SaskTel

Second Quarter Report

Contents:

Saskatchewan Telecommunications Holding Corporation

Second Quarter Report 2016/17

For the Period Ending September 30, 2016

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 3,900 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

Millions of dollars	Three months ended September 30,				Six months ended September 30,			
	2016	2015	Change	% Change	**2016**	2015	Change	% Change
Revenue	**$316.2**	$314.2	$2.0	0.6	**$625.7**	$631.6	$(5.9)	(0.9)
Other income	**1.2**	1.8	(0.6)	(33.3)	**3.0**	3.2	(0.2)	(6.3)
	317.4	316.0	1.4	0.4	**628.7**	634.8	(6.1)	(1.0)
Expenses	**274.5**	269.8	4.7	1.7	**545.6**	548.1	(2.5)	(0.5)
Results from operating activities	**42.9**	46.2	(3.3)	(7.1)	**83.1**	86.7	(3.6)	(4.2)
Net finance expense	**6.8**	9.9	(3.1)	(31.3)	**11.1**	22.3	(11.2)	(50.2)
Net income	**$36.1**	$36.3	$(0.2)	(0.6)	**$72.0**	$64.4	$7.6	11.8

Net income for the six months ended September 30, 2016 is $72.0 million, up $7.6 million (11.8%) from the same period in 2015/16. Revenues decreased to $625.7 million, down $5.9 million (0.9%) from the same period in 2015/16 primarily due to decreased wireline access, long distance and equipment sales partially offset by increased Internet, wireless, managed and emerging services and *maxTV* entertainment revenues.

Expenses for the six months ended September 30, 2016 decreased to $545.6 million, down $2.5 million from the same period in 2015/16. This decrease is primarily driven by decreased depreciation and amortization of $1.3 million due to changes in the estimated useful lives of certain assets, as well as decreased goods and services purchased and direct expenses partially offset by increased salaries, wages and benefits and customer acquisition costs. Net finance expense was $11.1 million, down $11.2 million over the same period in 2015/16, primarily driven by increases in the fair value of sinking funds.

Management Discussion and Analysis

November 3, 2016

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the second quarter 2016/17. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the fiscal period ended March 31, 2016. 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 2015/16 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 November 3, 2016.

Results of Operations

Revenue

	2016	2015	Change	%
Three months ended September 30	**$316.2**	$314.2	$2.0	0.6
Six months ended September 30	**$625.7**	$631.6	$(5.9)	(0.9)

Revenues for the second quarter were $316.2 million, up $2.0 million from the same period in 2015/16. Year-to-date revenues were $625.7 million which represents a $5.9 million decrease from 2015/16. This decrease is primarily driven by; 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 and decreased equipment sales, partially offset by growth in Internet subscribers and increased revenue per subscriber, increased subscriber growth of the wireless customer base and increased revenue per customer, increased wireless wholesale revenue, increased managed and emerging services revenue from increased accesses, and *maxTV* entertainment services due to increased number of customers.

Expenses

Millions of dollars	**2016**	2015	Change	%
Three months ended September 30	**$274.5**	$269.8	$4.7	1.7
Six months ended September 30	**$545.6**	$548.1	$(2.5)	(0.5)

Expenses for the second quarter of 2016/17 increased to $274.5 million, up $4.7 million from the same period in 2015/16. Year-to-date expenses of $545.6 million were $2.5 million lower than the same period in 2015/16 due to a decrease in depreciation and amortization, and goods and services purchased, partially offset by increased net salaries and customer acquisition costs. Depreciation and amortization decreased largely due to changes in the estimated useful lives of certain assets. Goods and services purchased decreased due to improved contract management, reduced maintenance and support due to exit of legacy wireless billing system, lower satellite internet expense from product exit, lower *maxTV* direct costs from pay-per-view events and lower roaming rates in 2016 as a result of CRTC decision on mandatory roaming rates that did not impact financials until August 2015. Net salaries, wages and benefits increased as a result of economic increases partially offset by reduced capitalized internal labour due to the completion of the new wireless billing system. Customer acquisition costs increased as a result of higher device subsidies and increased units subsidized.

Net finance expense

Millions of dollars	**2016**	2015	Change	%
Three months ended September 30	**$6.8**	$9.9	$(3.1)	(31.3)
Six months ended September 30	**$11.1**	$22.3	$(11.2)	(50.2)

Net finance expense for the second quarter of 2016/17 was $6.8 million, down $3.1 million over the same period in 2015/16. Year-to-date net finance expense decreased to $11.1 million from $22.3 million in 2015/16. This is driven primarily by sinking fund fair value gains in 2016/17 compared to losses in the same period in 2015/16.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	**2016**	2015	Change	%
Six months ended September 30	**$146.6**	$176.9	$(30.3)	(17.1)

Cash provided by operating activities for the six months ended September 30, 2016 was down $30.3 million compared to the same period in 2015/16 due to the impact of non-cash adjustments to net income, primarily sinking fund gains, and increased working capital requirements.

Cash used in investing activities

Millions of dollars	**2016**	2015	Change	%
Six months ended September 30	**$135.5**	$162.1	$(26.6)	(16.4)

Cash used in investing activities in the six months ended September 30, 2016 decreased to $135.5 million, down $26.6 million from the same period in 2015/16 primarily due to the purchase of 700 megahertz spectrum in 2015/16 and planned spending reductions on software in 2016/17 partially offset by increased data centre functionality and infrastructure spending as well as acquisition of customer accounts.

Capital Spending

Total capital expenditures for the first six months of 2016/17 were $139.1 million, down $23.6 million from the same period in 2015/16.

SaskTel's net spending on property, plant and equipment for the first six months of 2016/17 was $117.2 million, up $5.6 million from the same period in 2015/16 primarily due to increased spending on data centre functionality and the Mosaic Stadium infrastructure project partially offset by planned spending reductions on Fibre to the Premises (FTTP) and demand access services. SaskTel's net spending on intangible assets was $22.0 million, down $29.2 million from the same period in 2015/16 primarily due to the 2015/16 purchase of 700 megahertz spectrum (MHz) partially offset by increased spending on software and the acquisition of security monitoring customer accounts.

Capital expenditures in 2016/17 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	**2016**	2015	Change	%
Six months ended September 30	**$19.2**	$12.0	$7.2	60.0

Cash used in financing activities in the six months ended September 30, 2016 was $19.2 million compared to $12.0 million for the same period in 2015/16. This is primarily due to reduced net borrowing compared to 2015/16.

Liquidity and capital resource ratios

Debt ratio

	September 30, 2016	March 31, 2016
Debt ratio	**50.6%**	51.9%

The debt ratio decreased to 50.6%, down from 51.9% at March 31, 2016. The overall level of net debt decreased $2.7 million during the period due to increased sinking funds partially offset by reduced cash balances.

Equity increased by $40.5 million to the end of the second quarter of 2016/17 after recording net income of $72.0 million, other comprehensive loss of $16.5 million related to actuarial losses in the employee defined benefit plan and dividends of $15.0 million which are in line with the 2015/16.

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.

2016/17 Outlook

The 2015/16 SaskTel Annual Report identified a consolidated net income target for the fiscal year ending March 31, 2017 of $104.2 million. At this time SaskTel believes that it will exceed this target.

Risk Assessment

The 2015/16 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, broadband, transformation, and profitability. The Core Business Risks focus on risks associated with the execution of SaskTel's business functions including the following areas: operational, financial 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 September 30, 2016.

Condensed Consolidated Interim Statement of Income and Other Comprehensive Income

		(Unaudited)			
		Three months ended September 30,		Six months ended September 30,	
Thousands of dollars	Note	**2016**	2015	**2016**	2015
Revenue	3	**$316,181**	$314,214	**$625,708**	$631,588
Other income	3	**1,171**	1,803	**2,998**	3,222
		317,352	316,017	**628,706**	634,810
Expenses					
Goods and services purchased		**139,865**	137,082	**270,287**	273,434
Salaries, wages and benefits		**91,720**	89,425	**186,951**	182,959
Depreciation	5	**39,439**	41,685	**81,566**	85,700
Amortization	6	**9,529**	6,700	**19,333**	16,494
Internal labour capitalized		**(6,047)**	(5,116)	**(12,500)**	(10,442)
		274,506	269,776	**545,637**	548,145
Results from operating activities		**42,846**	46,241	**83,069**	86,665
Net finance expense	4	**6,761**	9,861	**11,071**	22,346
Net income		**36,085**	36,380	**71,998**	64,319
Other comprehensive income (loss)					
Items that will never be reclassified to net income					
Net actuarial gains (losses) on defined benefit pension plan	7	**(5,096)**	(10,797)	**(16,462)**	22,670
Total comprehensive income		**$30,989**	$25,583	**$55,536**	$86,989

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 April 1, 2016	**$250,000**	**$(55,035)**	**$601,379**	**$796,344**
Net income	**-**	**-**	**71,998**	**71,998**
Other comprehensive loss	**-**	**(16,462)**	**-**	**(16,462)**
Total comprehensive income for the period	-	**(16,462)**	**71,998**	**55,536**
Dividends declared	**-**	**-**	**15,000**	**15,000**
Balance at September 30, 2016	**$250,000**	**$(71,497)**	**$658,377**	**$836,880**
Balance at April 1, 2015	$250,000	$(54,954)	$525,493	$720,539
Net income	-	-	64,319	64,319
Other comprehensive income	-	22,670	-	22,670
Total comprehensive income for the period	-	22,670	64,319	86,989
Dividends declared	-	-	15,000	15,000
Balance at September 30, 2015	$250,000	$(32,284)	$574,812	$792,528

See Accompanying Notes

Condensed Consolidated Interim Statement of Financial Position

As at Thousands of dollars	Note	(Unaudited) September 30, 2016	March 31, 2016
Assets			
Current assets			
Cash		**$7,943**	$16,099
Trade and other receivables	9a	**141,989**	132,788
Inventories	9a	**21,734**	24,627
Prepaid expenses	9a	**44,077**	45,336
		215,743	218,850
Property, plant and equipment	5	**1,627,244**	1,594,338
Intangible assets	6	**303,424**	301,054
Sinking funds		**141,309**	129,497
Other assets		**8,299**	9,322
		$2,296,019	$2,253,061
Liabilities and Province's equity			
Current liabilities			
Trade and other payables	9a	**$140,623**	$158,190
Dividend payable		**7,500**	7,500
Notes payable		**229,996**	229,231
Other liabilities	9a	**67,342**	68,126
		445,461	463,047
Deferred revenue		**9,576**	10,417
Deferred income – government funding		**39,991**	38,117
Long-term debt		**777,456**	777,256
Employee benefit obligations	7	**186,655**	167,880
		1,459,139	1,456,717
Province of Saskatchewan's equity			
Equity advance		**250,000**	250,000
Accumulated other comprehensive loss		**(71,497)**	(55,035)
Retained earnings		**658,377**	601,379
		836,880	796,344
		$2,296,019	$2,253,061

See Accompanying Notes

Condensed Consolidated Interim Statement of Cash Flows

		(Unaudited)	
		Six months ended September 30,	
Thousands of dollars	Note	**2016**	2015
Operating activities			
Net income		**$71,998**	$64,319
Adjustments to reconcile net income to cash provided			
by operations			
Depreciation and amortization		**100,899**	102,194
Net financing expense	4	**11,071**	22,346
Interest paid		**(20,633)**	(20,357)
Interest received		**2,998**	2,370
Amortization of government funding	3	**(2,534)**	(2,619)
Other		**3,344**	3,018
Net change in non-cash working capital	9b	**(20,524)**	5,652
		146,619	176,923
Investing activities			
Property, plant and equipment expenditures		**(117,759)**	(109,731)
Intangible assets expenditures		**(19,459)**	(52,351)
Government funding		**1,678**	-
		(135,540)	(162,082)
Financing activities			
Net proceeds (repayment) of notes payable		**765**	7,984
Sinking fund installments		**(5,000)**	(5,000)
Dividends paid		**(15,000)**	(15,000)
		(19,235)	(12,016)
Increase (decrease) in cash		**(8,156)**	2,825
Cash, beginning of period		**16,099**	10,046
Cash, end of period		**$7,943**	$12,871

See Accompanying Notes

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 September 30, 2016 should be read in conjunction with the Saskatchewan Telecommunications Holding Corporation's (the Corporation) March 31, 2016 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 September 30, 2016 were approved by the Board of Directors on November 3, 2016.

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.

Application of revised International Financial Reporting Standards
The following new standards, and amendments to standards, effective for fiscal periods beginning on or after January 1, 2016, have been applied in preparing these financial statements:

Standard	Description	Impact
Amendments to IAS 1, Presentation of financial statements	Issued to improve the effectiveness of presentation and disclosure in financial reports, with the objective of reducing immaterial disclosures.	The adoption of these amendments has had no material impact on the financial statements.
Amendments to IAS 16, Property, plant and equipment and IAS 38, Intangible assets	Issued to clarify acceptable methods of depreciation and amortization.	The adoption of these amendments has had no material impact on the financial statements.
Amendments to IFRS 11, Joint arrangements	Issued to provide additional guidance on accounting for the acquisition of an interest in a joint operation.	The adoption of these amendments has had no material impact on the financial statements.

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. These include:

Standard	Description	Impact	Effective Date
Amendments to IAS 7, Statement of cash flows	Issued to require a reconciliation of the opening and closing liabilities that form part of an entity's financing activities, including both changes arising from cash flows and non-cash changes.	The Corporation is currently evaluating the impact of these amendments on the financial statements, but does not anticipate a significant impact on operations from adoption.	Fiscal years beginning on or after January 1, 2017, applied prospectively.
IFRS 9 Financial instruments	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.	IFRS 9 may affect the classification, measurement and valuation of certain assets and liabilities. The Corporation is currently evaluating the impact of IFRS 9 on the financial statements.	Fiscal years beginning on or after January 1, 2018, applied retrospectively with certain exceptions. Early adoption is permitted.

Note 2 – Basis of presentation, continued

Standard	Description	Impact	Effective Date
IFRS 15 Revenue from contracts with customers	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 non-financial assets such as property and equipment. Additional disclosures will also be required under the new standard.	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.	Fiscal years beginning on or after January 1, 2018, applied retrospectively with certain practical expedients available. Early adoption is permitted.
IFRS 16 Leases	Under the new standard all leases will be brought onto companies' balance sheets. IFRS 16 also removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases.	IFRS 16 may affect the classification, measurement and valuation of leases. The Corporation is currently evaluating the impact of IFRS 16 on the financial statements.	Fiscal years beginning on or after January 1, 2019, applied retrospectively with certain practical expedients available. Early adoption is permitted.

Note 3 – Revenue and other income

	Three months ended September 30,		Six months ended September 30,	
Thousands of dollars	**2016**	2015	**2016**	2015
Services revenue				
Wireless	**$127,939**	$122,990	**$250,567**	$247,302
maxTV , Internet and data services	**83,955**	80,327	**167,210**	162,357
Local and enhanced services	**54,069**	58,823	**109,456**	117,750
Long distance services	**10,509**	11,872	**21,540**	24,152
Equipment	**15,734**	17,194	**29,394**	32,367
Advertising services	**9,425**	10,068	**19,169**	20,470
Security monitoring services	**6,094**	5,785	**11,855**	11,487
International software and consulting services	**1,827**	2,075	**3,341**	4,205
Other services	**6,629**	5,080	**13,176**	11,498
	316,181	314,214	**625,708**	631,588
Other income				
Net loss on retirement or disposal of property, plant and equipment	**(1,427)**	(150)	**(1,911)**	(751)
Amortization of government funding	**1,270**	1,341	**2,534**	2,619
Other	**1,328**	612	**2,375**	1,354
	1,171	1,803	**2,998**	3,222
	$317,352	$316,017	**$628,706**	$634,810

Note 4 – Net finance expense

Thousands of dollars	Three months ended September 30, 2016	2015	Six months ended September 30, 2016	2015
Recognized in consolidated net income				
Interest expense on financial liabilities measured at amortized cost	**$10,351**	$10,326	**$20,786**	$20,682
Interest capitalized	**(1,470)**	(1,382)	**(2,879)**	(2,921)
Net interest expense	**8,881**	8,944	**17,907**	17,761
Net change in fair value of financial assets at fair value through profit or loss	**-**	1,848	**-**	6,365
Net interest on defined benefit liability	**1,486**	1,426	**2,973**	2,854
Finance expense	**10,367**	12,218	**20,880**	26,980
Net change in fair value of financial assets at fair value through profit or loss	**(1,283)**	-	**(5,276)**	-
Interest income on unimpaired financial assets at fair value through profit or loss	**(750)**	(983)	**(1,535)**	(2,266)
Interest income on loans and receivables	**(1,573)**	(1,374)	**(2,998)**	(2,368)
Finance income	**(3,606)**	(2,357)	**(9,809)**	(4,634)
Net finance expense	**$6,761**	$9,861	**$11,071**	$22,346
Interest capitalization rate			**4.06%**	4.38%

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 April 1, 2016	**$3,384,440**	**$470,908**	**$157,951**	**$148,707**	**$37,507**	**$4,199,513**
Additions	**28,029**	**133**	**2,862**	**86,118**	**8**	**117,150**
Transfers	**44,253**	**2,264**	**2,025**	**(48,542)**	**-**	**-**
Retirements and disposals	**(36,646)**	**(77)**	**(603)**	**-**	**(14)**	**(37,340)**
Balance at September 30, 2016	**$3,420,076**	**$473,228**	**$162,235**	**$186,283**	**$37,501**	**$4,279,323**
Balance at April 1, 2015	$3,188,994	$456,894	$161,269	$157,080	$37,330	$4,001,567
Additions	55,088	301	19,609	183,135	-	258,133
Transfers	171,075	16,060	4,180	(191,508)	193	-
Retirements and disposals	(30,717)	(2,347)	(27,107)	-	(16)	(60,187)
Balance at March 31, 2016	$3,384,440	$470,908	$157,951	$148,707	$37,507	$4,199,513
Accumulated depreciation						
Balance at April 1, 2016	**$2,359,252**	**$146,716**	**$99,207**	**$ -**	**$ -**	**$2,605,175**
Depreciation for the period	**65,625**	**5,422**	**10,519**	**-**	**-**	**81,566**
Retirements and disposals	**(33,656)**	**(82)**	**(924)**	**-**	**-**	**(34,662)**
Balance at September 30, 2016	**$2,391,221**	**$152,056**	**$108,802**	**$ -**	**$ -**	**$2,652,079**
Balance at April 1, 2015	$2,249,645	$137,519	$104,810	$ -	$ -	$2,491,974
Depreciation for the year	135,372	10,703	21,529	-	-	167,604
Retirements and disposals	(25,765)	(1,506)	(27,132)	-	-	(54,403)
Balance at March 31, 2016	$2,359,252	$146,716	$99,207	$ -	$ -	$2,605,175
Carrying amounts						
At April 1, 2016	**$1,025,188**	**$324,192**	**$58,744**	**$148,707**	**$37,507**	**$1,594,338**
At September 30, 2016	**$1,028,855**	**$321,172**	**$53,433**	**$186,283**	**$37,501**	**$1,627,244**
At April 1, 2015	$939,349	$319,375	$56,459	$157,080	$37,330	$1,509,593
At March 31, 2016	$1,025,188	$324,192	$58,744	$148,707	$37,507	$1,594,338

Effective July 1, 2016 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:

	Fiscal year ending March 31,					
Millions of dollars	2017	2018	2019	2020	2021	2022 and beyond
Depreciation expense increase (decrease)	$(9.2)	$(6.5)	$(5.6)	$(1.9)	$14.3	$8.9

Note 6 – Intangible assets

Thousands of dollars	Goodwill	Software	Customer accounts	Spectrum licenses	Under development	Total
Cost						
Balance at April 1, 2016	**$5,976**	**$324,737**	**$92,035**	**$108,738**	**$7,180**	**$538,666**
Acquisitions	**-**	**5,099**	**7,022**	**-**	**7,888**	**20,009**
Acquisitions – internally developed	**-**	**1,095**	**-**	**-**	**864**	**1,959**
Transfers	**-**	**1,206**	**-**	**-**	**(1,206)**	**-**
Balance at September 30, 2016	**$5,976**	**$332,137**	**$99,057**	**$108,738**	**$14,726**	**$560,634**
Balance at April 1, 2015	$5,976	$287,233	$87,102	$73,538	$17,934	$471,783
Acquisitions	-	7,106	4,933	35,200	8,662	55,901
Acquisitions – internally developed	-	1,858	-	-	12,837	14,695
Transfers	-	32,253	-	-	(32,253)	-
Retirements and disposals	-	(3,713)	-	-	-	(3,713)
Balance at March 31, 2016	$5,976	$324,737	$92,035	$108,738	$7,180	$538,666
Accumulated amortization						
Balance at April 1, 2016	**$ -**	**$177,381**	**$60,231**	**$ -**	**$ -**	**$237,612**
Amortization for the period	**-**	**16,209**	**3,124**	**-**	**-**	**19,333**
Retirements, disposals and adjustments	**-**	**265**	**-**	**-**	**-**	**265**
Balance at September 30, 2016	**$ -**	**$193,855**	**$63,355**	**$ -**	**$ -**	**$257,210**
Balance at April 1, 2015	$ -	$150,326	$54,278	$ -	$ -	$204,604
Amortization for the year	-	31,339	5,953	-	-	37,292
Impairment losses	-	(2,000)	-	-	-	(2,000)
Retirements and disposals	-	(2,284)	-	-	-	(2,284)
Balance at March 31, 2016	$ -	$177,381	$60,231	$ -	$ -	$237,612
Carrying amounts						
At April 1, 2016	**$5,976**	**$147,356**	**$31,804**	**$108,738**	**$7,180**	**$301,054**
At September 30, 2016	**$5,976**	**$138,282**	**$35,702**	**$108,738**	**$14,726**	**$303,424**
At April 1, 2015	$5,976	$136,907	$32,824	$73,538	$17,934	$267,179
At March 31, 2016	$5,976	$147,356	$31,804	$108,738	$7,180	$301,054

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:

	2016/17	2015/16
June 30	**3.50%**	3.60%
September 30	**3.10%**	3.80%
December 31	**n/a**	3.90%
March 31	**n/a**	3.60%

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 increase in the employee benefit obligations for the period.

	Six months ended September 30,	
Thousands of dollars	**2016**	2015
Actuarial gain (loss) on accrued benefit obligation	**$(68,799)**	$70,951
Actuarial gain on plan assets	**52,337**	(48,281)
Actuarial gain (loss) on employee benefit plans	**$(16,462)**	$22,670

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 2016/17 is 50.8%.

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	**September 30, 2016**	March 31, 2016
Long-term debt	**$777,456**	$777,256
Short-term debt	**229,996**	229,231
Less: Sinking funds	**141,309**	129,497
Cash	**7,943**	16,099
Net debt	**858,200**	860,891
Equity (a)	**836,880**	796,344
Capitalization	**$1,695,080**	$1,657,235
Debt ratio	**50.6%**	51.9%

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	**September 30, 2016**	March 31, 2016
Trade and other receivables		
Customer accounts receivable	**$93,583**	$86,279
Accrued receivables - customer	**3,355**	2,215
Allowance for doubtful accounts	**(2,000)**	(2,227)
	94,938	86,267
High cost serving area subsidy	**2,241**	2,708
Other	**44,810**	43,813
	$141,989	$132,788
Inventories		
Inventories for resale	**$16,568**	$21,822
Materials and supplies	**5,166**	2,805
	$21,734	$24,627

Note 9 – Additional financial information

a) Statement of Financial Position, continued

As at Thousands of dollars	**September 30, 2016**	March 31, 2016
Prepaid expenses		
Prepaid expenses	**$36,209**	$37,913
Deferred service connection charges	**3,640**	3,940
Short-term prepaid customer incentives	**4,228**	3,483
	$44,077	$45,336
Trade and other payables		
Trade accounts payable and accrued liabilities	**$100,783**	$116,237
Payroll and other employee-related liabilities	**30,361**	31,490
Other	**9,479**	10,463
	$140,623	$158,190
Other liabilities		
Advance billings	**$53,234**	$53,538
Deferred customer activation and connection fees	**4,592**	4,892
Current portion of deferred income - government funding	**5,068**	5,069
Customer deposits	**4,448**	4,627
	$67,342	$68,126

b) Supplementary cash flow information

	Six months ended September 30,	
Thousands of dollars	**2016**	2015
Net change in non-cash working capital balances related to operations		
Trade and other receivables	**$(6,472)**	$(7,841)
Inventories	**2,893**	(4,504)
Prepaid expenses	**1,259**	6,794
Trade and other payables	**(17,567)**	12,397
Other liabilities	**(784)**	(1,860)
Deferred revenue	**(841)**	(357)
Other	**988**	1,023
	$(20,524)	$5,652

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. The Corporation's financial risks have not changed significantly from the prior period.

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		**September 30, 2016**		March 31, 2016	
Thousands of dollars	Classification (a)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets					
Investments - sinking funds	FVTPL	**$141,309**	**$141,309**	$129,497	$129,497
Financial liabilities					
Long-term debt	OL	**$777,456**	**$954,715**	$777,256	$923,203

(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 2015/16 or 2016/17 and no items transferred between levels in 2015/16 or 2016/17.

As at	**September 30, 2016**		March 31, 2016	
Thousands of dollars	**Level 2**	**Total**	Level 2	Total
Sinking funds	**$141,309**	**$141,309**	$129,497	$129,497
Long-term debt	**$954,715**	**$954,715**	$923,203	$923,203

Note 10 – Financial risk management, continued

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.

Note 11 – Comparative figures

Certain of the 2015/16 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current fiscal period.