Second Quarter Report

Contents:

Saskatchewan Telecommunications Holding Corporation

Second Quarter Report 2015

For the Period Ending June 30, 2015

Saskatchewan Telecommunications Holding Corporation (SaskTel) is a Saskatchewan Crown corporation. SaskTel is the leading full service communications provider in Saskatchewan, offering a wide range of communications products and services including competitive voice, data, Internet, entertainment, security monitoring, messaging, cellular, wireless data and directory services. In addition, SaskTel International offers software solutions and project consulting in countries around the world.

SaskTel and our wholly-owned subsidiaries have a workforce of approximately 4,000 full time equivalent employees.

Our vision is "*Be the best at connecting people to their world.*" and our mission is *"To provide the best customer experience through our superior networks, exceptional service, advanced solutions and applications."*

Financial Highlights

Consolidated Net Income

	Three months ended June 30,				Six months ended June 30,			
Millions of dollars	**2015**	2014	Change	% Change	**2015**	2014	Change	% Change
Revenue	**$318.0**	$308.6	$9.4	3.0	**$624.0**	$612.7	$11.3	1.8
Other income	**1.4**	0.8	0.6	75.0	**1.9**	1.6	0.3	18.8
	319.4	309.4	10.0	3.2	**625.9**	614.3	11.6	1.9
Expenses	**278.4**	282.0	(3.6)	(1.3)	**559.8**	554.1	5.7	1.0
Results from operating activities	**41.0**	27.4	13.6	49.6	**66.1**	60.2	5.9	9.8
Net finance expense	**13.1**	5.7	7.4	129.8	**17.3**	10.9	6.4	58.7
Net income	**$27.9**	$21.7	$6.2	28.6	**$48.8**	$49.3	$(0.5)	(1.0)

Net income for the six months ended June 30, 2015 is $48.8 million, down $0.5 million (1.0%) from the same period in 2014. Revenues increased to $624.0 million, up $11.3 million (1.8%) from the same period in 2014 primarily due to increased Internet revenue from increased subscribers, wireless revenue from customer growth and increased revenue per customer, and *maxTV*™ revenues resulting from increased customer accesses and increased revenue per customer.

Expenses for the six months ended June 30, 2015 increased to $559.8 million, up $5.7 million from the same period in 2014. This increase is primarily driven by increased depreciation and amortization of $6.2 million due to increased plant in service, as well as increased salaries, wages and benefits partially offset by decreases in direct expenses and project related expenses. Net finance expense was $17.3 million, up $6.4 million over the same period in 2014. This is primarily driven by decreases in the fair value of sinking funds.

Management Discussion and Analysis

August 13, 2015

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the second quarter 2015. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the year ended December 31, 2014. Some sections of this discussion include forward-looking statements about SaskTel's corporate direction and financial objectives. A statement is forward-looking when it uses information known today to make an assertion about the future. Since these forward-looking statements reflect expectations and intentions at the time of writing, actual results could differ materially from those anticipated if known or unknown risks and uncertainties impact the business, or if estimates or assumptions turn out to be inaccurate. As a result, SaskTel cannot guarantee that any of the predictions forecasted by forward-looking statements will occur. As well, forward-looking statements do not take into consideration the effect of transactions or non-recurring items announced or occurring subsequently. Therefore, SaskTel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a full discussion of risk factors, please consult Management's Discussion & Analysis in SaskTel's 2014 annual report. These interim statements have been prepared in accordance with the International Financial Reporting Standard IAS 34, "Interim Financial Reporting". These interim statements have been approved by the SaskTel Board of Directors on August 13, 2015.

Results of Operations

Revenue

Millions of dollars	**2015**	2014	Change	%
Three months ended June 30,	**$318.0**	$308.6	$9.4	3.0
Year-to-date	**$624.0**	$612.7	$11.3	1.8

Revenues for the second quarter were $318.0 million, up $9.4 million from the same period in 2014. Year-to-date revenues were $624.0 million which represents an $11.3 million increase from 2014. This increase is primarily driven by; growth in Internet subscribers, increased subscriber growth of the wireless customer base and increased revenue per customer related to a shift to two year price plans, and *maxTV* entertainment services due to increased number of customers and increased revenue per customer. These are partially offset by decreased wireless wholesale revenues from the impact of Federal Government rate regulations (Bill C31) and less usage from all carriers roaming on SaskTel's network and decreased local and enhanced service and long distance revenues as a result of customers moving from wireline to wireless services, commonly referred to as wireless substitution.

Expenses

Millions of dollars	**2015**	2014	Change	%
Three months ended June 30,	**$278.4**	$282.0	$(3.6)	(1.3)
Year-to-date	**$559.8**	$554.1	$5.7	1.0

Expenses for the second quarter of 2015 decreased to $278.4 million, down $3.6 million from the same period in 2014. Year-to-date expenses of $559.8 million were $5.7 million higher than the same period in 2014 primarily due to an increase of $6.2 million in depreciation and amortization largely due to increased plant in service, primarily 4G and LTE transmission assets. Net salaries, wages and benefits also increased as a result of less capitalized internal labour due to the completion of the new wireless billing system. These are offset by decreased goods and services purchased, primarily direct expenses and materials.

Net finance expense

Millions of dollars	**2015**	2014	Change	%
Three months ended June 30,	**$13.1**	$5.7	$7.4	129.8
Year-to-date	**$17.3**	$10.9	$6.4	58.7

Net finance expense for the second quarter of 2015 was $13.1 million, up $7.4 million over the same period in 2014. Year-to-date net finance expense increased to $17.3 million from $10.9 million in 2014. This is driven by sinking fund fair value losses in 2015 compared to gains in the same period in 2014 and increased interest on long-term debt as a result of additional debt issued in 2014, partially offset by increased sinking fund earnings.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	**2015**	2014	Change	%
Six months ended June 30,	**$120.2**	$107.6	$12.6	11.7

Cash provided by operating activities for the six months ended June 30, 2015 was up $12.6 million compared to the same period in 2014 due to the impact of non-cash adjustments to net income and reduced working capital requirements.

Cash used in investing activities

Millions of dollars	**2015**	2014	Change	%
Six months ended June 30,	**$110.7**	$112.7	$(2.0)	(1.8)

Cash used in investing activities in the six months ended June 30, 2015 decreased to $110.7 million, down $2.0 million from the same period in 2014, primarily due to the purchase of 700 megahertz spectrum in 2014 and planned spending reductions on software in 2015 partially offset by increased spending on property, plant and equipment.

Capital Spending

Total capital expenditures for the first six months of 2015 were $112.8 million, down $5.5 million from the same period in 2014.

SaskTel's net spending on property, plant and equipment for the first six months of 2015 was $97.7 million, up $6.3 million from the same period in 2014 primarily due to increased spending on Fibre to the Premises, continued network modernization and data center functionality, partially offset by planned spending reductions on the 4G cellular network. SaskTel's net spending on intangible assets was $15.1 million, down $11.8 million from the same period in 2014 primarily due to the purchase of 700 megahertz spectrum (MHz) in the 2014 Mobile Broadband Services – 700 MHz Band Auction and planned spending reductions on software.

Capital expenditures in 2015 will focus on further investment in the core Saskatchewan network including: FTTP, wireless network enhancements and basic network growth and enhancements. This core network investment will ensure: increased Internet access speeds; enhanced *maxTV* services; increased wireless bandwidth, resulting in increased roaming capacity and data speeds; as well as continued network growth and refurbishment. Expenditures will also enhance customer interface and expand service offerings.

Cash used in financing activities

Millions of dollars	**2015**	2014	Change	%
Six months ended June 30,	**$4.4**	$2.9	$1.5	51.7

Cash used in financing activities in the six months ended June 30, 2015 was $4.4 million compared to $2.9 million for the same period in 2014. This is primarily due to reduced net borrowing partially offset by decreased dividend payments compared to 2014.

Liquidity and capital resource ratios

Debt ratio

	June 30, 2015	December 31, 2014
Debt ratio	**50.6%**	52.8%

The debt ratio decreased to 50.6%, down from 52.8% at December 31, 2014. The overall level of net debt decreased $3.9 million during the period due to increased cash and sinking funds partially offset by increased short-term borrowing.

Equity increased by $61.4 million to the end of the second quarter of 2015 after recording net income of $48.8 million, other comprehensive income of $27.6 million related to actuarial gains in the employee defined benefit plan and dividends of $15.0 million which are lower than previous years due to a $30.0 million cap on dividends in 2015.

The debt ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt, including long-term debt, notes payable and the current portion of long-term debt, less sinking funds, and cash and short-term investments. Capitalization includes net debt, equity advances, accumulated other comprehensive income (loss) and retained earnings at the period end.

2015 Outlook

The 2014 SaskTel Annual Report identified a consolidated net income target for 2015 of $76.8 million. At this time SaskTel believes that it will meet the established 2015 net income target.

Risk Assessment

The 2014 Annual Report discusses the risks and uncertainties in SaskTel's business environment focusing on both Strategic and Core Business Risks. The Strategic Risks include risks that may inhibit SaskTel from achieving its Strategic Plan including the following areas: customer, infrastructure, processes and systems, workforce and financial. The Core Business Risks focus on risks associated with the execution of SaskTel's business functions including the following areas: operational, and compliance and legal.

A strong governance process for risk management is in place. This is an iterative process designed to identify, evaluate, mitigate and control, report, monitor and assess key risks. SaskTel's key risk profile remains unchanged at June 30, 2015.

Condensed Consolidated Interim Statement of Income and Other Comprehensive Income

		(Unaudited)			
		Three months ended June 30,		Six months ended June 30,	
Thousands of dollars	Note	**2015**	2014	**2015**	2014
Revenue	3	**$318,035**	$308,583	**$623,967**	$612,716
Other income	3	**1,419**	806	**1,865**	1,559
		319,454	309,389	**625,832**	614,275
Expenses					
Goods and services purchased		**136,352**	143,917	**271,652**	273,910
Salaries, wages and benefits		**93,534**	93,446	**192,300**	191,934
Depreciation	5	**44,015**	40,398	**87,821**	81,069
Amortization	6	**9,794**	10,047	**18,096**	18,629
Internal labour capitalized		**(5,326)**	(5,807)	**(10,073)**	(11,449)
		278,369	282,001	**559,796**	554,093
Results from operating activities		**41,085**	27,388	**66,036**	60,182
Net finance expense	4	**13,146**	5,696	**17,275**	10,901
Net income		**27,939**	21,692	**48,761**	49,281
Other comprehensive income (loss)					
Net actuarial gains (losses) on defined benefit pension plan	7	**33,467**	(9,066)	**27,662**	(34,315)
Total comprehensive income		**$61,406**	$12,626	**$76,423**	$14,966

All net income and total comprehensive income are attributable to Crown Investments Corporation of Saskatchewan (CIC).

See Accompanying Notes

Condensed Consolidated Interim Statement of Changes in Equity

	(Unaudited)			
Thousands of dollars	Equity advances	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
Balance at January 1, 2015	**$250,000**	**$(49,149)**	**$512,171**	**$713,022**
Net income	**-**	**-**	**48,761**	**48,761**
Other comprehensive income	**-**	**27,662**	**-**	**27,662**
Total comprehensive income for the period	-	**27,662**	**48,761**	**76,423**
Dividends declared	**-**	**-**	**15,000**	**15,000**
Balance at June 30, 2015	**$250,000**	**$(21,487)**	**$545,932**	**$774,445**
Balance at January 1, 2014	$250,000	$8,159	$489,056	$747,215
Net income	-	-	49,281	49,281
Other comprehensive loss	-	(34,315)	-	(34,315)
Total comprehensive income for the period	-	(34,315)	49,281	14,966
Dividends declared	-	-	30,330	30,330
Balance at June 30, 2014	$250,000	$(26,156)	$508,007	$731,851

See Accompanying Notes

Condensed Consolidated Interim Statement of Financial Position

As at Thousands of dollars	Note	(Unaudited) **June 30, 2015**	December 31, 2014
Assets			
Current assets			
Cash		**$14,039**	$8,948
Trade and other receivables	9a	**124,372**	116,932
Inventories	9a	**21,078**	15,796
Prepaid expenses	9a	**35,998**	25,550
		195,487	167,226
Property, plant and equipment	5	**1,519,502**	1,511,600
Intangible assets	6	**266,293**	269,302
Sinking funds		**119,237**	112,571
Other assets		**7,866**	8,188
		$2,108,385	$2,068,887
Liabilities and Province's equity			
Current liabilities			
Trade and other payables	9a	**$150,131**	$165,397
Dividend payable		**7,500**	-
Notes payable		**150,945**	143,298
Other liabilities	9a	**72,202**	66,643
		380,778	375,338
Deferred revenue		**6,778**	7,526
Deferred income – government funding		**38,521**	40,050
Long-term debt		**776,965**	776,780
Employee benefit obligations	7	**130,898**	156,171
		1,333,940	1,355,865
Province of Saskatchewan's equity			
Equity advance		**250,000**	250,000
Accumulated other comprehensive income (loss)		**(21,487)**	(49,149)
Retained earnings		**545,932**	512,171
		774,445	713,022
		$2,108,385	$2,068,887

See Accompanying Notes

Condensed Consolidated Interim Statement of Cash Flows

Thousands of dollars	Note	(Unaudited) Six months ended June 30, 2015	2014
Operating activities			
Net income		**$48,761**	$49,281
Adjustments to reconcile net income to cash provided by operations			
Depreciation and amortization		**105,917**	99,698
Net financing expense	4	**17,275**	10,901
Interest paid		**(20,367)**	(19,181)
Interest received		**728**	856
Amortization of government funding	3	**(2,573)**	(2,523)
Other		**4,402**	4,737
Net change in non-cash working capital	9b	**(33,963)**	(36,214)
		120,180	107,555
Investing activities			
Property, plant and equipment expenditures		**(97,660)**	(89,078)
Intangible assets expenditures		**(14,139)**	(26,131)
Government funding		**1,115**	2,538
		(110,684)	(112,671)
Financing activities			
Proceeds from long-term debt		**-**	195,240
Net proceeds (repayment) of notes payable		**7,695**	(150,342)
Sinking fund installments		**(4,600)**	(4,100)
Dividends paid		**(7,500)**	(43,725)
		(4,405)	(2,927)
Increase (decrease) in cash		**5,091**	(8,043)
Cash, beginning of period		**8,948**	24,365
Cash, end of period		**$14,039**	$16,322

See Accompanying Notes

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)

As at and for the six months ended June 30, 2015

Note 1 – Basis of preparation

The unaudited condensed consolidated interim financial statements (hereinafter referred to as the interim financial statements) as at and for the six months ended June 30, 2015 should be read in conjunction with the Saskatchewan Telecommunications Holding Corporation's (the Corporation) December 31, 2014 audited consolidated financial statements. The interim financial statements of the Corporation have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. These interim financial statements do not include all of the information required for full annual financial statements.

The interim financial statements as at and for the six-month period ended June 30, 2015 were approved by the Board of Directors on August 13, 2015.

a) Basis of measurement

The interim financial statements have been prepared on the historical cost basis except for the following:

- Fair value through profit and loss financial instruments are measured at fair value, and
- The employee benefit obligations are recognized as the fair value of the plan assets less the present value of the accrued benefit obligation.

b) Functional and presentation currency

These interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

c) Use of estimates and judgments

The preparation of the interim financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the interim financial statements includes the following:

- Use of the straight-line basis of depreciation and amortization,
- Classification of intangible assets – indefinite life, and
- Accounting for government funding.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year includes the following:

- Useful lives and depreciation rates for property plant and equipment,
- Useful lives and amortization rates for intangible assets, and
- The measurement of employee benefit obligations.

Note 2 – Summary of significant accounting policies

The interim financial statements have been prepared in accordance with IFRS. The accounting policies used in the preparation of these interim financial statements conform with those used in the Corporation's most recent annual consolidated financial statements, and have been applied consistently to all periods presented in these interim financial statements.

The accounting policies have been applied consistently by the Corporation and its subsidiaries.

New standards and interpretations not yet adopted
Certain new standards, interpretations and amendments to existing standards were issued by the International Accounting Standards Board or International Financial Reporting Interpretations Committee that are mandatory for annual accounting periods beginning after December 31, 2015.

These include:

- IFRS 9 Financial Instruments was issued, as the final version, in July of 2014. The standard sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. It also has modified the hedge accounting model to better link the economics of risk management with the accounting treatment of hedges. The standard is effective for reporting periods beginning on or after January 1, 2018. The Corporation is currently assessing the impact of the standard.
- IFRS 15 Revenue from Contracts with Customers was issued May 28, 2014. This standard establishes principles to record revenues from contracts for the sale of goods or services, unless the contracts are in the scope of other IFRSs. Under IFRS 15, revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer, applying the following five steps:
  1. Identify the contract with a customer
  2. Identify the performance obligations in the contract
  3. Determine the transaction price
  4. Allocate the transaction price to the performance obligations in the contract
  5. Recognize revenue when (or as) the entity satisfies a performance obligation

  The new standard also provides guidance relating to contract costs and for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets such as property and equipment. Additional disclosures will also be required under the new standard. IFRS 15 must be adopted for annual periods beginning on or after January 1, 2018 using a full retrospective approach for all periods presented in the period of adoption, a modified retrospective approach or a retrospective cumulative effect approach.

  IFRS 15 will affect how the Corporation accounts for revenues from contracts with customers and the related contract costs for wireless operations and other segments. The Corporation is currently evaluating the impact of IFRS 15 on the financial statements.

Note 3 – Revenue and other income

Thousands of dollars	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Services revenue				
Wireless	**$124,354**	$120,636	**$245,187**	$240,364
maxTV, Internet and data services	**82,030**	76,202	**161,549**	151,548
Local and enhanced services	**58,927**	61,067	**117,790**	122,011
Long distance services	**12,280**	13,607	**24,623**	27,146
Equipment	**15,173**	14,633	**27,280**	26,724
Advertising services	**10,402**	10,677	**20,744**	21,354
Security monitoring services	**5,702**	5,780	**11,361**	11,586
International software and consulting services	**2,130**	1,320	**3,668**	3,398
Other services	**7,037**	4,661	**11,765**	8,585
	318,035	308,583	**623,967**	612,716
Other income				
Net loss on retirement or disposal of property, plant and equipment	**(601)**	(614)	**(1,507)**	(1,322)
Amortization of government funding	**1,278**	1,257	**2,573**	2,523
Other	**742**	163	**799**	358
	1,419	806	**1,865**	1,559
	$319,454	$309,389	**$625,832**	$614,275

Note 4 – Net finance expense

Thousands of dollars	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Recognized in consolidated net income				
Interest expense on financial liabilities measured at amortized cost	**$10,356**	$10,064	**$20,784**	$19,963
Interest capitalized	**(1,539)**	(1,540)	**(3,569)**	(3,263)
Net interest expense	**8,817**	8,524	**17,215**	16,700
Net change in fair value of financial assets at fair value through profit or loss	**4,517**	-	**3,078**	-
Net interest on defined benefit liability	**1,428**	1,036	**2,854**	2,072
Finance expense	**14,762**	9,560	**23,147**	18,772
Net change in fair value of financial assets at fair value through profit or loss	**-**	(2,148)	**-**	(4,852)
Interest income on unimpaired financial assets at fair value through profit or loss	**(1,283)**	(1,296)	**(5,144)**	(2,162)
Interest income on loans and receivables	**(333)**	(420)	**(728)**	(857)
Finance income	**(1,616)**	(3,864)	**(5,872)**	(7,871)
Net finance expense	**$13,146**	$5,696	**$17,275**	$10,901
Interest capitalization rate			**4.38%**	4.59%

Note 5 – Property, plant and equipment

Thousands of dollars	Plant and equipment	Buildings and improvements	Office furniture and equipment	Plant under construction	Land	Total
Cost						
Balance at January 1, 2015	**$3,178,774**	**$453,387**	**$155,872**	**$139,989**	**$36,054**	**$3,964,076**
Additions	**14,871**	**167**	**4,667**	**78,022**	**-**	**97,727**
Transfers	**44,294**	**4,289**	**3,572**	**(53,451)**	**1,296**	**-**
Retirements, disposals and adjustments	**(8,206)**	**(550)**	**(514)**	**-**	**-**	**(9,270)**
Balance at June 30, 2015	**$3,229,733**	**$457,293**	**$163,597**	**$164,560**	**$37,350**	**$4,052,533**
Balance at January 1, 2014	$3,014,983	$442,137	$133,872	$148,046	$35,725	$3,774,763
Additions	38,322	104	13,909	176,684	1,014	230,033
Transfers	163,663	12,372	8,345	(184,741)	361	-
Retirements and disposals	(38,194)	(1,226)	(254)	-	(1,046)	(40,720)
Balance at December 31, 2014	$3,178,774	$453,387	$155,872	$139,989	$36,054	$3,964,076
Accumulated depreciation						
Balance at January 1, 2015	**$2,217,911**	**$135,014**	**$99,551**	**$ -**	**$ -**	**$2,452,476**
Depreciation for the period	**71,787**	**5,243**	**10,791**	**-**	**-**	**87,821**
Retirements and disposals	**(6,986)**	**(269)**	**(11)**	**-**	**-**	**(7,266)**
Balance at June 30, 2015	**$2,282,712**	**$139,988**	**$110,331**	**$ -**	**$ -**	**$2,533,031**
Balance at January 1, 2014	$2,118,628	$125,084	$79,586	$ -	$ -	$2,323,298
Depreciation for the year	135,624	10,310	20,305	-	-	166,239
Retirements and disposals	(36,341)	(380)	(340)	-	-	(37,061)
Balance at December 31, 2014	$2,217,911	$135,014	$99,551	$ -	$ -	$2,452,476
Carrying amounts						
At January 1, 2015	**$960,863**	**$318,373**	**$56,321**	**$139,989**	**$36,054**	**$1,511,600**
At June 30, 2015	**$947,021**	**$317,305**	**$53,266**	**$164,560**	**$37,350**	**$1,519,502**
At January 1, 2014	$896,355	$317,053	$54,286	$148,046	$35,725	$1,451,465
At December 31, 2014	$960,863	$318,373	$56,321	$139,989	$36,054	$1,511,600

Effective January 1, 2015 the Corporation adjusted the useful lives of certain assets to coincide with the revised exit dates for the related technologies. The impacts are as follows:

Millions of dollars	2015	2016	2017	2018	2019	2020	2021 and beyond
Depreciation expense increase (decrease)	$6.9	$4.2	$(3.4)	$(5.9)	$(1.6)	$(0.1)	$(0.1)

Note 6 – Intangible assets

Thousands of dollars	Goodwill	Software	Customer accounts	Spectrum licenses	Under development	Total
Cost						
Balance at January 1, 2015	**$5,976**	**$244,282**	**$85,865**	**$73,538**	**$55,933**	**$465,594**
Acquisitions	**-**	**1,872**	**2,896**	**-**	**6,121**	**10,889**
Acquisitions – internally developed	**-**	**802**	**-**	**-**	**3,406**	**4,208**
Transfers	**-**	**47,403**	**-**	**-**	**(47,403)**	**-**
Balance at June 30, 2015	**$5,976**	**$294,359**	**$88,761**	**$73,538**	**$18,057**	**$480,691**
Balance at January 1, 2014	$5,976	$189,508	$81,024	$65,981	$76,795	$419,284
Acquisitions	-	5,610	4,841	7,557	23,945	41,953
Acquisitions – internally developed	-	1,325	-	-	9,360	10,685
Transfers	-	52,167	-	-	(52,167)	-
Retirements, disposals and adjustments	-	(4,328)	-	-	(2,000)	(6,328)
Balance at December 31, 2014	$5,976	$244,282	$85,865	$73,538	$55,933	$465,594
Accumulated amortization						
Balance at January 1, 2015	**$ -**	**$143,461**	**$52,831**	**$ -**	**$ -**	**$196,292**
Amortization for the period	**-**	**15,181**	**2,915**	**-**	**-**	**18,096**
Adjustments	**-**	**10**	**-**	**-**	**-**	**10**
Balance at June 30, 2015	**$ -**	**$158,652**	**$55,746**	**$ -**	**$ -**	**$214,398**
Balance at January 1, 2014	$ -	$111,633	$47,450	$ -	$ -	$159,083
Amortization for the year	-	33,482	5,381	-	-	38,863
Impairment losses	-	2,622	-	-	-	2,622
Retirements and disposals	-	(4,276)	-	-	-	(4,276)
Balance at December 31, 2014	$ -	$143,461	$52,831	$ -	$ -	$196,292
Carrying amounts						
At January 1, 2015	**$5,976**	**$100,821**	**$33,034**	**$73,538**	**$55,933**	**$269,302**
At June 30, 2015	**$5,976**	**$135,707**	**$33,015**	**$73,538**	**$18,057**	**$266,293**
At January 1, 2014	$5,976	$77,875	$33,574	$65,981	$76,795	$260,201
At December 31, 2014	$5,976	$100,821	$33,034	$73,538	$55,933	$269,302

Effective January 1, 2015 the Corporation adjusted the useful lives of certain assets to coincide with the revised expected useful lives. The impacts are as follows:

Millions of dollars	2015	2016	2017	2018	2019	2020	2021 and beyond
Amortization expense increase (decrease)	$(8.4)	$(7.8)	$(4.4)	$(1.0)	$4.4	$9.4	$7.8

Note 7 – Employee benefit obligations

Other comprehensive income results from changes to actuarial assumptions related to the assets and liabilities of the Corporation's employee benefit plans, specifically the discount rate used to calculate the liabilities of the employee defined benefit plan and changes in the fair value of the employee benefit defined plan assets resulting from differences in the actual versus estimated return on these assets. The discount rates used are as follows:

	2015	2014
March 31	**3.30%**	4.20%
June 30	**3.60%**	4.00%
September 30	**n/a**	3.70%
December 31	**n/a**	3.80%

In addition to the other comprehensive income impact detailed below, these assumption changes, combined with pension income and benefits paid for the period, have resulted in a net decrease in the employee benefit obligations for the period.

	Six months ended June 30,	
Thousands of dollars	**2015**	2014
Actuarial loss on accrued benefit obligation	**$(27,222)**	$(71,079)
Actuarial gain on plan assets	**54,884**	36,764
Actuarial gain (loss) on employee benefit plans	**$27,662**	$(34,315)

Note 8 – Capital management

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

Due to its ownership structure, the Corporation has no access to capital markets for internal equity. Equity advances in the Corporation are determined by the shareholder on an annual basis. Dividends to CIC are determined through the Saskatchewan Provincial budget process on an annual basis.

The Corporation closely monitors its debt level utilizing the debt ratio as a primary indicator of financial health. The debt ratio measures the amount of debt in a corporation's capital structure. The Corporation uses this measure in assessing the extent of financial leverage and in turn, its financial flexibility. Too high a ratio relative to target indicates an excessive debt burden that may impair the Corporation's ability to withstand downturns in revenues and still meet fixed payment obligations. The ratio is calculated as net debt divided by capitalization at the end of the period.

The Corporation reviews the debt ratio targets of all its subsidiaries on an annual basis to ensure consistency with industry standards. This review includes subsidiary corporations' plans for capital spending. The target debt ratios for subsidiaries are approved by their Boards. The Corporation uses targeted debt ratios to compile a weighted average debt to equity ratio for the consolidated entity. The budgeted ratio for 2015 is 53.2%.

The Corporation raises most of its capital requirements through internal operating activities and long-term debt through the Saskatchewan Ministry of Finance. This type of borrowing allows the Corporation to take advantage of the Province of Saskatchewan's strong credit rating and receive financing at attractive interest rates.

The Corporation made no changes to its approach to capital management during the period.

The Corporation is not subject to any externally imposed capital requirements.

Note 8 – Capital management, continued

The debt ratio is as follows:

As at Thousands of dollars	June 30, 2015	December 31, 2014
Long-term debt	**$776,965**	$776,780
Short-term debt	**150,945**	143,298
Less: Sinking funds	**119,237**	112,571
Cash	**14,039**	8,948
Net debt	**794,634**	798,559
Equity (a)	**774,445**	713,022
Capitalization	**$1,569,079**	$1,511,581
Debt ratio	**50.6%**	52.8%

a) Equity includes equity advances, accumulated other comprehensive income (loss) and retained earnings at the end of the period.

Note 9 – Additional financial information

a) Statement of Financial Position

As at Thousands of dollars	June 30, 2015	December 31, 2014
Trade and other receivables		
Customer accounts receivable	**$89,144**	$81,390
Accrued receivables - customer	**3,806**	4,434
Allowance for doubtful accounts	**(2,405)**	(1,716)
	90,545	84,108
High cost serving area subsidy	**3,295**	2,784
Other	**30,532**	30,040
	$124,372	$116,932
Inventories		
Inventories for resale	**$17,419**	$12,590
Materials and supplies	**3,659**	3,206
	$21,078	$15,796

Note 9 – Additional financial information

a) Statement of Financial Position, continued

As at Thousands of dollars	**June 30, 2015**	December 31, 2014
Prepaid expenses		
Prepaid expenses	**$30,229**	$19,346
Deferred service connection charges	**3,979**	4,239
Short-term prepaid customer incentives	**1,790**	1,965
	$35,998	$25,550
Trade and other payables		
Trade accounts payable and accrued liabilities	**$103,834**	$122,415
Payroll and other employee-related liabilities	**35,830**	36,149
Other	**10,467**	6,833
	$150,131	$165,397
Other liabilities		
Advance billings	**$55,277**	$49,375
Deferred customer activation and connection fees	**4,943**	5,206
Current portion of deferred income - government funding	**5,101**	5,030
Customer deposits	**6,881**	7,032
	$72,202	$66,643

b) Supplementary cash flow information

Thousands of dollars	Six months ended June 30, **2015**	2014
Net change in non-cash working capital balances related to operations		
Trade and other receivables	**$(7,440)**	$(13,839)
Inventories	**(5,282)**	2,271
Prepaid expenses	**(10,448)**	(7,933)
Trade and other payables	**(15,266)**	(25,284)
Other liabilities	**5,559**	7,937
Deferred revenue	**(748)**	(391)
Other	**(338)**	1,025
	$(33,963)	$(36,214)

Note 10 – Financial risk management

The Corporation is exposed to fluctuations in foreign exchange rates and interest rates, as well as credit and liquidity risk. The Corporation utilizes a number of financial instruments to manage these exposures. The Corporation mitigates the risk associated with these financial instruments through Board-approved policies, limits on use and amount of exposure, internal monitoring, and compliance reporting to senior management and the Board.

Fair values are approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

As at		**June 30, 2015**		December 31, 2014	
Thousands of dollars	Classification (a)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets					
Investments - sinking funds	FVTPL	**$119,237**	**$119,237**	$112,571	$112,571
Financial liabilities					
Long-term debt	OL	**$776,965**	**$937,787**	$776,780	$934,704

(a) Classification details are:
FVTPL - fair value through profit or loss OL - other liabilities

a) Fair value hierarchy

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, trade and other receivables, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.
Level 3 – Where valuation is based on unobservable inputs.

There were no items measured at fair value using level 3 during 2014 or 2015 and no items transferred between levels in 2014 or 2015.

Note 10 – Financial risk management, continued

As at Thousands of dollars	**June 30, 2015** **Level 2**	 **Total**	December 31, 2014 Level 2	 Total
Sinking funds	**$119,237**	**$119,237**	$112,571	$112,571
Long-term debt	**$937,787**	**$937,787**	$934,704	$934,704

Investments carried at fair value through profit or loss
Investments carried at fair value through profit and loss and categorized as level 2 in the hierarchy include sinking funds.

The fair value of sinking funds is determined by the Saskatchewan Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect secondary pricing for these securities.

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