Annual Report **2005**

Delivering Service

Demonstrating Value

Ontario Clean Water Agency
Agence Ontarienne Des Eaux

Table of Contents

Our Vision

To be the most trusted provider of clean water services in Ontario, protecting public health and the environment and delivering best value to our clients and the Province of Ontario.

Our Mission

To demonstrate service excellence to our clients through the delivery of safe, reliable, and cost-effective water and wastewater operations and maintenance services that meet or exceed regulatory requirements.

Our Values

OCWA's values are the foundation of everything OCWA does:

- Being respectful of colleagues and clients
- Acting with integrity and fairness
- Delivering quality service to meet the needs of our clients
- Collaborating through teamwork
- Fostering innovation
- Accepting responsibility and being accountable

Corporate Profile

The Ontario Clean Water Agency (OCWA) is an agency of the Province of Ontario in the business of providing reliable and cost-effective clean water services on a cost-recovery basis. Established in 1993 under the *Capital Investment Plan Act, 1993* (CIPA), OCWA's core business is the operation, maintenance and management of water and wastewater treatment facilities and their associated distribution and collection systems. In addition, OCWA provides a wide range of professional project management and advisory services.

OCWA is a service organization reliant on the knowledge and expertise of its employees and the quality of its management systems and processes to attract and retain business. The Agency is comprised of a variety of knowledgeable and experienced water and wastewater professionals ranging from operators, mechanics, and operational managers, to engineers, project managers, and providers of specialist support services. Together, we help clients meet their unique needs in Ontario's water/wastewater industry. OCWA utilizes a hub/satellite structure whereby staff and resources are shared between large municipal plants and smaller satellite facilities. This management structure provides economies of scale that lessen operations and maintenance costs for individual municipalities. Clients also benefit from the sharing of management, administration, and specialist support services that many of OCWA's smaller clients would be unable to afford on their own. OCWA manages operational risks through a comprehensive Quality & Environmental Management System and an Occupational Health & Safety System.

After 12 years of service to the Province, OCWA continues to be the operator of choice for more municipalities in Ontario than any other operating authority. OCWA has contracts to operate over 450 water and wastewater facilities on behalf of approximately 200 clients. OCWA operates facilities ranging in size from small wells and pumping stations to large-scale urban water and wastewater systems. Clients include townships, towns, cities, counties and regions as well as multi-jurisdictional boards where water and wastewater services are shared. OCWA also provides services to a small number of commercial, industrial and institutional clients as well as First Nation communities.

In addition, OCWA plays an important role for the Province of Ontario. As a provincial Crown agency, public safety and the delivery of safe and reliable water and wastewater services are OCWA's primary focus. OCWA offers its cost-competitive services to all Ontario municipalities and First Nations communities, ensuring that all Ontarians have access to a provider of safe and reliable water and wastewater services. The Agency's services are also available to assist the Province in the event of water-related emergencies.

Chair's Message

John Burke
Chair of the Board of Directors
Ontario Clean Water Agency

I am honoured to have been appointed as Chair of the Ontario Clean Water Agency in February of 2005. For over 12 years, OCWA has served its clients and the Province by providing safe, reliable services to Ontario municipalities. Over the years, the Agency has successfully responded to a variety of challenges from ice storms and province-wide blackouts, to its work restoring confidence in the Walkerton water supply following the tragedy, as well as implementing initiatives to respond to the numerous regulatory changes that have occurred over the last several years.

In 2005, the Agency continued to make strides in meeting the goal of achieving full-cost recovery, independent of inherited financing income, while maintaining its commitments to operational compliance. The Agency's Board is committed to ensuring the Agency is accountable for its fiscal and operational responsibilities and that it strikes the appropriate balance between commercial interests and its public mandate. OCWA's Board of Directors are charged with ensuring the Agency's good governance. The Board continues to work together with the Ministry of the Environment to enhance the Agency's governance structure.

In the time that I have been part of OCWA, I have been impressed by the dedication and skill of OCWA staff in delivering an important service to communities across Ontario. I look forward to working with my fellow board members and OCWA's senior management committee to deliver on the Agency's goals and objectives.

John Burke
Chair of the Board of Directors
Ontario Clean Water Agency

President's Message

Dante Pontone
President and CEO

OCWA made solid strides on our 2005 commitment to demonstrate value to clients and to the Province of Ontario. We took crucial steps to reposition OCWA for new business growth and financial viability. We made progress on several initiatives to enhance overall service delivery in the areas of client satisfaction, compliance, and operational efficiency. To meet our 2005 commitment, strategic investments were also made in employee training and improving the business processes and systems.

Results from OCWA's efforts are already evident. An independent survey indicates that 92% of our clients rate our service to be good to excellent--showing OCWA's steady improvement in overall client satisfaction from year to year. OCWA realized a number of its short-term strategic goals and exceeded performance measures, including a significant 46% reduction in Provincial Officer Orders. We are proud of our ability to deliver the services clients value through the provision of compliant and cost-effective water and wastewater operations; and we are equally proud of our role in protecting public health and the environment, including the provision of emergency services to the communities of Ontario on behalf of the Province.

OCWA achieved revenue growth in 2005 through modest increases in revenues from operation and maintenance services, project development and technical services as well as financing. We continued to manage our costs, resulting in a reduction of corporate indirect spending. OCWA's Net Income in 2005 before provisions and one-time adjustments was $0.8M. An in-depth review of OCWA's loan portfolio resulted in the write down of a $18.6M loan to the New Tecumseth Improvement Society made on behalf of the Province, resulting in a significant impact to OCWA's bottom-line. However, making this decision positions the Agency well moving forward.

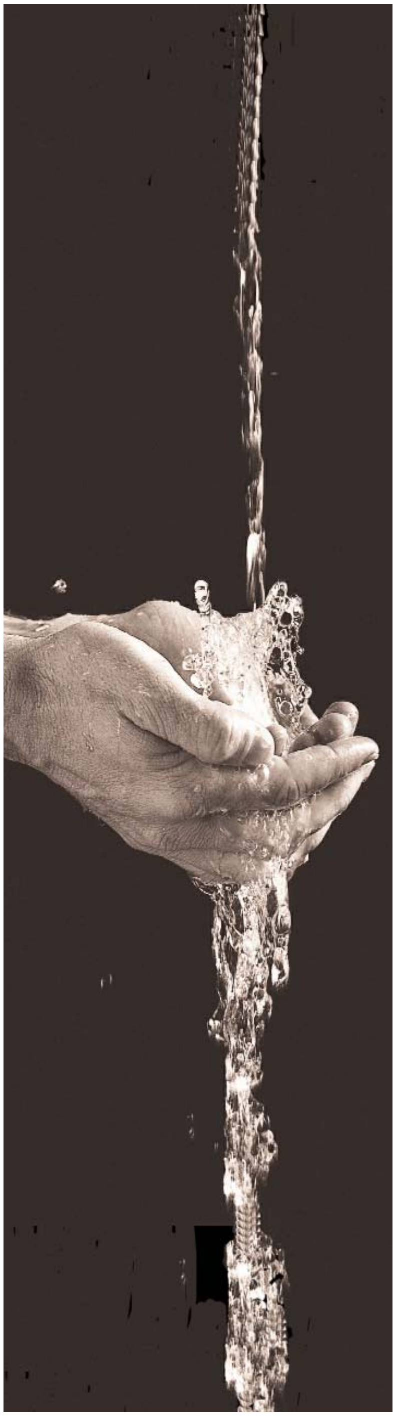
OCWA continues to support the Province in the development of a new strategy for municipal water and wastewater service delivery in Ontario. Our current direction is to revitalize OCWA from within, strengthening the Agency's ability to deliver quality services and products.

OCWA's achievements are the result of the hard work of its employees and their dedication to our values and common goals of delivering reliable, cost-effective water and wastewater service. With this in mind, we will continue to invest in our people and processes.

Looking ahead, our aim is to make the Ontario Clean Water Agency synonymous with our vision of being the most trusted provider delivering the best value, furthering our position as the leading choice among water and wastewater service providers. 2006 will be a pivotal year for OCWA in terms of achieving these goals.

Dante Pontone,
President and CEO

Corporate Governance



The Board of Directors and management of OCWA are committed to best practices in corporate governance. OCWA's corporate governance structure ensures that procedures, processes, and controls are in place to conduct the organization's business in a manner that is fair, transparent, and accountable to its clients, the government and citizens of Ontario.

Role of OCWA's Board of Directors

Members of OCWA's Board of Directors are appointed by the Lieutenant-Governor-in-Council for a three-year term. The Board is accountable to the Provincial Legislature through the Minister of the Environment.

OCWA's Board of Directors is responsible for the overall supervision of the affairs of the Agency. The key responsibilities of the Board include:

- Working with senior management to set the strategic directions, goals and objectives of the Agency;
- Monitoring the Agency's performance against the strategic directions, goals and objectives articulated in the Agency's approved annual business plan;
- Ensuring sound financial management through its review of quarterly financial statements, annual business plans and annual reports of the Auditor General of Ontario and the Agency's internal auditor, and ensuring appropriate response from management to those reports;
- Ensuring appropriate systems and controls are in place for the proper administration of the Agency; and
- Ensuring proper reporting to the Province and the public in accordance with the Agency's governing documents.

Business Planning and Performance Measurement

OCWA's business planning process begins each year with senior management defining long and short term priorities and goals. Specific initiatives to address priorities are developed in consultation with management and are used to formulate an annual business plan with a three-year horizon. The Board reviews and approves the Agency's business plan and related performance targets as prepared by senior management. Employee performance appraisals are tied to the corporate plan and employees are assessed on how well they contribute to achieving Agency objectives.

The Agency uses a balanced scorecard approach to supplement its ongoing results-based planning process. An Agency cross-functional team meets regularly to review the status of key business indicators, and makes recommendations to senior management on areas where performance could be improved.

Corporate Governance (con't)

Accountability

OCWA is held accountable to the government and citizens of Ontario in a number of ways, including:

- An annual report, tabled in the Provincial Legislature and, once approved, available for all Ontarians to review, either in print or online at OCWA's website (www.ocwa.com);
- An annual business plan, including performance measures submitted for review annually to the Ministry of Environment (MOE) and every third year to the Ministry of Government Services (formerly Management Board Secretariat);
- Annual audits of OCWA's financial statements by the Office of the Auditor General of Ontario;
- Public access to Agency records under the *Freedom of Information and Protection of Privacy Act*;
- Reporting requirements for each OCWA-operated facility to its municipal clients and the MOE;
- Individual facility reports for OCWA-operated water treatment facilities are available to the public through OCWA's municipal clients; and
- OCWA-operated water and wastewater facilities are subject to inspection by the Ministry of Environment.

Enhancing OCWA's Governance Model

Referencing both the private and public sectors as benchmarks, the Agency continues to implement governance best practices at all levels of the organization. Over the past year, OCWA improved policies and controls in modern controllership relating to contract pricing, financial controls and hiring practices. OCWA's audit committee of the Board of Directors was re-established to assist the Board with fulfilling its responsibilities to the Province with respect to the Agency's corporate accounting, financial reporting, and control and risk management practices and overseeing standards of integrity and behavior.

Governance Obligations

OCWA is an operational enterprise agency governed by a Board of Directors appointed by the Province. The Agency's governance requirements are set out in CIPA and expanded upon in its "Memorandum of Understanding" with the MOE. The Agency also adheres to related Provincial policy and procedures established for Provincial Operational Enterprise Agencies including the "Agency Establishment and Accountability Directive, 2000."

Corporate Governance (con't)

Board of Directors

Chair:

John Burke, Deputy Minister

Ministry of Municipal Affairs and Housing
Current Term (as Chair): 16/02/05 to 27/11/07
Current Term (as Director): 28/11/04 to 27/11/07
John Burke was appointed Deputy Minister of Municipal Affairs and Housing in February 2004 and was formerly the Deputy Minister of Natural Resources. Mr. Burke also brings to the Agency considerable experience from the Municipal sector having been the Chief Administrative Officer for the City of Ottawa; the Regional Municipality of Halton; the City of Dartmouth; the City of Gloucester and the City of North Bay. He has worked in municipal administration in Grande Prairie, Halifax and the county of Richmond, Nova Scotia.

Gail Beggs, Deputy Minister

Ministry of Natural Resources
Current Term: 23/09/04 to 22/09/07
Gail Beggs was appointed Deputy Minister of the Ministry of Natural Resources in February 2004 and took on the additional role of Deputy Minister Responsible for Aboriginal Affairs in June 2005. Ms Beggs has extensive experience dealing with environmental issues in her various roles at the Ministry of Natural Resources, the Ministry of the Environment, and as a Commissioner on the Great Lakes Fishery Commission. In 2001, Ms. Beggs served as the President and Chief Executive Officer of the Ontario Clean Water Agency, and in 2003 served as Assistant Deputy Minister, SARS Coordination of Cabinet Office.

Geoff Hare, Deputy Minister

Public Infrastructure Renewal
Current Term: 10/03/04 to 09/03/07 - resigned 14/10/05
Geoff Hare was appointed Deputy Minister of the Ministry of Public Infrastructure Renewal in November 2003; providing strategic advice on infrastructure investment and the delivery of the government of Ontario's strategic capital infrastructure planning and investment process. Prior to this, Mr. Hare held senior positions with the Ministry of Economic Development and Trade and the Ontario SuperBuild Corporation. Mr. Hare retired from the Ontario Public Service and consequently resigned from OCWA's Board on October 14, 2005.

Suzanne Herbert, Deputy Minister

Ministry of Northern Development and Mines
Current Term: 07/09/04 to 06/09/07
Suzanne Herbert was appointed Deputy Minister of Northern Development and Mines in September 2004. Prior to this Ms. Herbert was the Deputy Minister of Education and has had a long history of working on issues related to children's services in the North as well as social and policy issues related to aboriginal peoples. Ms. Herbert has served the public in various roles at the Ministry of Community and Social Services, the Ministry of Housing and as the Chief Executive Officer of the Ontario Housing Corporation.

Gadi Mayman, Chief Executive Officer

Ontario Financing Authority
Current Term: 25/02/04 to 24/02/07
Gadi Mayman was appointed Chief Executive Officer of the Ontario Financing Authority (OFA) in November 2003. Mr. Mayman is also Chief Executive Officer of the Ontario Electricity Financial Corporation (OEFC) and is responsible for all of its day-to-day operations. Prior to joining the Ministry of Finance in 1991, he worked as a Treasury Officer at the Export Development Corporation in Ottawa and in the International Division of the Toronto Dominion Bank. As well as being a board member of the OFA and OEFC, Mr. Mayman is also on the boards of the Ontario Strategic Infrastructure Financing Authority (OSIFA) and Infrastructure Ontario.

Virginia West, Deputy Minister

Ministry of Labour
Current Term: 21/02/03 to 20/02/06
Virginia West was appointed Deputy Minister of the Ministry of Labour in November 2005. Ms. West has also served as Deputy Minister of the Environment and Deputy Solicitor General. Ms. West has served the public sector since 1980. From 1980 to 1987, she held successively more senior positions in the Ministry of Government Services. In 1990, she moved to municipal administration concurrently serving as Commissioner of City Property and Commissioner for the Toronto Harbour Commission for the City of Toronto. In 1994, she became the first Chief Administrative Officer for the Borough of East York and three years later, she was appointed Commissioner of Urban Planning and Development Services for the newly amalgamated City of Toronto.

Corporate Governance (con't)

Dante Pontone, President and Chief Executive Officer

Ontario Clean Water Agency
Term (as Chair): 09/08/04 to 16/02/05
Current Term (as Director): 09/08/04 to 08/08/07
Dante Pontone is President and CEO of the Ontario Clean Water Agency. Mr. Pontone started his career with the Ontario Public Service with the Ministry of the Environment in 1985. Mr. Pontone joined OCWA when the Agency was first created and has served in a variety of capacities including Chief Information Officer and interim Vice President of Finance and Corporate Services. In addition to his OCWA role, Mr. Pontone serves as a member of the Board of Directors for the Walkerton Clean Water Centre.

Officers of the Agency

Dante Pontone, President and Chief Executive Officer

See above

Dan Atkinson, Vice President — Operations

Mr. Atkinson assumed his current role in Operations in March 2000. Serving in the Ontario Public Service for almost 25 years, Dan is a Certified Management Accountant and a Certified General Accountant. Dan joined OCWA at its inception in 1993 as the Corporate Controller and is one of the Agency's original officers.

Brenda Baker, Vice President — Finance and Corporate Services

Ms. Baker joined OCWA in November 2002. She has over 20 years of financial experience in government including positions with the Ministry of Public Safety and Security, Ministry of Agriculture and Food and Provincial Auditor. Brenda is a Chartered Accountant and holds a Bachelor of Commerce and a Masters of Business Administration degree.

Linda Chiasson, Vice President — Business Development *(to May 2005)*

Ms. Chiasson joined the OCWA in January 2000, as Manager of Corporate Planning and Communications after many years in several capacities in the financial services sector. From November 2001 to May 2005, Linda served as Vice President of Business Development. Linda holds a Bachelor of Commerce and a Masters of Business Administration degree.

Robin Kind, General Counsel and Corporate Secretary

Ms. Kind has been a member of the Agency's Legal Services group since November 1994. Robin held the position of Assistant General Counsel at OCWA since 2000 and was acting General Counsel from May 2003 to May 2005. Prior to joining OCWA, Ms. Kind spent a number of years in private practice in Toronto in the areas of corporate, commercial and environmental law.

Frank Quarisa, Vice President — Project Development and Technical Services

Mr. Quarisa is a professional engineer who joined the Ministry of the Environment in 1989 as a project engineer responsible for a variety of provincially funded water and wastewater projects. Frank joined OCWA in 1993 and has served as OCWA's General Manager of the South Peel facilities before assuming his Vice President role in 2001. Frank has been an officer of the company since 1999.

Nick Reid, Chief Information Officer

Mr. Reid joined OCWA in February 1995 with 15 years experience in environmental consulting and technical sales. Nick was instrumental in establishing a client services culture within OCWA and has held progressively more responsible positions in Business Development and Operations, including serving as General Manager of the South Peel facilities for the past four years. In November 2005, Nick assumed his current role as Chief Information Officer.

George Terry, Director — Market Development

Mr. Terry joined OCWA at its inception in 1993 and has held successively more senior positions including Operations Manager, Operations Management Specialist, Vice President of Information Technology and Technical Services, and Director of Operational Research and Development. George is an active member of the Canadian Water and Wastewater Association.

Sandra Witlarge, Controller

Ms. Witlarge joined OCWA in September 2000 as Manager of Budgets and subsequently became Controller in May 2002. Prior to joining OCWA, she held various financial positions with a large manufacturing company. Ms. Witlarge is a Certified Management Accountant and a Certified Fraud Examiner and she holds a Bachelor of Administrative Studies degree.

Activities and Accomplishments, 2005

For 2005, OCWA committed to demonstrating value to its clients and the Province through the continued delivery of safe, reliable and cost effective water and wastewater services. Throughout 2005, OCWA acted upon this commitment by making progress towards full-cost recovery; improving internal processes; and investing in employee training. OCWA's 2005 achievements signify a new direction for the Agency, setting the stage for new business growth in the years ahead.

Demonstrating Value for Service

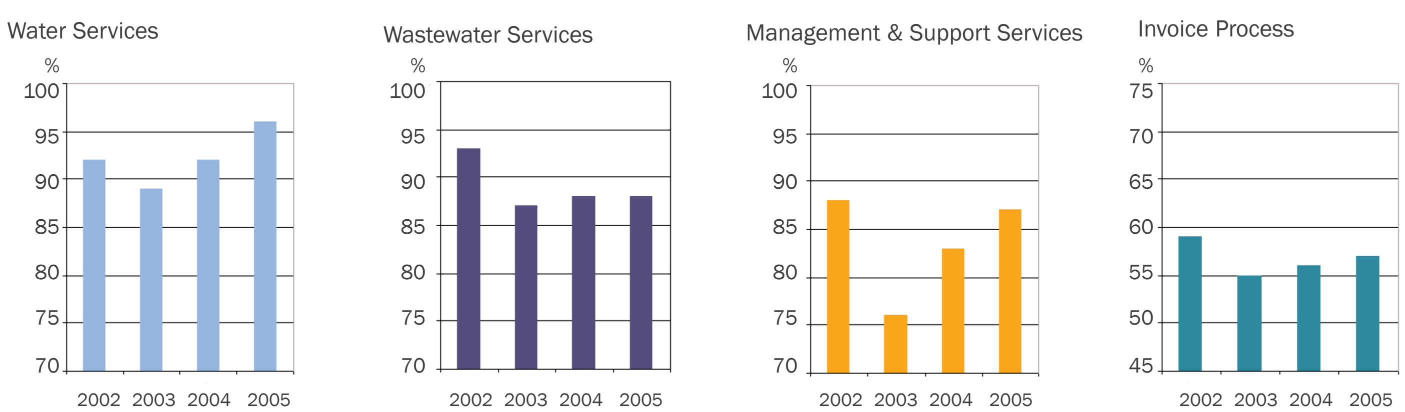
In 2005, OCWA engaged clients in discussions, to determine what value they place on OCWA's service offerings and to identify opportunities for improvement. The Agency also committed to demonstrate value through improving governance processes to achieve greater transparency and accountability in decision-making.

Engaging Clients

OCWA takes a client-focused approach to service delivery. For several years, the Agency has used client survey results to identify opportunities to enhance client satisfaction. In 2005, the Agency sought to improve on its feedback mechanisms by making its client survey more robust and by undertaking client advisory meetings in order to obtain a better understanding of what clients value and what opportunities may exist to better meet our clients' evolving needs.

OCWA's client satisfaction survey was conducted in early 2006 to gauge OCWA's performance for 2005. An independent survey of clients indicated that OCWA's performance had improved overall for each of the survey years (2003, 2004 and 2005). From 2005 to 2006, clients rated OCWA as having improved in water treatment services and invoicing and as having maintained satisfaction levels in wastewater treatment service.

Client Satisfaction Survey Results



Activities and Accomplishments, 2005 (con't)

A client advisory meeting was held in April 2005 in OCWA's Mid-Ontario region to demonstrate on-going Agency initiatives in the area and to discuss opportunities to enhance service delivery. Agency staff also attended the Ontario East Municipal Conference in September 2005, which provided a good opportunity to discuss service opportunities with both existing and potential clients. The Agency will continue to build upon the client advisory concept throughout 2006.

Enhancing Agency Governance through Transparency and Accountability

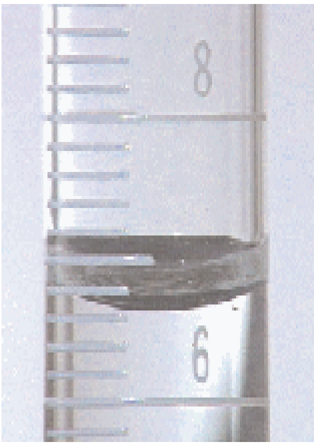
The Agency continued to enhance established policies and controls for greater transparency and accountability to its clients and the Province. In 2005, the Agency implemented its results-based planning approach to monitoring key business activities. This included enhanced senior management accountability through an operational planning exercise and established performance measures, and regular communication of performance results to management. OCWA's Board of Directors also re-established the audit committee of the Board to provide assistance to the Board in fulfilling its responsibilities with respect to the Agency's corporate accounting matters, financial reporting practices (including the quality and integrity of financial reports of the Agency), oversight of management control practices and standards of integrity and behaviour.

Moving Towards Full Cost-Recovery on Commercial Services

In 2005, OCWA committed to providing its business services on a cost-recovery basis, independent of inherited financing revenues. The Agency implemented strategies to grow its business, effectively manage costs, and pursue compensation from the Province for non-commercial activities performed at the Province's request.

Business Growth Strategy

OCWA set out to grow its business by expanding the provision of operations, maintenance and management services to its existing clients. In 2005, OCWA exceeded its target of $1.5M in new business revenues through a combination of new service contracts and the provision of additional services to existing clients.



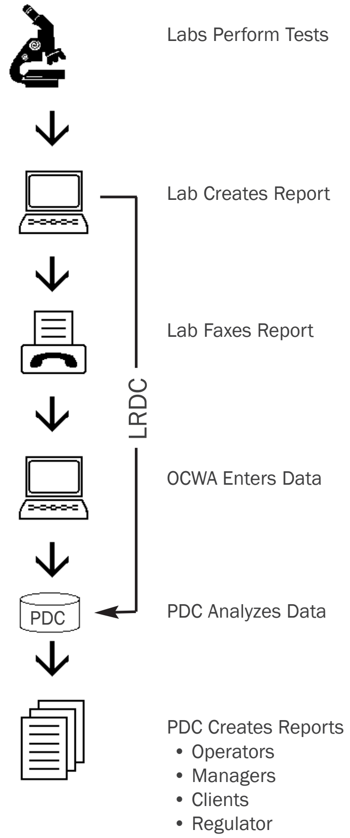
OCWA's overall business growth strategy varied by region. Where a region had a high number of client renewals and was subject to competitive pressures from the private sector, the business growth efforts focused on client retention and demonstrating value. In other regions where the number of client renewals or competition were limited, business growth efforts focused on demonstrating OCWA's value and in securing new business.

Activities and Accomplishments, 2005 (con't)

In addition, OCWA submitted proposals to renew contracts with 27% of its client base. These proposals represent $24.6M in O&M revenue, excluding capital works. Of this amount, the Agency renewed $7.5M in revenue representing 30 clients and 57 facilities. A number of contracts are currently being evaluated by clients and these contracts will be finalized in early 2006.

Although the Agency met its new business targets and renewed a significant portion of its revenue base, a number of contract terminations did occur. These terminations occurred as a result of competition from the private sector and decisions made by municipalities to take back operations. In an effort to mitigate contract losses, OCWA restructured one region, and provided additional support services to improve the Agency's competitive position in the area of concern.

Lab Results Data Collection System



Contract Management

To ensure OCWA is able to recover costs from clients, the Agency identified a margin target for new contracts. OCWA was successful in meeting this target for both new and renewal business. The Agency also undertook a review of expired contracts. Eight of ten previously underperforming contracts were re-signed at terms favourable to OCWA's cost-recovery position.

Cost Management Strategy

In 2003, OCWA initiated a multi-year cost management strategy to reduce direct and indirect expenses. In 2005, this strategy focused on identifying opportunities for greater efficiency in operations and corporate office that support the front-line delivery of services. Through organizational changes, management of position vacancies and reduced spending on indirect expenses, the Agency was able to exceed the indirect expenditure savings target by $0.5M. This savings was partially offset by the gross margin shortfall of $2.4M due in large part to higher than anticipated costs for sludge haulage, electricity, heating oil and vehicle fuel in Operations.

Efficient Service Delivery

The Agency is focused on delivering efficient and compliant operations, maintenance and management services. OCWA makes strategic investments to improve internal processes that keep the Agency abreast of best practices in the water and wastewater industry and the Ontario Public Service.

Lab Results Data Collection

In 2005, OCWA successfully piloted a new efficient and reliable method for gathering and reporting laboratory reports for water and wastewater treatment facilities. The new Lab Results Data Collection (LRDC) System provides a systematic method of collecting, storing and retrieving laboratory reports for OCWA facilities.

Analytical results from participating laboratories are electronically transferred to OCWA's Process Data Collection (PDC) system. This seamless data transfer has helped to reduce operating costs and improve data integrity by eliminating manual data entry.

Activities and Accomplishments, 2005 (con't)

Aligning Business Support Services to Core Business Strategies

The Agency restructured several corporate support services to focus on its core business. Client service delivery was moved into OCWA's regional offices to foster improved teamwork and responsiveness to client needs. OCWA's training and compliance functions were aligned to reflect OCWA's focus on operational training. Operational research and efficiencies functions were combined with Project Development services to enhance the existing skills and marketability of both groups. The Human Resources management structure was streamlined, and Corporate Planning & Communications functions were moved to the President's Office to emphasize the strategic value of business planning and communications in achieving OCWA's goals. Agency customers will benefit from reductions in corporate expenditures as well as a greater focus on the frontline delivery of services.

Utilizing Technology — Improving OCWA's Enterprise Systems

In 2005, a business process review was completed with recommendations for improving the Agency's current enterprise systems. The purpose of the review was to ensure access to timely and accurate business information in the areas of budgeting, performance measurement, and overall quality of service the Agency provides to its clients. Procurement of an enterprise system solution is expected in 2006.

Compliant Operations

OCWA responded to further changes to the regulatory environment in 2005, including comprehensive training and re-certification requirements for water and wastewater operators, forthcoming accreditation of operating authorities, and implementation of regulations relating to biosolids management.

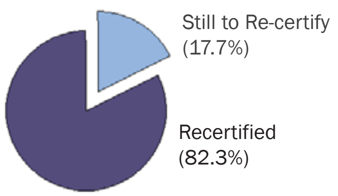
Grandparented Operator Re-certification

The Agency continued with its efforts to support its operators in meeting requirements for re-certification under the Water Operator Training and Certification Regulation (O. Reg. 128) under the *Safe Drinking Water Act, 2002* (SDWA). Eighty per cent of "overall responsible operators" (OROs) requiring re-certification achieved this by the May 14, 2005 deadline. OCWA OROs who were unable to recertify by the deadline were removed from this role pending successful re-certification, allowing OCWA to manage client facilities without incident.

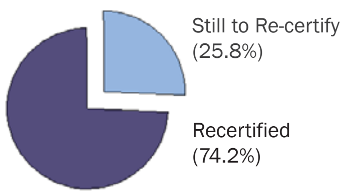
OCWA continues to work with its remaining grandparented employees to meet the May 14, 2006 deadline for re-certification of all grandparented water licensees. At year-end, only 27 of 124 grandparented water licenses held by OCWA staff had yet to be recertified. OCWA continues to assist them with meeting the re-certification deadline by developing learning plans and providing self-study materials as well as on-the-job training assistance.

Grandparented Water Licence Renewals (as at Dec. 31, 2005)

Treatment Licences



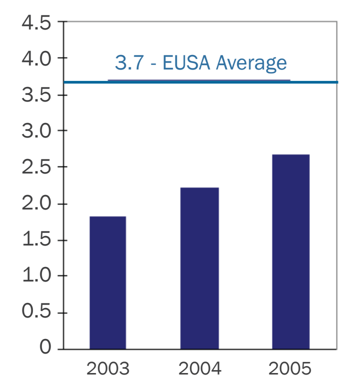
Distribution Licenses



Activities and Accomplishments, 2005 (con't)

Provincial Officer Orders issued as a result of MOE Inspections of OCWA-operated Facilities (as at Dec. 31, 2005)

Occupational Health & Safety



$$\# = \frac{\text{Number of compensable accidents x 200,000}}{\text{Number of hours worked}}$$

Electrical & Utilities Safety Association (EUSA) Historical Average Benchmark for 2004 was 3.7. EUSA is the Safe Workplace Association that was assigned to OCWA by the Workplace Safety Insurance Board (WSIB). By calculating the ratio of compensable accidents to the total number of hours worked and comparing that number to EUSA standard, the Agency can determine the effectiveness of its OH&S policy and procedures.

Prepare for Accreditation Requirements

The Agency continues to prepare for the introduction by the Province of the Drinking Water Quality Management Standard (DWQMS) which will require operating authorities of municipal water systems to be accredited under the SDWA. Accreditation will require the implementation and maintenance of a "quality management system" to ensure responsible operation and management of the system.

In 2005, the Agency established an internal work team to steer the development of program and guidance materials to meet the DWQMS requirements. The Agency also provided awareness training throughout the organization, and initiated a formal conversion of OCWA's Environmental Management System (EMS) to a Quality and Environmental Management System (QEMS). The Agency will continue to monitor the status of the DWQMS to ensure that it is prepared to meet the new accreditation requirements.

Monitoring Compliance

Critical to the Agency's success is its ability to provide compliant water services. The Agency is committed to continuous improvement of its compliance record. OCWA measures success by comparing several performance indicators against statistics for the previous year. Measures include: number of Provincial Officer Orders resulting from MOE inspections of OCWA-operated facilities; number of reportable incidents; and number of adverse water quality incidents. OCWA was successful in improving in all performance areas.

The MOE conducted 215 inspections of the 454 OCWA-operated water and wastewater facilities in 2005. As at December 31, 2005, 19 Provincial Officers Orders were issued to facilities the Agency operates, 35 less than it received in 2004. In 2005, OCWA was convicted of one count under the SDWA for failing to meet sampling requirements under O.Reg. 170/03[1] in a single facility. There were no health and safety incidents involving investigations or charges.

Facility Audits

In 2005, 37 compliance audits were performed; seven more than the target of 30 set at the beginning of the year. In addition to compliance audits, operations performed self-initiated facility assessment reviews.

Emergency Management Program

The Agency's Emergency Management Program is a key component under both the QEMS and OHSS. 2005 was a significant year of renewal for the Agency's Emergency Management Program. In anticipation of becoming a designated Agency for drinking water emergencies under the *Emergency Management Act*, OCWA used the requirements of the Act as the framework to initiate improvements to its Emergency Management Program elements.

1 The conviction related a missed sample following the introduction of the sampling requirements of Regulation 170/03 under the SDWA. The Agency paid a fine of $5,000 and a 25% victim surcharge.

Through its Youth Employment Initiatives, OCWA is increasing its visibility as a potential employer of knowledgeable and skilled younger workers. OCWA's youth program includes co-operative education partnerships with colleges and universities as well as participation at career fairs across the province.

Students appreciate and value the training and experience provided to them during their placement with OCWA. Steven Liao, a 2005 summer placement student wrote:

> *"The experience that I obtained from OCWA is so valuable. I learned a lot ... (gaining) ... experience and skills in operations and compliance. My classmates are discussing ... go(ing) to OCWA for co-op in the summer."*

Summer student Steven Liao *(bottom left)* with North East Ontario Hub co-workers.

Investing in OCWA's Future

OCWA is a service organization that relies upon the skills, knowledge and expertise of its employees to deliver services to clients. In 2005, OCWA committed to retaining, attracting and developing employees as an investment in its future. Specific initiatives were undertaken to equip employees with the skills and tools they need to excel in the evolving water/wastewater industry.

Mandatory Compliance Training for Operators

OCWA continued to develop unique Agency specific training to ensure employees are able to understand and adapt to the complex regulatory environment. OCWA's Environmental Compliance course materials were updated to reflect changes in regulations. The course meets the new continuing education requirements and has received MOE Director Approval. Ten health and safety training modules were also introduced for staff in 2005. These modules also meet the new operator training requirements under O.Reg. 128 and O.Reg. 129.

Monitoring OCWA's Success in Meeting Operator Training Requirements

In 2005, OCWA responded to specific requirements of operator training regulations (O. Reg. 128 and O. Reg. 129). OCWA developed a new database to record and report on the individual training needs of OCWA's employees in accordance with legislated requirements. Water licensees are required by O.Reg. 128 to track their training based on their licensing level and the level of the facility at which they work. Training for all water operators is being monitored closely to ensure operators meet the legislated requirement. In 2005, 99.7% (325 of 326) of wastewater licensees met the requirement of 40-hours of training annually. The one individual who did not meet the requirement works 5 hours per week.

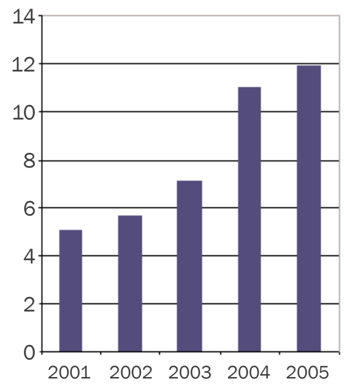
Succession Management Program

OCWA committed to implementing a dynamic Succession Management Program to assess, identify and develop a pool of appropriately skilled individuals ready to compete to fill key positions within the Agency. OCWA delayed the roll-out of its planned talent management initiative in 2005 and will co-ordinate with the planned province-wide launch of a talent management program scheduled for 2006 for the Ontario Public Service.

Operator Training

OCWA's Matt Tracey receives hands-on water distribution training.

Average Number of Days of Training for Licenced Operators (as at Dec. 31, 2005)



"Demonstrating Value" — Performance Measures, 2005

Client Perspective — Being the most trusted provider: OCWA earns trust of clients by demonstrating value for service through good governance, transparency and accountability.

Financial Perspective — Full cost recovery: OCWA will recover the full cost of operations. This includes moving towards full cost recovery from all municipal clients and seeking compensation from the Province for activities performed at the request of the Province.

	Measure:	Outcome:	Notes:
Client Perspective	Improve client satisfaction results.	Achieved	Overall client satisfaction improved to 92% as compared to 90% in 2004.
	Report back from two client advisory meetings.	Achieved	Two client advisory sessions held in 2005.
	Assist MOE and Board to implement selected governance model.	Ongoing	OCWA continues to work with the Board and MOE. Board audit committee re-established.
Financial Perspective	Achieve $1.5M in new revenue.	Achieved	$1.54M in new revenue.
	Develop strategy for 2006-08 business plan.	Achieved	New business strategy detailed in plan.
	Contracts must meet average % margin.	Achieved	Average met established target.
	Achieve $2.5M in savings on corporate office expenditures.	Achieved	Exceeded by $0.5M for a total $3.0M reduction.
	Achieve $2.2M in savings in Operations.	Not Achieved	Largely due to increase in commodities.
	Recover clearly identified non-commercial business costs from MOE.	Achieved	Arrangement met for provision of Emergency Services.
Internal Processes	Grandparented staff re-certified to meet regulatory requirements.	Ongoing	72% of water operators recertified to date. No deadline for wastewater operator re-certification.
	Meet accreditation deadline to be established by MOE.	Ongoing	Accreditation deadline not yet set.

Internal Processes - Focus on efficient and compliant operations: OCWA will focus on the provision of efficient and compliant operations, maintenance and management services to its clients.

Learning and Growth - Investing in OCWA's future: OCWA will ensure its success through investment in its employees, processes and systems to keep abreast of developments in the water and wastewater industry and the Ontario Public Service (OPS).

Measure:	Outcome:	Notes:
Reduce number of convictions.	Achieved	One conviction in 2005 as compared to two in 2004.
Reduce number of Provincial Officers Orders received.	Achieved	The 2005 v. 2004 results for facility inspections: 19 v. 54. A 65% improvement.
Reduce number of reportable incidents.	Achieved	57% reduction as compared to 2004.
Review internal projects and processes.	Achieved	Internal projects & processes reviewed by Q1, 2005 and recommendations for improvements made.
Complete review of Financial System by Q3.	Achieved	Although delayed to Q4, review completed.
Prepare business case for system enhancements.	Achieved	Business case approved by senior management committee. Funding allocated for new financial system to be developed in 2006.
Deliver 7 Environmental Compliance courses.	Achieved	Courses delivered in locations across the Province.
Compliance training modules available to staff by Q3, 2005.	Achieved	10 mini-modules on safety developed.
Succession Management Program pilot fully implemented by year-end 2005.	Delayed	To be launched in 2006 as part of OPS-wide initiative
All operators' performance measured on achieving training hours.	Not Achieved	61% of licensed operator performance plans contain commitment to meet regulatory training requirement. 97% of submitted plans contain specific training course objectives.

Learning & Growth

2006 and Beyond

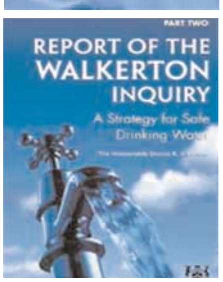
Over the next few years, the Agency will continue to demonstrate value to its clients and the Province. The Agency is focused on revitalizing itself from within and strengthening the organization's reputation for delivering quality services and products to clients. OCWA is committed to achieving full cost-recovery on its business activities by 2008, independent of inherited financing revenue. To accomplish this, the Agency is implementing a business growth strategy to deliver a more comprehensive suite of services to clients and to strengthen the Agency's position in the marketplace. The Agency also plans to implement new technological and process efficiencies to further streamline service delivery to better focus on emerging client needs.

The Agency is mindful of changes being contemplated to the Province's delivery model for water and wastewater treatment services in the Province, and OCWA's future role. The Agency will continue to meet the immediate needs of its clients and the interests of the Province, and is well-positioned to address their future needs.

Anticipated Change in Water and Wastewater Services Delivery

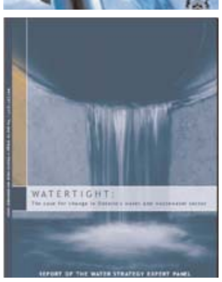
Provincial Long-term Water/Wastewater Strategy (Pending)

- Will Consider both O'Connor and Expert Panel Recommendations
- Input from municipalities and other stakeholders
- Build upon new legislation
  - *Safe Drinking Water Act, 2002*
  - *Sustainable Water and Sewage Systems Act, 2002*
  - *Nutrient Management Act, 2002*



O'Connor Recommendations

- *Safe Drinking Water Act, 2002*
- Change OCWA's Governance Structure, provide emergency response services and expand OCWA service to First Nations



Watertight/Expert Panel Recommendations

- Scale/capacity of systems must increase
- Systems must be self-funding
- Attract investment from non-government sources
- Unsustainable systems require assistance
- OCWA be revitalized as an *Ontario Business Corporations Act* corporation

Manager's Responsibility for Financial Information

Management and the Board of Directors are responsible for the financial statements and all other information presented in this annual report. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's best estimates and judgements.

The Ontario Clean Water Agency is dedicated to the highest standards of integrity in its business. To safeguard assets, the Agency has a sound set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the bylaws of the Agency. Internal audits are conducted to assess management systems and practices and reports are issued to the senior management committee.

The Board of Directors ensures that management fulfills its responsibilities for financial information and internal control. The Board of Directors meets quarterly to oversee the financial activities of the Agency and at least annually to review the financial statements and the external auditor's report thereon, and recommend them to the Minister of the Environment for approval.

The Auditor General has examined the financial statements. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

Dante Pontone
President and CEO

Brenda Baker
Vice President of Finance and Corporate Services

Financial Discussion

Statement of Income and Retained Earnings

Revenue

Revenue from all of OCWA's income streams increased in fiscal 2005 over 2004 as indicated in the following table:

(In thousands of dollars)	2005	2004	$ Increase	% Increase
Utility Operations	104,241	103,274	967	0.94%
Project Management Fees	1,791	1,772	19	1.07%
Total Operating Revenues	106,032	105,046	986	0.94%
Financing Revenues	7,164	6,643	521	7.84%
Total Revenues	113,196	111,689	1,507	1.35%

The increase in Utility Operations Revenue continues a trend of steady growth that began in 2003 with Revenue of $101M. New Business Revenue was $1.5M in 2005. During the same period, thirteen contracts were lost totalling $2.6M in Revenue. Utility Operations Revenue from Capital Projects increased by 4.4% to $12.4M reflecting an increase in repair and maintenance projects completed. Project Management Fees showed a small increase as the Agency continued to promote its project management business. Moving forward, the Agency plans to further increase the promotion of its business with a particular emphasis on both expanding OCWA's service offering to existing clients, and seeking new opportunities to assist First Nations communities. Financing Revenue increased significantly due to increasing interest rates and a larger cash balance.

Expenses

Total Operating Expenses increased by $2.3M or 2% in 2005. This rate is consistent with the year over year increase in the Consumer Price Index (CPI) despite the fact that specific price increases for many of OCWA's significant cost components continue to experience price increases beyond the inflationary adjustment. This is particularly true for natural gas, hydro, sludge haulage, insurance and chemicals. In the face of significant increases in the market prices for consumables used by OCWA, the relatively modest cost increases experienced by the Agency reflects a combination of operational process efficiencies and OCWA's purchasing strategy. OCWA enters into multi-year agreements for key process consumables to limit both OCWA's and its client's exposure to price volatility.

Salaries and Benefits increased by $1.2M or 2.5%, this was primarily due to Collective Bargaining Settlements and Pay for Performance. Insurance costs in the water and wastewater industry have increased significantly since 2001. Some municipalities experienced double digit increases in 2005. OCWA's insured values have increased from $2.2B in 2004 to $2.9B in 2005; however, OCWA has been able to minimize its 2005 cost increase by working with its insurers to set deductibles to best match OCWA's risk tolerance.

Financial Discussion (cont'd)

Rising biosolids haulage costs created a significant pressure during 2005. The cost increase is the result of the increased complexity of regulatory requirements for biosolids handling that has both increased the cost of service delivery, and limited the number of biosolids contractors. Biosolids costs for two of OCWA's largest clients resulted in a significant increase in operating expenses. At one facility, costs were more than $1M greater than the amount budgeted in the previous contract. This contract was re-negotiated and biosolids became the responsibility of the client in 2006. At another facility, process efficiencies are being introduced in 2006 to reduce the volume of biosolids produced which will favourably affect haulage costs. Hydro costs increased by $0.5M or 5.1% due to regulated price increases. Natural gas and heating oil prices also increased due to market volatility.

Financing expenses remained flat in 2005 as compared to 2004, resulting in a Net Income from Financing of $7M with the exception of the provision for the loan to the New Tecumseth Improvement Society (NTIS). This is a $0.5M or 7.8% increase over 2004. In August 1999, OCWA was requested by the Province to provide a loan to the NTIS to finance the construction of a water pipeline. The loan agreement specified that repayment would be made through sales of water, rather than a predetermined schedule of payments. To date, no principal or interest payments have been made. Given the current uncertainty regarding future water sales, the Agency no longer has reasonable assurance of collectability and has provided for this loan in the full amount of $18.6M.

Net Income

Net Income for 2005 before provisions and one-time adjustments was $0.8M. This excludes a one time loan provision of $18.58M, a one-time adjustment of $0.37M for restructuring costs and a Bad Debt provision of $0.28M. The restructuring costs are due to a strategic review and involved the closing of a regional office to reduce operating costs. The Bad Debt provision is a top-up to the Agency's Allowance for Doubtful Accounts and provides for Accounts Receivable that may be uncollectible.

The comparable Net Income for 2004 was $1.0M. This decrease of $0.2M or 20% is reflective of increased operating and commodity costs mentioned above. Some of these costs were mitigated by implementing cost saving programs across the Agency. The Agency also continued to manage corporate costs, resulting in a further reduction of corporate indirect spending by $0.3M compared to 2004.

OCWA's 3-year plan has a goal of breaking even from Utility Operations, Technical Services, and OCWA acquired financing by 2008. In addition to maintaining its emphasis on the attraction of new business, on a going-forward basis, the Agency is increasing its focus on key clients. Additional resources will be provided to ensure that operations staff are adequately supported in addressing the needs of these clients. In addition, the Agency has introduced enhanced analysis and forecasting tools to enable staff to identify trends and

Financial Discussion (cont'd)

challenges and to support operational staff to implement corrective action on a timely basis. These actions, together with the renegotiation of underperforming contracts as previously mentioned, will position OCWA to achieve the financial results outlined in its 2006-2008 Business Plan.

Assets

At December 31, 2005, OCWA's cash balance was $33M. This is an increase of $19M from the $14M balance at December 31, 2004. This increase primarily resulted from the repayment of loans and from payment of Accounts Receivable on outstanding project management contract commitments.

Accounts Receivable from Municipalities and other customers decreased to $20.4M. This is a decrease of $10.4M from the $30.8M balance at December 31, 2004. This is primarily due to payment of Accounts Receivable on outstanding project management contract commitments.

OCWA continues to generate interest revenue from its loan portfolio comprised of a $120M loan to the Ontario Strategic Infrastructure Financing Authority (OSIFA), municipal loans inherited from the Province at the time OCWA was formed, as well as other loans OCWA has negotiated. The balance of OCWA's loan portfolio declined by $22.2M during 2005. $18.6M of this decline was due to the loan provision outlined above. The remaining $3.6M of the decline in the loan portfolio is due to a combination of scheduled payments and early retirements. This reduction is a continuation of the trend reported last year as municipal clients continue to take advantage of lower market interest rates to pay off higher interest loans. Rates of interest on existing loans range from 2.0% to 13.69%.

Liabilities

OCWA has no long-term debt. Liabilities reflect current accounts payable and a provision for long-term employee benefits (LTEB) comprised of accrued legislative severance and workers compensation obligations. The LTEB account is topped up at 2.5% of salaries, and reflected in operating costs, to ensure at least 90% coverage of the total amount required to sever all OCWA employees, which is approximately $7.5M.

Equity of Ontario

Equity as of December 31, 2005, was $171.2M compared to $190.4M at December 31, 2004, a decrease of $19.2M. This is made up of the Net Loss of $18.4M and $0.7M in payments related to inherited litigation.

Auditor's Report

To the Ontario Clean Water Agency,
The Minister of the Environment
And to the Minister of Finance

I have audited the balance sheet of the Ontario Clean Water Agency as at December 31, 2005 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian 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 financial statements present fairly, in all material respects, the financial position of the Agency as at December 31, 2005 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 23, 2006

Jim McCarter, CA
Auditor General

Balance Sheet — Assets

As at December 31, 2005

(in thousands of dollars)	2005	2004
Current assets:		
Cash and cash equivalents	**33,060**	13,966
Accounts receivable, net		
Municipalities and other customers	**20,433**	30,848
Ministry of the Environment	**162**	65
Goods and services tax receivable	**1,150**	1,339
Prepaids	**3,125**	2,640
Current portion of investments receivable:		
Water and wastewater facilities (note 3)	**2,745**	2,684
Facilities under construction (note 4)	**3,297**	8,225
	63,972	59,767
Non-current assets:		
Investments receivable for water and wastewater facilities (note 3 and note 13c)	**11,172**	33,383
Investments receivable for facilities under construction (note 4)	**0**	297
Loan receivable - Top-up loan (note 5)	**255**	305
Loan receivable - OSIFA (note 6)	**120,000**	120,000
Fixed assets, net (note 7)	**5,066**	6,007
	136,493	159,992
Total Assets	**200,465**	219,759

See accompanying notes to the financial statements

Balance Sheet — Liabilities and Equity

As at December 31, 2005

(in thousands of dollars)	2005	2004
Current liabilities:		
Accounts payable and accrued liabilities	**20,349**	20,334
Current portion of employee future benefits (note 10)	**1,000**	1,000
Provision for restructuring costs	**261**	0
	21,610	21,334
Long-term liabilities:		
Municipal contributions payable (note 9)	**1,108**	1,442
Employee future benefits (note 10)	**6,537**	6,597
	7,645	8,039
Equity of Ontario:		
Contributed surplus (note 12)	**96,127**	96,855
Retained earnings	**75,083**	93,531
	171,210	190,386
Total Liabilities and Equity	**200,465**	219,759

See accompanying notes to the financial statements

On behalf of the Board

Dante Pontone
Director

Gadi Mayman
Director

Statement of Income and Retained Earnings

As at December 31, 2005

(in thousands of dollars)	**2005**	2004
Utility Operations Revenues:		
Utility operations	**104,241**	103,274
Fees	**1,791**	1,772
Total Operating Revenues	**106,032**	105,046
Operating Expenses:		
Salaries and benefits (note 10 and note 11)	**48,361**	47,186
Other operating expenses	**62,143**	60,806
Amortization of fixed assets	**1,739**	1,783
Electronic Operating Systems (note 1c)	**656**	845
Total Operating Expenses	**112,529**	110,620
Net Loss - Utility Operations	**(6,867)**	(5,574)
Financing Revenues:		
Interest from investments and loans receivable	**7,141**	6,598
Interest on facilities under construction receivable	**23**	45
Total Financing Revenues	**7,164**	6,643
Financing Expenses:		
New Tecumseth loan provision (note 13c)	**18,579**	0
Interest	**26**	19
Loan administration expenses	**32**	32
Amortization of fixed assets	**60**	60
Total Financing Expenses	**18,697**	111
Net Income (Loss) - Financing	**(11,533)**	6,532
Net Income (Loss) for the Year Before Property Transfer Initiative and GST Rebate	**(18,400)**	958
Property Transfer Initiative (note 14)	**(48)**	(62)
GST rebate (note 13b)	**0**	962
Net Income (Loss) for the Year	**(18,448)**	1,858
Retained earnings, opening balance	**93,531**	91,673
Retained earnings, ending balance	**75,083**	93,531

See accompanying notes to the financial statements

Statement of Cash Flows

As at December 31, 2005

(in thousands of dollars)	**2005**	2004
Cash provided by (used for)		
Operating activities:		
Net Income (Loss)	**(18,448)**	1,858
Items not affecting cash:		
- Amortization of fixed assets	**1,799**	1,843
- New Tecumseth loan provision	**18,579**	0
	1,930	3,701
Changes in non-cash operating working capital		
- Accounts receivable	**10,507**	(5,168)
- Prepaids	**(485)**	(1,785)
- Accounts payable and accrued liabilities	**15**	2,642
- Provision for Restructuring Costs	**261**	0
	10,298	(4,311)
Net cash flows from operating activities	**12,228**	(610)
Financing Activities:		
Decrease in investments receivable for water and wastewater facilities	**3,571**	5,313
Decrease in investments receivable for facilities under construction	**5,225**	1,459
Decrease in loan receivable - Top-up loan	**50**	47
(Decrease) increase in municipal contributions payable	**(334)**	17
(Decrease) in future employee benefits payable	**(60)**	(157)
Decrease in provincial assistance advances receivable	**0**	451
Changes in contributed surplus	**(728)**	(1,096)
Net cash flows from financing activities	**7,724**	6,034
Fixed assets - acquired	**(858)**	(877)
Increase in Cash	**19,094**	4,547
Cash and Cash Equivalents, Opening Balance	**13,966**	9,419
Cash and Cash Equivalents, Ending Balance	**33,060**	13,966

See accompanying notes to the financial statement

Notes to Financial Statements

General:

The Ontario Clean Water Agency (The "Agency") was established on November 15, 1993, under the authority of *The Capital Investment Plan Act, 1993* (the "Act").

In accordance with the Act, the Agency's objectives include:

- Assisting municipalities to provide water and wastewater services on a cost-recovery basis by financing, planning, developing, building and operating such works and services;
- Financing, building and operating water and wastewater facilities on behalf of Ontario on a cost-recovery basis; and
- Providing these services to protect human health and the environment, encouraging conservation of water resources and supporting Provincial policies for land use and settlement.

The Agency is exempt from Federal and Provincial income taxes.

1. Significant Accounting Policies:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants. Included below are those accounting policies that are of significance to the Agency.

(a) Cash and cash equivalents:

Cash and cash equivalents are highly liquid investments with original maturities of three months or less when purchased.

(b) Fixed assets:

Major capital expenditures with a future useful life beyond the current year are capitalized at cost. Amortization is provided using the declining balance method with a half year provision in the year of purchase if the asset is available for use. Fixed assets are being amortized at annual rates as follows:

Automotive equipment	25%
Furniture and fixtures	20%
Computer hardware	33%
Computer software	50%
Machinery and equipment	20%
Leasehold improvements	Life of the lease

(c) Electronic Operating Systems

As approved by the Board of Directors, the Agency continues to reflect spending on Electronic Operating Systems (OCWAware) as an operating expense in the year in which it is incurred since the Agency does not anticipate recovering these costs from future utility operations.

(d) Investments receivable for facilities under construction:

Interest on borrowings and other incremental expenditures relating to facilities are capitalized during the construction period. The rate of interest is set at the start of the fiscal year by using the average one year interest rate of the prior year, paid by the Ontario Financing Authority.

Notes to Financial Statements (con't)

(e) Utility operations:

A portion of the contractual arrangements with clients for the operation of water and wastewater treatment facilities provides for the recovery of all costs incurred in their operations plus a management fee. Revenue is recognized at the time such costs are incurred even though agreements may provide for the collection of a portion of those costs in future years. Accordingly, costs incurred in excess of amounts billed to date and to be recovered in future years are classified as "Investments receivable for water and wastewater facilities".

(f) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

2. Fair Value of Financial Instruments:

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these instruments. Due to prepayment options, the carrying value of the balance of the financial assets and long-term liabilities approximate their fair value.

3. Investments Receivable for Water and Wastewater Facilities:

(a) These investments represent the outstanding principal portion of amounts receivable from clients for capital expenditures undertaken by the Agency on their behalf, and recoverable operating costs, if any, not billed. In addition, it includes capitalized interest on certain facilities that will be collected from clients during future years.

(b) The investments receivable are supported by agreements that bear interest at rates between 2.0% and 13.69%. Scheduled principal repayments of the investments are as follows:

(in thousands of dollars)	
2006	2,745
2007	2,713
2008	1,378
2009	1,258
2010	888
Thereafter	4,935
	13,917
Less: Current portion	2,745
	$ 11,172

Notes to Financial Statements (con't)

4. Investments Receivable for Facilities Under Construction:

"Investments receivable for facilities under construction" represent new water and wastewater facilities or major capital improvements to existing facilities that have been undertaken by the Agency on behalf of its clients. Annually, the net recoverable amount from the customer is transferred to "Investments receivable for water and wastewater facilities." Certain clients pay the entire balance of their amount, accumulated as "facilities under construction," within one year.

5. Loans Receivable — Top-Up Loans:

The Agency made a loan to a municipality to finance water and wastewater facilities that has received provincial assistance under the Municipal Assistance Program. The loan was made for a term of up to 25 years at an interest rate of 8.85% set by the Province at the time the loan was granted.

6. Loan Receivable — OSIFA:

On April 15, 2003, the Agency provided a loan of $120M to the Ontario Strategic Infrastructure Financing Authority (OSIFA), an agency of the provincial government, in exchange for a promissory note, which matures on March 1, 2023. The interest on the note is paid quarterly, with a rate set at four basis points below the average monthly Canadian Doller Offered Rate. The market value of the note approximates cost.

7. Fixed Assets:

(in thousands of dollars)	Cost	Accumulated Amortization	**Net December 31, 2005**	Net December 31, 2004
Furniture and fixtures	1,841	1,357	**484**	532
Automotive equipment	164	115	**49**	67
Computer hardware	6,993	5,635	**1,358**	1,393
Computer software	3,574	3,112	**462**	439
Leasehold improvements	6,646	4,115	**2,531**	3,388
Machinery and equipment	532	350	**182**	188
	$19,750	$14,684	**$5,066**	$6,007

8. Lease Commitments:

Annual lease payments under operating leases for rental of office equipment, premises and vehicles in aggregate are as follows:

(in thousands of dollars)	
2006	$ 2,237
2007	2,017
2008	1,628
2009	716
2010	130
Thereafter	2
	$ 6,730

Notes to Financial Statements (con't)

9. Municipal Contributions Payable:

(in thousands of dollars)	December 31, 2005	December 31, 2004
Municipal contributions held for future repairs	$1,108	$1,442

At December 31, 2005, the Agency held funds that will be used for future repairs amounting to $1.1M (2004 — $1.4M). These funds are included in cash and cash equivalents.

10. Non-Pension Employee Future Benefits:

The Agency is responsible for the accrued legislated severance and its workers compensation obligations.

The costs of these employee future benefits have been estimated at $7.5M (2004 — $7.6M) of which $1.0M has been classified as current liability. The amount accrued in 2005 was $0.8M (2004 — $0.8M) and is included in salaries and benefits expense in the Statement of Income and Retained Earnings.

Included in employee future benefits is an estimated workers compensation obligation in the amount of $1.1M (2004 — $1.1M). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board (WSIB) as at December 31, 2004.

It is management's opinion that the balance at December 31, 2005 will not be materially different. Adjustment to the estimated WSIB obligation cumulative balance, if any, will be made in the year the actual balance is provided by WSIB.

The cost of other post-retirement, non-pension employee benefits is paid by the Ministry of Government Services and therefore is not included in the financial statements.

11. Pension Plan:

The Agency provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) that are both multiemployer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution plans, as the Agency has insufficient information to apply defined benefit accounting to these pension plans. The Agency's contribution related to the pension plans for the period was $2.4M (2004 — $2.1M) and is included in salaries and benefits in the Statement of Income and Retained Earnings.

12. Contributed Surplus:

The opening contributed surplus was received from the Province of Ontario in the form of the book value of net assets in excess of obligations assumed.

Notes to Financial Statements (con't)

The adjustments to the opening balance relate to repair and maintenance, legal costs and the write off of provincial assistance advances that were agreed to prior to the establishment of the Agency. The funds committed for such repair and maintenance are spent on various undertakings, the largest of these undertakings has a spending limit of $7.5M for capital repairs as approved by the Agency's Board of Directors. Of the $7.5M approved, a cumulated $6.0M has been spent. On other undertakings, a cumulated $5.4M has been spent.

(in thousands of dollars)		December 31, 2005		December 31, 2004
Opening balance, January 1	$	96,855	$	97,951
Adjustments to opening balance		(728)		(1,096)
	$	96,127	$	96,855

13. Contingencies:

(a) Litigation:

The Agency is the defendant in a number of lawsuits. Most of these claims are covered by insurance after the application of a deductible, ranging from $5,000 to $100,000, depending on when the event giving rise to the claim occurred and the nature of the claim. The outcome of the lawsuits cannot be determined at this time. Losses, if any, will be accounted for in the period of settlement. The Agency's insurers have denied coverage with respect to several related multi-million dollar lawsuits in which the Agency has been named as a defendant by the same plaintiff. These lawsuits are currently being held in abeyance and it is believed that the Agency's exposure is significantly less than the amounts claimed, although the exact amount of the Agency's exposure cannot be determined at this time. In the event the litigation proceeds, the Agency's exposure will need to be re-evaluated periodically.

(b) Goods and Services Tax (GST):

As a result of a GST audit by the Canada Revenue Agency (CRA), the Agency was advised by the CRA that it is entitled to claim a refund for some of the GST on certain purchases, as the Agency had not claimed the full amount of the rebate to which it was entitled. The claim was approved in January 2004 and the refund was recorded in first quarter end of 2004.

(c) Investments receivable for water and wastewater facilities:

In August of 1999, the Agency entered into a loan agreement to finance the construction of a water pipeline, which was completed in May 2000. The outstanding loan balance including accumulated interest is $18.6M at December 31, 2005. The loan agreement specified that repayment would be through sales of water, rather than according to a predetermined schedule. To date, there have been no sales of water and accordingly no principal or interest payments have been made. Currently, the pipeline and the payments of the outstanding loan is the subject of ongoing discussions amongst various levels of government. Given the current significant uncertainty regarding future water sales, the Agency no longer has reasonable assurance of collectability and has provided for this loan in the full amount of $18.6M.

Notes to Financial Statements (con't)

14. Property Transfer Initiative:

In 1997, the Province passed legislation requiring the transfer of ownership of water and wastewater facilities from the Agency to municipalities. The Property Transfer Initiative captures all real estate conveyance costs associated with the title transfers. The transfers have been completed and $4.7M has been spent.

15. Related Party Transactions:

As a result of the relationship of the Agency with the Province, the following related party transactions exist and have been disclosed in the notes to the financial statements:

(a) The Agency received revenue of $1.8M during 2005 from the Ministry of the Environment for water, wastewater treatment and other services it provided. The services were provided at the same rate as the other municipalities.

(b) The Agency provided a $120M loan to the Ontario Strategic Infrastructure Financing Authority (OSIFA), as described in note 6.

(c) The Agency relies on the Ministry of Government Services to process its payroll and administer its benefits. The Ministry of Government Services absorbs these administrative costs.

16. Salaries:

The *Public Sector Salary Disclosure Act, 1996* requires disclosure of Ontario public-sector employees paid an annual remuneration in excess of $100,000. The salary portion of an individual's compensation includes base salary, overtime payments, vacation/lieu time payouts, and incentive and/or lump sum merit payments. Listed below — by name, position, salary paid and taxable benefits — are those within OCWA whose salary exceeded $100,000 for the year 2005.

Name	Position	Salary Paid	Other Benefits
Atkinson, Daniel	VP, Operations	115,049.78	188.43
Baker, Brenda	V.P., Finance and Administration	111,357.86	182.31
Carter, John	Mgr., Project Dev. & Tech. Serv.	112,897.12	183.00
Chiasson, Linda	V.P., Business Development	109,311.06	165.44
Chin, Edward	Mgr., Administration & Procurement	100,017.82	168.72
Clappison, Stephen	Thermal Operator 4	102,517.49	139.11
Czarnecki, Eric	Sr. Project Engineer	100,625.93	164.16
Dormer, Robert H.	Project Manager	100,625.93	164.16
Ethier, Marc	Regional Manager, MidWest	100,025.13	161.31
Fernandez, Mervyn	Thermal Operator 4	114,794.28	139.11
Jenkins, Robert G.	Sr. Project Engineer	100,625.93	164.16
Kind, Robin	General Counsel	171,187.50	278.21
Pansoy, Fernando	Shift Engineer	121,008.15	138.30
Pontone, Dante	President & CEO	137,235.41	216.49
Quarisa, Frank	V.P., Project Dev. & Tech. Serv.	110,829.00	181.57
Rinas, Wilhelm	Assistant General Counsel	116,607.62	195.15
Sasaki, Lauren	Legal Counsel	114,922.68	216.39
Seguire, John C.	Assistant Operations Manager	120,968.78	100.32
Valickis, Andy	Project Manager	100,625.93	164.16
West, Philip A.	Thermal Operator 3	104,105.64	127.29
Williams, Gordon J.	Regional Manager, North	134,926.00	161.04

Corporate Office
1 Yonge Street, Suite 1700
Toronto, ON, M5E 1E5
General Inquiry: 416.314.5600
Fax: 416.314.8300

Eastern Region Office
593 Norris Court
Kingston, ON K7P 2R9
Phone: 613.634.6292
Fax: 613.634.1942

Midwestern Region Office
490 Dutton Drive, Suite B3
Waterloo, ON, N2L 6H7
Phone: 519.885.7022
Fax: 519.885.8192

Mid-Ontario Region Office
(closing June 30, 2006)
24 Yonge Street
Elmvale, ON, L0L 1P0
Phone: 705.322.5630
Fax: 705.322.5633

Northern Region Office
335 Euclid Ave.
Thunder Bay, ON, P7E 6G6
Phone: 807.475.1350
Fax: 807.475.1531

Southwestern Region Office
3508 Wonderland Road South
London, ON N6L 1A7
Phone: 519.652.7014
Fax: 519.652.7020

South Peel Administration Office
1300 Lakeshore Road East
Mississauga, ON L5E 1E5
Phone: 905.274.1223
Fax: 905.274.5906

Ontario Clean Water Agency
Agence Ontarienne Des Eaux

www.ocwa.com

Toll Free 1.800.667.6292