SUSTAINING GROWTH

SASKATCHEWAN RESEARCH COUNCIL
2010 | 2011 ANNUAL REPORT

SRC
smart science solutions

SRC'S MISSION

We proudly deliver smart science solutions, with unparalleled service to clients and colleagues, that grow and strengthen our economy.

We embrace our safe, creative, and diverse work environment, which enables us to excel, personally and professionally.

We live by our core values to build a better world.

SRC'S VISION

Driven by our passion for a better world, we will break boundaries to become the most internationally recognized and valued science solutions company in North America by 2020.

SRC'S PURPOSE

SRC creates wealth through the responsible application of science and technology to assist Saskatchewan industry to be globally competitive.

THE RESEARCH COUNCIL ACT
Section 21 (2) directs that:
Every report shall be laid before the Legislative Assembly in accordance with The Tabling of Documents Act, 1991.

LETTER OF TRANSMITTAL

June 2011

Letter of Transmittal

To the Honourable Dr. Gordon L. Barnhart,
Lieutenant Governor of Saskatchewan.

May it please your Honour:

The undersigned presents herewith, for your consideration, the report of the Saskatchewan Research Council for the year ended March 31, 2011.

Respectfully submitted,

Honourable Rob Norris
Minister Responsible for SRC

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About the inside page:
Starting with a photo from NASA, rings were overlaid to radiate outward from Saskatchewan to represent SRC's growth. The close-up visual perspective is repeated throughout the report.

MESSAGE FROM THE BOARD CHAIR

Growth may not seem like a big deal. Plants and animals do it naturally, after all. Business is another matter, however, and anyone involved in a commercial enterprise knows how tough it is to grow. Sustaining that growth over a long period of time is even harder.

At SRC, growth over a long time-frame has become normal, but it is never routine. It is not easy to surpass excellent results, but the prudent yet innovative management team at this company manages to exceed expectations every year, benefitting Saskatchewan residents and our economy.

More remarkably, this growth has not been incremental. Over the past decade the annual percentage growth in revenues at SRC has regularly reached double digits. Those revenues have more than tripled in that period. Much of that has been achieved through delivery of *Smart Science Solutions™* to industry and commercial partners locally and around the globe.

Those results would be phenomenal for most organizations, and would typically result from the maturation of earlier investments. In many cases, SRC does not have that luxury; we are a research organization and by definition are always exploring new frontiers. Our expectation, and that of our stakeholders, is that we will continually seek out new opportunities, discover better ways of doing things and expand the realm of what is possible. Many companies would throw up their hands in surrender if those expectations had

to be met while achieving growth, let alone sustainable growth. Our people embrace that challenge with passion, and Saskatchewan is reaping the benefits.

For example, ten years ago there was no hint that the remediation of abandoned uranium mines would be an important part of SRC's business. Those mines in northern Saskatchewan had been built and operated in a different time. Environmental standards were much less rigorous, and there were no reclamation funds to handle clean-up in those days. The result was many mines which were abandoned in the most extreme sense of the word. Having toured some of these locations, I know that new equipment was literally left in crates on-site when the operators walked away. One can easily infer that with abandonment this swift, little regard was given to any future environmental impact.

That was the situation which SRC faced. Although the clean up of such sites was almost unprecedented anywhere in the world, our clever people attacked the problem with the same logical thinking and get-it-done attitude that has served us well in the past. The easy approach would have been to literally cover up the problem. The sites are remote, after all, and most Saskatchewan residents would not even think there is an issue. For those who live in the region, however, and depend on a safe and sustainable environment, it is very serious. Despite being faced with changing requirements and discovery of previously unknown issues, SRC has exceeded everyone's expectations in helping return sites to a safe and welcoming environment. We are proud to help protect these ecosystems for future use and enjoyment.

This is only one instance of SRC seizing opportunities which others have missed or deemed unprofitable. Our world-class diamond lab is another business line that was embryonic at best a few years ago. There are many other examples. Is it hard to have to develop new lines of business on a cycle that few businesses could match? You bet. Would we have it any other way? Not a chance.

So the simple phrase that is this year's theme, ***Sustaining Growth***, only hints at what I think is a remarkable ongoing achievement by an organization that is quickly growing into a player on the world stage. As Chair, I have been privileged to work with a dedicated and smart group of directors who relish the chance to not only make a difference, but go out of their way to make a contribution in areas where others have failed. Most of all, though, our people, from CEO Laurie Schramm, through his exceptional Executive Team, all the way to frontline personnel, are the ones who deserve the credit. It takes a special type of person who not only accepts challenges, but actively seeks them out. As long as we maintain that attitude, I see no reason why SRC cannot sustain even greater growth for Saskatchewan.

Craig Zawada
Board Chair

MESSAGE FROM THE PRESIDENT AND CEO

Sustaining Growth is the theme of our 64th Annual Report. We have continued to move forward past the immediate effects of the economic recession, and although there is some lingering economic volatility, we have continued to grow. Our revenues grew by over $10 million last year, we achieved our key goals and we had another very strong and successful year. Having resumed our double-digit pace of growth, and having quadrupled our revenues since 2002, the ***Sustaining Growth*** theme is partly about our growing number of employees (over 400 now), our growing numbers of clients and partners, our growing number and complexity of projects and of course it's about continuing to grow our positive impacts in society.

An aspect of ***Sustaining Growth*** is learning how to manage and work together in an increasingly complex organization. As we proceed into 2012, SRC will have quadrupled revenues (since 2002) and before long will likely reach the hundred-million per year level. This will add to our breadth and depth but it also underscores the importance and the challenge of managing change and ensuring that our organization continues to adapt and evolve in a positive way.

Safety is our over-riding priority and we continue to strive for leading-edge safety performance. Our injury rates are low by industry and regional standards, and we continue to work to reduce them even further.

In the coming year we will roll out a comprehensive occupational health and safety management system that integrates the many improved policies, procedures and principles, that we have developed over the past several years, into a quality framework. We also continue to develop and nurture a culture in which everyone takes responsibility for safety. According to our surveys, almost all of our employees are personally satisfied with the safety performance of SRC, and almost all employees feel empowered to take action to ensure their safety and that of others.

We have committed to the Saskatchewan Health & Safety Leadership Charter, enabling us to work with other organizations to help make Saskatchewan safer for everyone, whether at work or not. This is important to us both from the point of view of corporate social responsibility and because of the statistical reality that our employees are now on average much more at risk of injury "off-the-job" than they are "on-the-job."

In our continuing **mission** to proudly deliver *Smart Science Solutions™* with unparalleled service to clients and colleagues, that grow and strengthen our economy, we supply the applied research, development, design, scale-up, demonstration, commercialization and technical services that industries need to capitalize on emerging market opportunities in our diverse and growing economy. To enable this we have continued to strive to remain current and relevant and this year we committed to invest heavily in new capabilities. Two examples are in the major expansions of our Advanced Microanalysis Centre™ and Pipe Flow Technology Centre™.

During the year we also re-evaluated all of our business lines and areas of major focus to ensure that we move forward focusing on programs that are operationally business-effective and support SRC's evolving strategy. This led to a number of organizational and operational adjustments for us as we move forward beyond 2011, and provides us with sharpened focus, updated priorities and closer to critical-mass teams.

As always, we are exploring several new frontiers, from direct environmental improvement at abandoned industrial sites, to developing more environmentally sustainable ways to develop non-renewable resources, to

developing alternative renewable energy and product solutions. Here are some highlights:

In **agriculture and biotechnology** we are helping industry to pursue added-value in both new and established crops. Our GenServe Laboratories™ provides animal and plant genomics testing services and is rolling-out new services in DNA-based testing and certification of crop varieties and blends. Our BioManufacturing Business Unit continues to develop, demonstrate and commercialize vaccine processes and the results of our recent field demonstration of agricultural biodiesel performance are summarized later in this report.

In **alternative energy** we are developing and demonstrating energy generation and storage technologies for communities and small- and medium-sized enterprises. Examples of this can be found in our work with Cowessess First Nation to demonstrate the latest high-level wind energy generation and storage technology and in our first-to-market combined heat and power demonstration with Inland Metal, both of which were launched this past year.

In **forestry** we continue to work with partners like the Conservation Learning Centre and Prince Albert Model Forest to develop ways to better manage forestry, agroforestry and afforestation and to link these into value-added energy and products production. As always, such work is partly driven and partly aided by our work in climatology, which is aimed at understanding, predicting and learning how to adapt to the effects of changing regional and global climates.

In **fossil energy** we are developing oil recovery technologies that improve efficiency while reducing adverse environmental impacts. A changing marketplace has led us back to one of our earlier technical roots as we have engaged in rebuilding and re-establishing our position as a leading developer and supplier of carbon dioxide enhanced oil recovery technologies, this time in order to help industry unlock the large but difficult-to-access petroleum resource contained in the Bakken Formation.

In **manufacturing** we continue to work with small, medium and large enterprises to help them with product design, development, scale-up, demonstration and commercialization. Once again this past year our teams in this area, no slouches at manufacturing themselves, have also developed and deployed new and innovative tools for the uranium mining industry.

In the **mining and minerals** sector our renowned Pipe Flow Technology Centre™ celebrated its 50th Anniversary last year as described later in this report. This centre continues to deliver world-class pipeline multi-phase flow technology to both the oil and gas and the mining and minerals sectors and as mentioned above is being expanded again this year. In addition, we continue to build on our relationships with global industry giants to advance our "world's best" geoassay laboratories for uranium, diamonds and now potash. The foregoing represent four distinct lines of SRC business that have each established world-class reputations.

With regard to preserving and improving the **environment**, we continue to work closely with our clients and partners on industrial emissions and releases of all kinds. From monitoring to modelling and solutions, we are helping industries move beyond environmental compliance and into best practices. In terms of capacity addition, we

began construction of a new Northern Climate Reference Station that is scheduled to open later in 2011.

Once again **Project CLEANS** has scaled-up in terms of assessing and cleaning up abandoned uranium mines in northern Saskatchewan. This past year we continued to clean up additional satellite mine sites, advanced our assessment and planning activities for the large Lorado site and began demolishing hazardous structures at the huge Gunnar mine and mill site.

Sustaining Growth is about growing in ways that enable us to sustain positive economic, environmental and social impacts from our work. As Saskatchewan's premier provider of applied research, development, demonstration and technology commercialization, success for us means creating and demonstrating such positive impacts for Saskatchewan.

Our annual economic impact assessment shows that we again achieved exceptional impacts this past year with over $527 million in direct economic benefit to the province plus over $70 million worth of jobs created or maintained. This means that for every dollar invested in SRC, we generated a 32-times return. As far as we know, this is an unparalleled record in Canada. We also continue to strive to enhance these strong economic impacts by providing *Responsible Science Solutions™* to help ensure a safe, secure and sustainable environment. Last year we undertook more than $30 million in projects aimed at creating positive environmental impacts and more than $18 million in projects aimed at creating positive social impacts. This work contributed to at least 9,000 tonnes of greenhouse gas emission reductions and energy savings of over 24 million kWh/year.

Sustaining Growth is about people. Our successes are the result of exemplary achievements by dedicated people. For example, through Cam Zimmer's fine work, we won a Communications Management Award from the Saskatchewan Awards for Communications Excellence for our *Smart Story Ideas* initiative. We received two diversity awards for efforts led by our Environmental Analytical Laboratories, in that SRC was awarded the *Saskatchewan Employer of Choice* Award by the Saskatchewan Association of Rehabilitation Centres. SRC was also recognized for the same work by Partners in Employment. Again through Environmental Analytical Laboratories' fine work, we won the *Supplier of the Year* award from the Saskatchewan Water and Wastewater Association.

I thank our employees and our Board of Directors for their enthusiasm, patience, creativity and contributions. We want to be the best employer we can possibly be and are working to fully engage all of our employees in our journey. I also thank our Vice-Presidents, Managers and Supervisors, who continue to learn, grow and develop with me as we collectively work to appropriately manage our opportunities and risks. We again achieved our key short-term business objectives including maintaining almost perfect overall client satisfaction, reinvesting in our people, tools and infrastructure, and protecting the bottom line, while still keeping an eye on strategy and building for the long term. Again, we ended the year more visible, stronger, better managed and better positioned strategically than we entered it.

Our new **vision** is to become the most internationally recognized and valued science solutions company in North America. While this is incredibly ambitious, we are seeing some early signs of progress towards this goal, as we are becoming more visible and better known across Canada and internationally. I mentioned above some of our business lines that are already internationally recognized as the best in the world. Here are a few of my favourite unsolicited quotes from national and international peers during this past year:

- *"SRC – A Case Study in Adding Value through Technology and Innovation" (a case study done by a Canadian technology company)*
- *"SRC … has a unique ability to harness knowledge and expertise from around the world and apply it to the types of problems that face Saskatchewan industries …" (from a prominent Cabinet Minister)*
- *"… the Saskatchewan Research Council is being applauded for the way it's consulting residents about a mine cleanup in the Far North." (from a public news broadcast)*
- *"SRC is like the MIT of Canada" (from an American business executive)*
- *"I have travelled to, and toured many research facilities in my twenty years at …, and I cannot ever remember being so impressed with both the quality of the people and the outstanding research infrastructure that you have in place" (from an executive at an American national laboratory).*

As I have noted, ***Sustaining Growth*** is about our growing number of employees, it's about learning how to work together to manage the ever-increasing complexity of our operations and it's about sustaining our huge positive impacts in the society that we serve. So, here's a huge thank you to every one of our over 400 employees for your energy, dedication, integrity and talents. You spend most of your lives at work and I thank you for choosing to work at SRC. I would also like to thank our more than 1,900 clients and partners for their support and commitment to mutual success. We are successful when you are successful. Working together, we can continue to unlock the tremendous potential that remains latent in Saskatchewan and across Canada. With *Smart Science Solutions™* and *Smart Sustainable Solutions™* we can unlock this potential in ways that are economically efficient, sustainable and socially and environmentally responsible.

Laurier Schramm
President and CEO

BOARD OF DIRECTORS

EXECUTIVE TEAM

Phillip Stephan
AGRICULTURE/ BIOTECHNOLOGY
Vice-President

Craig Murray
MINING AND MINERALS
Vice-President

Ernie Pappas
ENERGY
Vice-President

Crystal Nett
FINANCE, SAFETY AND RISK
CFO and Vice-President

Toby Arnold
ORGANIZATIONAL EFFECTIVENESS
Vice-President

Wanda Nyirfa
BUSINESS VENTURES AND COMMUNICATIONS
Vice-President

Joe Muldoon
ENVIRONMENT
Vice-President

Laurier Schramm
President and CEO

2010 - 2011 HIGHLIGHTS

For every dollar invested in SRC, the Council provided a 32-times return in the past year. That translated into over $527 million in direct economic benefits to Saskatchewan. Our projects aimed at creating positive environmental and/or social impacts totaled over $37 million, up from the previous year's $26 million. SRC's work led to creating or maintaining over $70 million-worth of jobs. Once again, it was a good news year for our employees at SRC and for all our stakeholders.

1,870

We served more than **1,870** clients.

$527M

Our annual economic impact assessment shows that our work contributed to over **$527 million** in direct economic benefits to the province.

1,206

Our work contributed to the creation or maintenance of more than **1,206** jobs valued at over $70 million.

32

We generated a **32**-times return in economic activity for every dollar invested in SRC.

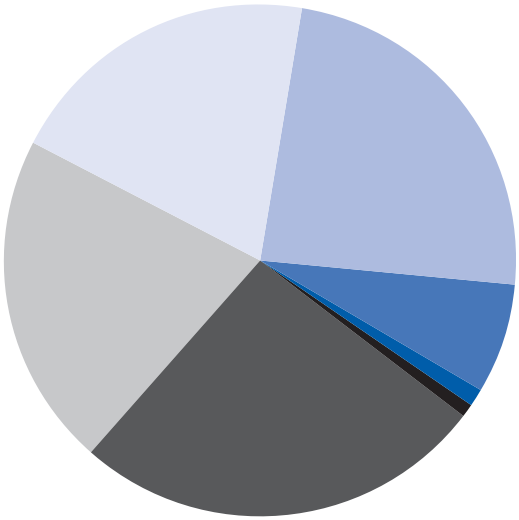
$37M

We undertook more than **$37 million** in projects aimed at creating positive environmental and/or social impacts.

9,051

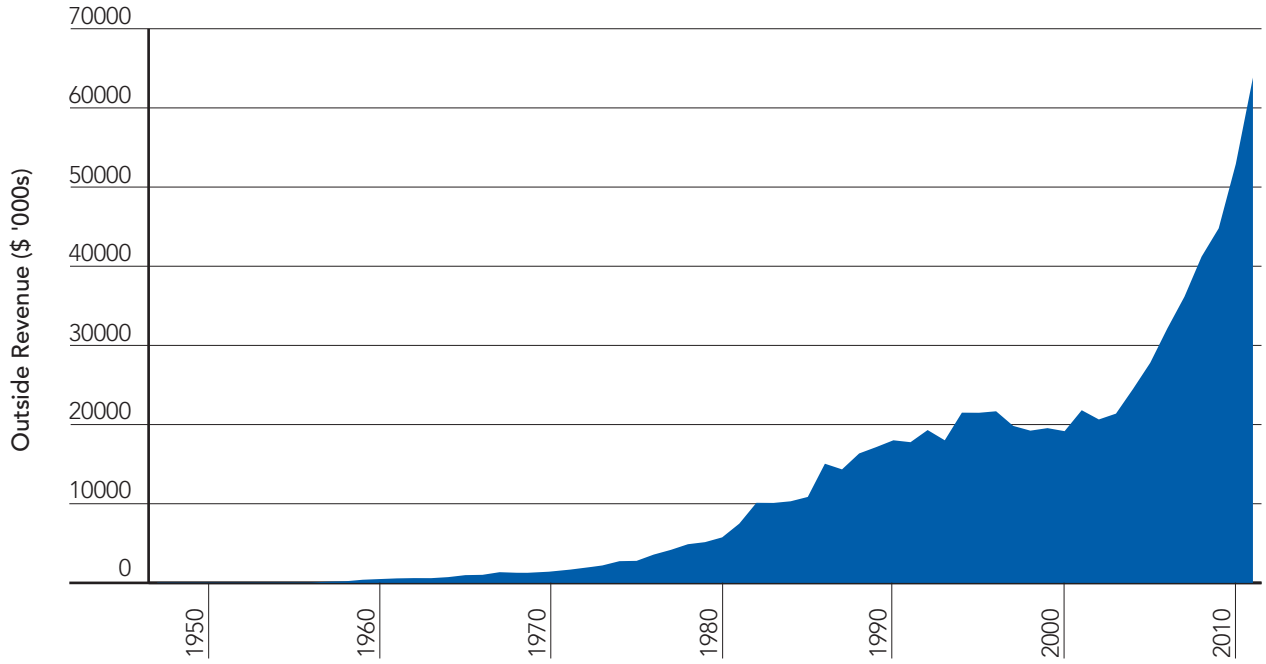
Our work contributed to at least **9,051** tonnes of greenhouse gas emissions reductions and energy savings of over 24 million kWh/year.

REVENUE SOURCES



- SASKATCHEWAN BUSINESS | **$12.6M** | **20%**
- CANADIAN BUSINESS | **$15.2M** | **24%**
- INTERNATIONAL BUSINESS | **$0.7M** | **1%**
- SASKATCHEWAN GOVERNMENT | **$13.3M** | **21%**
- CANADIAN GOVERNMENT | **$4.4M** | **7%**
- PROVINCIAL INVESTMENT | **$16.6M** | **26%**
- OTHER | **$0.8M** | **1%**

REVENUE GROWTH



SRC's GenServe Laboratories™ is a leader in plant and animal genetics and has been recognized by the USDA (United States Department of Agriculture).

SRC is Canada's only contract research organization with a Canadian Food Inspection Agency licence to produce animal biologics or vaccines.

SRC's BioManufacturing Unit has worked with over 500 different microorganisms.

SUSTAINING GROWTH IN

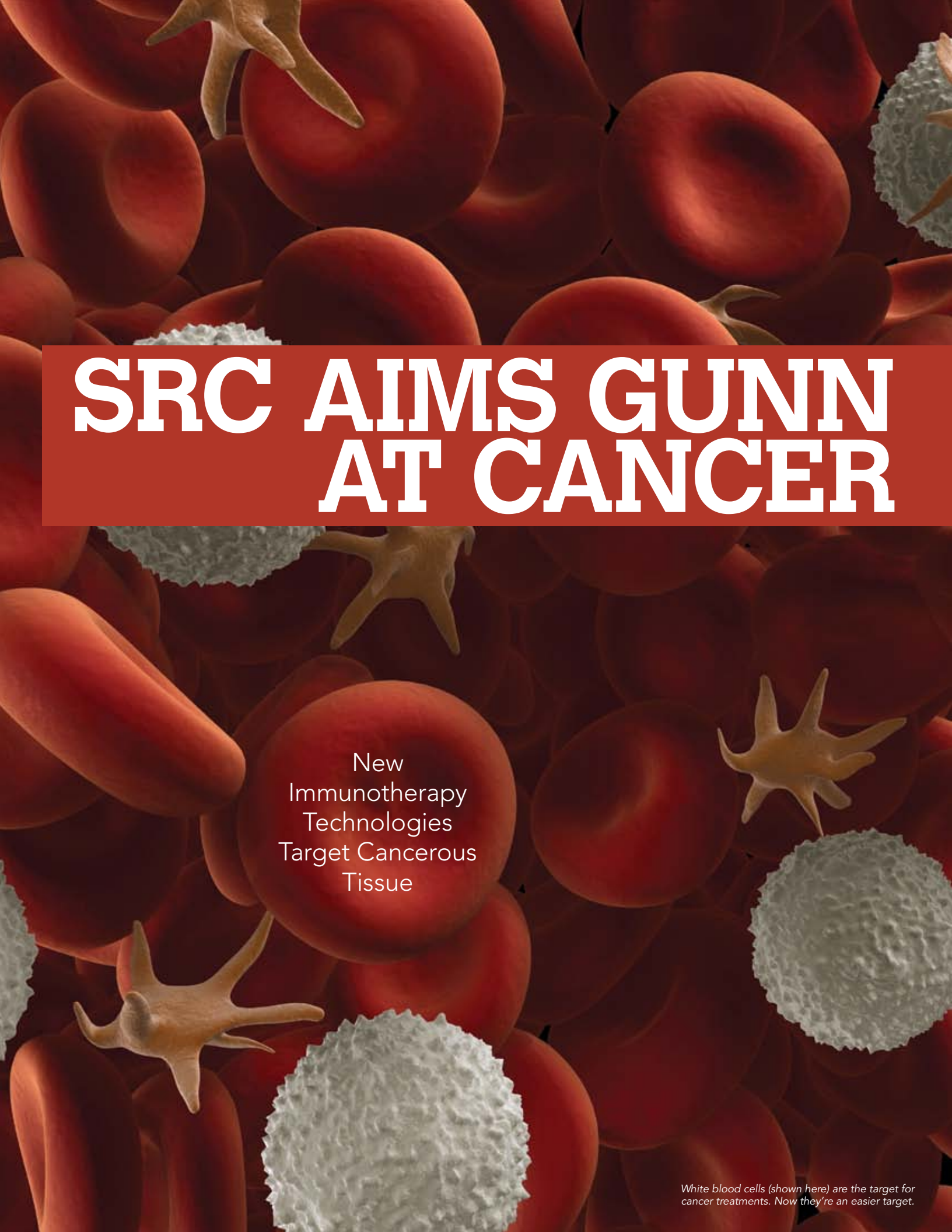
AGRICULTURE / BIOTECHNOLOGY

SRC offers the agriculture and biotechnology sectors:

- CONTRACT RESEARCH AND DEVELOPMENT
- SCALE-UP AND PROCESS DEVELOPMENT
- COMMERCIALIZATION OF TECHNOLOGIES
- ROUTINE TESTING
- MANUFACTURING

SRC AIMS GUNN AT CANCER

New Immunotherapy Technologies Target Cancerous Tissue



White blood cells (shown here) are the target for cancer treatments. Now they're an easier target.

Dr. Hal Gunn, CEO of Qu Biologics, a clinical stage biopharmaceutical company, came to SRC in 2008 for expertise in developing and producing innovative technologies to target cancerous tissue and organs. SRC's biotechnology professionals created developmental lots of Site Specific Immunotherapies, or SSIs, under Good Laboratory Practices (GLP) for use in animal studies.

Three years later, the BioManufacturing Business Unit continues to be involved with the production process as the concept of SSI develops and evolves. SSI is a safe, innovative technology that targets the specific tissue or organ in which the cancer is growing and is designed to reverse the immune suppression that underlies cancer growth and development.

Initial SSI production began as flask work in small batches with the sizes increasing to 20 litre fermentation batches. After confirming therapeutic effectiveness in animal studies, along with promising results in treating 140 late-stage cancer patients in Vienna as part of a compassionate human use program, the resulting demand for developing larger batches of immunotherapies became apparent.

To date, SRC has helped develop and produce five different targeted SSIs to treat the most common cancer sites: breast, prostate, lung, colorectal and skin.

In order to have the product licensed and regulated by Health Canada, scale-up of the production process is needed. According to Dr. Xin-Ming Song, Senior Research Scientist at SRC, competence in improving current technologies and providing regulated, quality services has helped SRC maintain a strong working relationship with Qu Biologics.

"Our Business Unit has the expertise to provide the scale-up and downstream processing that Qu Biologics requires," says Song. "They are the experts in the clinical applications of SSIs, while we've designed the manufacturing process for them."

Dr. Hal Gunn agrees. "SRC has been able to provide Qu Biologics with small developmental lots, through to scale-up for our upcoming clinical trial. All the staff at SRC have been dedicated, responsive, flexible and conscientious." He adds, "As a partner in this developmental process, SRC has provided the expertise and efficiency that has been invaluable."

TRY A FAST-FROZEN VACCINE

Positive Results Could REVolutionize Vaccine Manufacturing

Close-up photo of vials.

Tests by biomanufacturing experts at SRC's Fermentation Plant on a live *Escherichia coli* (*E.coli*) animal vaccine have shown that EnWave's *freeze*REV™ Radiant Energy Vacuum (REV) technology can dry a vaccine much faster than anything currently available.

A typical freeze drying test would take about 40 hours to dry a vaccine compared to just 50 minutes using the *freeze*REV™ single-vial prototype with the same bacterial survival rates.

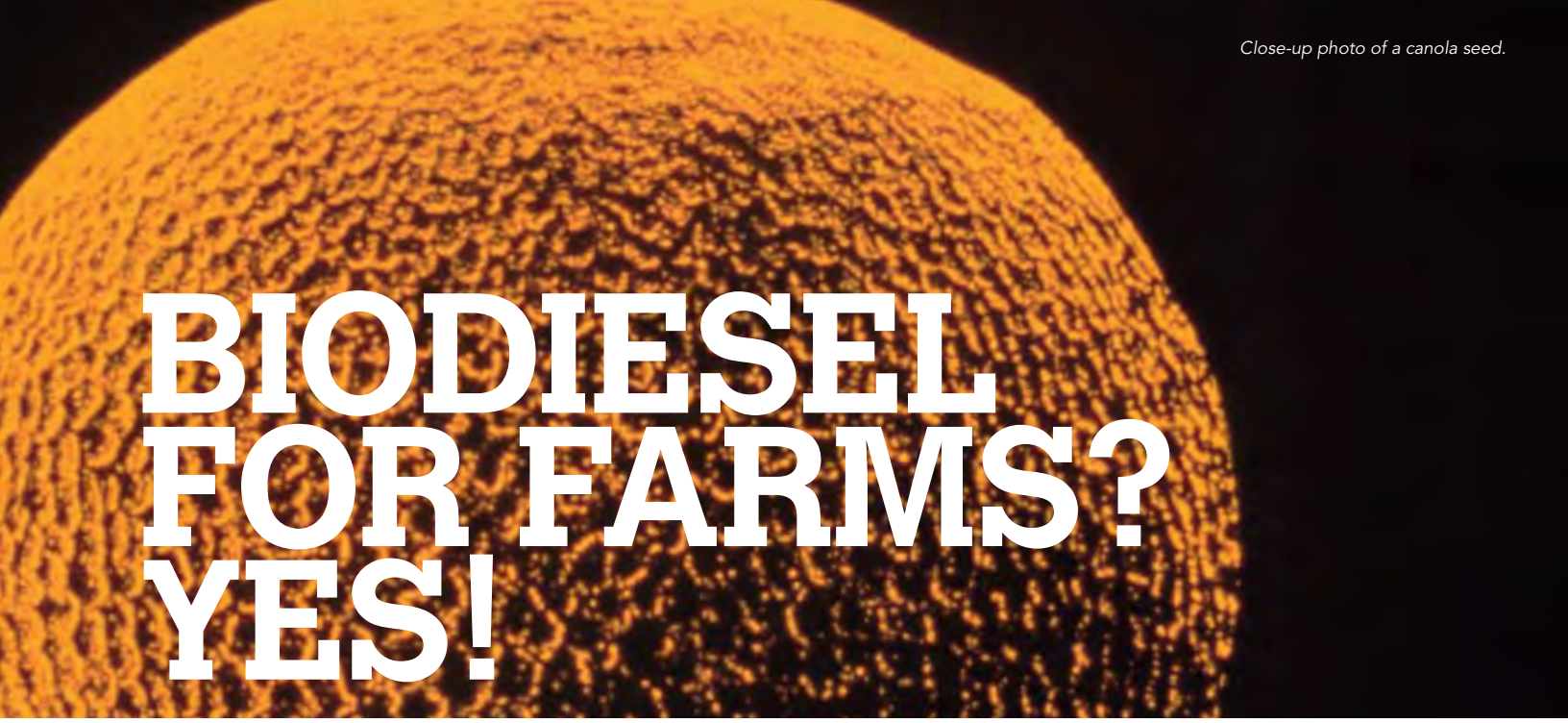
Results of demonstrating improved drying speed and longer shelf life of vaccines for storage and shipping are promising to the pharmaceutical industry. Amy Friesen, who is responsible for sales and marketing within SRC's BioManufacturing Business Unit, says, "The new technology being tested may make the vaccines more stable; it may change the properties of them in a way that is favourable."

The positive results for EnWave's *freeze*REV™ dehydration technology bring this new process one step closer to being commercially available. "It certainly reduces the time for manufacturing vaccines, which helps to get them onto the market quicker and may reduce the cost of the vaccine," Friesen points out.

To further develop and test vaccine survival rates, SRC and EnWave have signed a testing agreement to collaborate on EnWave's multi-vial *freeze*REV™ prototype.

Phillip Stephan, SRC's Vice-President of Agriculture/Biotechnology, is looking forward to taking the next steps with EnWave. "These initial results are very promising and we are proud to participate in this exciting phase of technology advancement," says Stephan. "Further development of the multi-vial prototype is a successful indication of innovative Canadian research."

EnWave's Chairman and Co-CEO, Dr. Tim Durance, is pleased to have SRC back on board for this subsequent phase of testing. "Over the past three years, *freeze*REV™ has shown a great deal of promise as a high-speed dehydration method for a wide variety of biomaterials in vials including bacteria, enzymes, antibodies and viruses," says Dr. Durance. "I am very much looking forward to the next stage of development for this technology, and to continuing our productive and cost-effective relationship with SRC."



Close-up photo of a canola seed.

BIODIESEL FOR FARMS? YES!

After a 16-month demonstration to test how biodiesel blends perform in farm equipment, SRC has proven that farm equipment can operate seamlessly all year long regardless of temperature, type of equipment and long-term fuel storage.

The demonstration, led by SRC, was part of the National Renewable Diesel Demonstration Initiative, supported by Natural Resources Canada (NRCan) in preparation for a proposed federal mandate to have an average of two per cent renewable content in diesel fuel. The federal government has since announced that an average of two per cent renewable content must be used in diesel fuel starting July 1, 2011.

Eight agriculture producers in the Foam Lake area participated in the study using 72 commonly-used pieces of farm equipment, including swathers, combines and fuel storage tanks. To prevent the producers incurring any extra expenses related to changing or upgrading bulk fuel storage and practices, the project operated on a status quo basis. The canola-based biodiesel blends were simply incorporated into the participants' existing farming practices with no special conditions placed on the equipment or fuel storage facilities.

Dale Kitzul, one of the participants in the project, farms 3800 acres of cropland and has 350 head of bison. He ran his equipment using the B10 blend during the summer and B5 in winter.

Kitzul was pleased with the results. "My tractor-trailers get better fuel efficiency on a biodiesel blend than with regular diesel," said Kitzul.

Grant McVicar, Director of Bioenergy and Bioresources at SRC, was very satisfied with how smoothly the demonstration ran, regardless of extreme weather conditions and a meticulous test regime. "In the worst-case scenarios that we could think of, the fuel blends that were tested performed flawlessly," said McVicar. "SRC labs followed a very, very rigorous approach in order to ensure that the fuel tested was assessed against the Canadian General Standard's specifications for fuel."

Prior to the study, a significant amount of documented and anecdotal information was known regarding the benefits of biodiesel as a fuel. However, the study conducted by SRC is believed to be the first field trial in the agriculture sector to rigorously test and demonstrate that biodiesel blends are able to maintain quality, operational characteristics and fuel specifications despite weather conditions and modifications to equipment and farming practices.

Saskatchewan manufacturer Milligan Bio-Tech Inc. produced the pure biodiesel fuel and blended it with ultra-low sulphur diesel (ULSD) to create the two per cent (B2) to 10 per cent (B10) biodiesel that was used for the project. Zenneth Faye, Executive Manager of Milligan Bio-Tech Inc., was not surprised by the successful results.

"This project has demonstrated in a real world situation what many producers have believed for some time," said Faye. "A valuable, high quality, renewable and environmentally-friendly fuel can be produced from canola seed and blended for use in diesel powered equipment."

SRC's Energy Division actively develops and applies improved recovery processes to suit a range of reservoir conditions, hydrocarbon resources of all kinds and operating constraints.

SRC has been providing successful testing services to the petroleum industry for more than 20 years.

SRC's Biofuels Test Centre™ offers a full suite of tests for ethanol and biodiesel producers.

SUSTAINING GROWTH IN ENERGY

SRC benefits oil and gas industries by providing:

- ENHANCED OIL RECOVERY TECHNOLOGIES AND APPLICATIONS
- QUALITY TESTING FOR NATURAL GAS INDUSTRIES
- PROCESS DEVELOPMENT EXPERTISE
- BIOPROCESSING COMMERCIALIZATION TECHNOLOGIES
- ENERGY CONSERVATION PROGRAMS

BAKKEN BREAKTHROUGH STRIKES OIL

Oil Industry Gushing over Bakken

Today, every drop of oil is valuable – and in some areas more elusive.

There is a lot of oil in the Bakken Formation – estimated to be as much as 16 billion cubic meters (100 billion barrels) in Saskatchewan alone – but it is both difficult and expensive to access.

Scientists and engineers in SRC's Enhanced Oil Recovery (EOR) Processes Unit are working on projects that are focused on advancing the most cost-effective techniques to bolster petroleum production from the Bakken reserves in southeast Saskatchewan.

The Bakken Formation is a natural geological phenomenon estimated to be 350 million years old. The oil is contained largely in siltstone and sandstone reservoirs in the formation. Presently, the primary recovery factor remains quite low, because the extremely tight nature of the Bakken Formation locks in the oil.

However, recent advances in horizontal multi-stage fracturing technology have boosted the Bakken Formation's oil production. In this new system, the formation is mechanically fractured at isolated intervals along a horizontal well using fracture fluids under pressure. This exposes more of the hard-to-access resources. The practice pinpoints the area to be treated, away from surface and groundwater zones.

Even with this breakthrough, notes SRC Engineer Vahapcan Er, primary oil production is declining quickly as the formation pressure rapidly depletes. "EOR techniques need to be considered to significantly improve oil recovery," states Er.

The methods being deployed by SRC's EOR team to access the oil remaining after primary production are waterflooding and CO_2 flooding. Waterflooding is a technique that involves injecting water into a reservoir formation to displace oil to the production wells. CO_2 flooding may prove to be particularly well-suited for the Bakken Formation, since CO_2 should flow more easily through the tight formation.

With more than two decades of experience studying CO_2 flooding processes, SRC has built up a strong EOR Processes team. Previous success has been proven in SRC's highly regarded technical contributions to the design of the Weyburn CO_2 flood, which is the world's largest, full-scale, in-field monitoring and measurement study of recovering oil using CO_2.

It is hoped that the EOR techniques being evaluated by studying the Bakken reservoir will soon fill in the technical gaps and become an important platform for developing the Bakken and other world-class tight-oil reservoirs.

NEW SYSTEM HARNESSES HEAT AND POWER

In September 2010, SRC unveiled a 6 kilowatt (kW) combined heat and power (CHP) system prototype that provides both electricity and heat energy more efficiently than any other existing technology in its class and reduces overall energy costs to the consumer.

The unit, installed at Inland Metal's manufacturing facility in Regina, uses first-to-market CHP technology that captures heat from a natural gas-powered internal combustion engine.

Typically, excess heat from conventional electrical generation facilities is released to the atmosphere as part of combustion exhaust. In addition, energy "line loss" is also experienced as electricity is transmitted from central plants to customers over long distances. But this CHP system captures both the heat of the engine as well as the majority of heat in the exhaust stream, using it for facility space heating.

The electricity produced by the CHP system eliminates line loss and as a result, overall system input energy reductions ranging between 35 and 42 per cent could potentially be achieved compared to providing heat and electricity separately from the natural gas system and central electrical power plants located in Saskatchewan. This technology also has the potential to reduce CO_2 emissions by up to 55 per cent compared to Saskatchewan's coal powered electrical generation.

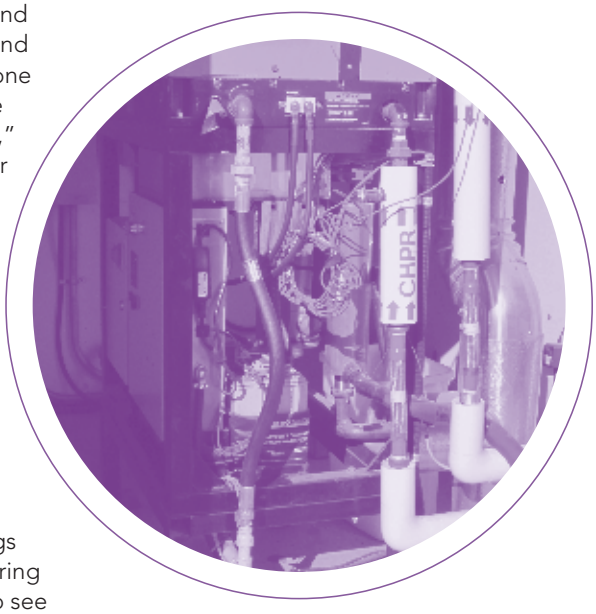
The anticipated outcome of the demonstration project and associated field monitoring underway at Inland Metal is to gain a better understanding of installation requirements, CHP system performance, overall utility savings, greenhouse gas (GHG) savings and operational requirements.

Potential improvements in power and efficiency are what prompted Inland Metal to pilot the CHP system in their facility. "As a manufacturer, Inland Metal's requirement of power and a comfortable work place was one of the reasons we looked at the combined heat and power unit," Inland Metal Managing Director Rob Craddock says. "If you can generate power and heat for part of your facility while reducing greenhouse gases, it helps reduce our impact on the environment."

Craddock predicts that this technology is on its way to becoming an industry standard. In the months following the installation of the CHP unit, he has noticed savings in his power consumption. "During this past winter we were able to see the full potential of the system as the unit ran almost 24 hours a day and during a couple of power outages our facility was still able to function with the power generated from the CHP unit," notes Craddock.

This system is perfectly suited to Saskatchewan's extreme weather fluctuations. Its integrated technologies allow it to function extremely efficiently, maximizing use of the provincial electrical grid and natural gas distribution systems. It will also provide back-up electrical supply in the event of a power outage.

Grant McVicar, Director of Bioenergy and Bioresources at SRC, adds that the CHP system offers valuable advantages over the conventional electrical power generation and natural gas systems. "This technology is a real game-changer," says McVicar. "At 87 per cent operating



efficiency, the system has the potential of significant company savings in energy costs and a reduced environmental footprint, all while providing the added back up of electrical power generation and heat during an electrical outage.

McVicar expects another three units to be installed and tested at other mid-sized commercial facilities, and eventually, several 1 to 3 kW units installed in residential homes. Although CHP technologies have existed for years, they have predominantly been used in large industrial plants.

"No one had put the pieces of a CHP technology together to come up with this kind of efficiency," notes McVicar. "We are very optimistic that it can be commercialized here in Saskatchewan and beyond."

SRC's Environmental Analytical Laboratories was awarded the Saskatchewan Water and Wastewater Association's Supplier of the Year Award.

SRC's Environmental Analytical Laboratories offers one of the most complete arrays of analytical services in Canada.

SRC's Climate Reference Station has been providing accurate, reliable weather data since 1963.

SUSTAINING GROWTH IN THE ENVIRONMENT

SRC provides a wide range of expert services in these areas:

- AIR QUALITY AND CLIMATOLOGY
- COMPREHENSIVE ANALYTICAL TESTING
- ENVIRONMENTAL REMEDIATION AND TOXICOLOGY
- ECOSYSTEMS AND FORESTRY

SRC WORKS TO IMPROVE PUBLIC SAFETY

SRC Cleaning Up Mines in Northern Saskatchewan

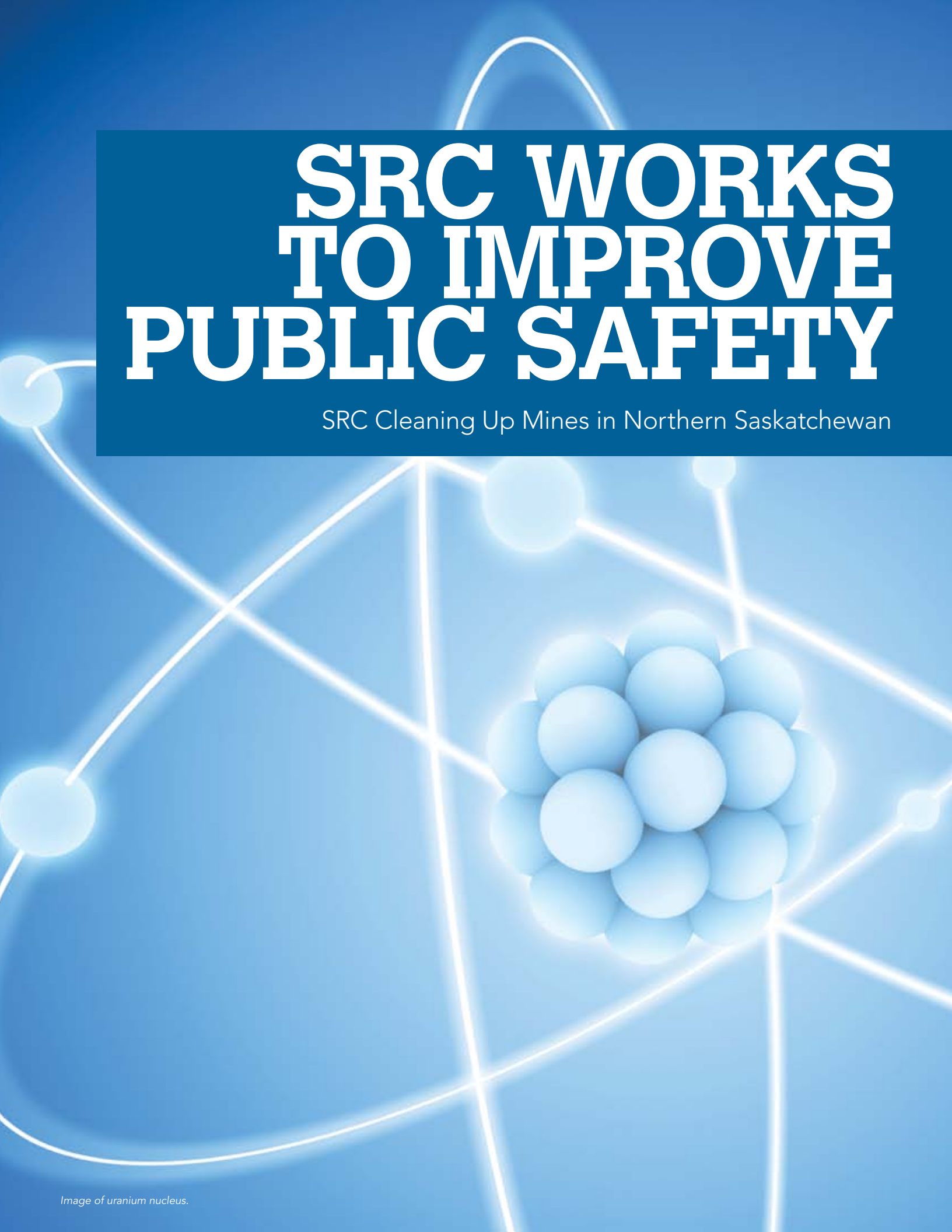


Image of uranium nucleus.

Hidden in the rugged beauty of northern Saskatchewan's Athabasca Basin lie remnants of long-abandoned uranium mines. The open mine shafts, deposits of mineral tailings and dilapidated buildings left behind tell a story of the province's first uranium mining boom.

Located near Uranium City, in the province's northwest corner, the uranium mines and small prospecting sites were developed and operated by private companies during the 1950s and 1960s. The exploration sites and mining operations were later abandoned with little consideration to environmental protection or aesthetics – a common occurrence in that era. At that time, there was insufficient environmental legislation in place to enforce site decommissioning and reclamation.

While interest in the area's mines has faded, more than 50 years have passed, which has created conditions that continue to pose a risk to the environment and the local population.

SRC is working to reduce that risk.

In 2006, the Government of Saskatchewan contracted SRC to manage Project CLEANS (Cleanup of Abandoned Northern Sites), a multi-year, multi-million dollar project to reclaim, or clean up, 38 abandoned uranium mine and mill sites, including the Gunnar Mine and Mill site and Lorado Mill site.

Mark Simpson, a geologist at SRC who has worked on Project CLEANS for the last four years, says, "The approach to mining fifty years ago was to find the ore, get it out of the ground and get out. The reclamation practices of the day were essentially non-existent."

To date, reclamation work has been conducted at 18 satellite sites since the project began in 2008, and will continue over the next several years. Due to the remote locations of the sites, most of the reclamation work can only be done in warmer months when the ice and snow have melted.

The Canadian Nuclear Safety Commission (CNSC) issued an order in July 2010 to address public safety concerns on the Gunnar site. The existing mine and mill sites have hazards related to structures, contaminants and low-level radiation. Maintaining high-standards of safety onsite for workers and the public is a key component of the project for SRC.

"We are working with the regulators to take appropriate steps," says Joe Muldoon, Vice-President of SRC's Environment Division. "We want to make sure we meet the public safety needs."

The end goal of the project is to return the sites to a state that supports safe, future use by local residents for traditional purposes, such as hunting and fishing.

In 2010, SRC developed and implemented a demolition plan. Demolition activities conducted during the 2010 field season included taking down more than 20 buildings and structures, cleaning up site debris and constructing a barrier around the open mine pit. Demolition activities have resumed in 2011 and will continue through to summer 2012.

Engaging the surrounding communities is a high priority for SRC. "We make every effort to ensure the communities are involved in the cleanup, especially by providing training and employment opportunities," says Tamara Yankovich, SRC's Remediation Project Manager, who is responsible for overseeing the Gunnar site work. "Ensuring a safe environment is a top priority for families and future generations."

Although SRC has made significant progress, there is still a large amount of work to be done. During the project's 2011 work season, SRC's main priority is safely demolishing buildings at the Gunnar Mine site to remove the largest remaining safety hazards.

UNIQUE MONITOR KEEPS AN EYE ON THE AIR

On June 2, 2010 – Clean Air Day in Canada – SRC launched an air quality monitor in southeast Saskatchewan. This monitor, the first of its kind installed in the Prairies, covers a region that extends from Yorkton to Estevan, an area ripe with oil activity, potash mines and industrial operations.

The airpointer® air quality monitor, located 12 kilometres south of Weyburn, operates within the geographic region of the Southeast Saskatchewan Airshed Association (SESAA), a non-profit membership association established to collect credible scientific air quality data.

The monitor was installed as the result of a need for a more efficient and enhanced collection of reliable air quality data on air pollutants such as nitrogen dioxide (NO_2), ozone (O_3), hydrogen sulphide (H_2S) and sulphur dioxide (SO_2). The continuous air monitor also tracks parameters such as temperature, relative humidity, wind speed and atmospheric pressure. The data is then transmitted to a website that is accessible to the public.

"We need reliable scientific data to keep track of air quality in our airshed as industrial emissions affect soil, water, air and health of humans, plants and animals," says SESAA's Executive Director Terry Gibson. "SESAA members, who are major industrial players in this region, want to be good environmental stewards and the airpointer® data will help them meet their regulatory requirements on emissions and air quality."

SRC installed and started the monitoring process of SESAA. Specialists from SRC performed quarterly calibrations on the unit and monitored the data that was collected. Any instances of concentrations exceeding the province's Ambient Air Quality Standards were reported to the Saskatchewan Ministry of Environment.

According to Keith Wallace, Senior Manager in the Environment Division at SRC, the technology involved in this operation will greatly enhance the results and provide more information quicker than before. "This monitor represents a great improvement over the previous air sampling monitoring technology, which provided data every two to four weeks. The monitoring system SRC has set up collects air quality data every minute and provides hourly data that can be used in a timely manner in the event of changes in air quality."

This is the only airpointer® operating in the Prairies, but more industry operators and air quality associations, both within and outside of the province, are expected to adopt similar technology. "To my knowledge, this is the first time there has been real-time online data of this nature available to the public from a Saskatchewan airshed," said Wallace.

After several months of operation, Gibson is pleased with the monitor's performance and the quality live data it provides to SESAA and its members. "We are planning to place another airpointer in Southeast Saskatchewan in 2011. This will give us even better capacity to measure the air quality in the region."

Wallace adds that this technology makes things easier for industrial operators and business investors by taking the guesswork out of meeting regulatory requirements. "It also contributes towards the environmental sustainability goals that many companies are striving to attain," Wallace explains. "SRC is proud to be part of a project such as this one that provides leading edge, scientific services right here in Saskatchewan."

SRC has one of the largest commercial diamond laboratories in the world.

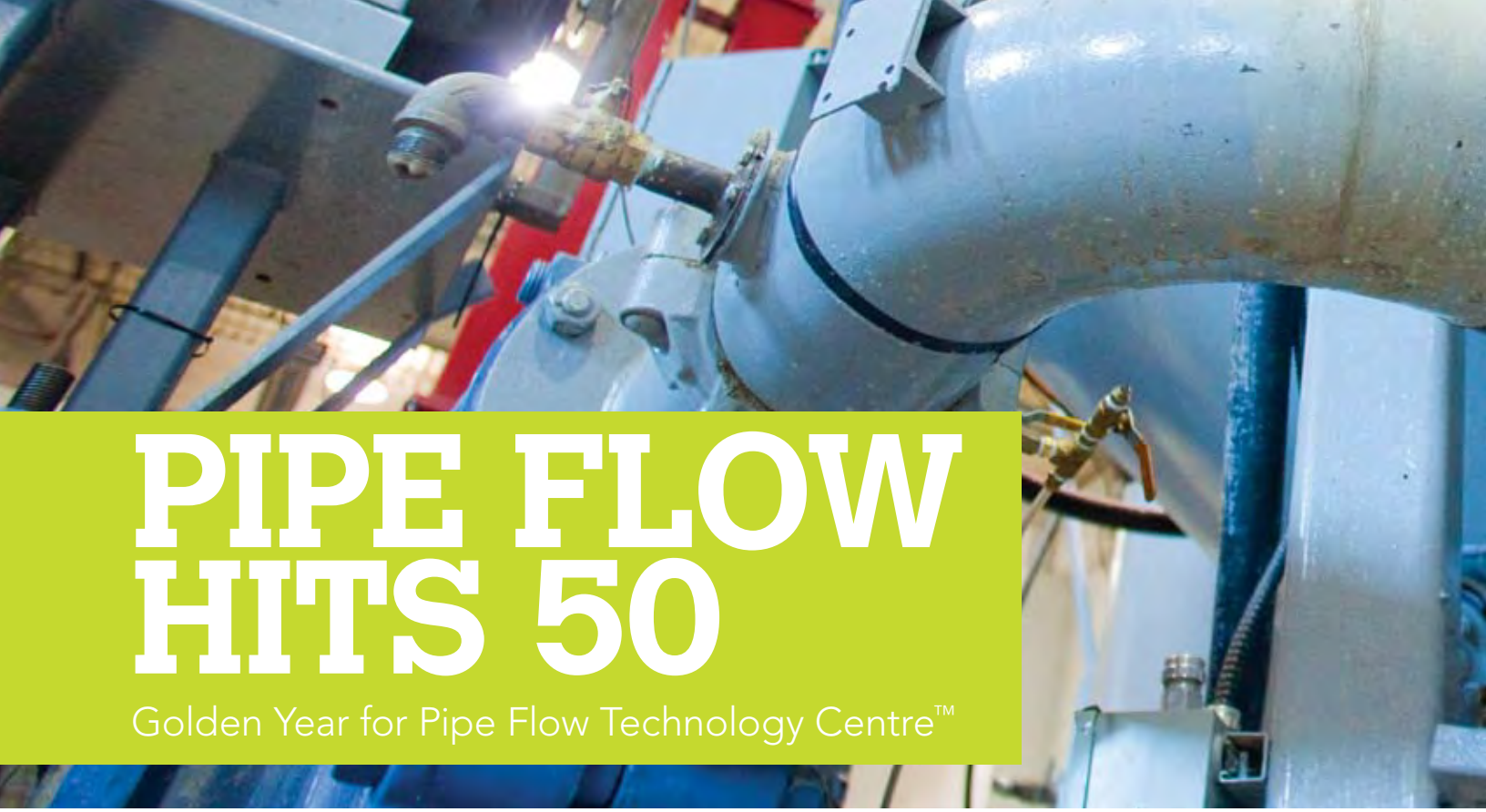
SRC is Saskatchewan's leading provider of applied R&D and technology commercialization.

SRC's Advanced Microanalysis Centre™ supplies all the necessary tools for mineral exploration – from sample preparation to trace-element analysis – in one convenient location.

SUSTAINING GROWTH IN MINING AND MINERALS

SRC enhances mining and minerals industries by offering:

- HIGH QUALITY MINERAL ANALYSES
- STATE-OF-THE-ART MICROANALYTICAL TECHNIQUES
- WORLD-CLASS RESEARCH AND DEVELOPMENT IN PIPELINE AND FLUID MECHANICS APPLICATIONS
- SPECIALIZED SUPPORT SERVICES FOR THE CREATION AND MANUFACTURE OF NEW PRODUCTS



PIPE FLOW HITS 50

Golden Year for Pipe Flow Technology Centre™

SRC's Pipe Flow Technology Centre™ celebrated its 50th anniversary in 2010 with the milestone commemorated by holding an Open House. Past and present employees, clients and many industry stakeholders were on hand to celebrate the Centre's successes.

Over the last 50 years, the Pipe Flow Technology Centre™ has grown tremendously, not only in size, but in reputation. Since its humble beginnings in 1960 to its current status as an internationally recognized leader in the industry, the Centre has proven that Saskatchewan is prime ground for innovation.

"SRC's research and development in pipe flow technology has helped resource industries expand the horizons of how and where they operate," says Craig Murray, Vice-President of SRC's Mining and Minerals Division. "The Pipe Flow Technology Centre has collaborated with Canadian industry on a range of ground-breaking pipeline and fluid mechanics applications."

By the 1970s, SRC's slurry pipeline group was outgrowing its pilot plant facilities on Campus Drive in Saskatoon and moved to operate out of their newly-purchased location on Quebec Avenue. The Centre's scope of work continued to expand, and by the 1990s, work for Syncrude included the development of hydrotransport, which involves moving oil sands ore materials from mines to the processing plants. This technology was soon adopted by the entire oil sands industry and is still used in all Canadian surface-mining oil sands operations today.

The new millennium brought increases in workload and the pipeline group once again outgrew their facility. In June 2001, the Pipe Flow Technology Centre™ relocated to its current location, a three-times larger facility at 51st Street in Saskatoon.

The Centre continues to be a hub for research and development, producing practical results. Its efficiency studies on water-assisted flow technology for pipelining heavy crude oil have the potential to reduce the wear and tear from oil transport trucks on Saskatchewan roads. Methods developed for pipelining thickened mining waste have also helped mineral companies reduce their environmental footprint by using less water.

Funding Keeps Pipe Flow in the Loop

In an effort to keep up with ever-evolving technology and advancements in the industry, SRC is using joint funding from the federal and provincial governments towards the expansion and enhancement of the existing facilities and services at the Pipe Flow Technology Centre™.

Not just oil: the Centre has also generated a remarkable flow of information, interaction and discovery.

Western Economic Partnership Agreement (WEPA) funding was announced in March 2011 and added further success to a year full of accomplishments.

"This project will generate significant benefits for Saskatchewan," said the Honourable Jeremy Harrison, Minister of Enterprise, at the announcement. "We expect that it will lead to the commercialization of new innovations that will assist oil, gas and mining companies in improving productivity."

In the past, the Centre was not equipped to handle volatile or hazardous materials, which includes most crude oils, and was rated only for lower temperature and pressure experiments. Funded upgrades will allow SRC experts to work with heavy crude oils, lighter crude oils and refined products. To handle this type of research, an existing explosion-proof building has been leveraged and will be expanded.

A 100 mm diameter, high-pressure, temperature-controlled pipe loop will be installed and explosion-rated instrumentation, heat exchangers, pumps, motors and a pressure vessel for loading will all be added.

Several economic and environmental benefits are associated with work being created by the addition of the new volatile handling facilities. Research and development will be expanded in the area of water-assisted flow, a technique that allows heavy oil or bitumen froth to be transported efficiently by pipeline. This technology has the potential to replace the trucking of heavy oil which will help in preserving rural roads and reducing vehicle emissions.

Multi-Client Project Brings Multiple Ideas

Last fall, SRC initiated a program to combine our expert knowledge with other industry leaders in order to come up with new solutions in slurry pipelines. This project garnered a lot of interest in the industry and currently has five industry partners on board with more expected.

Robert Paterson, Principal of Paterson and Cooke Consulting Engineers, is pleased to be involved in the multi-client project managed by SRC. "Participating in the SRC Multi-Client Pipeline Model project is a unique opportunity to advance the development of the widely used SRC Pipe Flow model."

By combining the facilities and expertise available at SRC's Pipe Flow Technology Centre™ with the knowledge and experience of participating clients, this study will develop a comprehensive slurry pipeline model. The model will be suitable for thickened tailings pipelines that can operate in the laminar flow regime and conventional slurry pipelines carrying mixtures containing particles with a wide range of sizes and densities. Improved slurry pipeline design will allow the industry to transport materials more efficiently, reduce energy use and potentially increase production yield and reduce waste.

According to Melissa McKibben, Acting Manager of the Pipe Flow Technology Centre™, there is a lot of excitement over this project because it is an opportunity to focus on research that is unique compared to other ongoing projects. "It allows us to conduct some much-needed research as opposed to solving immediate problems," says McKibben. "We are able to fill in the holes in the knowledge base."

Photo of the X-Ray Fluorescence sample holders.

ADVANCED MICROANALYSIS CENTRE™ GROWS

Beneath Saskatchewan lies the foundation for an exponentially fast growing mining and mineral sector that makes a considerable contribution to the provincial economy.

To keep up with the demand in this ever-changing industry, SRC is expanding its Advanced Microanalysis Centre™ again by investing in new equipment in order to provide a broader range of services.

In 2009, Western Economic Partnership Agreement (WEPA) funding was provided to launch the Centre, but with the rapidly evolving needs of the mining industry, another expansion had already become necessary.

In November 2010, SRC received an additional $1.41 million in joint funding from the governments of Canada and Saskatchewan.

"Saskatchewan's mining sector is an integral part of our economy," said the Honourable Lynne Yelich, Minister of State for Western Economic Diversification, at the announcement. "This new equipment will help small- and medium-sized business accelerate exploration and mine development, creating more jobs and opportunities in our communities."

The new funding injection has allowed the Centre to expand its analytical capabilities to meet industry needs, such as the growing interest for an advanced analytical package and isotopic analyses for uranium and rare earth elements.

According to Dr. Steven Creighton, Research Scientist at SRC, clients will benefit greatly from the expansion. "The additional funding will enable us to provide our clients with a level of service that was previously inaccessible in Saskatchewan," says Creighton. "We now have the opportunity to expand the Centre's operations to meet the rapidly evolving needs in the mining sector."

When Robert Frost, P. Geo., of Frost Geo Resources Ltd. read about SRC's geoanalytical laboratory services in an Association of Professional Engineers and Geologists Society (APEGS) publication, he was using an out-of-province lab at the time. "When I heard that SRC did the same testing right here in Saskatchewan, I thought, what am I doing going out of province?"

After an initial guided tour of the lab and meeting some of the people, Frost was impressed with the facilities at SRC. As the president of a small resource company, he feels that he is getting good value for his money and has confidence in the analytical data SRC has been supplying him. "The people I have met and the analytical services I have received are excellent and I have great confidence with respect to the accuracy of the final numbers. I was happy to discover that this level of geoanalytical testing and services are available right here in Saskatchewan."

The state-of-the-art equipment is operated and maintained by a highly skilled group of scientists and technicians dedicated to providing the best quality data and services to the mining industry and other sectors. The expansion of the Advanced Microanalysis Centre™ is providing much needed access to analytical data for mining companies, government and academic research scientists, commercial users and entrepreneurs.

Adds Creighton, "With the addition of this high-tech equipment, in combination with the expertise we have built upon at SRC, we continue to be positioned as a world-class centre for geological research, development and testing."

Performance at SRC is measured using Key Performance Indicators (KPIs). These quantifiable measurements are intended to reflect the critical success factors for the organization. KPIs are developed to help define and measure progress toward key organization goals.

Interpreted in the context of SRC's mandate, mission, positioning and key goals, KPIs gauge progress towards achieving SRC's definition of organizational success.

Measurements and targets are put in place to assess each KPI objective.

KEY PERFORMANCE INDICATORS

KPI OBJECTIVES:

- SHAREHOLDER VALUE
- FINANCIAL MANAGEMENT
- CLIENT
- GROWTH
- PEOPLE
- CORPORATE SOCIAL RESPONSIBILITY
- OPERATIONAL EXCELLENCE

KEY PERFORMANCE INDICATORS

2010-2011 Actuals to March 31, 2011

Shareholder Value
As a Treasury Board Crown Corporation, SRC is responsible to its owner, the Province of Saskatchewan, and hence the people of Saskatchewan. To ensure SRC is creating value for its stakeholders, this objective is defined by SRC's Purpose: SRC creates wealth through the responsible application of science and technology to assist Saskatchewan industry to be globally competitive. Measurement of this objective includes assessing SRC's economic impact in Saskatchewan, including jobs that were created or maintained. It also encompasses environmental and/or social impacts such as energy conservation, reduced greenhouse gas emissions, improved air quality and safety.

Objective	Measure	2010-2011 Targets	2010-2011 Actual Results
1. Shareholder Value Strengthen the Saskatchewan economy with quality jobs and a secure environment through the responsible application of science and technology.	1.1 Economic impact Economic impact of SRC as measured by the annual economic impact assessment.	≥$300M	$527M
	1.2 Quality jobs Number of jobs created or maintained in Saskatchewan as measured by the annual economic impact assessment.	≥2,000 jobs	1,206
	1.3 Environmental and/or social impact Total dollar value of projects focused on or containing a substantial component of achieving positive environmental or social impacts.	≥$10M	$37M

Financial Management
SRC must operate in a fiscally responsible manner in order to stay in business. There are three key objectives associated with this KPI. The organization aims to provide a positive financial return. We strive to utilize the provincial investment—approximately 26 per cent of our total revenues—in an effective and appropriate fashion. We also purchase appropriate capital assets each year to ensure we are maintaining our leading-edge position.

Objective	Measure	2010-2011 Targets	2010-2011 Actual Results
2. Financial Management Provide a positive financial return, utilize provincial investment (PI) appropriately, and purchase appropriate capital assets each year.	2.1 Net income Consolidated net income from SRC operations before Pay-at-Risk payments.	$383k	$1,512k
	2.2 Mandate effectiveness Mandate effectiveness as measured by the annual economic impact assessment. ($ economic impact/$ provincial investment)	≥35	32
	2.3 Investment in the future Investment in the future as measured by the dollar amount of provincial investment utilized in Innovation Fund and other capacity building projects.	$1,250k	$1,361k
	2.4 Capital asset purchases Purchase of appropriate capital assets (equipment and leasehold improvements) including both renewal and capacity building.	≥$5M	$5.3M

Client

SRC delivers a variety of contract services to its client base. In fact, in 2010-2011, SRC served over 1,870 clients. Our reputation as an independent, quality service provider is important to our clients and therefore of utmost importance to the organization. The objective of the KPI is to understand and deliver quality results that SRC's clients value.

Objective	Measure	2010-2011 Targets	2010-2011 Actual Results
3. Client Understand and deliver quality results that our clients value.	3.1 Client survey results Client satisfaction as measured by annual client survey results:		
	• clients that would return to SRC.	>95%	100%
	• clients that would refer SRC to others.	>95%	100%
	• satisfaction with overall quality of the product or service received.	>95% very satisfied or satisfied	97% very satisfied or satisfied

Growth

In order to ensure we are meeting the needs of the marketplace and helping Saskatchewan to be globally competitive, SRC has identified growth as a key factor to support this. The objective of this KPI is to grow SRC's revenue base in order to achieve and maintain critical mass in each business area, expand our service offerings and deliver additional impacts under shareholder value.

Objective	Measure	2010-2011 Targets	2010-2011 Actual Results
4. Growth Grow SRC's revenue base in order to achieve and maintain critical mass in each business area, to be able to expand our service offerings, and to be able to deliver additional impacts under KPI #1.	4.1: Revenue growth Increase in total outside revenue.	$6M	$10.8M

People

SRC's most important resource is its team of dedicated employees. It is our employees who keep the organization moving forward through their varied expertise, knowledge and skills. The objective of this KPI is to develop, inspire and motivate SRC's employees. We do this by supporting professional development activities, ensuring a safe workplace and delivering progressive compensation systems.

Objective	Measure	2010-2011 Targets	2010-2011 Actual Results
5. People Develop, inspire and motivate SRC's employees.	5.1: Employee engagement Employee engagement as measured by annual Employee Engagement Survey results: • improve SRC's overall employee engagement. • reduce the variation in engagement between SRC's divisions as measured by the spread.	 ≥50% <80%	 54% 63%
	5.2: Appropriate capacity and skills development Appropriate training is supported and financed for employees. Implementation of a training and development framework and its elements, including: • safety training, • active succession plan maintained for key positions, • management and leadership development plans, and professional development and accreditation training.	Framework implemented >90% completion of each framework element	Developed Estimate at least 80% complete
	5.3: Appropriate compensation Appropriate performance-based compensation is delivered, as measured by having sufficient net income earned and objectives delivered to support payment of performance-based compensation.	Pay ≥90% of Pay-at-Risk (PAR) plans	Produced sufficient net income to pay 100%; earned amount compared to objectives was 100%
	5.4: Provide a safe and healthy workplace • Minimize lost-time incidents (LTIs) (per 200,000 hours worked). • Deliver the key priorities outlined in each year's update of the SRC Safety Strategy.	<1.35 >90% completion	1.55 98% completion
	• Strong positive annual employee survey results in safety categories: • Percentage of employees that self-assess as being deeply or quite involved in health and safety initiatives at SRC. • Percentage of employees that self-assess as being very or moderately satisfied with the safety performance of SRC.	 ≥40% ≥75%	 36% 89%
	5.5: Diversity Create an environment that values diversity. • Implement key priorities outlined in each year's update to the Diversity Strategy.	>90% completion	95% completion

Corporate Social Responsibility
SRC recognizes the importance of conducting business in a socially and environmentally responsible manner and made this the focus of this KPI. This focus is not only encouraged through SRC's internal functions, but extends to its projects.

Objective	Measure	2010-2011 Targets	2010-2011 Actual Results
6. Corporate Social Responsibility Conduct business in a socially and environmentally responsible manner.	6.1: Corporate Social Responsibility Implement key priorities outlined in each year's update to the Corporate Social Responsibility Strategy including its component parts: • Safety and Health (see KPI Measure 5.4), • Environment (see also KPI Measure 1.3), • Governance and Business Practices, • Employee Engagement (see KPI Measure 5.1), • Partner, Supplier and Client Engagement (see also KPI Measure 3.1), and • Community Engagement.	>90% completion	90% completion

Operational Excellence
The objective of the Operational Excellence KPI is to have SRC achieve and maintain excellence in its internal processes, including technical excellence, operational efficiency, internal management and leadership, visibility and recognition, risk management and quality management. To support this KPI, SRC has developed several strategies to provide a framework and vision for related areas.

Objective	Measure	2010-2011 Targets	2010-2011 Actual Results
7. Operational Excellence Achieve and maintain excellence in operational processes.	Update continuous improvement initiatives and targets each year and implement key priorities outlined in each annual update:	>90% completion	
	7.1: Technical Excellence Strategy.		81% completion
	7.2: Communications/Branding Strategy.		100% completion
	7.3: Enterprise Risk Management (ERM) Strategy.		91% completion
	7.4: Quality Management Strategy.		100% completion

KEY PERFORMANCE INDICATOR HIGHLIGHT – TECHNICAL EXCELLENCE

Environmental Analytical Laboratories One of the Best in Canada

In 2010, SRC's Environmental Analytical Laboratories won the Saskatchewan Water and Wastewater Association's (SWWA) Supplier of the Year award. The award was established in 1989 to recognize excellent service to the province's water and wastewater industry.

SRC boasts one of the country's most modern, comprehensive and well-equipped analytical chemistry laboratories. Accredited by the Canadian Association for Laboratory Accreditation (CALA), SRC Environmental Laboratories provides test services and expertise in many areas, including air, water soil and tissue analyses, water chemistry, agriculture product testing and radiochemical analyses using state-of-the-art instrumentation.

An extensive Quality Assurance (QA) program ensures the reliability of analytical data. In addition to accreditation and testing performed by CALA, the laboratories participate in several other performance assessment programs including Environment Canada's Northern Contaminants program and the Alberta Water Analysts Committee program.

The SRC Laboratory Information Management System (LIMS) is another quality control facet that helps distinguish Environmental Analytical Laboratories. LIMS is a multi-functional system that allows for sample tracking, workflow monitoring, chemical inventory tracking and statistical analysis among other things that is maintained by SRC's Information Technologies Section.

Environmental Analytical Laboratories serves several thousand clients spanning resources and other industries, consulting and engineering firms, governments and private individuals. Many environmental decision-makers have come to rely on Environmental Analytical Laboratories' quality test procedures and precise analytical results.

With its team of highly-skilled scientists and technicians, SRC's Environmental Analytical Laboratories continues to be a leader.

KEY PERFORMANCE INDICATOR HIGHLIGHT – DIVERSITY

SRC Named Saskatchewan Employer of Excellence

Every individual should be able to pursue a job that offers security, growth and a sense of accomplishment. But this is not always easy to find – especially if you are a person with a disability or belong to a visible minority group.

By recognizing and valuing diversity among its employees, SRC strives to be an organization where each employee has access to work in a barrier-free environment that is inclusive and non-discriminatory. The first line of SRC's Core Values reads: Integrity: We treat people with respect, fairness, honesty, patience, understanding and trust. We are an equal opportunity employer and respect diversity.

"It's not simply a matter of respect, though," says Laurie Schramm, SRC's President and CEO. "A diverse group of employees and the cultural richness and advantages they provide will ensure SRC fosters the kind of creative and productive environment that will enable us to achieve our strategic goals and become the best organization of our kind in North America."

Earlier this year, SRC won the 2011 Saskatchewan Employer of Excellence Award in the large employer category, sponsored by Saskatchewan Association of Rehabilitation Centres (SARC) and Supported Employment Transition Initiative (SETI). Nominated by Partners in Employment, a division of the Saskatchewan Abilities Council, SRC has been an active participant in the Abilities Council's employment programs for several years.

SRC has demonstrated its commitment to supported employment by making its best effort to assist employees with their integration into the workplace. This has been achieved by providing tools and support, such as making flexible hours and breaks available to employees with mental health issues and offering sign language training to enhance communications with employees who are hearing impaired.

Almost a quarter century since the journey toward becoming an equity employer began, SRC continues to build on its vision of a work environment that fosters creativity and innovation because it respects and values employee diversity.

Report of Management
Year Ended March 31, 2011

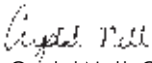
The accompanying financial statements are the responsibility of the management of the Saskatchewan Research Council (the Council). They have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate. Starting March 31, 2012, the Council will prepare financial statements in accordance with International Financial Reporting Standards.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. Management is also responsible for maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit and Finance Committee, which is composed of three non-management directors and one management director. The Committee meets periodically with management to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

The Provincial Auditor of Saskatchewan has audited the Council's financial statements in accordance with Canadian generally accepted auditing standards and her report follows.

Laurier Schramm
President and CEO



Crystal Nett, CA
Chief Financial Officer
June 8, 2011

Consolidated Financial Statements
Year Ended March 31, 2011

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan.

I have audited the accompanying financial statements of the Saskatchewan Research Council, which comprise the consolidated statement of financial position as at March 31, 2011, and the consolidated statements of operations and retained earnings and cash flows for the year then ended, 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 generally accepted accounting principles for Treasury Board's approval, 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 audit. I conducted my audit 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.

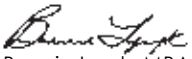
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 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 Saskatchewan Research Council as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
June 8, 2011



Bonnie Lysyk, MBA, CA
Provincial Auditor

SASKATCHEWAN RESEARCH COUNCIL
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at March 31
(Thousands of dollars)

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ -	$ 2,420
Accounts receivable	14,862	10,574
Prepaid expenses	1,227	183
	16,089	13,177
Non-current assets:		
Accrued pension benefit asset (Note 3)	153	46
Restricted investment (Note 4)	665	641
Trust investment (Note 8)	2,052	2,028
Property, plant and equipment (Note 5)	29,575	26,741
	$ 48,534	$ 42,633
LIABILITIES AND PROVINCE'S EQUITY		
Current liabilities:		
Bank indebtedness	$ 399	$ -
Accounts payable	8,092	4,752
Unearned revenue	5,000	6,149
Deferred revenue (Note 7)	632	654
Salaries, wages and vacation payable	1,708	1,411
	15,831	12,966
Non-current liabilities:		
Sick leave benefits payable	195	195
Asset retirement obligation (Note 8)	4,795	3,064
Deferred revenue (Note 7)	3,902	3,126
	24,723	19,351
Province's equity:		
Contributed surplus	922	922
Retained earnings - unappropriated (Statement 2)	22,224	21,719
Retained earnings - appropriated (Statement 2)	665	641
	23,811	23,282
	$ 48,534	$ 42,633

(See accompanying notes to the financial statements)

Statement 2

SASKATCHEWAN RESEARCH COUNCIL
CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS
For the year ended March 31
(Thousands of dollars)

	2011	2010
Revenue:		
Contracts	$ 46,268	$ 37,196
Grant - General Revenue Fund	16,633	15,016
Grants - Capital (Note 7)	631	396
Interest revenue	98	148
Change in restricted investment (Note 4)	24	130
	63,654	52,886
Expenses:		
Salaries and benefits	27,272	23,747
Consultants	12,335	5,834
Supplies and services	11,734	9,933
Accommodation charges	7,716	6,174
Amortization of property, plant and equipment	3,544	3,074
Amortization of funded assets (Note 7)	631	396
	63,232	49,158
Net income from operations	422	3,728
Defined benefit pension plan recovery (Note 3)	107	148
Net income	529	3,876
Retained earnings - unappropriated, beginning of year	21,719	17,973
Change in appropriated amount during year (Note 4)	(24)	(130)
Retained earnings - unappropriated, end of year - to Statement 1	$ 22,224	$ 21,719
Retained earnings - appropriated, beginning of year	$ 641	$ 511
Change in appropriated amount during year (Note 4)	24	130
Retained earnings - appropriated, end of year - to Statement 1	$ 665	$ 641

(See accompanying notes to the financial statements)

SASKATCHEWAN RESEARCH COUNCIL
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended March 31
(Thousands of dollars)

	2011	2010
Cash flows from operating activities:		
Cash receipts from contracts	$ 41,175	$ 34,751
Cash receipts from General Revenue Fund	16,633	15,016
Cash paid to suppliers and employees	(56,545)	(44,436)
Interest received	74	148
Cash flows from operating activities	1,337	5,479
Cash flows used in investing:		
Purchase of trust investment (Note 8)	-	(260)
Purchase of property, plant and equipment	(5,282)	(10,016)
Cash flows used in investing activities	(5,282)	(10,276)
Cash flows from financing:		
Capital grants	1,126	1,175
Cash flows from financing activities	1,126	1,175
Net decrease in cash and cash equivalents	(2,819)	(3,622)
Cash and cash equivalents, beginning of year	2,420	6,042
Cash and cash equivalents (bank indebtedness), end of year	$ (399)	$ 2,420

(See accompanying notes to the financial statements)

SASKATCHEWAN RESEARCH COUNCIL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011

1. Status of Saskatchewan Research Council

Saskatchewan Research Council ("the Council") was established pursuant to Section 3 of *The Research Council Act* for the purpose of research and investigation in the fields of the physical sciences, pure and applied, as they affect the economy of the Province of Saskatchewan. The Council is a body corporate which receives monies appropriated by the Legislature for these purposes. It is empowered to conduct research and other services under contract for others and to receive financial assistance pursuant to agreements with other similar agencies.

2. Summary of Accounting Policies

Pursuant to standards established by the Public Sector Accounting Board, the Council is classified as an "other government organization". The financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to for-profit entities. At March 31, 2012, the Council will prepare financial statements in accordance with International Financial Reporting Standards. The following accounting principles are considered to be significant:

a) Consolidation Principles and Basis of Presentation

The accounts of TecMark International Commercialization Inc., a wholly owned subsidiary of the Saskatchewan Research Council, are consolidated in these financial statements. TecMark International Commercialization Inc. ("TecMark") was incorporated under *The Business Corporations Act* ("Saskatchewan") on October 9, 1996, as a wholly owned subsidiary of the Council. TecMark holds certain patents and other non-tangible assets of the Council. The Council is currently in the process of winding up TecMark and transferring back ownership of these assets.

b) Use of Estimates

The preparation of financial statements in conformity with GAAP in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Key estimates within the financial statements include the accounts receivable, accrued pension benefit asset, property, plant and equipment amortization and asset retirement obligation.

c) Revenue Recognition

Revenue from contract work is recognized on the percentage-of-completion method, which recognizes revenue as a contract progresses.

Unbilled revenues are accrued to the year-end for these contracts, while pre-billed revenues received are classified as unearned revenue.

Grants from the General Revenue Fund are unrestricted in nature and recognized as they are received or receivable.

The Fermentation Facility Upgrade, Capital Enhancements Wheat DNA and Microanalysis Centre revenues are recognized at the same rate as the related assets are put in use and amortized.

Other contributions that are restricted for a specified use are deferred and are recognized as revenue when the related expenses are incurred.

Donations revenue is recognized upon receipt based on the value of the assets received.

2. Summary of Accounting Policies (continued)

d) Cash and Cash Equivalents

Cash and cash equivalents consists of balances with financial institutions and investments in redeemable guaranteed investment certificates ("GICs") with a Canadian bank, which have a term to maturity of one year or less at time of purchase and are presented net of cash on hand less outstanding cheques.

e) Property, Plant and Equipment

The assets of the Council are initially recorded at cost, including labour, material and overhead for self-constructed assets.

Amortization of property, plant and equipment is provided over the estimated useful lives of the assets on the following basis:

Straight-line method

Automotive	5 years
Buildings	9 - 20 years
Computer Equipment	5 years
Equipment	5 - 10 years
Fermentation and GenServe Equipment	10 years
Leaseholds	2 -12 years

f) Restricted Investment

The investment is comprised of deposits in units in a balanced mutual fund managed by a professional investment manager.

These investments have been classified as held-for-trade ("HFT") and are carried at fair value with unrealized gains or losses recognized in the consolidated statement of operations and retained earnings. Units in the mutual fund are recorded in the accounts at their net asset value per unit. Net asset value per unit is the market value of the investments in the fund portfolio divided by the total number of outstanding units in that fund. The adjustment necessary to record units at their net asset value at the year-end is shown as a change in restricted investment on the consolidated statement of operations and retained earnings.

g) Trust Investment

The trust investment is comprised of GICs held by a trust company. This investment has been classified as held-to-maturity ("HTM") and is carried at amortized cost.

h) Asset Retirement Obligation ("ARO")

The fair value of legal obligations to retire long-lived assets is recorded as an ARO with a corresponding increase in the carrying amount of the related assets. The recorded ARO increases over time through accretion charges to earnings. The capitalized assets are amortized to income consistent with the amortization of the related assets.

i) Future Changes in Accounting Policy

The Accounting Standards Board ("AcSB") has announced that Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") effective January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. The Council will publish its first financial statements prepared in accordance with IFRS for the year ending March 31, 2012. An opening balance sheet as at April 1, 2010 will also be provided as comparative data on an IFRS basis.

3. Accrued Pension Benefit Asset

The Council maintains a pension plan for its employees. The Plan is registered with the Saskatchewan Superintendent of Pensions ("Superintendent") and is required to comply with *The Pension Benefits Act, 1992* ("Act"). Until December 31, 1990, it was a defined benefit plan. Effective January 1, 1991, the plan was changed to a defined contribution plan. The changes did not affect employees who retired before this date. They continue to receive benefits as granted.

The defined contribution plan asset had a market value of $19,978,000 (2009 - $17,775,000) at December 31, 2010. By design, the liabilities equal the assets of a defined contribution plan. The defined contribution pension plan expense (employer contributions) for the year was $1,205,000 (2010 - $1,066,000).

The latest actuarial valuation of the defined benefit plan was performed as at January 1, 2011 by an independent actuary, Aon Consulting ("Aon"). This valuation has been extrapolated to March 31, 2011 by Aon. A discount rate of 3.90% (2010 -4.25%) was used in the calculation of the extrapolation. The pension plan has been valued using management's best estimates.

The financial position of the defined benefit plan is as follows:

	2011 (000's)	2010 (000's)
Defined benefit asset at market value, January 1	$ 1,661	$ 1,745
Net change in asset value	(30)	(37)
Asset at market value, March 31	1,631	1,708
Defined benefit obligation at January 1	1,383	1,565
Net change in obligation	95	97
Obligation, extrapolated to March 31	1,478	1,662
Accrued pension benefit asset, March 31	$ 153	$ 46

The asset is comprised of London Life Investment Management Ltd. units of a segregated fund that holds units of Phillips, Hager & North Balanced Pension Trust Fund and Canadian Money Market Fund. The Balanced Pension Trust Fund and Canadian Money Market Fund have no fixed interest rate, and returns are based on the performance of the fund. The fair value of the investment is considered to be the market value.

Upon termination of the Plan, any accrued benefit asset remaining, after discharging all liabilities, shall belong to the Council. The accrued benefit asset may be distributed in a manner to be determined by the Council, at its sole discretion, after receiving prior approval in accordance with *The Pension Benefits Act, 1992*, the *Income Tax Act ("Canada")* and the regulations thereunder.

The Act requires the Plan to obtain, every three years, an actuarial valuation that outlines its funding position and solvency position. The valuation summarizes whether the Plan's current assets and future contributions will be sufficient to pay the benefits granted under the Plan. The actuarial valuation for funding and solvency purposes prepared by Aon Consulting Inc. as at December 31, 2010 was filed with the Superintendent. The valuation disclosed a solvency surplus of $169,000 (2009 - $28,000). In addition, the valuation disclosed a funding surplus of $278,000 (2009 - $180,000).

The defined benefit pension plan recovery of $107,000 (2010 - $148,000) is the year over year change in the accrued benefit asset and obligation. The benefits paid from the defined benefit pension plan during the year totaled $244,000 (2010 - $253,000). Effective January 1, 2003, the Council is not being reimbursed for administrative costs incurred by the pension plan.

4. Restricted Investment

Restricted investment represents the Technology-in-Action Fund ("Fund"), which was established by the Council in 1994 when Mr. Ian Wahn made a gift to the Council, an agent of the Crown. The Fund was established to help the people of Saskatchewan develop their province as a highly skilled, fair, desirable and compassionate society with a secure environment through research, development and the transfer of innovative scientific and technological solutions, applications and services.

The Council received a binding ruling from the Canada Revenue Agency that accepts this as a "Gift to the Crown".

The Council maintains a separate account for the capital contributions and all investment income earned.

The balance of the Fund at March 31 is as follows:

	2011	Change	2010
	(000's)	(000's)	(000's)
Capital contributions	$ 504	$ -	$ 504
Investment earnings	387	44	343
Technology grants, fund expenses	(226)	(20)	(206)
Total	$ 665	$ 24	$ 641

The capital contributions are invested in a Canadian balanced mutual fund. The balanced mutual fund has no fixed interest rate, and the return is based on the performance of the mutual fund. Additional units in the mutual fund are acquired when distributions are made by the mutual fund. Cash dividends are not paid by the fund; however, investors can realize changes in the underlying unit values by redeeming units. The investment earnings include the actual earnings of the investment and the year over year change in the market value of the assets.

5. Property, Plant and Equipment

	2011			2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	(000's)	(000's)	(000's)	(000's)
Buildings	$ 675	$ 604	$ 71	$ 75
Leaseholds	13,747	7,618	6,129	5,038
Computers	2,777	1,785	992	721
Equipment	35,462	17,837	17,625	16,544
Automotive	496	357	139	174
SLOWPOKE Asset	3,077	837	2,240	663
Fermentation Facility	3,344	3,344	–	–
GenServe Equipment	548	548	–	–
Fermentation Facility Upgrade	303	202	101	132
Land	–	–	–	11
Construction in Progress	2,278	–	2,278	3,383
	$ 62,707	33,132	$ 29,575	$ 26,741

Included in the cost and net book value of equipment is $196,000 (2010 - $196,000) of assets that were not amortized because they were not ready for use. Of this amount $187,000 (2010 - $187,000) relates to the Grant - Capital Enhancements funded assets and the balance of $9,000 (2010 - $9,000) is for standard equipment purchases and leasehold improvements.

6. Line of Credit

The Council was authorized by the Minister of Finance to establish a line of credit not to exceed $5,100,000. There is an assignment of the accounts receivable as collateral for bank indebtedness. Interest is charged on the line of credit at the Bank of Montreal prime rate.

As at March 31, 2011 the Council was not utilizing this line of credit. Bank indebtedness is due to outstanding cheques as at March 31, 2011.

7. Deferred Revenue

The Council received contributions for certain property, plant and equipment, which it records as deferred revenue until such time as the related assets are put in use and amortized. Revenue is recognized based on the amortization of the related assets.

a) Fermentation Facility Upgrade

The Fermentation Facility Upgrade was funded under the Western Economic Partnership Agreement by the Saskatchewan Ministry of Energy and Resources and Western Economic Diversification Canada. All purchases were fully funded.

b) Capital Enhancements

The Council received specific funding from the Province to replace aging equipment and acquire enhanced equipment. All purchases were fully funded.

c) Wheat DNA

Funding was received from the Western Economic Partnership Agreement by the Saskatchewan Ministry of Energy and Resources and Western Economic Diversification Canada. The Council received funding of approximately 83% of the total cost of property, plant and equipment.

d) Microanalysis Centre

The Council received funding from the Western Economic Partnership Agreement by the Saskatchewan Ministry of Energy and Resources and Western Economic Diversification Canada to acquire equipment and develop space for the Microanalysis Centre. Approximately 56% of the total cost of property, plant and equipment was funded.

	2011 (000's)	2010 (000's)
Current Portion		
Wheat DNA	$ 129	$ 128
Microanalysis Centre	158	130
Fermentation Facility Upgrade	30	30
Capital Enhancements	315	366
	632	654
Long Term Portion		
Wheat DNA	1,030	143
Microanalysis Centre	1,380	1,170
Fermentation Facility Upgrade	72	102
Capital Enhancements	1,420	1,711
	3,902	3,126
Total Deferred Revenue	$ 4,534	$ 3,780

7. Deferred Revenue (continued)

During the year, the Council recognized the following amounts as revenue and expenses based on the amortization of the related property, plant and equipment.

	2011 (000's)	2010 (000's)
Fermentation Facility Upgrade	$ 30	$ 30
Capital Enhancements	342	366
Wheat DNA	129	-
Microanalysis Centre	130	-
Total Capital Grants	$ 631	$ 396

8. Trust Investment and Asset Retirement Obligation ("ARO")

The Canadian Nuclear Safety Commission's ("CNSC") licensing conditions require that SLOWPOKE reactor owners have in place a decommissioning plan and a financial plan to cover the associated costs.

The fair value of legal obligations to retire the SLOWPOKE reactor is recorded as an ARO with a corresponding increase in the carrying amount of the related assets. The recorded ARO increases over time through accretion (interest) charges to earnings. The accretion expense is calculated using an interest rate that equates to a risk-free rate adjusted for the credit standing of the Council and is included in property, plant and equipment amortization. The capitalized assets are amortized to income consistent with the amortization of the related assets.

The determination of the ARO is based on the current estimated costs of decommissioning. The total undiscounted obligation at 2025 (formerly 2030) is $7,986,000 (2010 - $6,700,000) and the inflationary factor assumed in determining this amount was 3% (2010 - 2%). The obligation at year-end is $4,795,000 (2010 - $3,064,000). The Council increased the obligation by $1,610,000 (2010 - $145,000 decrease) and recognized accretion expense of $122,000 (2010 - $116,000). The discount credit-adjusted risk-free rate used to value the obligation in 2011 was reassessed to 3.71% (2010 - 3.99%). The eventual decommissioning is estimated to occur in 2025 and require eighteen months to complete.

The Council conducted a sensitivity analysis and determined that a 1% decrease in the discount rate would increase the obligation by $697,000 (2010 - $653,000) and decrease the recognized accretion expense by $29,000 (2010 - $4,000). A 1% increase in the discount rate would decrease the obligation by $603,000 (2010 - $534,000) and increase the recognized accretion expense by $20,000 (2010 - $11,000). A five-year reduction in the estimated decommissioning date would result in an increase of the obligation by $168,000 (2010 - $317,000) and an increase in the current year accretion expense by $6,000 (2010 - $20,000).

At March 31, 2011, the Council has invested $2,052,000 (2010 - $2,028,000) in a legal trust for the purpose of settling the ARO. This trust agreement is a condition of the operating license issued to the Council by CNSC. An initial investment of $500,000 was made in 2004. Investments of $260,000 were made in fiscal years 2006, 2007, 2008, 2009 and 2010. The terms of the trust agreement require the trust be invested in GICs and require the Council to contribute to the trust account each year until the balance equals the original estimated decommissioning costs of $1.8 million. The funds cannot be used for any purpose without prior approval of CNSC. The Council will continue to work with CNSC to ensure that the trust adequately reflects the requirements of the plan.

9. Related Party Transactions

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

9. Related Party Transactions (continued)

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms except for the following:

During the year, the Council paid $6,333,000 (2010 - $4,392,000) to the Ministry of Government Services and Saskatchewan Opportunities Corporation (SOCO) for accommodation charges on buildings.

At year-end, the Council has lease commitments with SOCO requiring minimum lease payments of:

2012	$3,693,000
2013	3,693,000
2014	3,693,000
2015	3,506,000
2016	148,000

In 2011, the Council purchased supplies and services for $1,511,000 (2010 - $1,228,000) from related parties.

During the year, the Council recognized fee-for-service contract revenue of $16,174,000 (2010 - $13,770,000) with related parties.

The Council received $16,633,000 (2010 - $15,016,000) in funding from the General Revenue Fund.

As at March 31, the Council had $8,920,000 (2010 - $3,213,000) in related party accounts receivable.

The Council has $3,183,000 (2010 - $2,929,000) of deferred revenue from related parties as at March 31. Of the $3,183,000, $52,000 (2010 - $67,000) is related to the Fermentation Facility Upgrade funding, $1,734,000 (2010 - $2,076,000) is related to the Capital Enhancements funding, $812,000 (2010 - $136,000) is related to the Wheat DNA funding and $585,000 (2010 - $650,000) is related to the Microanalysis Centre funding.

The Council has $2,895,000 (2010 - $4,815,000) of unearned revenue from related parties, concerning fee-for-service contracts, as at March 31.

During the year, the Council provided general administrative services to the Saskatchewan Research Council Employees' Pension Plan without charge.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and the notes thereto.

10. Comparison of Planned and Actual Results

A comparison of actual to budgeted results for each line item on the statement of operations follows:

	Actual 2011 (000's)	Budget 2011 (000's)	Actual 2010 (000's)	Budget 2010 (000's)
Revenue:				
Contracts	$ 46,268	$ 44,233	$ 37,196	$ 35,951
Grant - General Revenue Fund	16,633	16,633	15,016	15,016
Grants - Capital	631	571	396	461
Interest revenue	98	150	148	100
Change in restricted investment	24	-	130	-
	63,654	61,587	52,886	51,528
Expenses:				
Salaries and benefits	27,272	28,893	23,747	25,931
Consultants	12,335	6,431	5,834	3,754
Supplies and services	11,734	16,095	9,933	11,292
Accommodation charges	7,716	6,292	6,174	6,258
Amortization of property, plant and equipment	3,544	2,922	3,074	3,608
Amortization of funded assets	631	571	396	461
	63,232	61,204	49,158	51,304
Net income from operations	422	383	3,728	224
Defined benefit pension plan recovery	107	-	148	-
Net income	$ 529	$ 383	$ 3,876	$ 224

11. Financial Instruments

The Council's significant financial instruments consist of accounts receivable, accounts payable, salary, wages and vacation payable, sick leave benefits payable, and the trust and restricted investments.

Investments measured at fair value are categorized into one of three hierarchy levels, described below for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

Level 1 – Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Investments measured at fair value by the Council are all considered Level 2.

Credit Risk

Credit risk is the risk of an unexpected loss by the Council if a customer or third-party to a financial instrument fails to meet its contractual obligations.

Until the Council's surplus cash is required to fund operations, it is invested in a variety of highly rated, risk-free instruments such as GICs.

11. Financial Instruments (continued)

The majority of the Council's receivables are from related parties, other government agencies and reputable, longstanding corporate clients. The Council also manages this risk by monitoring the credit worthiness of its customers and seeking pre-payment or other forms of payment security from customers with an unacceptable level of credit risk. At March 31, 2011, the Council had an allowance for doubtful accounts of $410,000 (2010 - $295,000).

Liquidity Risk

Liquidity risk is the risk that the Council is unable to meet its financial obligations as they fall due. The Council ensures that there is sufficient capital in order to meet short-term business requirements, after taking into consideration cash flows from operations and the Council's holdings of cash and cash equivalents and the availability of the line of credit. The Council believes that these sources will be sufficient to cover short-term and long-term cash requirements.

Interest Rate Risk

The Council's exposure to floating interest rate risk is generally limited to certain cash and cash equivalents. The Council's cash and cash equivalents include highly liquid investments with a term of one year or less that earn interest at market rates. The Council manages its interest rate risk on these investments by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis.

A 10% increase in the interest rate of the Trust investment would result in a $205,000 increase in interest revenue. A 10% decrease in the interest rate of the Trust investment would result in a $205,000 decrease in interest revenue.

Equity Price Risk

Equity price risk is the risk that the value of an equity will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market.

The Council manages the equity price risk of the Restricted Investment through investing in a Canadian balanced mutual fund.

A 10% increase in the market value of the Canadian balanced mutual fund would result in a $67,000 increase in the return from the restricted investment. A 10% decrease in the market value of the Canadian balanced mutual fund would result in a $67,000 decrease in the return from the restricted investment.

Fair Values

The fair values of the accounts receivable, accounts payable, salary, wages and vacation payable, and sick leave benefits payable approximate their carrying value due to the short-term nature of these instruments. The fair value of the restricted investment is considered to be market value, the calculation of which is detailed in Note 2. Due to the short-term nature of the trust investment, the cost plus accrued interest is considered to be equal to market value.

12. Commitments

At year-end, the Council has entered into certain contracts for services to be performed in relation to the decommissioning and reclamation activites at the Cold War Legacy Uranium Mine and Mill Sites. These agreements commit the Council to maximum payments of $14.9 million during the year ending March 31, 2012 and are payable only upon satisfactory completion of certain milestones. All amounts paid as a result of these contracts will be reimbursed by the Ministry of Energy and Resources under its agreement with the Council.

12. Commitments (continued)

The Council has lease commitments with non-related parties requiring minimum lease payments of:

2012	$361,000
2013	361,000
2014	268,000
2015	270,000
2016	254,000

13. Capital Disclosures

The Council manages capital through assessment of current and future goals, and the capital requirement of these goals.

The Council's management considers its capital structure to consist of contributed surplus and unappropriated retained earnings.

The usage of this capital is restricted in accordance with *The Financial Administration Act, 1993*.

The Council is not subject to capital requirements.

14. Funds Held in Trust

At March 31, 2011 the Council holds $820,000 for the Ministry of Environment and Tourism, Parks, Culture & Sport. These funds are held for the purpose of forest land management carried out by the Council.

15. Comparative Figures

Certain 2010 financial statement balances have been reclassified to conform with the presentation of the 2011 figures.

CORPORATE GOVERNANCE

AUTHORITY

The Saskatchewan Research Council (SRC) is a Saskatchewan Treasury Board Crown Corporation governed by *The Research Council Act*. Within this framework, the Board of Directors (Board) formulates policy and delegates the responsibility and authority for the ongoing management of the corporation to the President and CEO.

BOARD RESPONSIBILITIES

The Board ensures that the activities of the corporation are carried out under the terms of *The Research Council Act*. The Board oversees the stewardship of the corporation and has responsibility for strategic planning and monitoring of financial and business performance. The Board ensures that management has systems in place to identify and manage the principal risks of the corporation's business.

BOARD COMPOSITION AND COMPENSATION

The SRC Board is comprised of five members with a diverse combination of knowledge and expertise. The members represent a cross-section of SRC's stakeholder community.

Four directors, including the Chair, are independent of SRC management. The one related director is the President and CEO of the corporation.

Board members (except for members who are government employees) receive a retainer and an honorarium for meetings attended. The level of compensation is established by Treasury Board. Members are allowed travel and associated expenses at SRC approved rates.

THE BOARD AND MANAGEMENT

The Board focuses on the strategic leadership of the corporation and does not become involved in day-to-day management, but delegates and entrusts operational decisions to management, holding management accountable for the corporation's performance, long-term viability and the achievement of its objectives.

COMMITTEES

The Board has established the following committees to address specific areas of Board responsibility:

Audit and Finance Committee

The Audit and Finance Committee is responsible for monitoring, advising and making recommendations to the Board regarding all aspects of financial planning and the financial management of the corporation. The Audit and Finance Committee acts as the communication link between the Board and the Provincial Auditor.

Governance and Nominating Committee

The Governance and Nominating Committee is responsible for monitoring, advising and making recommendations to the Board regarding the governance strategy of the corporation, assessing and evaluating Board and CEO performance, administering the Board-CEO relationship and assessing and monitoring risk within the corporation.

OUR VALUES

At SRC we value Integrity, Teamwork, Performance Excellence and Learning.

INTEGRITY

- We treat people with respect, fairness, honesty, patience, understanding and trust.
- We are an equal opportunity employer and respect diversity.
- We are a responsible corporate citizen committed to the health and safety of people and the environment.
- We practice high ethical and professional standards.

TEAMWORK

- We are committed to achieving common goals through teamwork.
- We collaborate, listen and share information within SRC and with our partners.
- We consistently present a total corporate image.
- We participate actively within our networks to the benefit of clients, colleagues and the community.

PERFORMANCE EXCELLENCE

- We are a financially responsible organization.
- We lead by example. We are accountable for our actions, successes and failures.
- We establish and communicate clear expectations to staff, clients and partners.
- We recognize the accomplishments of our colleagues and of the organization as a whole.
- We actively seek new clients and strive to retain existing clients.
- We demonstrate our commitment to clients by keeping lines of communication open, providing quality products and services and delivering on time and within budget.

LEARNING

- We facilitate and acknowledge personal and professional growth.
- We strive to achieve excellence through innovation and continuous improvement.
- We develop or acquire appropriate knowledge as needed to achieve the best solutions for our clients and partners.
- We learn from our successes and our failures.

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