# Third Quarter Report

Contents:



Saskatchewan Telecommunications Holding Corporation

Third Quarter Report 2015

For the Period Ending September 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 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

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| Millions of dollars | **2015** | 2014 | Change | % Change | **2015** | 2014 | Change | % Change |
| Revenue | **$315.2** | $306.4 | $8.8 | 2.9 | **$939.2** | $919.1 | $20.1 | 2.2 |
| Other income | **1.8** | 1.3 | 0.5 | 38.5 | **3.7** | 2.8 | 0.9 | 32.1 |
| | **317.0** | 307.7 | 9.3 | 3.0 | **942.9** | 921.9 | 21.0 | 2.3 |
| Expenses | **269.8** | 277.9 | (8.1) | (2.9) | **829.6** | 832.0 | (2.4) | (0.3) |
| Results from operating activities | **47.2** | 29.8 | 17.4 | 58.4 | **113.3** | 89.9 | 23.4 | 26.0 |
| Net finance expense | **10.9** | 7.0 | 3.9 | 55.7 | **28.2** | 17.9 | 10.3 | 57.5 |
| Net income | **$36.3** | $22.8 | $13.5 | 59.2 | **$85.1** | $72.0 | $13.1 | 18.2 |

Net income for the nine months ended September 30, 2015 is $85.1 million, up $13.1 million (18.2%) from the same period in 2014. Revenues increased to $939.2 million, up $20.1 million (2.2%) 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 nine months ended September 30, 2015 decreased to $829.6 million, down $2.4 million from the same period in 2014. This decrease is primarily driven by reduced spending on contracted services partially offset by increased direct expenses and salaries, wages and benefits. Depreciation and amortization has increased $2.2 million primarily due to increased plant in service.

Net finance expense was $28.2 million, up $10.3 million over the same period in 2014. This is primarily driven by decreases in the fair value of sinking funds versus increases in the same period in 2014.

# Management's Discussion and Analysis

**November 5, 2015**

## Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the third 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 refer to 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 November 5, 2015.

## Results of Operations

### Revenue

| Millions of dollars | **2015** | 2014 | Change | % |
|---|---|---|---|---|
| Three months ended September 30, | **$315.2** | $306.4 | $8.8 | 2.9 |
| Year-to-date | **$939.2** | $919.1 | $20.1 | 2.2 |

Revenues for the third quarter were $315.2 million, up $8.8 million from the same period in 2014. Year-to-date revenues were $939.2 million which represents a $20.1 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, *maxTV* entertainment services due to increased number of customers and increased revenue per customer; and increased equipment sales primarily related to wireless devices. These are partially offset by decreased wireless wholesale revenues due to less revenue 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 September 30, | **$269.8** | $277.9 | $(8.1) | (2.9) |
| Year-to-date | **$829.6** | $832.0 | $(2.4) | (0.3) |

Expenses for the third quarter of 2015 decreased to $269.8 million, down $8.1 million from the same period in 2014. Year-to-date expenses of $829.6 million were $2.4 million lower than the same period in 2014 primarily due to a decrease of $6.4 million in contracted services as a result of spending constraint and $3.7 million on materials as a result of reduced spending on projects, partially offset by increased net salaries, wages and benefits resulting from reduced internal labour capitalized and direct expenses resulting from increased cost of sales and roaming costs. Depreciation and amortization has increased $2.2 million largely due to increased plant in service, primarily 4G and Long Term Evolution (LTE) transmission assets.

## Net finance expense

| Millions of dollars | **2015** | 2014 | Change | % |
|---|---|---|---|---|
| Three months ended September 30, | **$10.9** | $7.0 | $3.9 | 55.7 |
| Year-to-date | **$28.2** | $17.9 | $10.3 | 57.5 |

Net finance expense for the third quarter of 2015 was $10.9 million, up $3.9 million over the same period in 2014. Year-to-date net finance expense increased to $28.2 million from $17.9 million in 2014. This is driven by sinking fund fair value losses in 2015 compared to gains in the same period in 2014, increased net interest on the defined benefit liability, 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 | % |
|---|---|---|---|---|
| Nine months ended September 30, | **$206.5** | $199.2 | $7.3 | 3.7 |

Cash provided by operating activities for the nine months ended September 30, 2015 was up $7.3 million compared to the same period in 2014 primarily due to increased income from operations adjusted for the non-cash impact of sinking fund market fluctuation, partially offset by increased working capital requirements.

## Cash used in investing activities

| Millions of dollars | **2015** | 2014 | Change | % |
|---|---|---|---|---|
| Nine months ended September 30, | **$209.6** | $181.1 | $28.5 | 15.7 |

Cash used in investing activities in the nine months ended September 30, 2015 increased to $209.6 million, up $28.5 million from the same period in 2014, primarily due to the acquisition of additional spectrum licenses. Total cash invested in property, plant and equipment was $153.5 million, up $5.9 million from the same period in 2014. Spending on intangible assets increased $21.2 million to $57.2 million. In addition, government funding decreased $1.4 million compared to the same period in 2014.

## Capital Spending

Total capital expenditures for the first nine months of 2015 were $212.0 million, up $23.6 million from the same period in 2014.

SaskTel's net spending on property, plant and equipment for the first nine months of 2015 was $154.6 million, up $2.7 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 $57.4 million, up $20.9 million from the same period in 2014 primarily due to the purchase of additional spectrum licenses.

Capital expenditures in 2015 will focus on further investment in the core Saskatchewan network including: Fibre to the Premise, 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 provided by (used in) financing activities

| Millions of dollars | **2015** | 2014 | Change | % |
|---|---|---|---|---|
| Nine months ended September 30, | **$7.0** | $(36.0) | $43.0 | 119.4 |

Cash provided by financing activities in the nine months ended September 30, 2015 was $7.0 million compared to a use of cash of $36.0 million for financing activities for the same period in 2014. This is primarily due to increased short-term borrowings and decreased dividend payments partially offset by the reduced long-term borrowing compared to 2014.

## Liquidity and capital resource ratios

### Debt ratio

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Debt ratio | **50.7%** | 52.8% |

The debt ratio decreased to 50.7%, down from 52.8% at December 31, 2014. The overall level of net debt increased $17.2 million during the period due to increased short-term debt partially offset by increased cash and increased sinking funds.

Equity increased by $79.5 million to the end of the third quarter of 2015 after recording net income of $85.1 million, other comprehensive income of $16.9 million related to actuarial gains in the employee defined benefit plan and dividends of $22.5 million.

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 exceed 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 September 30, 2015.

## Condensed Consolidated Interim Statement of Income and Other Comprehensive Income

| | | (Unaudited) | | | |
|---|---|---|---|---|---|
| | | Three months ended September 30, | | Nine months ended September 30, | |
| Thousands of dollars | Note | **2015** | 2014 | **2015** | 2014 |
| **Revenue** | 3 | **$315,228** | $306,409 | **$939,195** | $919,125 |
| **Other income** | 3 | **1,803** | 1,245 | **3,668** | 2,804 |
| | | **317,031** | 307,654 | **942,863** | 921,929 |
| **Expenses** | | | | | |
| Goods and services purchased | | **137,082** | 141,435 | **408,734** | 415,345 |
| Salaries, wages and benefits | | **89,425** | 89,726 | **281,725** | 281,660 |
| Depreciation | 5 | **41,685** | 40,370 | **129,506** | 121,438 |
| Amortization | 6 | **6,700** | 12,046 | **24,796** | 30,675 |
| Internal labour capitalized | | **(5,116)** | (5,644) | **(15,189)** | (17,092) |
| | | **269,776** | 277,933 | **829,572** | 832,026 |
| **Results from operating activities** | | **47,255** | 29,721 | **113,291** | 89,903 |
| **Net finance expense** | 4 | **10,875** | 6,962 | **28,150** | 17,863 |
| **Net income** | | **36,380** | 22,759 | **85,141** | 72,040 |
| **Other comprehensive income (loss)** | | | | | |
| **Items that will never be reclassified to net income** | | | | | |
| Net actuarial gains (losses) on defined benefit pension plan | 7 | **(10,797)** | (16,547) | **16,865** | (50,862) |
| **Total comprehensive income** | | **$25,583** | $6,212 | **$102,006** | $21,178 |

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** | **-** | **-** | **85,141** | **85,141** |
| **Other comprehensive income** | **-** | **16,865** | **-** | **16,865** |
| **Total comprehensive income for the period** | **-** | **16,865** | **85,141** | **102,006** |
| **Dividends declared** | **-** | **-** | **22,500** | **22,500** |
| **Balance at September 30, 2015** | **$250,000** | **$(32,284)** | **$574,812** | **$792,528** |
| **Balance at January 1, 2014** | $250,000 | $8,159 | $489,056 | $747,215 |
| **Net income** | - | - | 72,040 | 72,040 |
| **Other comprehensive loss** | - | (50,862) | - | (50,862) |
| **Total comprehensive income (loss) for the period** | - | (50,862) | 72,040 | 21,178 |
| **Dividends declared** | - | - | 53,292 | 53,292 |
| **Balance at September 30, 2014** | $250,000 | $(42,703) | $507,804 | $715,101 |

*See Accompanying Notes*

# Condensed Consolidated Interim Statement of Financial Position

| As at<br>Thousands of dollars | Note | (Unaudited)<br>**September 30, 2015** | December 31, 2014 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash | | **$12,871** | $8,948 |
| Trade and other receivables | 9a | **125,934** | 116,932 |
| Inventories | 9a | **20,805** | 15,796 |
| Prepaid expenses | 9a | **32,106** | 25,550 |
| | | **191,716** | 167,226 |
| **Property, plant and equipment** | 5 | **1,534,023** | 1,511,600 |
| **Intangible assets** | 6 | **300,357** | 269,302 |
| **Sinking funds** | | **121,372** | 112,571 |
| **Other assets** | | **8,841** | 8,188 |
| | | **$2,156,309** | $2,068,887 |
| **Liabilities and Province's equity** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 9a | **$152,329** | $165,397 |
| Dividend payable | | **7,500** | - |
| Notes payable | | **172,977** | 143,298 |
| Other liabilities | 9a | **67,418** | 66,643 |
| | | **400,224** | 375,338 |
| **Deferred revenue** | | **6,720** | 7,526 |
| **Deferred income – government funding** | | **37,165** | 40,050 |
| **Long-term debt** | | **777,061** | 776,780 |
| **Employee benefit obligations** | 7 | **142,611** | 156,171 |
| | | **1,363,781** | 1,355,865 |
| **Province of Saskatchewan's equity** | | | |
| Equity advance | | **250,000** | 250,000 |
| Accumulated other comprehensive loss | | **(32,284)** | (49,149) |
| Retained earnings | | **574,812** | 512,171 |
| | | **792,528** | 713,022 |
| | | **$2,156,309** | $2,068,887 |

*See Accompanying Notes*

# Condensed Consolidated Interim Statement of Cash Flows

| Thousands of dollars | Note | (Unaudited) Nine months ended September 30, 2015 | 2014 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | | **$85,141** | $72,040 |
| Adjustments to reconcile net income to cash provided by operations | | | |
| Depreciation and amortization | 5, 6 | **154,302** | 152,113 |
| Net financing expense | 4 | **28,150** | 17,863 |
| Interest paid | | **(29,011)** | (28,022) |
| Interest received | | **1,089** | 1,262 |
| Amortization of government funding | | **(3,914)** | (3,955) |
| Other | | **6,086** | 7,053 |
| Net change in non-cash working capital | 9b | **(35,333)** | (19,142) |
| | | **206,510** | 199,212 |
| **Investing activities** | | | |
| Property, plant and equipment expenditures | | **(153,467)** | (147,584) |
| Intangible assets expenditures | | **(57,239)** | (36,019) |
| Government funding | | **1,115** | 2,538 |
| | | **(209,591)** | (181,065) |
| **Financing activities** | | | |
| Proceeds from long-term debt | | **-** | 195,239 |
| Net proceeds (repayment) of notes payable | | **29,604** | (163,442) |
| Sinking fund installments | | **(7,600)** | (7,100) |
| Dividends paid | | **(15,000)** | (60,732) |
| | | **7,004** | (36,035) |
| **Increase (decrease) in cash** | | **3,923** | (17,888) |
| **Cash, beginning of period** | | **8,948** | 24,365 |
| **Cash, end of period** | | **$12,871** | $6,477 |

*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 nine months ended September 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 as issued by the International Accounting Standards Board (IASB). 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 nine month period ended September 30, 2015 were approved by the Board of Directors on November 5, 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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| Thousands of dollars | **2015** | 2014 | **2015** | 2014 |
| **Services revenue** | | | | |
| Wireless | **$123,362** | $119,795 | **$368,549** | $360,159 |
| *maxTV*, Internet and data services | **80,327** | 75,489 | **241,876** | 227,038 |
| Local and enhanced services | **58,823** | 60,876 | **176,613** | 182,887 |
| Long distance services | **11,872** | 13,188 | **36,495** | 40,334 |
| Equipment | **17,194** | 14,153 | **44,474** | 40,877 |
| Advertising services | **10,068** | 10,470 | **30,812** | 31,824 |
| Security monitoring services | **5,785** | 5,700 | **17,146** | 17,286 |
| International software and consulting services | **2,075** | 1,582 | **5,743** | 4,980 |
| Other services | **5,722** | 5,156 | **17,487** | 13,740 |
| | **315,228** | 306,409 | **939,195** | 919,125 |
| **Other income** | | | | |
| Net loss on retirement or disposal of property, plant and equipment | **(150)** | (568) | **(1,657)** | (1,890) |
| Amortization of government funding | **1,341** | 1,432 | **3,914** | 3,955 |
| Other | **612** | 381 | **1,411** | 739 |
| | **1,803** | 1,245 | **3,668** | 2,804 |
| | **$317,031** | $307,654 | **$942,863** | $921,929 |

## Note 4 – Net finance expense

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| Thousands of dollars | **2015** | 2014 | **2015** | 2014 |
| **Recognized in consolidated net income** | | | | |
| Interest expense on financial liabilities measured at amortized cost | **$10,326** | $10,190 | **$31,110** | $30,153 |
| Interest capitalized | **(1,382)** | (1,904) | **(4,951)** | (5,167) |
| Net interest expense | **8,944** | 8,286 | **26,159** | 24,986 |
| Net change in fair value of financial assets at fair value through profit or loss | **1,848** | - | **4,926** | - |
| Net interest on defined benefit liability | **1,426** | 1,036 | **4,280** | 3,108 |
| Finance expense | **12,218** | 9,322 | **35,365** | 28,094 |
| Net change in fair value of financial assets at fair value through profit or loss | **-** | (1,114) | **-** | (5,967) |
| Interest income on unimpaired financial assets at fair value through profit or loss | **(983)** | (840) | **(6,127)** | (3,002) |
| Interest income on loans and receivables | **(360)** | (406) | **(1,088)** | (1,262) |
| Finance income | **(1,343)** | (2,360) | **(7,215)** | (10,231) |
| Net finance expense | **$10,875** | $6,962 | **$28,150** | $17,863 |
| Interest capitalization rate | | | **4.39%** | 4.63% |

## 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 | **18,172** | **177** | **7,766** | **128,481** | **-** | **154,596** |
| Transfers | **64,914** | **7,112** | **7,061** | **(80,405)** | **1,318** | **-** |
| Retirements, disposals and adjustments | **(10,462)** | **(787)** | **(514)** | **-** | **(10)** | **(11,773)** |
| Balance at September 30, 2015 | **$3,251,398** | **$459,889** | **$170,185** | **$188,065** | **$37,362** | **$4,106,899** |
| | | | | | | |
| 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 | **105,122** | **7,922** | **16,462** | **-** | **-** | **129,506** |
| Retirements and disposals | **(8,617)** | **(447)** | **(42)** | **-** | **-** | **(9,106)** |
| Balance at September 30, 2015 | **$2,314,416** | **$142,489** | **$115,971** | **$ -** | **$ -** | **$2,572,876** |
| | | | | | | |
| 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 September 30, 2015 | **$936,982** | **$317,400** | **$54,214** | **$188,065** | **$37,362** | **$1,534,023** |
| | | | | | | |
| 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 |

During the period 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) | $2.0 | $(3.9) | $(6.5) | $(3.9) | $6.9 | $6.0 | $(0.6) |

## 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 | **-** | **3,228** | **3,820** | **35,200** | **7,638** | **49,886** |
| Acquisitions – internally developed | **-** | **1,158** | **-** | **-** | **6,346** | **7,504** |
| Transfers | **-** | **53,150** | **-** | **-** | **(53,150)** | **-** |
| Retirements, disposals and adjustments | **-** | **(3,811)** | **-** | **-** | **-** | **(3,811)** |
| Balance at September 30, 2015 | **$5,976** | **$298,007** | **$89,685** | **$108,738** | **$16,767** | **$519,173** |
| 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** | **$52,831** | **$ -** | **$ -** | **$196,292** |
| Amortization for the period | **-** | **22,395** | **4,401** | **-** | **-** | **26,796** |
| Reversal of impairment loss | **-** | **(2,000)** | **-** | **-** | **-** | **(2,000)** |
| Retirements, disposals and adjustments | **-** | **(2,272)** | **-** | **-** | **-** | **(2,272)** |
| Balance at September 30, 2015 | **$ -** | **$161,584** | **$57,232** | **$ -** | **$ -** | **$218,816** |
| 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 September 30, 2015 | **$5,976** | **$136,423** | **$32,453** | **$108,738** | **$16,767** | **$300,357** |
| 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 |

*Note 6 – Intangible assets, continued*

During the period, intangible assets that had been assessed as impaired were sold resulting in an impairment loss reversal of $2.0 million which has been recorded in amortization expense.

During the period 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) | $(11.5) | $(13.8) | $(10.3) | $(6.5) | $.9 | $8.2 | $33.0 |

## 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 | **3.80%** | 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.

| | Nine months ended September 30, | |
|---|---|---|
| Thousands of dollars | **2015** | 2014 |
| Actuarial loss on accrued benefit obligation | **$ -** | $(108,408) |
| Actuarial gain on plan assets | **16,865** | 57,546 |
| Actuarial gain (loss) on employee benefit plans | **$16,865** | $(50,862) |

## 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.

*Note 8 – Capital management, continued*

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.

The debt ratio is as follows:

| As at<br>Thousands of dollars | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Long-term debt | **$777,061** | $776,780 |
| Short-term debt | **172,977** | 143,298 |
| Less: Sinking funds | **121,372** | 112,571 |
| Cash | **12,871** | 8,948 |
| Net debt | **815,795** | 798,559 |
| Equity (a) | **792,528** | 713,022 |
| Capitalization | **$1,608,323** | $1,511,581 |
| Debt ratio | **50.7%** | 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<br>Thousands of dollars | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Trade and other receivables | | |
| Customer accounts receivable | **$86,365** | $81,390 |
| Accrued receivables - customer | **3,478** | 4,434 |
| Allowance for doubtful accounts | **(1,966)** | (1,716) |
| | **87,877** | 84,108 |
| High cost serving area subsidy | **3,380** | 2,784 |
| Other | **34,677** | 30,040 |
| | **$125,934** | $116,932 |

*Note 9 – Additional financial information, continued*

| As at<br>Thousands of dollars | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Inventories | | |
| Inventories for resale | **$17,391** | $12,590 |
| Materials and supplies | **3,414** | 3,206 |
| | **$20,805** | $15,796 |
| Prepaid expenses | | |
| Prepaid expenses | **$25,889** | $19,346 |
| Deferred service connection charges | **3,899** | 4,239 |
| Short-term prepaid customer incentives | **2,318** | 1,965 |
| | **$32,106** | $25,550 |
| Trade and other payables | | |
| Trade accounts payable and accrued liabilities | **$115,165** | $122,415 |
| Payroll and other employee-related liabilities | **28,286** | 36,149 |
| Other | **8,878** | 6,833 |
| | **$152,329** | $165,397 |
| Other liabilities | | |
| Advance billings | **$50,494** | $49,375 |
| Deferred customer activation and connection fees | **4,866** | 5,206 |
| Current portion of deferred income - government funding | **5,116** | 5,030 |
| Customer deposits | **6,942** | 7,032 |
| | **$67,418** | $66,643 |

### b) Supplementary cash flow information

| | Nine months ended September 30, | |
|---|---|---|
| Thousands of dollars | **2015** | 2014 |
| Net change in non-cash working capital balances related to operations | | |
| Trade and other receivables | **$(9,002)** | $(5,623) |
| Inventories | **(5,009)** | 3,934 |
| Prepaid expenses | **(6,556)** | (3,392) |
| Trade and other payables | **(13,068)** | (19,159) |
| Other liabilities | **775** | 4,197 |
| Deferred revenue | **(806)** | (672) |
| Other | **(1,667)** | 1,573 |
| | **$(35,333)** | $(19,142) |

## 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 | | **September 30, 2015** | | December 31, 2014 | |
|---|---|---|---|---|---|
| Thousands of dollars | Classification (a) | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial assets** | | | | | |
| Investments - sinking funds | FVTPL | **$121,372** | **$121,372** | $112,571 | $112,571 |
| **Financial liabilities** | | | | | |
| Long-term debt | OL | **$777,061** | **$920,964** | $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.

| As at | **September 30, 2015** | | December 31, 2014 | |
|---|---|---|---|---|
| Thousands of dollars | **Level 2** | **Total** | Level 2 | Total |
| Sinking funds | **$121,372** | **$121,372** | $112,571 | $112,571 |
| Long-term debt | **$920,964** | **$920,964** | $934,704 | $934,704 |

*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.