties and payments.....	11,805	11,893
Uranium royalties.....	5,443	5,261
Timber dues.....	1,809	1,853
Sodium sulphate royalties.....	705	806
	<u>49,895</u>	74,909
 Grants in lieu of taxes		
to municipalities .....	28,096	28,015
Capital tax.....	12,718	7,993
Insurance premium tax.....	5,082	4,576
Other .....	1,649	2,406
Total paid or payable.....	<u>97,440</u>	117,899
Amounts inventoried .....	(2,908)	(3,503)
Amounts capitalized.....	(434)	(37)
	<u>\$ 94,098</u>	\$ 114,359

Saskatchewan taxes and resource payments as stated above do not include Saskatchewan Education and Health Tax payments.

## 11. Reinvested earnings — appropriated

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
<b>Opening balance, January 1.....</b>		
	<u>\$ 272,331</u>	\$ 348,015
<b>Appropriations:</b>		
— Potash Corporation of Saskatchewan.....	(103,400)	(68,733)
— Saskatchewan Mining Development Corporation	<u>30,392</u>	18,049
	<u>(73,008)</u>	(50,684)
Less: Dividend .....	—	(25,000)
<b>Closing balance, December 31...</b>	<u>\$ 199,323</u>	\$ 272,331

The appropriation of reinvested earnings of the Potash Corporation of Saskatchewan and Saskatchewan Mining Development Corporation is in respect to the Saskatchewan Heritage Fund and is in accordance with a resolution of the Corporation's board of directors made pursuant to The Crown Corporations Act, 1978. Any dividends paid out of these reinvested earnings by Crown Investments Corporation of

Saskatchewan must be paid only to the Saskatchewan Heritage Fund.

The amount shown as the closing balance represents the cumulative net earnings of the Potash Corporation of Saskatchewan and Saskatchewan Mining Development Corporation, less dividends paid out of these cumulative net earnings by Crown Investments Corporation of Saskatchewan to the Saskatchewan Heritage Fund.

## 12. Commitments and contingencies

Crown Investments Corporation of Saskatchewan (the Corporation) and its consolidated Crown corporations had the following commitments as at December 31, 1986:

- a) forward commitments of \$2,050 million for natural gas and \$1,398 million for coal contracted for future minimum deliveries valued at current prices. The commitments extend to 2006 and 2015 respectively,
- b) capital expenditures for approximately \$174 million,
- c) approved but undisbursed loans of approximately \$31.3 million and loan guarantees in force of \$6 million,
- d) Saskatchewan Mining Development Corporation borrowed \$9.3 million of gold bullion which was sold on the spot market. The Corporation pays a fee and an annual rate on the loan. Approximately one-half of the gold bullion will be returned to the lenders in 1987. The loan is secured by a letter of credit from the Province of Saskatchewan,
- e) the Saskatchewan Water Corporation (SWC) has entered into an agency agreement with the Souris Basin Development Authority (SBDA), a provincial Crown corporation, whereby the SBDA will plan, organize, design and construct works on the Souris River and Moose Mountain Creek on behalf of SWC. SWC will provide SBDA with funds for the construction costs. The estimated cost of the project is \$120 million and SWC's share is expected to be \$48 million. The nature of such arrangements is subject to the finalization of agreements with other participants in the project,
- f) financial commitments arising from various exploration and development joint venture agreements.

The Corporation and its consolidated Crown corporations had the following contingencies as at December 31, 1986:

- a) In 1983 the Cumberland House Local Community Authority #3 and various local groups and residents commenced legal action against the Saskatchewan Power Corporation (SPC) and the Province of Saskatchewan



claiming \$200 million as compensation for damages allegedly suffered due to the construction and operation of the Squaw Rapids Hydroelectric Station. The case is now proceeding. SPC is contesting the claim. A reasonable estimate of the amount of the settlement, if any, cannot be determined at this time.

- b) In 1982 SPC sold a dragline for \$45 million. The purchaser of the dragline financed the transaction by issuing promissory notes due May 18, 2003. The notes were endorsed by SPC and SPC's liability as endorser is guaranteed by the Province of Saskatchewan. SPC holds a chattel mortgage on the dragline as security against its contingent liability.
- c) In 1984, Saskatchewan Power Corporation (SPC) sold its Poplar River mine, including certain coal reserves, facilities and equipment. As part of the sale, certain leased mining equipment was transferred to the purchaser and the purchaser assumed the lease with SPC contingently liable for the payments. As collateral, the purchaser has assigned a security interest in the mine facilities and other assets to SPC.
- d) The corporations are the defendants to several unresolved statements of claim. The corporations have provided in their accounts for these claims in accordance with the advice received from legal counsel. The corporations intend to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

### 13. Leases

- a) Assets leased by the Corporation, as lessor, considered to be operating leases were as follows:

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Cost of property leased.....	\$ 22,356	\$ 24,544
Related accumulated depreciation.....	<u>(2,090)</u>	<u>(3,505)</u>
Net cost of property leased .....	<u><u>\$ 20,266</u></u>	<u><u>\$ 21,039</u></u>

Rental income derived from the above property amounted to \$4 million in 1986 (1985 — \$5 million).

- b) The Corporation, as lessee, has entered into capital leases whereby substantially all of the benefits and risks of ownership have been transferred to the Corporation from the lessor. Commitment information related to these leases is as follows:

1986      1985  
(thousands of dollars)

#### Future minimum lease payments

1986 .....	\$ —	\$ 18,248
1987 .....	<u>19,232</u>	<u>18,141</u>
1988 .....	<u>18,596</u>	<u>16,876</u>
1989 .....	<u>18,258</u>	<u>16,876</u>
1990 .....	<u>17,562</u>	<u>16,864</u>
1991 .....	<u>17,230</u>	<u>—</u>
Thereafter .....	<u><u>125,877</u></u>	<u><u>142,727</u></u>
 Total minimum lease payments.....	 <u>216,755</u>	<u>229,732</u>
Less amount representing interest and executory costs .....	<u>(103,091)</u>	<u>(115,912)</u>
Balance of obligation.....	<u>113,664</u>	<u>113,820</u>
Less current portion.....	<u>(5,783)</u>	<u>(4,798)</u>
 \$ 107,881	 <u><u>\$ 109,022</u></u>	

- c) All other leases entered into by the Corporation, as lessee, were operating leases with future minimum lease payments as follows:

	<u><u>1986</u></u>	<u><u>1985</u></u>
	(thousands of dollars)	
1986 .....	\$ —	\$ 25,373
1987 .....	<u>25,688</u>	<u>22,129</u>
1988 .....	<u>22,385</u>	<u>19,970</u>
1989 .....	<u>16,639</u>	<u>16,404</u>
1990 .....	<u>12,063</u>	<u>10,255</u>
1991 .....	<u>8,397</u>	<u>—</u>
Thereafter .....	<u><u>26,145</u></u>	<u><u>23,957</u></u>
 \$ 111,317	 <u><u>\$ 118,088</u></u>	

### 14. Remuneration of directors and senior officers

The Corporation's eleven directors received \$31,350 (1985 — \$30,300) remuneration from Crown Investments Corporation of Saskatchewan as directors. The twelve senior officers (1985 — 12) received, in aggregate, \$789,890 in salaries for 1986 (1985 — \$749,725).

### 15. Related party transactions

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments,



agencies and non-Part II Crown corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

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

During 1986 Saskatchewan Water Corporation received \$24.7 million (1985 — \$28.1 million) in grants from the Consolidated Fund.

## 16. Regulatory Commission

The Public Utilities Review Commission Act was proclaimed in full force and effect in December 1982 by the Saskatchewan Legislature. Certain rates charged by corporations included in these consolidated financial statements are subject to the review and approval of the Commission as follows:

- a) Saskatchewan Power Corporation and North-Sask Electric Ltd. with respect to rates for sale of energy or gas,
- b) Saskatchewan Telecommunications with respect to rates charged within Saskatchewan for non-competitive telephone services.

## 17. Pensions

Substantially all employees of the corporations included in these financial statements are participants in either defined contribution or defined benefit pension plans.

Three corporations make regular payments into their defined benefit pension plans at actuarially determined rates. These rates will provide for future pension benefits over the remaining working lives of the employees. The most recent actuarial valuations indicate that there are past service costs of approximately \$5 million (1985 - \$22 million) which will be funded and charged to future operations.

## 18. Saskatchewan Oil and Gas Corporation

On December 13, 1985, the Saskatchewan Legislature enacted The Saskatchewan Oil and Gas Corporation Act, 1985. This Act repealed The Saskatchewan Oil and Gas Corporation Act and continued The Saskatchewan Oil and Gas Corporation (Saskoil) under The Business Corporations Act.

On December 16, 1985, Crown Investments Corporation of Saskatchewan (CIC) purchased 15,842,910 common shares of Saskoil.

Also on December 16, 1985, Saskoil issued a final prospectus which constituted an initial public offering of the common and preferred shares of the continued corporation. The offering was in the form of 3,793,104 units with each unit consisting of one common and two cumulative redeemable voting convertible second preferred shares, Series A. By January 14, 1986, all the units were fully subscribed and Saskoil received proceeds of \$110 million (before underwriting and other expenses).

Also on January 14, 1986, Saskoil paid a \$75 million dividend to CIC out of the funds derived from the share issue.

Following completion of the offering, CIC owned 81 per cent of the outstanding common shares of Saskoil representing 58 per cent of the voting shares of Saskoil.

## 19. Meadow Lake Sawmill Ltd.

On September 9, 1986, Weyerhaeuser Canada Ltd. (WCL), and two of its wholly-owned subsidiaries, purchased certain operating assets of Meadow Lake Sawmill Ltd. (formerly Prince Albert Pulp Company Ltd.) and Saskatchewan Forest Products Corporation (SFPC). The sale encompassed two major agreements:

- Acquisition Agreement (details the terms of the sale of assets of Meadow Lake Sawmill Ltd. (MLS) and the terms of the income debenture);
- Development Agreement (details the agreement in principle reached with respect to construction of a new paper mill by WCL).

The operating assets of MLS sold to WCL related to the woodland, pulpmill and chemical operations and represented the majority of the operations of MLS. Payment for the assets was in the form of an income debenture with an original principal of \$236.6 million of which \$7.8 million was allocated to SFPC. MLS then purchased SFPC's interest in the income debenture for \$8 million.

The terms of the debenture are separated into two distinct periods. The first period began September 9, 1986 and continues until the earlier of the new paper mill commencing commercial operations and December 31, 1989. The second period then begins and it expires upon the earlier of the debenture being extinguished and its maturity in year 2015.

Interest on the debenture in the first period is nominally 8 1/2 per cent, but may, in any period, be adjusted to be above or below that rate. Interest earned but not paid, due to a



shortfall in cash availability, flows to a deferred interest account, to be paid in a later period. For the period September 9 through December 31, 1986, interest earned on the debenture was \$10 million all of which flowed through to the deferred interest account.

During this first period (pre-start-up), the debenture principal could have been reduced by operating losses generated by the assets sold to WCL, to an aggregate maximum of \$73 million. There was no such principal reduction for the period September 9 through December 31, 1986. In 1987, Weyerhaeuser Canada Ltd., in accordance with the terms of the Acquisition Agreement, agreed that the Income Debenture would remain at the original amount of \$236.6 million and that there would not be an adjustment to that amount should operating losses be incurred during the start-up period.

Following start-up of the paper mill, a different set of terms applies. All debenture computations are made with reference to the combined operations of the enterprise, that is, the pulpmill and the paper mill. No further debenture principal reductions may occur, should the combined operations generate losses. A minimum annual principal repayment of \$0.5 million is required, based upon cash availability; provision for optional principal repayment is also included. A further condition calls for a minimum of \$60 million to be paid on the debenture by the year 2003. Should this amount not be paid by 2003, the cash allocation formula is adjusted.

## 21. Segmented information

	Resources		Utilities		Financial & Services		Consolidated Operations	
	1986	1985	1986	1985	1986	1985	1986	1985
(millions of dollars)								
<b>Statement of Operations</b>								
Revenue .....	\$ 520	\$ 598	\$ 1,377	\$ 1,326	\$ 173	\$ 165	\$ 2,070	\$ 2,089
Operating costs .....	347	322	784	795	156	150	1,287	1,267
Interest .....	105	111	332	287	16	16	453	414
Depreciation and depletion .....	101	96	187	161	2	2	290	259
Saskatchewan taxes .....	42	65	45	41	7	6	94	112
	<b>595</b>	<b>594</b>	<b>1,348</b>	<b>1,284</b>	<b>181</b>	<b>174</b>	<b>2,124</b>	<b>2,052</b>
Segment margin .....	<b>\$ (75)</b>	<b>\$ 4</b>	<b>\$ 29</b>	<b>\$ 42</b>	<b>\$ (8)</b>	<b>\$ (9)</b>	<b>(54)</b>	<b>37</b>
Earnings from equity investments (note 3) .....							2	2
Interest, general corporate expenses and subsidiary .....							(76)	(98)
Extraordinary items .....							—	(19)
Minority interest .....							1	—
Intercorporation profits .....							(1)	(1)
Consolidated loss .....							<b>\$ (128)</b>	<b>\$ (79)</b>

Interest during the second period is earned and paid essentially as provided for in the pre-start-up period, except that a more involved cash allocation formula is to be used, including an allowance for a return on WCL's cash equity investment.

Upon maturity of the debenture in year 2015, any outstanding unpaid principal or interest may be exchanged for preferred shares, to be issued by WCL or an affiliate.

MLS recorded a gain of \$82.3 million on the sale of the above noted operating assets to WCL. The gain on sale will be recognized as income as the debenture principal is received. The proportion of the gain realized will be in the same proportion that the amount of debenture principal received is of the total debenture principal.

## 20. Subsequent event

On February 10, 1987, Lundberg Industries Ltd. and New Mexico Potash Corporation filed a petition with the International Trade Administration, United States Department of Commerce, and the United States International Trade Commission for the imposition of antidumping duties against imports of Canadian produced muriate of potash alleged to be the cause of or to threaten material injury to the United States industry. Potash Corporation of Saskatchewan will participate in the proceeding and will deny the allegations.

Revenue and expenses are recorded before the elimination of intercorporation transactions. These transactions are priced at open market prices for similar products and services and are eliminated in the determination of the consolidated statement of operations.

Interest, general corporate expenses and subsidiary include the results of Crown Investments Corporation of Saskatchewan (the unconsolidated entity) and Meadow Lake Sawmill Ltd. (formerly Prince Albert Pulp Company Ltd.). The Saskatchewan Oil and Gas Corporation's results are included in the Resources segment.

	Resources		Utilities		Financial & Services		CIC Corporate		Consolidated Operations	
	1986	1985	1986	1985	1986	1985	1986	1985	1986	1985
	(millions of dollars)									
Investments.....	\$ 4	\$ 1	\$ 65	\$ 117	\$ 287	\$ 243	\$ 349	\$ 131	\$ 705	\$ 492
Property, plant & equipment.....	\$ 2,233	\$ 2,203	\$ 3,295	\$ 3,116	\$ 31	\$ 32	\$ 1	\$ 157	\$ 5,560	\$ 5,508
Capital expenditures .....	\$ 136	\$ 209	\$ 426	\$ 424	\$ 1	\$ 3	\$ 2	\$ 7	\$ 565	\$ 643
Long-term debt .....	\$ 1,261	\$ 969	\$ 2,835	\$ 2,732	\$ 71	\$ 47	\$ 370	\$ 537	\$ 4,537	\$ 4,285

The information stated above is net of intercorporation transactions.

For the purposes of providing the foregoing segmented information given in this note, CIC Corporate includes CIC, CIC Industrial Interests Inc. and Meadow Lake Sawmill Ltd.







