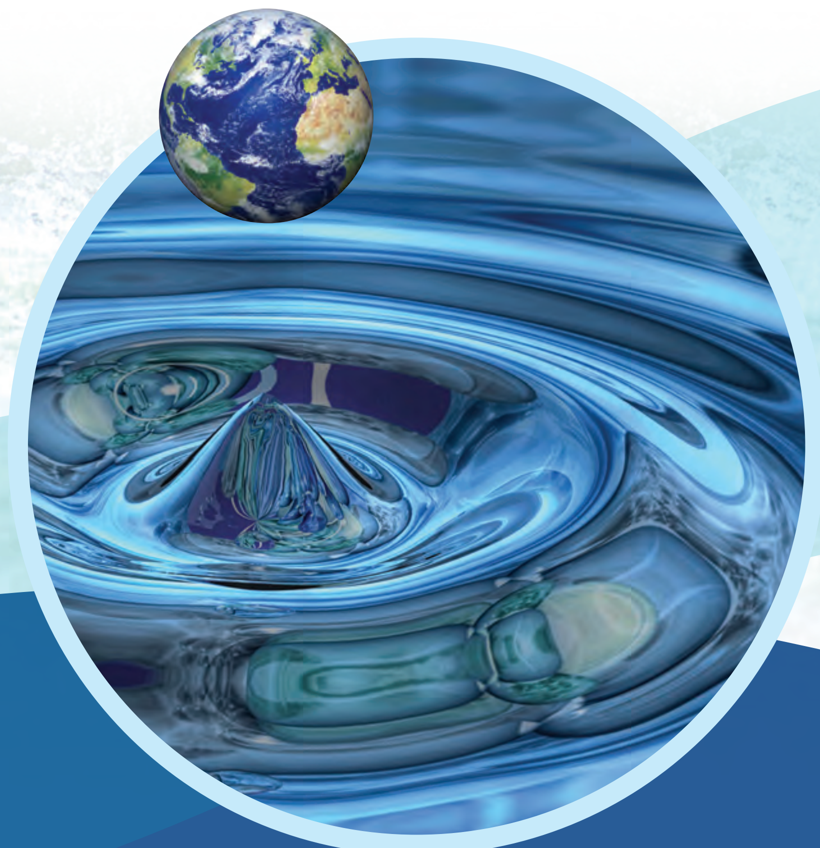
ONTARIO CLEAN WATER AGENCY
AGENCE ONTARIENNE DES EAUX

A TRUSTED WORLD LEADER IN WATER



ANNUAL REPORT 2011

ONTARIO CLEAN WATER AGENCY
AGENCE ONTARIENNE DES EAUX

Vision

A trusted world leader in water.

Mission

To demonstrate service excellence through the delivery of safe, reliable and cost-effective clean water.

Values

Transparent

Open and honest communication of our business activities.

Respectful

Build sound relationships with our staff, clients, and other stakeholders, by embracing diversity, acting responsibly and doing what is right.

Understanding

Confidence in the knowledge and ability of our people to meet the challenges of the water and wastewater industry. Continuously learn current trends and innovative technologies and/or processes in our industry.

Safe

Deliver clean water services to protect our employees, the communities we serve, and the environment.

Teamwork

Work together, share our collective expertise and be innovative in delivering exceptional results and achieving our mission.

Contents

Message from the Chair, **Michael Garrett**

Throughout 2011, the Board of Directors maintained its focus on OCWA's sustainability and vision to be "a trusted world leader in clean water." We engaged with the executive management team to ensure the organization remained resolute and quick to respond to new opportunities and challenges. OCWA is:

- Improving compliance levels
- Improving financial sustainability
- Increasing business growth opportunities
- Enhancing our governance structure
- Supporting water technologies

OCWA prides itself in delivering reliable "best in class" water and wastewater treatment for our clients. In 2011, OCWA improved our compliance levels and achieved an overall water system inspection rating of 98.6%. We are also aware that operating as a lean and efficient organization is important to our clients. Over the last several years, one of our main priorities has been to become lean and efficient and to that end, in 2011, OCWA has decreased its overall indirect costs by 4.6%.

OCWA has also been working with the Province to take advantage of opportunities under the Water Opportunities Act. Jane Pagel, in her first year as our CEO, introduced with great success OCWA's Technology Showcase aimed at exhibiting new technologies. She has also been very successful at collaborating with key stakeholders in the water industry as well as partnering where there are opportunities. Jane has played a significant role in raising the international profile of OCWA and Ontario. The Board is pleased that it was possible to find such a qualified candidate that brings a wealth of experience to the position and she has been a great addition to the OCWA team.

This past year, the Board underwent a visioning exercise and, with executive management, developed OCWA's vision to be a trusted world leader in clean water. This all encompassing vision will set the course for OCWA to be a recognized leader in the water industry and bring value to the Province of Ontario. The Board assisted in setting the strategic priorities and goals for OCWA and were key advisers in the development of the three year business plan. Throughout the year, we assessed the performance of the Agency against the performance measures of the Business Plan to monitor the progress of the organization. The Board is committed to transparency and accountability. With this in mind, the Board and its committees have been devoting more time and attention to performance measurement and Agency oversight. The Board works with management to strive for best practices in financial reporting, compliance, risk management, and operational excellence.

From an accountability perspective, the Board implements governance best practices and adheres to a comprehensive Board Code of Conduct which includes specific requirements for conflict of interest and confidentiality. In 2011, the Board moved to improve its governing structure through establishing a Compliance, Operations and Risk Management Committee to monitor Agency performance and risk oversight. In addition, a Governance and Nominating Committee was created to assist in director development and succession. These two committees were in addition to the Audit and Finance Committee already in place.

As Chair of the Board, I aim to provide leadership to the Board of Directors and through our collective strengths and diverse backgrounds, we are able to guide management and monitor performance to ensure the long term sustainability of OCWA. I am pleased to share in the achievements of OCWA and would like to extend our deepest thanks and appreciation to executive management and the 768 employees of OCWA. We look forward to a very promising 2012. We can already celebrate two significant successes in 2012, with securing the operating and maintenance agreements with Lambton Area Water Supply System (LAWSS) as well as the Lake Huron and Elgin Area Primary Water Supply Systems.

On behalf of the Board,

Michael Garrett

Message from the President and CEO, **Jane Pagel**

The end of 2011 marked my one year anniversary with OCWA. The past year has given me the opportunity to really get to know the organization and its many talented employees. I have been able to meet with many of our people, clients and innovative companies from both Ontario and internationally and I am proud of the great work OCWA does.

OCWA has had many accomplishments in 2011. Of note was the work done by the OCWA Emergency Response Team (OERT) in Moose Factory this past spring. Four OERT teams went into the Moose Cree First Nation community to do hands-on remediation of a troubled sewage system. Due to the hard work and expertise of OERT, the final result was a reliable and sustainable collection system. Continued oversight by OCWA will ensure the long term sustainability of this system.

In support of OCWA's goal to facilitate bringing new technologies and services to the water industry and to support the Water Opportunities Act, OCWA established an innovations committee with the mandate to facilitate the piloting of technologies and services for the treatment and management of clean water. OCWA has reviewed and assessed over 50 technologies and solutions. Eleven agreements have been developed and several technologies are being tested in OCWA-run facilities. OCWA also held its inaugural Technology Showcase event which introduced new and emerging technologies to over 110 participants of municipal and industry representatives and other stakeholders within the water and wastewater industry. With an impressive panel of speakers, 16 exhibitors and a "pitch session", the sold-out event was a great success.

OCWA has remained strong in compliance and has assisted our clients in meeting the stringent regulatory requirements of the water and wastewater sector. At year end 2011, Operational Plans for 163 OCWA-operated water facilities were submitted to Canadian General Standards Board (CGSB) and approximately 96% of OCWA's water facilities have achieved Limited Scope Accreditation.

OCWA has always demonstrated excellence in operations and this was further proven by the great accomplishments of the OCWA Jets Team at the WEFTEC 2011 competitions, held in Los Angeles. One of only three Canadian teams to compete, the OCWA Jets finished 4th overall in their division and placed 1st overall in safety as well as 2nd in the laboratory event.

In 2011, OCWA underwent an extensive review of its business processes, information technology systems and operational tools. With support and direction from the Board, OCWA will be implementing an extensive Business Transformation Project and will make significant investments over the coming years in our organizational processes as well as our ability to provide excellent service to our clients. The implementation of OCWA's transformation project will improve and enhance our operations, generate efficiencies and allow us to meet the growing needs of our clients and the water industry.

OCWA has a long tradition of supporting the communities we live and work in, either through philanthropic contributions or employees volunteering their own time for local events. In 2011, OCWA established a social responsibility team to be more strategic in our approach to Corporate Social Responsibility (CSR). This team, along with employee and stakeholder input, have identified many exciting initiatives that you see outlined in our CSR report included in this annual report.

The health and safety of OCWA employees is a top priority. The Agency is committed to providing a safe and healthy work place and has set an aggressive target of zero lost time injuries. In 2011, 98.2% of OCWA facilities achieved this target. We will maintain our focus in the coming year of promoting a culture of health and safety.

I strongly believe that the strength and depth of our organization begins with our employees and it is through their commitment and hard work that OCWA has been able to achieve our goals and I'd like to thank all OCWA's employees on behalf of executive management and myself.

My first year with OCWA has been a great experience and I look forward to moving ahead with our strategy for 2012 and our long term vision of being a trusted world leader in water.

Sincerely,

Jane Pagel

Jane Pagel

Corporate Profile

The Ontario Clean Water Agency (OCWA) is an agency of the Province of Ontario that provides a full range of comprehensive services to Ontario's water industry.

OCWA's core business is the operation, maintenance and management (OM&M) of water and wastewater treatment facilities and their associated distribution and collection systems on behalf of municipalities, First Nations communities, institutions, and private sector companies. Complementing its OM&M expertise, OCWA offers a comprehensive range of engineering and other technical and advisory services to water and wastewater system owners. In addition, the Agency is dedicated to assessing and implementing innovative technologies, processes and solutions to improve operational efficiencies and reliability.

OCWA operates more municipal water and wastewater facilities in Ontario than any other operating authority. The Agency currently operates over 450 water and wastewater treatment facilities and associated systems on behalf of over 170 Ontario clients. OCWA operates facilities ranging in size from small wells and pumping stations to large-scale urban water and wastewater systems.

OCWA continues to provide excellent, cost effective and efficient service to its clients. A hub/satellite service delivery structure enables the sharing of management, administration, and operational systems to the benefit of our clients.

Through the very nature of our business, one of OCWA's main objectives has always been public health and safety. As a fundamental resource to the Province of Ontario, OCWA provides emergency response services in the event of a provincial water or wastewater emergency. Specially equipped and trained OCWA Emergency Response Teams (OERT) are able to respond immediately throughout the province when their services are needed.

This year the Board of Directors and the Executive Management Team engaged in a visioning exercise and developed a new vision for OCWA to be "a trusted world leader in water" with a mission to demonstrate service excellence through the delivery of safe, reliable and cost-effective clean water.

Corporate Governance

OCWA was established as an Operational Enterprise Agency of the Province of Ontario under the *Capital Investment Plan Act, 1993* and is accountable to Legislature through the Minister of the Environment. The Act sets out OCWA's objects, powers and duties as well as other governing parameters. A Memorandum of Understanding (MOU) with the MOE further clarifies these roles and duties. OCWA conducts its business in accordance with various applicable Management Board of Cabinet (MBC) directives as set out in the MOU.

OCWA is committed to its values and strives to continuously improve upon procedures and practices to direct and manage the Agency. The Agency ensures it operates with ethical business conduct and in a manner that is fair, transparent and provides best value to its clients, the Province of Ontario and the people of Ontario.

Board of Directors

OCWA is governed by a Board of Directors, including a Chair and Vice Chair. The Board is accountable to the Provincial Legislature through the Minister of the Environment. Members of OCWA's Board are appointed by the Lieutenant-Governor-in-Council on the recommendation of the Minister. Collectively, OCWA's Board has expertise in the private and public sector as well as in managing municipal corporations, including utilities. The Board follows best practices in corporate governance and adheres to a Board Code of Conduct which includes specific requirements with respect to conflict of interest and confidentiality. The Board provides director orientation for new members and ongoing education. The Board holds regular meetings and at least one full day strategic planning session annually.

The Board of Directors is responsible for overall Agency affairs including setting strategic direction, monitoring Agency performance and ensuring appropriate systems and controls are in place for the proper administration of the Agency in accordance with the Agency's governing documents. OCWA's Board has established the Audit and Finance Committee, Compliance and Operational Risk Management Committee, Governance and Nominating Committee and a First Nation sTask Force to assist the Board in fulfilling its corporate governance and oversight responsibilities.

OCWA continues to implement governance best practices at all levels of the organization to enhance transparency and accountability to clients, the government and the citizens of Ontario.

OCWA's Board, in consultation with the executive management team, sets the Agency's strategic direction, and reviews and approves OCWA's strategic plans, financial reports, and significant business decisions. The Board approves the Agency's Business Plan and related performance targets annually and monitors the achievement of both the Business Plan targets and key performance indicators throughout the year. Employee performance plans and appraisals are linked to business plan performance targets.

Accountability

OCWA demonstrates accountability to the government and citizens of Ontario in a number of ways, including:

- Meeting requirements for OCWA-operated facilities to the appropriate regulatory authorities (MOE, Medical Officer of Health and Ministry of Labour)
- Providing facility reports for OCWA-operated municipal water and wastewater facilities
- Generating an Annual Report, approved by the Minister of the Environment, tabled in the Provincial Legislature and made available to all Ontarians, either in print or online at www.ocwa.com
- Producing an annual Business Plan, including performance measures, submitted for approval annually to the Minister of the Environment
- Supporting annual audits of OCWA's financial statements by the Office of the Auditor General and periodic Value for Money Audits
- Providing accessibility to Agency records under the *Freedom of Information and Protection of Privacy Act*
- Complying with Ontario Public Service directives including the Agency Establishment & Accountability Directive and the *Public Sector Expense Review Act, 2009* that requires public disclosure of expenses, *Public Sector Compensation Restraint to Protect Public Services Act, 2010*, the Perquisites directive and the Procurement directive
- Utilizing an Enterprise Risk Management (ERM) system to identify and assess business and operational risks

Board of Directors, as of December 31, 2011

Michael R. Garrett, Chair

Art Leitch, Vice Chair

Juli Abouchar

John Bergsma

Susan Fletcher

Allan Gunn

Doug Lawson

Elizabeth A. McLaren

Gino Nicolini

Michael R. Garrett, Chair

Term: June 2008 to June 2013

Michael R. Garrett has extensive experience as a senior executive in the public sector. Mr. Garrett has served in a variety of capacities including: Chief Administrative Officer for the Regional Municipality of York, City Manager for the City of Toronto, Chief Administrative Officer for the Regional Municipality of Peel, Assistant Deputy Minister of the provincial Ministry of Natural Resources, Program Director for the South Nation Basin, and Director of Water Resources with the Metropolitan Toronto and Region Conservation Authority.

Art Leitch, Vice Chair

Term: July 2007 to July 2013

Art Leitch is former President and CEO of Hamilton Utilities Corporation. Prior to that Mr. Leitch served as General Manager of Public Works for the City of Hamilton, Commissioner with Hamilton Hydro Commission, General Manager of Sarnia Hydro, Senior Vice-President of United Utilities International PLC, and Commissioner of Planning and Public Works for the Region of Halton. Mr. Leitch serves as Chair of the Advisory Board of the Link-Line Group of Companies, Chair of the Board of Ontario Digital Cadastre Corporation, Past Chair for the Board of Directors of the Canadian Automobile Association and Board Director at Thunder Bay Hydro.
Mr. Leitch earned his Master of Environmental Engineering degree from the University of Toronto, and his Master of Business Administration degree from York University.

Juli Abouchar

Term: August 2007 to July 2013

Juli Abouchar is Partner and Environmental Specialist with Willms & Shier Environmental Lawyers L.L.P. Ms. Abouchar was Assistant Commission Counsel at the Walkerton Inquiry, served on the multi-stakeholder Source Water Protection Implementation Committee and was legal advisor to the Expert Panel on Regulating Safe Drinking Water on First Nations.
She practices administrative law before environment and energy tribunals and has published numerous articles. Ms. Abouchar holds a Master of Laws from the University of London, U.K. and a Bachelor of Laws and a Bachelor of Civil Law from McGill University.

John Bergsma

Term: August 2007 to July 2013

John Bergsma is a former Commissioner of Corporate Services for the Regional Municipality of Niagara. As well, Mr. Bergsma sits on the Boards of St. Catharines Hydro Inc., Horizon Utilities Inc. and Pioneering Technologies Inc. In the past, he was President and Chief Executive Officer of Union Gas Limited and President of Lennox Canada Inc., Massey Ferguson Research Ltd., and Columbus McKinnon Limited. He served on the University of Waterloo Board of Governors for more than 20 years and the Boards of the Stratford Festival of Canada, the Ontario Great Lakes Renewal Foundation, the Canadian Urban Institute and various United Ways across Ontario. Mr. Bergsma holds a Master of Applied Science in Water Resource Planning.

Susan Fletcher

Term: November 2009 to November 2012

Susan Fletcher, a Certified Management Accountant and consultant, has provided consulting services in a variety of business sectors over the past 20 years, including financial services, health care, non-profit organizations and municipal government. Ms. Fletcher has previously held senior financial management positions in the automotive and research & development sectors. She is a member of the Society of Management Accountants of Ontario and holds a Bachelor of Commerce degree from Queens University.

Allan Gunn

Term: July 2007 to January 2013

Allan Gunn is the Assistant Deputy Minister of Corporate Services at the Ontario Ministry of Community Safety and Correctional Services. He is responsible for the corporate leadership of strategic and business planning, controllership and human resource management for an organization of over 16,000 staff with an annual budget of $1.8B. Mr. Gunn has been an executive in the Ontario Public Service for over 20 years including 6 years as Assistant Deputy Minister with the Ontario Ministry of Environment. He is an alumnus of Carleton University, Queen's University, and the Richard Ivey School of Business.

Doug Lawson

Term: November 2009 to November 2012

Doug Lawson has over 28 years of senior business and financial management experience across a diverse range of industries and size of businesses. During his career, Mr. Lawson has also worked as a consultant to a number of start-up companies. He is currently the Senior Vice-President and Chief Financial Officer of North American Fur Auctions. Mr. Lawson received his Bachelor of Business Administration degree from Wilfrid Laurier University and is a Chartered Accountant with a further Corporate Finance designation granted by the Canadian Institute of Chartered Accountants. He has also earned the ICD.D certification granted by The Institute of Corporate Directors.

Elizabeth A. McLaren

Term: November 2010 to November 2013

After a career in the Ontario Public Service that spanned nearly four decades, Elizabeth McLaren retired in 2008. Over the years she held several different senior-level positions including Assistant Deputy Minister for the Office of the Greater Toronto Area. Immediately preceding her retirement, Ms. McLaren was the Assistant Deputy Minister of the Municipal Services Division in the Ministry of Municipal Affairs and Housing. Since her retirement, she has been a Senior Associate with Hill & Knowlton Canada and GCI Group.

Gino Nicolini

Term: August 2008 to August 2013

Gino Nicolini is semi-retired from a career in engineering. Mr. Nicolini has served as: President of Nicolini Construction and Engineering Ltd., President of Val Nicol Construction Ltd., and Project Engineer of Kilmer Van Nostrand Construction and Engineering Ltd. Mr. Nicolini serves as member of the Landfill and Waste Disposal Regulatory Policy Group of the Public Advisory Committee for the City of Ottawa. His previous contributions include serving as President of the Ottawa-Gloucester Rotary Club and member of the Committee of Adjustment for the City of Ottawa. Mr. Nicolini is a member of the Professional Engineers of Ontario.

Officers of the Agency

Jane Pagel,

President and Chief Executive Officer

Jane Pagel was appointed President and CEO of the Ontario Clean Water Agency on November 1, 2010. Ms. Pagel currently serves on the board of Sustainable Development Technology Canada, chairing the board's Project Review Committee, and was a longstanding member of the Prime Minister's Advisory Council on Science and Technology. She is also a member of the Ontario Chamber of Commerce Board of Directors and WaterTAP Board of Directors. Prior to joining OCWA, Ms. Pagel held a number of senior positions in both government and the private sector, including Jacques Whitford Limited, Zenon Environmental Laboratories and Ontario Hydro, as well as a number of scientist, management and executive positions within the Ministry of the Environment.

Dan Atkinson,

Vice President, Finance and Corporate Services (December 2010 to Present)

Dan Atkinson assumed his current role in December 2010. Prior to that, he was Vice President, Southern Operations. He has been with the Ontario Public Service for over 30 years and joined OCWA at its inception in 1993. One of the Agency's original officers, Dan has served as Corporate Controller and Vice President of Operations. Mr. Atkinson is a Certified General Accountant and a Certified Management Accountant and holds a Bachelor of Commerce degree and a Masters of Business Administration.

David Edwards,

Acting Vice President, Operations - Southern Ontario (April 2011 to December 2011)

After leaving the Petrochemical Industry, David Edwards joined the Ministry of the Environment that later evolved into the Ontario Clean Water Agency. For the past 25 years he has held many challenging positions, including Biosolids Operations Manager and Maintenance Services & Asset Services Manager. Mr. Edwards has been a Regional Manager for South Peel since 2005 and holds several professional designations, including Certified Asset Specialist, Second Class Stationary Engineer and Level 4 Wastewater Treatment. He is a member of American Water Works Association and serves on a number of OCWA committees.

Robin Kind,

General Counsel and Corporate Secretary (May 2003 - Present)

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

Ilmari Komulainen,

Acting Vice President, Operations - Southern Ontario (December 2010 to March 2011)

Ilmari Komulainen joined OCWA in 2003 as Regional Operations Manager, Eastern Region, responsible for overseeing all operations and maintenance facilities and ensuring compliance with regulatory requirements. Mr. Komulainen has 26 years of experience in the water and wastewater industry, as well as many years experience in municipal public works. He is a Professional Engineer and graduate of Queen's University.

Nick Reid,

Vice President, Business Development

Nick Reid joined OCWA in February 1995 with 15 years experience in environmental consulting and technical sales. He was instrumental in establishing a client services culture within OCWA and has held progressively responsible positions in Business Development and Operations. Mr. Reid has also served four years as General Manager of the South Peel facilities and two years as Chief Information Officer prior to assuming his current role with Business Development in February 2007. He has been an officer of the company since 2000.

George Terry,

Vice President, Operations – Northern Ontario, First Nations and Integrated Systems

George Terry joined OCWA at its inception in 1993. With over 30 years experience as a water and wastewater professional, George has successively held more senior positions inside of the Agency including Operations Manager, Operations Management Specialist, Vice President of Information Technology and Technical Services, Director of Operational Research and Development and Director of Marketing & Sales. George is a licensed Class 4 Water and Wastewater Operator and holds certification in Physical and Facility Asset Management. He is a member of the Canadian Water and Wastewater Association, Ontario Water and Wastewater Works Association, and the University of Toronto C-MORE Consortium.

Sandra Witlarge,

Controller, Finance

Sandra 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.

2011 Results and Key Achievements

The Year at a Glance

- ***$139.5M in Revenues***
- ***177 Clients served***
- ***457 Facilities operated***
- ***314,741,261m³ Water treated***
- ***385,655,855m³ Wastewater treated***
- ***768 Employees***
- ***50,000 average visitors to our website***
- ***46,941 hours of internal training delivered***

Engaging Stakeholders

In the past OCWA had reached out to its clients and stakeholders for feedback through client advisory board meetings and surveys. In the fall of 2011, OCWA partnered with the Innovolve Group to utilize a new and innovative technique to engage key stakeholders. OCWA conducted two “charettes” with OCWA clients, industry professionals and staff members. These roundtable discussions aimed to facilitate deeper staff and external stakeholder involvement to enhance OCWA’s service offerings. Through a mix of panel presentations and facilitated workshops, charrette participants exchanged observations on water management trends and identified a range of opportunities for individual and collective water leadership. The discussions also focused on OCWA’s new vision, innovation opportunities and working together to meet shared water objectives.

Bringing Innovation to the Water Industry

A major focus for OCWA in 2011 was to support the Water Opportunities Act, establish opportunities to test and/or pilot technologies and form strategic partnerships that would lead to commercialization in the water industry. This past year, OCWA established an innovations committee with the mandate to facilitate the development, testing, demonstration and commercialization of technologies and services for the treatment and management of water, wastewater and storm water as well as facilitate linkages between innovators and municipalities. OCWA developed an internal evaluation and intake process to screen potential candidate technologies. Over the past year, OCWA has reviewed and assessed 51 independent companies and technologies, of which 11 agreements (either MOUs or letter of intents) have been signed and several technologies are being tested in OCWA run facilities.

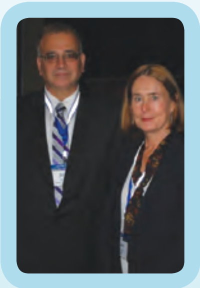
OCWA currently has three projects underway with ENBALA Power Networks. Two of these projects have memoranda of understanding in place for system regulation services and turbo blowers for smart grids. The third project is an approved Showcasing Water Innovations (SWI) with ENBALA, APG, the City of Thunder Bay and Lakehead University to implement a comprehensive energy savings program through improved aeration at the wastewater plants and reduction of process waste streams from their membrane water plant.

Over the last couple of years, OCWA has worked with clients on the optimization of aeration systems at their wastewater facilities. This on-going project involves the replacement of conventional blowers with state of the art turbo blowers, and their conventional aeration systems with fine bubble membrane systems. Through this initiative, we have been able to demonstrate energy savings of up to 30%, while at the same time lowering emissions, improving working conditions, and reducing maintenance costs.

In 2011, OCWA’s CEO participated in a mission to Singapore with the Ministry of Economic Development and Innovation (formerly the Ministry of Research and Innovation) wherein the Ontario government signed a memorandum of understanding (MOU) with Singapore’s national water agency, PUB. The MOU outlines the agreement to collaborate in research and development, and exchange knowledge and expertise that support each jurisdiction’s resources and to develop long-term solutions for water treatment, management and conservation locally and globally.

Furthering OCWA's reach and presence at the global level, OCWA's CEO, Jane Pagel was invited to speak at the 6th International Exhibition and the 3rd International Conference on Water Technologies, Renewable Energy and Environmental Control (WATEC) in Tel Aviv, Israel. The theme was i2i – Innovation to Implementation with close to 28,000 people and 96 countries in attendance. This event provided an opportunity to showcase OCWA at a global conference as well as to establish valuable relationships and networking opportunities. A number of water/wastewater technology companies and two Israeli utilities were interested in collaborating with OCWA and alliance is currently being formed with Israel's national water company.

This past year, OCWA held its inaugural Technology Showcase to introduce new and emerging technologies to municipal representatives and other stakeholders within the water and wastewater industry. This event comprised 16 exhibitors, a panel of experts from the water industry and a "pitch session" that enabled each participant to introduce their innovation and receive feedback from a panel of water industry representatives. The sold out event was a success and brought together over 110 guests from all areas of the industry.



Achieving Business Growth

2011 was a challenging year for OCWA, with many of its clients choosing to enter into a competitive procurement process to seek out lower priced service delivery options. OCWA did, however, successfully renewed 38 OM&M contracts worth a combined $13M in annual revenues. OCWA did not fully achieve its new growth targets although a total $4.4M in new business revenue was achieved. This included new O&M contracts valued at $1.3M in new revenue generated. OCWA's Engineering Services Team achieved $1.8M in sales, the bulk of which related to the provision of project management expertise for major expansion or construction of new water and wastewater infrastructure. OCWA also provided $0.7M in Asset Management and Operational Support Systems (AMOSS) services including the completion of distribution system pilot projects for new clients and working to optimize and enhance a number of water and wastewater processes. OCWA's Training Department delivered $0.5M in services to water and wastewater operators in Ontario.

Operational Highlights - Efficient and Compliant Operations

First in Safety

The Water Environment Association of Ontario (WEAO) held its 40th annual conference in April 2011. Two teams from OCWA: OCWA Flangetastic Four from Georgian Bay area and the OCWA Jets from Stratford competed in the Conference's Operations Challenge. The OCWA teams took first place in four out of five events with the OCWA Flangetastic Four taking top place in the Collection Event and the OCWA Jets winning firsts in the Lab, Process, and Pump events. Overall, the OCWA Jets finished 1st and OCWA Flangetastic Four finished 3rd in the competition. The two teams went on to compete in the 2011 New Jersey Water Environment Association (NJWEA) Spring Fling Invitational Operations Challenge in Atlantic City. The OCWA Jets placed first and the Flangetastic Four placed second overall. Based on their standing at the WEAO competition, the OCWA Jets were invited to compete at WEFTEC 2011, held in Los Angeles. One of only three Canadian teams to compete, the OCWA Jets finished 4th overall in their division. Along with this very honourable distinction, they also placed 1st in the safety event and 2nd in the laboratory event.

Top row (l. to r.): **Tim Swan, Richard Junkin, Marcel Misuraca, Dan Atkinson** *(VP, Finance and Corporate Services),* **Doug Macham, Al Robdrup, Tom Nicol, Mike Paola, Denis Rau.**
Front (l. to r.): **Jen Bitten, Mark McConachie**

Meeting Accreditation Requirements

Under the *Safe Drinking Water Act, 2002*, OCWA's municipal clients were obligated to meet the requirements of the MOE's Municipal Drinking Water Licensing Program. The Agency has continued to support its clients with meeting these requirements and as of the end 2011, Operational Plans for 163 OCWA-operated water facilities were submitted to Canadian General Standards Board (CGSB). Approximately 96% of OCWA's water facilities have achieved Limited Scope Accreditation.

Inspections

As with every regulated industry, the regulator routinely conducts inspections to assess how an organization, or in this case facility, is complying with the provincial regulations. For water systems, the MOE water and operations divisions, as well as the Ministry of Health and Long-Term Care, Health Protection and Promotion division, conduct these inspections. As an indicator of performance, OCWA tracks Provincial Officer Orders issued by the MOE. The MOE conducted 223 inspections in 2011 on OCWA-operated facilities wherein one Provincial Officer's Order was issued. In 2011, 98.7% of inspections resulted in a rating of over 90% (61.3% of those facilities had a rating of 100%).

Operational Performance

Although OCWA is a service provider and does not own the facilities it operates, we do monitor key industry performance indicators to help assess our operational performance as well as identify potential areas for improvement, including infrastructure improvements to our clients. OCWA tracks reportable incidents such as adverse water quality incidents, boil water advisories and bypasses at wastewater facilities. These are discussed in more detail below.

Adverse Water Quality Incidents

Adverse Water Quality Incidents (AWQIs) occur when drinking water quality tests, taken at various stages in the treatment and distribution processes, do not meet the Provincial standards. The MOE defines standards for four types of drinking water parameters – Microbiological, Chemical, Radiological and Physical. In 2011, OCWA operated facilities had fewer AWQIs than in 2010. AWQIs occurred primarily in the northern and eastern regions where the Agency operates more facilities and smaller groundwater systems. Microbiological and chemical AWQIs decreased by 7.7% and 37%, respectively over 2010. And, though there was an increase (11.4%) in physical AWQIs, OCWA achieved an overall reduction of 12.7%.

Results and Key Achievements

Boil Water Advisories

A boil water advisory (BWA) may be issued, at the discretion of the Medical Officer of Health (MOH), in response to an adverse test result or an issue with a drinking water system. A BWA is issued when boiling the water for a specified period will remove the contaminant to ensure the water is safe for drinking. In 2011, there was a 32% reduction in the number of BWAs issued versus 2010 and all BWAs were issued as a preventative measure.

Bypasses at OCWA-operated Facilities

Facilities are designed to "bypass" in response to weather events like heavy rainfalls or snow melt and planned/corrective maintenance activities. These bypass points were installed to safeguard infrastructure (facility and collection system), including each plant's biological processes and to protect private property from damage. Bypasses are a normal practice in the management of wastewater facilities and therefore many Certificates of Approval specifically bypass parameters including reporting provisions and approved limits. OCWA strives to minimize bypass events and is only performed when absolutely necessary to protect the integrity of the treatment process or the protection of the health and safety, and property of residents.

All bypassing events for 2011 have met reporting and sampling requirements and 99.6% of bypass flows were the result of hydraulic loading due to rapid snowmelt or heavy rain.

Occupational Health & Safety (OHS)

The health and safety of employees is of fundamental importance to OCWA. The Agency is committed to providing a safe and healthy workplace for all employees and to the prevention of occupational injury or illness. OCWA has established a comprehensive Occupational Health and Safety System (OHSS) and continues to promote and support a proactive culture of health and safety. In 2011, OCWA maintained its focus on occupational health and safety by hosting its annual health and safety representative conference and OCWA's annual Safety Week which was aligned with the National Safety Day.

OCWA's goal is to achieve zero Lost-time incidents (LTIs) overall and OCWA is working towards this goal by focusing on increasing the number of facilities that achieve zero LTIs. Although the Agency had 9 new LTIs this past year, the target of zero LTIs was achieved at 98.2% of OCWA facilities in 2011. The Agency promotes a culture of health and safety by recognizing employees or groups of employees that exemplify safety through the OCWAmarine Awards program in the category of safety. In the coming year, OCWA will continue to cultivate a culture where safe behaviour and safe workplaces are the expectation of each and every employee. OCWA is committed to delivering its OHSS and enhancing its programs and processes on an ongoing basis through continued training and communication strategies.

Enhancing OCWA's Industry Profile

To promote OCWA, the Agency ensures that it participates in industry associations, and initiatives and events relating to clean water. OCWA is actively involved in water industry associations such as the Canadian Water and Wastewater Association (CWWA), Ontario Water and Wastewater Association (OWWA) and Water Environment Association of Ontario (WEAO). In addition, the Agency continues to coordinate the work of the Ontario Water Works Research Consortium (OWWRC), that brings together municipalities which draw their drinking water from Lake Ontario, with federal government, provincial government and university researchers. The mission of the consortium is to link member utilities to government and university researchers and through those links facilitate the completion of research that is of value to member communities.

Enterprise Risk Management (ERM)

The Agency is committed to establishing a framework that ensures risk management is an integral part of its activities. To ensure the continued growth and success of the OCWA, risks are identified and managed through a comprehensive Enterprise Risk Management Program (ERMP). The Board approves an ERM policy on an annual basis and oversees the approval of OCWA's risks and risk prioritization. The ERMP assists all areas of the business in managing appropriate levels of risk tolerance by bringing a systematic approach and methodology for identifying, evaluating, mitigating, monitoring and reporting key risks.

For 2011, risks were identified and catalogued in a risk register utilizing the American Water Works Association (AWWA) risk categories which are: strategic, operational, market/business, and legal/regulatory. The Agency annually reviews risk management strategies and controls to effectively mitigate/eliminate threats that were identified as high risk.

The formal structure and risk management program established at OCWA is aligned with the risk management requirements set forth in the updated OPS Agency Establishment & Accountability Directive.

Making OCWA a Great Place to Work

OCWA is dedicated to workforce excellence. As such, our goal is to support a skilled and motivated workforce that is ready to learn, develop and contribute to the provision of reliable and cost-effective clean water and wastewater services. To achieve workforce excellence, OCWA is committed to adherence to organizational values, recognizing performance and managing with flexibility.

Attracting and retaining highly trained and certified staff is of extreme importance to OCWA. Our employees are the foundation of our outstanding provision of services. Throughout this past year and moving forward, the Agency continues to focus on attracting, developing and retaining the right people in the right roles.

Engaging Employees

Employee engagement consists of both employee commitment to the organization and the achievement of its goals, along with employee satisfaction with the organizational culture and work environment. The OPS hires an outside consultant to conduct biennial confidential employee satisfaction and engagement surveys in which OCWA participates.

The Agency communicated the results of the 2011 OPS employee engagement survey to OCWA employees and began to implement an action plan based on the results and additional input from staff. Sixty-four percent of OCWA staff responded to the survey. Eighty-seven percent of respondents were rated with medium to high levels of engagement. The employee engagement action plan is focused on continuing to improve organizational communication, career development, leadership practices as well as continuing to reduce performance barriers.

Succession Planning and Leadership Development

OCWA's goal is to ensure that we have the right people in the right place to deliver quality service. Thus we continue to devote a great deal of attention to succession planning and leadership development. OCWA's Succession Management Program offers a variety of methods to help participants further acquire the knowledge, skills and competencies that are characteristic of successful leaders. The program is being enhanced to ensure that we have the leadership capacity needed to deliver on current and future business priorities.

The Agency's leaders continue to participate in the OPS talent management program as well as OCWA specific leadership training. In 2011, a leadership session was held with OCWA management from across the Agency to provide leaders with updates on the Agency's performance as well as to provide developmental opportunities. Moving forward, our leadership development program is being expanded to meet the vast array of developmental needs for current and future leaders.

Results and Key Achievements

Diversity in our Workforce

OCWA continues to broaden its approach to diversity to transform OCWA into a global leader that is diverse, equitable and accessible at all levels. We will continue to integrate diversity in our leadership commitments, policies, programs and services.

We continue to monitor our obligations and review policies to ensure we maintain compliance with the Accessibility for Ontarians with Disabilities Act (AODA). All employees must take Customer Service Standard training as part of the AODA.

Responding to Water Needs

Supporting the Water and Wastewater needs of First Nations Communities

OCWA has participated in the federally-funded Safe Water Operations Program (SWOP) to provide mentoring, training and assistance to First Nations operators in the operation and maintenance of their water treatment systems. The goal of this program is to build knowledge and operational capacity with respect to water treatment and infrastructure maintenance within the First Nations communities. Over the years, OCWA has provided overall responsible operator (ORO) services to 26 First Nations communities under SWOP. In 2011, OCWA provided these services to 11 communities. In addition, OCWA has provided operational training courses for First Nations operators directly through SWOP and the Province's mandatory drinking water certification courses.

In 2011 OCWA continued providing 24/7/365 technical advice and first response to First Nations communities in central/southern Ontario where water and/or wastewater issues were identified. This service is provided to First Nations by OCWA through a program funded by Aboriginal Affairs and Northern Development Canada (AANDC), originally started in 2007. On-site responses by OCWA's OERT teams to First Nations communities were undertaken in 2011 where assessments were performed with subsequent reports detailing the findings and recommendations submitted to the First Nations communities and AANDC.

OCWA's Engineering Services Group has been sharing their expertise with First Nations since 2001 when OCWA visited 120 First Nation communities in Ontario to evaluate their water and wastewater facilities. The resultant reports identified how the risks at the various water and wastewater treatment facilities could be reduced. The reports were used by AANDC to address the high risk issues at the various high risk water facilities. In the early 2000's OCWA worked with AANDC to develop standards for water supply systems for the Province. Over the past 10 years, OCWA's Engineering Services Group has worked in 20 First Nation communities, assisting in developing or upgrading their water supply systems. In 2011 Engineering Services assisted in seven First Nation communities, involved in studies, design or construction of facilities.

Prepared to Respond to Provincial Water and Wastewater Emergencies

OCWA provides emergency response services in the event of a drinking water or wastewater emergency in the Province of Ontario. To ensure preparedness for such emergencies, specially equipped OCWA Emergency Response Teams (OERT) receive extensive training and participate in rigorous testing of full-scale mock up emergency scenarios. In 2011, OERT conducted its first wastewater response in Moose Factory, a remote First Nation community on James Bay which provided an excellent test for OERT's ability to stage a remote response, and provided great benefit to a community looking to address issues in their wastewater system. OERT also completed exercises including setting up a water supply system at the 2011 International Plowing Match (IPM) in Prescott-Russell Township and an emergency assessment in Hornepayne.

Performance Measurement

OCWA uses a results-based planning approach to performance measurement to ensure OCWA's projects and processes are consistent with the Agency's strategic direction. Through quarterly reporting, OCWA's executive management team and the Board of Directors monitor the implementation of the commitments set out in the Agency's business plan.

In addition to performance goals stated in the business plan, OCWA monitors other key performance indicators (KPIs) for both day-to-day operations and public mandate objectives. OCWA's Board established a specific "Board of Directors Dashboard" of KPIs that focuses on business growth, financial performance, health and safety, and environmental compliance. The Agency will benchmark these measures against others in the water and wastewater treatment sector such as the Ontario Municipal CAO's Benchmarking initiative (OMBI), the American Water Works Association (AWWA) performance indicator report and the National Water and Wastewater Benchmarking Initiative.

Summary of Performance Measures for 2011

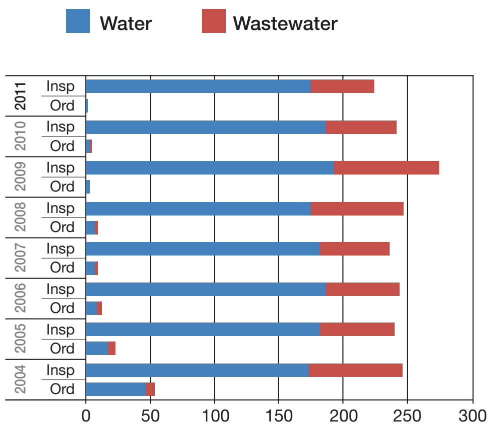
LEGEND ★ Exceeded ▼ Behind Target ✔ Achieved ✘ Missed

Strategy	Goal	2011 Performance Measure		Result
Stewards of Public Health and the Environment				
Market leader in public health and environment	1. Water and wastewater facilities are 100% compliant	• Continuous improvement in the number of water facilities achieving 100% on annual water inspections	▼	61.3% of water facilities achieved 100% inspection rating vs. 62.3% in 2010. Although the target was not achieved, overall inspection rating increased to 98.6% in 2011 vs. 98% in 2010
		• Continuous improvement in the number of wastewater facilities that meet 100% of Certificate of Approval effluent criteria	✘	99.4% of effluent limits were met in 2011
	2. Zero lost time incidents	• Continuous improvement in the number of facilities achieving zero lost time incidents	✘	98.2% of facilities achieved zero LTIs
	3. Developing and implementing conservation initiatives for energy & water	• 2% annual reduction in energy costs (price adjusted) from active pilots	✔	Peel pilot has achieved 2% reduction in baseline energy use
Growth Through Service Excellence				
Focus on clients to deliver long-term sustainable growth	1. OM&M contracts in the municipal and mining sectors	• $ 2.1M revenue from OM&M sales	✘	• Achieved 64% of target
	2. Organic growth with existing clients	• $18.3M revenue from sales to existing clients	✔	
	3. Focus on capital plans for clients including sustainability plans	• Standardized capital plans delivered to all clients	✔	
Lean & Efficient				
Be lean and efficient throughout the organization	1. Invest in operational and business tools	• No interruption of data flow during software replacement completion	✔	
		• Reduction in miscellaneous logs	✔	
	2. Improve finance function processes	• Decrease overdue Accounts Receivable at 61 days by 30%	▼	• Reduced the receivables > 60 days by 28%
	3. Optimizing operations	• Complete 12 energy/process reviews	★	• 16 process reviews have been completed in 2011

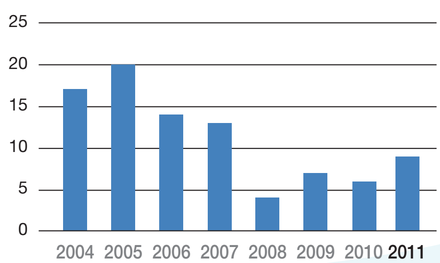
Performance by the Numbers

Compliance Performance

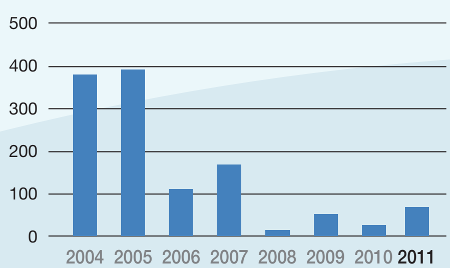
MOE Inspections and Provincial Officer Orders



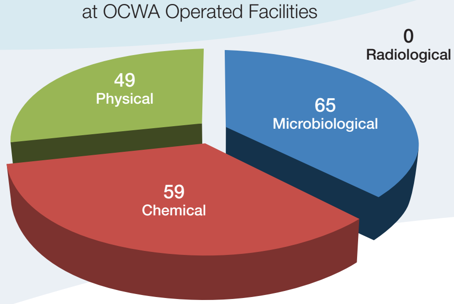
Occupational Health & Safety
Lost -Time Incidents



Occupational Health & Safety
Total Lost -Time Days

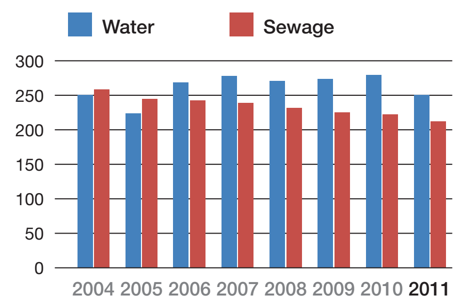


Types of Adverse Water Quality Events
at OCWA Operated Facilities

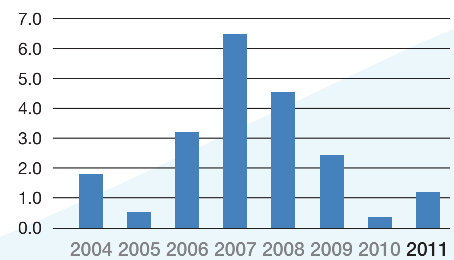


Business Performance

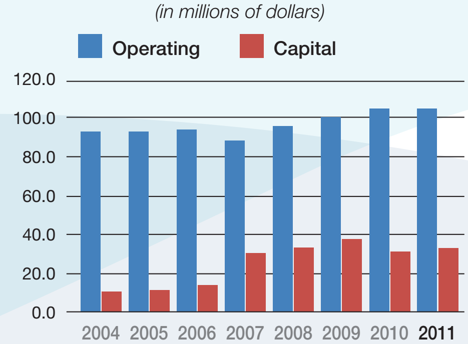
Number of OCWA Operated Facilities



Total Net Income *(in millions of dollars)*



Gross Revenue from Operations + Major Maintenance
(in millions of dollars)



Future Plans

Moving forward, the Agency's strategy is to be leaders in compliance, innovation and operational excellence. In addition to OCWA's day to day operations, the Agency will focus on three core priorities: Ultimate Compliance, Business Growth & Innovation, and Lean & Efficient.

Ultimate Compliance

OCWA continues to look for ways to achieve this goal and be a leader in operational performance. Over the next several years, OCWA will continue to improve its operational compliance and ensure the health and safety of its employees. In addition, many of the Agency's business processes and tools will be upgraded to ensure efficiency in achieving our clients' and business needs. OCWA will invest substantially to establish a fully integrated data platform.

Business Growth & Innovation

In 2012 and beyond, the Agency will focus on growing its business through new OM&M sales in Ontario, maximizing additional services to clients and seeking opportunities outside of Ontario.

In support of Ontario's vision to be a trusted world leader in water and the Water Opportunities Act, 2010, OCWA will seek to advance research and development of water and wastewater technologies as well as facilitate innovation and technology transfer. The Agency has already begun to implement a process for the intake and assessment of technology opportunities. It will continue to identify and pilot new technologies and processes that support growth in the water industry and meet our clients' needs. The Agency will also develop strategic partnerships with industry stakeholders on a project basis to support new technologies.

Lean & Efficient

The Agency is committed to operating more efficiently, which includes enhancing the efficiency of our clients' facilities through an increased focus on process optimization and energy management. OCWA will continue to look for efficiencies in its business and operational processes and implement any energy or process review outcomes. OCWA will work with its clients to assess their facilities and provide operational process solutions to increase facility effectiveness and reduce costs.

In addition, the Agency will focus on becoming a leader in water training through various initiatives. OCWA will deliver operational training services through internal and external programs as well as out of province programs.

ONTARIO CLEAN WATER AGENCY
AGENCE ONTARIENNE DES EAUX

OCWA's Corporate Social Responsibility Report

As the leading water industry services provider in Ontario and an Agency of the Ministry of the Environment, OCWA takes environmental protection and public health seriously. OCWA has always been active in supporting the communities we service, live and work in recognizing, that our activities, both as individuals and as a corporation, have social, environmental and economic impacts.

In 2011, striving to be more strategic in its approach to social responsibility, OCWA formed a social responsibility team made up of employees from across the Agency. Following Industry Canada's implementation guide for Corporate Social Responsibility and the model of Plan, Do, Check and Improve, this team reached out to stakeholders, including employees and clients, to develop a SR mandate, values statement and identify key areas of focus.

Social Responsibility Value Statement

In fulfilling OCWA's mission to demonstrate service excellence through the delivery of safe, reliable and cost-effective clean water, OCWA is committed to making a positive contribution to the lives of our employees, the communities where we live and work, as well as future generations. We also believe we can play an important role in the global community by supporting innovative and sustainable solutions for water treatment, including access to clean water and sanitation.

OCWA will meet these commitments by:

- Sharing our expert knowledge of water-related issues through education and partnerships
- Supporting and investing in communities in which we live and work
- Offering sustainable, innovative solutions for the delivery of clean water and safeguarding the environment
- Creating a supportive work environment where employees are empowered to make decisions and maximize their potential

Key Focus Areas

With support from the CEO's office and executive management team, the SR Team has an executive Champion to support the team and initiatives undertaken. Workshops were conducted to define and identify what SR means to OCWA. From this workshop and stakeholder and employee input, the SR team identified five areas of focus:

- Community Support – Make a positive difference in our communities through volunteerism, fundraising and community involvement
- Education and Awareness – Educate our stakeholders on water conservation and issues within the water treatment industry
- Environmental Sustainability – Operate in a way that contributes to a more sustainable environment by focusing on conservation, energy management and green office practices
- Employee Engagement – Make OCWA a great place to work and invest in our employees
- Innovation – Add value to the water treatment industry by bringing forward and testing new technologies that enhance and promote safe, clean water for all

2011 Social Responsibility Achievements

Community Support

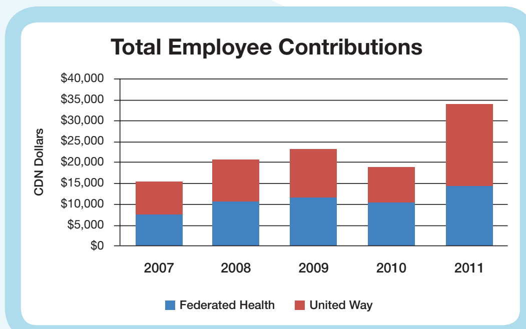
Volunteering

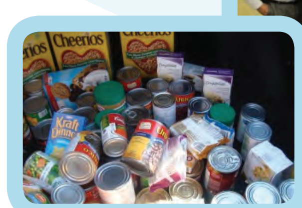
Employees take time from their busy days to conduct facility tours for community groups and schools to educate them about treatment processes and the impacts user actions have on their systems. We are active participants in community events including drinking water festivals, plowing matches and charity fundraising activities that raise awareness of water related issues and conservation. In 2011, OCWA participated in 34 community events.

In 2011, OCWA supported and participated in both the Essex Regional and Peel Children's Water Festivals. These annual festivals provide children with an opportunity to learn about water and our environment through hands-on activity centres on water conservation, protection, science and technology. The Peel Festival included a Family Fun Day with outdoor education programs for all ages.

Philanthropic Contributions

Each year, OCWA employees raise funds to help to improve lives and build strong and healthy communities by supporting local, provincial and national charities. As an organization, OCWA coordinates fundraising activities in support of The United Way and the Federated Health Charities that fund 16 Ontario health charities. In 2011, OCWA's annual United Way campaign was one of the most successful campaigns to date. The Agency not only exceeded its goal, but due to the generosity of OCWA staff and many of our suppliers, it was doubled – raising over $20,000. OCWA was also able to raise over $14,000 for Federated Health Charities.





OCWA also conducted an Agency-wide food drive to help those in need across the many communities we serve. Our goal was to collect at least 1 item for each OCWA employee – to translate into approximately 700 cans/boxes/

jars of juice, soup, beans, canned tuna, cereal, canned veggies/fruit, and peanut butter, to name a few basic items. We surpassed our goal and raised a total of 1459 items for local communities in need.

Environmental Sustainability

Waste Diversion

In 2011, the corporate office green team identified an opportunity to use green bins in an effort to divert waste from landfills. Green bins were set up in the food areas at the corporate office to collect organic material. Many of OCWA's facilities and clients participate in waste diversion activities. For example, OCWA in the South Peel facilities with the region of Peel recycled 15 tons of metal, over 3000 fluorescent lights, 1400 lbs of cardboard, 3000 litres of oil, 3600 lbs of paper and 3000 lbs of wood resulting in a significant reduction in waste being diverted from landfills in 2011.

Paper Consumption

OCWA is aware of the impacts that using large amounts of paper has on our ecosystem. Paper manufacturing requires the consumption of trees, chemicals, energy and water. OCWA's corporate office only uses recycled paper and advocates double-sided printing when printing internal documents and client reports. OCWA has also moved to a personalized printing system wherein users are required to release their own documents from the printer. This feature reduces the amount of unclaimed print jobs and reprints. OCWA set a goal to reduce the amount of paper consumed by 10% for 2011 and achieved a 25% reduction in paper use since 2009. The use of modern technology and electronics to their full potential has thwarted the need to print off meeting materials and documents. OCWA's Board has set the example and in 2011 has almost entirely moved to paperless meetings.

Recycling paper is another initiative used to mitigate the strain on paper manufacturing. In the corporate, regional and hub offices, all employees have access to desk-side blue bins for their paper recycling needs and collector bins for confidential material in convenient centralized areas.

Reducing our Carbon Footprint

Although, at this time OCWA does not have an established carbon footprint measure, we are taking steps to reduce business travel. Our operations span the province and employees travel on a daily basis to conduct internal and client business. OCWA invested in videoconferencing equipment and training so that employees are able to conduct meetings from many locations thus averting the need for many individuals to travel. OCWA endorsed telecommuting and has given the option to employees to work from home thereby decreasing their commute to the office. Our travel expenses have decreased over by 11.2% compared to 2010. Moving forward OCWA is setting targets for carbon footprints in an effort to minimize our impact on carbon emissions.

Working with Clients

Over the past year OCWA has worked with our largest client, the Region of Peel, on a piloting project for energy management. The goal was to reduce energy consumption by 2% and this goal was achieved. OCWA remains committed to working with clients to help manage and reduce their energy consumption in the coming year.

Education and Awareness

World Water Monitoring Day

OCWA is an official World Water Monitoring Day (WWMD) partner for Ontario. World Water Monitoring Day is an international program that builds public awareness and involvement in protecting water resources around the world. The program encourages citizens to help monitor local bodies of water and share the results through the WWMD website. OCWA has made testing kits available in communities in which we operate in the Province. In addition, the Agency has been visiting schools, festivals, organizations and other communities to promote the WWMD program.

Management'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 Canadian public sector accounting standards.

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 Executive Management Team.

The Board of Directors ensures that management fulfills its responsibilities for financial and internal control. The Board of Directors and the Audit and Finance Committee of the Board meet 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 presented fairly in accordance with Canadian public sector accounting standards. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

Jane Pagel
President and Chief Executive Officer

Dan Atkinson
Vice President, Finance and Corporate Services

Toronto, Ontario
April 12, 2012

Financial Discussion

During 2011, the Ontario economy showed slow progress in recovering from the recession. Early in the year, the disaster in Japan severely disrupted the vehicle manufacturing sector. This supply chain issue along with slower US economic growth and other world economies has resulted in slow improvement to the unemployment rate in Ontario. Continued high unemployment rates continue to shrink the tax base of our municipal clients resulting in clients deferring major maintenance projects and continued pressure on the Agency to minimize price increases for our services.

Historically, OCWA has experienced success in retaining clients as many of our agreements were renewed without a competitive process. In recent years, some clients have chosen to undertake competitive procurement processes, opting to put contracts out to Request for Proposal (RFP). In addition, OCWA continues to face challenges with increased competition from municipalities who want to operate their own systems with the intention of demonstrating cost savings. As such, the results of the Agency was impacted by the loss of the Orangeville contract at the end of 2010 and the North Bay contract in mid-2011, due to in-house take backs. While the Agency has attempted to mitigate the impact of the contract terminations by cost savings measures, some costs paid in advance, such as insurance costs, could not be recovered.

In 2011 OCWA participated in the Lake Huron and Elgin Area procurement opportunity to enlist the services of an operator for the two regional water systems. We are happy to report that OCWA was the successful proponent of the process and was selected as the partner of choice. The Agency was awarded a five year contract valued at $35.1M to operate the Lake Huron and Elgin Area Water Supply Systems, with an option to renew for an additional five years. The new agreement takes effect July 1, 2012.

Consulting services offered by Engineering, Asset Management and Training delivered lower than expected financial results. Services offered by the Asset Management group were negatively impacted by the operation and maintenance contact terminations. In addition, delayed contract starts and lower course offerings have resulted in the poor performance of the Engineering and Training groups. Despite cost containment measures, revenue losses were not recovered.

Balance Sheet

The Net Assets of the Agency was $185.8M due to a favourable Net Income for the year, including Financing Income, of $1.1M. Total Assets at December 31, 2011 were valued at $215M. OCWA continues to report a strong position in cash and investments and no debt.

Revenues

Revenues on OCWA's operations and maintenance (O&M) services were significantly impacted by contract terminations in 2011, the total loss representing annualized revenues of $5M. However, contractual price changes in our operating contracts, along with revenue from new O&M contracts, allowed us to partially mitigate the revenue losses from terminated contracts. In 2011 the Agency continued to provide major maintenance and ancillary services to clients. Compared to 2010, revenues from these services increased by 7%. On the other hand, revenue from consulting services declined by 18% compared to 2010. While Revenues from Engineering Services remained at $1.8M, Asset Management and Training revenues declined to $0.7M and $0.5M respectively.

However, the Agency continues to be optimistic about growth opportunities in consulting as relocation of these business streams closer to operations in 2012 would better position them to provide services to new and current clients.

Expenses

Salary and benefit increases were based on collective bargaining arrangements and efforts to adequately fund the non-pensionable future employee benefits program. Other operating expenses decreased by 2.3% compared to prior year primarily due to decreases in hydro caused by changes to contractual agreements which exclude hydro costs as well as contract terminations. In addition, process optimization driven by changes in the type of chemicals and dosage has resulted in net decrease in chemicals costs. The increased use of audio and video conferencing Agency has allowed the Agency to continue to manage discretionary spending. In 2011, travel costs reduced by 11% compared to prior year.

Investment Income

Investment Income increased marginally compared to 2010. The investment portfolio comprises cash, term deposits and a portfolio of loans with varying maturity dates. The largest portion of the investment portfolio is related to an Ontario Infrastructure and Lands Corporation loan which is tied to market rates. As such, the interest revenue on this portfolio increased by $0.55M as a result of increased interest rate of 46 basis points. This increase allowed the Agency to offset the interest rate decline in our term deposits which represents 65% of the cash balance. As the deposits came due they were reinvested at lower interest rates compared to 2010. The inherited loan portfolio continues to decline as loans mature come due. All loans will mature by December 2018.

Perquisites

In accordance with Management Board of Cabinet's June 1, 2011 Perquisite Directive, this confirms that thirteen employees were provided with special considerations during 2011. Those considerations were: home internet access; home telephone service; and parking. The demands of the employee's ongoing work required the provisions of the perquisites. The necessary business cases and approvals are in place for these employees.

Auditor's Report

Office of the Auditor General of Ontario
Bureau du vérificateur général de l’Ontario

Independent Auditor’s Report

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

I have audited the accompanying financial statements of the Ontario Clean Water Agency which comprise the balance sheet as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of operations and changes in net assets, and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Clean Water Agency as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian public sector accounting standards.

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

Toronto, Ontario
March 28, 2012

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Balance Sheet – Assets

As at December 31, 2011		*(in thousands of dollars)*	
	Dec. 31, 2011	Dec. 31, 2010 *(as restated Note 2)*	Jan. 1, 2010 *(as restated Note 2)*
Assets			
Current assets:			
Cash and short-term investments *(note 4)*	**37,312**	45,307	50,171
Accounts receivable, net			
Municipalities and other customers	**21,280**	17,203	24,510
Ministry of the Environment	**154**	414	360
Harmonized sales tax receivable	**1,860**	2,381	1,229
Prepaid Expenses	**318**	3,534	3,223
Current portion of investments receivable for water and wastewater facilities *(note 3)*	**874**	786	762
	61,798	69,625	80,255
Non-current assets			
Investments in term deposits *(note 4)*	**22,431**	16,702	5,031
Investments receivable for water and wastewater facilities *(note 3)*	**3,712**	4,597	5,432
Loan receivable - Infrastructure Ontario and Lands Corporation *(note 4c)*	**120,000**	120,000	120,000
Tangible Capital Assets, net *(note 6)*	**7,095**	5,433	4,570
	153,238	146,732	135,033
Total Assets	**215,036**	216,357	215,288

Balance Sheet – Liabilities and Net Assets

As at December 31, 2011 *(in thousands of dollars)*

	Dec. 31, 2011	Dec. 31, 2010 *(as restated Note 2)*	Jan. 1, 2010 *(as restated Note 2)*
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	**16,310**	18,678	16,878
Current portion of employee future benefits *(note 10a)*	**2,598**	2,996	2,660
	18,908	21,674	19,538
Long-term liabilities:			
Municipal contributions payable *(note 5)*	**252**	252	252
Employee future benefits *(note 10a)*	**10,121**	10,112	9,943
	10,373	10,364	10,195
Net Assets:			
Unrestricted Net Assets	**185,755**	184,319	185,555
Contingencies *(note 9)*			
Total Liabilities and Net Assets	**215,036**	216,357	215,288

See accompanying notes to financial statements

On behalf of the Board

Director

Director

Statement of Operations and Changes in Net Assets

For the year ended 2011	*(in thousands of dollars)* 2011	2010 *(as restated Note 2)*
Utility Operations Revenues:		
Utility operations	**137,417**	136,219
Fees	**2,370**	2,447
Total Operating Revenues	**139,787**	138,666
Operating Expenses:		
Salaries and benefits *(note 10a and note 10b)*	**62,944**	61,315
Other operating expenses	**76,195**	77,820
Amortization of tangible capital assets	**2,218**	1,787
Total Operating Expenses	**141,357**	140,921
Deficiency of revenue over expenses – Utility Operations	**(1,570)**	(2,255)
Financing Revenues:		
Interest from investments, loans receivable and facilities under construction	**2,777**	2,712
Total Financing Revenues	**2,777**	2,712
Financing Expenses:		
Loan administration expenses	**32**	32
Amortization of fixed assets	**60**	60
Total Financing Expenses	**92**	92
Excess of revenue over expenses – Financing	**2,685**	2,620
Excess of revenue over expenses	**1,115**	365
Net Assets, opening balance	**184,318**	185,555
Adjustments to Net Assets *(note 8)*	**322**	(1,601)
Net Assets, ending balance	**185,755**	184,318

See accompanying notes to financial statements

Statement of Cash Flows

For the year ended December 31, 2011	*(in thousands of dollars)* **2011**	2010 *(as restated Note 2)*
Cash Provided by (used for) Operating Activities		
Excess (deficiency) of revenue over expenses	**(1,570)**	(2,255)
Items Not Affecting Cash		
Amortization of tangible capital assets	**2,218**	1,787
Increase in future employee benefits expense	**(389)**	505
	259	37
Changes in non-cash operating working capital		
Accounts Receivable	**(3,296)**	6,101
Prepaid Expenses	**3,216**	(311)
Accounts Payable and Accrued Liabilities	**(2,368)**	1,800
	(2,449)	7,590
Net Cash Flows from operating activities	**(2,190)**	7,627
Cash Used in Investing Activities		
Interest Received	**2,777**	2,712
Principal Repaid on Loans	**797**	811
Increase in non current Term Deposits	**(5,729)**	(11,671)
Financing Expenses	**(32)**	(32)
Net cash flows from investing activities	**(2,187)**	(8,180)
Cash Used in Capital Activities		
Tangible Capital Asset Acquired	**(3,940)**	(2,710)
Cash Used in Financing Activities		
Changes in Net Assets *(note 8)*	**322**	(1,601)
Decrease in Cash	**(7,995)**	(4,864)
Cash and Short-Term Investments, Opening Balance	**45,307**	50,171
Cash and Short-Term Investments, Closing Balance	**37,312**	45,307

Notes to the 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 Public Sector Accounting Standards for not-for-profits (PSA-NPO) as prescribed by the Public Sector Accounting Board (PSAB). This is the first time that the Agency has prepared its financial statements in accordance with PSA-NPO, having prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). Included below are those accounting policies that are of significance to the Agency. Details of how the transition from Canadian Generally Accepted Accounting Principles (Canadian GAAP) to Public Sector Accounting Standards for not-for-profits (PSA-NPO) has affected the net assets and financial performance are disclosed in Note 2.

(a) Cash and short-term investments

Cash and short-term investments are highly liquid investments with original maturities due within one year.

(b) Tangible Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost. Tangible Capital assets are amortized on a straight-line basis as follows:

Computer software	2 - 9 years
Information systems	7 years
Furniture and fixtures	5 years
Automotive equipment	4 - 20 years
Computer hardware	3 - 7 years
Machinery and equipment	5 years
Leasehold improvements	Life of the lease

(c) Revenue recognition

Revenue on contracts with clients for the operation of water and wastewater treatment facilities based on a fixed annual price is recognized in equal monthly amounts as earned.

Revenue on contracts with clients based on the recovery of costs plus a percentage markup or recovery of costs plus a fixed management fee is recognized at the time such costs are incurred.

Revenue for additional work for clients outside the scope of the operations and maintenance contract, such as capital repairs on equipment, is recognized when the costs are incurred, and normally includes a pre-determined markup on cost.

(d) **Use of estimates**

The preparation of financial statements in accordance with Public Sector Accounting Standards for not-for-profits (PSA-NPO) 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. CHANGE IN BASIS OF ACCOUNTING

The Agency issued financial statements for the year ended December 31, 2010 using Canadian generally accepted accounting principles. The adoption of public sector accounting standards for not-for-profit organizations results in adjustments to report assets, net assets, net income and cash flows as the standards are applied retroactively. The adjustments to net assets at the date of transition of January 1, 2010 were as follows:

	2010 *(in thousands of dollars)*
Opening Equity of Ontario, Canadian GAAP, January 1, 2010	185,649
Remove Revaluation of Investments Receivable for water and wastewater facilities to fair value	94
Opening net assets, Canadian PSAB, January 1, 2010	185,555

A reconciliation of the net income reported in the Agency's 2010 financial statements to its excess of revenue over expenses under public sector accounting standards for not-for-profit organizations is as follows:

	2010 *(in thousands of dollars)*
Net Income, Canadian GAAP, 2010	346
Add back amortization of Investments Receivable for water and wastewater facilities from fair value to face value	19
Excess of revenue over expenses, Canadian PSAB	365

3. INVESTMENTS RECEIVABLE FOR WATER AND WASTEWATER FACILITIES

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.

The investments receivable are supported by agreements that bear interest at rates between 5.96% and 10.52%. Scheduled principal repayments of the investments are as follows:

(12 Months Beginning January)	*(in thousands of dollars)*
2012	874
2013	761
2014	782
2015	675
2016	603
Thereafter	891
	4,586
Less: Current portion	(874)
	3,712

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 was $18.6 million at December 31, 2005. The loan agreement specified that repayment would be through sales of water, rather than according to a predetermined schedule. As of December 31, 2011, 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 significant uncertainty regarding future water sales, the Agency has recognized the loan as fully impaired and accordingly the loan amount of $18.6 million has been reflected in an allowance for loan impairment. The Agency ceased accruing interest revenue on January 1, 2006, the date the loan was classified as impaired, and has not recorded $9.5 million in interest accruing on the loan since then.

Other than as described in this note, there are no other provisions established for investment receivables.

4. FINANCIAL INSTRUMENTS

(a) Cash and Short-Term Investments

The Agency has $59.7 million invested in bank balances and GIC's as follows:

	(in thousands of dollars)
Bank Balances	20,610
GICs due within a year (Interest rates 2.11%-2.20%)	16,702
Cash and Short-Term Investments	37,312
GICs due within two years (Interest rates 2.35%-2.40%)	22,431
	59,743

The fair value of cash and short-term investment approximate carrying value.

(b) Credit Risk

The Agency is exposed to low credit risk because receivables are due from municipalities and payment is usually collected in full.

(c) Cash Flow Risk

The Agency has extended a $120 million loan to Ontario Infrastructure and Land Corporation with a variable interest rate set at four basis points below the average monthly Canadian Dollar Offered Rate. It also has term deposits and bank balances that are sensitive to the prevailing interest rates. As a result, it is exposed to a cash flow risk related to the fluctuations in interest rates.

(d) Other

Other than as described in these notes, the Agency is not exposed to any additional currency, liquidity or other price risk on its financial instruments.

5. MUNICIPAL CONTRIBUTIONS PAYABLE

At December 31, 2011, the Agency held funds on behalf of the municipalities amounting to $0.3 million (2010 - $0.3 million). These funds are included in cash and short-term investments.

6. TANGIBLE CAPITAL ASSETS

(in thousands of dollars)	Cost	Accumulated Amortization	**Net Dec. 31, 2011**	Net Dec. 31, 2010
Computer Software	5,838	4,814	**1,024**	553
Information Systems	3,653	1,402	**2,251**	1,280
Furniture and Fixtures	1,843	1,779	**64**	96
Automotive Equipment	3,998	1,816	**2,182**	2,188
Computer Hardware	10,289	8,999	**1,290**	1,067
Machinery and Equipment	1,014	738	**276**	224
Leasehold Improvements	6,787	6,779	**8**	25
	33,422	26,327	**7,095**	5,433

The Board has approved capital expenditures of up to $13.6 million from fiscal 2013 to 2018 to modernize its information technology infrastructure.

7. 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)
2012	1,660
2013	1,072
2014	810
2015	799
2016	759
Thereafter	2,525
	7,625

8. NET ASSETS

When the Agency was first established, 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.

The adjustments to the opening balance relate to repairs and maintenance, legal costs and the write-off of provincial assistance advances that were agreed to prior to the establishment of the Agency. Any recoveries are also reflected in this account.

9. 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 rises to the claim occurred and the nature of the claim. The outcome of the lawsuits cannot be determined at this time.

(b) Letters of Credit

The Agency has a line of credit with the Royal Bank of Canada for $10 million and another line of Credit with BMO for $8 million. These lines of credit have been used to provide letters of credit of $6.9 million to municipalities in accordance with the terms of their operations and maintenance agreements. As of December 31, 2011, nothing has been drawn on the letters of credit.

10. RELATED PARTY TRANSACTIONS

(a) Non-Pension Employee Future Benefits

The Agency is responsible for its accrued legislated severance, unpaid vacation, and workers compensation obligations.

The costs of these employee future benefits obligation have been estimated at $12.7 million (2010 - $12.6 million) of which $2.6 million (2010 - $3.0 million) has been classified as current liability. The amount charged to the income statement in 2011 was $1.6 million (2010 - $2.1 million) and is included in salaries and benefits expense in the Statement of Operations and Changes in Net Assets.

Included in employee future benefits obligation is an estimated workers compensation obligation in the amount of $2.1 million (2010 - $2.1 million). 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, 2010.

It is management's opinion that the balance at December 31, 2011 will not be materially different. Adjustment to the estimated WSIB obligation cumulative balance, if any, will be made in the year the updated balance is provided by WSIB.

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

(b) Pension Plan

The Agency's full-time employees participate in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU-PF), which are defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU-PF, determines the Agency's annual payments of the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the agency. The Agency's annual payments of $3.5 million (2010 - $3.1 million), are included in salaries and benefits in the Statement of Operations and Changes in Net Assets.

(c) Other

As a result of the relationship of the Agency with the Province, the following related party transactions exist:

(i) The Agency received revenue of $2.6 million (2010 - $2.8 million) from the Ontario Realty Corporation for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients.

(ii) The Agency received revenue of $2.7 million (2010 - $2.2 million) from the Ministry of the Environment for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients. In addition, the Agency received $0.3 million (2010 - $0.3 million) for the Emergency Preparedness Funding.

(iii) The Agency received revenue of $0.6 million from the Ministry of the Northern Development and Mines for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients.

(iv) The Agency has a $120 million loan receivable with Ontario Infrastructure and Land Corporation, as described in note 4 (c).

(v) The Agency relies on the Province to process its payroll and administer its benefits, and to obtain some internal audit and legal services. The Province absorbs some of these administrative costs.

(vi) The Agency has a $1.0 million (2010 - $1.0 million) accounts payable to the Ministry of the Environment for rent proceeds it collects for a property, net of realty taxes paid, managed on behalf of the Ministry.

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