Second Quarter Report

Contents:

Saskatchewan Telecommunications Holding Corporation

Second Quarter Report 2012

For the Period Ending June 30, 2012

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 networks, exceptional service advanced solutions and applications."*

Financial Highlights

Consolidated Net Income

Millions of dollars	Three months ended June 30, 2012	2011	% Change	Six months ended June 30, 2012	2011	% Change
Revenue	**$290.3**	$271.3	7.0	**$575.4**	$539.6	6.6
Other income	**4.4**	0.7	*nmf*[1]	**5.5**	1.7	*nmf*[1]
	294.7	272.0	8.3	**580.9**	541.3	7.3
Expenses	**253.6**	246.6	2.8	**505.7**	491.3	2.9
Results from operating activities	**41.1**	25.4	61.8	**75.2**	50.0	50.4
Net finance expense	**4.0**	2.3	73.9	**10.2**	7.6	34.2
Income from continuing operations	**37.1**	23.1	60.6	**65.0**	42.4	53.3
Net income from discontinued operations	-	-	*nmf*[1]	-	30.8	*nmf*[1]
Net income	**$37.1**	$23.1	60.6	**$65.0**	$73.2	(11.2)

Net income for the six months ended June 30, 2012 is $65.0 million, down $8.2 million (11.2%) from the same period in 2011. Revenues increased to $575.4 million, up $35.8 million (6.6%) from the same period in 2011 primarily due to increased wireless revenue from customer growth and increased data usage, and *Max*™ revenues resulting from increased customer accesses and increased revenue per customer.

Expenses for the six months ended June 30, 2012 increased to $505.7 million, up $14.4 million from the same period in 2011. This increase is primarily driven by increased direct expenses, network maintenance costs and project related expenses. Depreciation and amortization has increased $5.7 million due to increased plant in service. Net finance expense was $10.2 million, up $2.6 million over the same period in 2011. This is driven by increased borrowing and decreases in the fair value of the sinking funds compared to the same period in 2011.

Net income from discontinued operations is down $30.8 million from 2011 due to the gains realized on the sales of Hospitality Network Canada Inc. and Saskatoon 2 Properties Partnership in 2011.

[1] *nmf – no meaningful figure*

Management Discussion and Analysis

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the second quarter 2012. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the year ended December 31, 2011. 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 2011 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.

Results of Operations

Revenue

Millions of dollars	**2012**	2011	Change	%
Three months ended June 30,	**$290.3**	$271.3	$19.0	7.0
Year-to-date	**$575.4**	$539.6	$35.8	6.6

Revenues for the second quarter were $290.3 million, up $19 million from the same period in 2011. Year-to-date revenues were $575.4 million which represents a $35.8 million increase from 2011. This increase is primarily due to increased wireless revenue from customer growth and increased data usage, *Max* revenues resulting from increased customer accesses and increased revenue per customer, data revenues from growth in Lanspan Community Net, customer premise equipment from data device sales, partially offset by decreases in SaskTel International, enhanced services and access revenue due to residential and Centrex access decreases related to competition and wireless replacement.

Other income

Millions of dollars	**2012**	2011	Change	%
Three months ended June 30,	**$4.4**	$0.7	$3.7	*nmf*[1]
Year-to-date	**$5.5**	$1.7	$3.8	*nmf*[1]

Other income for the second quarter of 2012 increased to $4.4 million up $3.7 million from the same period in 2011. Year-to-date other income was $3.8 million higher than the same period in 2011 primarily due to increased amortization of government funding and one-time refunds and adjustments.

Expenses

Millions of dollars	**2012**	2011	Change	%
Three months ended June 30,	**$253.6**	$246.6	$7.0	2.8
Year-to-date	**$505.7**	$491.3	$14.4	2.9

Expenses for the second quarter of 2012 increased to $253.6 million, up $7.0 million from the same period in 2011. Year-to-date expenses of $505.7 million were $14.4 million higher than the same period in 2011 primarily due to a $13.4 million increase in goods and services purchased. This increase is primarily to support growth areas as well as increased contract costs, and advertising and marketing costs, partially offset by reductions in salaries and benefits due to higher pension income, internally capitalized labour, and decreases in software licenses and maintenance costs. In addition, depreciation and amortization increased $5.7 million due to increased plant in service.

Net finance expense

Millions of dollars	**2012**	2011	Change	%
Three months ended June 30,	**$4.0**	$2.3	$1.7	73.9
Year-to-date	**$10.2**	$7.6	$2.6	34.2

Net finance expense for the second quarter of 2012 was $1.7 million over the same period in 2011. Year-to-date net finance expense increased to $10.2 million from $7.6 million in 2011. This is driven by increased long-term borrowing to fund the construction program and decreases in the fair value of the sinking funds compared to the same period in 2011.

Net income from discontinued operations

Millions of dollars	**2012**	2011	Change	%
Three months ended June 30,	**$-**	$-	-	*nmf*[1]
Year-to-date	**$-**	$30.8	$(30.8)	*nmf*[1]

During the first quarter of 2011, Hospitality Network Canada, Inc. and Saskatoon 2 Properties Limited Partnership were sold and the resulting gains reported in net income from discontinued operations.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	**2012**	2011	Change	%
Six months ended June 30,	**$104.0**	$90.9	$13.1	14.4

Cash provided by operating activities for the six months ended June 30, 2012 was up $13.1 million when compared to the same period in 2011 primarily due to increased income from continuing operations, decreased contributions to the defined benefit pension plan, partially offset by increased working capital requirements.

Cash used in investing activities

Millions of dollars	**2012**	2011	Change	%
Six months ended June 30,	**$115.2**	$97.4	$17.8	18.3

Cash used in investing activities in the six months ended June 30, 2012 increased to $115.2 million, up $17.8 million from the same period in 2011. SaskTel's net spending on property, plant and equipment for the first six months of 2012 was $93.4 million, up $13.7 million from the same period in 2011 primarily due to increased spending on Fibre to the Premises and the cellular network upgrade to Long Term Evolution (LTE) technology, partially offset by government funding in the amount of $7.5 million related to the First Nations Service Improvement Project and Aboriginal Affairs and Northern Development funding for First Nations Schools. SaskTel's net spending on intangible assets was $29.2 million, up $11.6 million from the same period in 2011 primarily due to increased spending on Customer Relationship Management and Field Services Efficiency software.

Capital expenditures for the balance of 2012 will focus on further investment in growth initiatives while sustaining current capital assets. A large portion of the growth expenditures will see capital investment to increase bandwidth to our customers. Capital investments will include investment in Fiber to the Premise, which will significantly increase access speeds, as well as, the continued cellular network upgrades to UMTS/HSPA technology, continued cellular network upgrade to LTE technology, network growth and refurbishment, further investment in *Max* Interactive Services, and improved high speed internet quality.

Cash provided by (used in) financing activities

Millions of dollars	**2012**	2011	Change	%
Six months ended June 30,	**$12.0**	$(74.7)	$86.7	116.1

Cash provided by financing activities in the six months ended June 30, 2012 increased to $12.0 million, up $86.7 million from a use of funds of $74.7 million for the same period in 2011. This is primarily due to the issuance of long term debt, partially offset by repayment of notes payable and increased dividend payments.

Liquidity and capital resource ratios

Debt ratio

	June 30, 2012	December 31, 2011
Debt ratio	**40.1%**	37.6%

The debt ratio increased to 40.1%, up from 37.6% at December 31, 2011. The overall level of net debt increased $69.6 million during the period due to increased long-term debt, partially offset by reduced short-term borrowings and increased cash and sinking funds.

Retained earnings decreased by $20.2 million to the end of the second quarter of 2012 after recording comprehensive income of $14.3 million and dividends of $34.5 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 and retained earnings at the period end excluding amounts recognized in other comprehensive income.

2012 Outlook

The 2011 SaskTel Annual Report identified a consolidated net income target for 2012 of $91.1 million. At this time, SaskTel believes it will exceed the established 2012 net income target.

Risk Assessment

The 2011 Annual Report discusses the risks and uncertainties in SaskTel's business environment. They include developments in the technological, economic and regulatory environments, challenges faced by the defined benefit pension plan, competitive activity, cost management initiatives and more. SaskTel's basic risk profile remains unchanged as at June 30, 2012. Management continues to monitor individual risks as they change and evolve and employs the industry accepted risk management processes of identification, mitigation, transfer, assumption and control of key risks.

Condensed Consolidated Statement of Income and Other Comprehensive Income

		(Unaudited)			
		Three months ended June 30,		Six months ended June 30,	
Thousands of dollars	Note	**2012**	2011	**2012**	2011
Revenue	3	**$290,343**	$271,323	**$575,407**	$539,632
Other income	3	**4,354**	743	**5,532**	1,709
		294,697	272,066	**580,939**	541,341
Expenses					
Goods and services purchased		**133,539**	125,463	**259,139**	245,749
Salaries, wages and benefits		**81,855**	83,584	**168,166**	170,248
Depreciation		**38,428**	36,569	**77,896**	72,593
Amortization		**5,381**	5,044	**10,492**	10,052
Internal labour capitalized		**(5,600)**	(4,020)	**(9,923)**	(7,342)
		253,603	246,640	**505,770**	491,300
Results of operating activities		**41,094**	25,426	**75,169**	50,041
Net finance expense	4	**3,983**	2,295	**10,156**	7,621
Income from continuing operations		**37,111**	23,131	**65,013**	42,420
Net income from discontinued operations	5	**-**	-	**-**	30,802
Net income		**37,111**	23,131	**65,013**	73,222
Other comprehensive loss	6	**(62,700)**	(32,947)	**(50,713)**	(32,947)
Total comprehensive income (loss)		**$(25,589)**	$(9,816)	**$14,300**	$40,275

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

See Accompanying Notes

Condensed Consolidated Statement of Changes in Equity

	(Unaudited)		
Thousands of dollars	**Equity advances**	**Retained earnings**	**Total equity**
Balance at January 1, 2012	**$250,000**	**$321,882**	**$571,882**
Net income	**-**	**65,013**	**65,013**
Other comprehensive loss	**-**	**(50,713)**	**(50,713)**
Total comprehensive income for the period	**-**	**14,300**	**14,300**
Dividends	**-**	**34,515**	**34,515**
Balance June 30, 2012	**$250,000**	**$301,667**	**$551,667**
Balance at January 1, 2011	$250,000	$442,381	$692,381
Net income	-	73,222	73,222
Other comprehensive loss	-	(32,947)	(32,947)
Total comprehensive income for the period	-	40,275	40,275
Dividends	-	62,505	62,505
Balance June 30, 2011	$250,000	$420,151	$670,151

See Accompanying Notes

Condensed Consolidated Statement of Financial Position

As at Thousands of dollars	Note	(Unaudited) **June 30, 2012**	(Audited) December 31, 2011
Assets			
Current assets			
Cash		**$8,739**	$7,998
Trade and other receivables	8a	**113,633**	109,920
Inventories	8a	**10,524**	8,774
Prepaid expenses	8a	**29,212**	18,310
		162,108	145,002
Property, plant and equipment		**1,246,805**	1,232,019
Intangible assets		**187,246**	168,875
Sinking funds		**80,906**	78,444
Other assets		**10,978**	9,327
		$1,688,043	$1,633,667
Liabilities and Province's equity			
Current liabilities			
Trade and other payables	8a	**$105,630**	$132,133
Dividend payable		**19,708**	44,834
Notes payable		**30,000**	105,000
Services billed in advance	8a	**59,504**	54,981
		214,842	336,948
Deferred revenue		**7,692**	7,950
Deferred income – government funding	9	**51,052**	46,045
Employee benefit obligations		**282,049**	237,870
Long-term debt	10	**580,741**	432,972
		1,136,376	1,061,785
Province of Saskatchewan's equity			
Equity advance		**250,000**	250,000
Retained earnings		**301,667**	321,882
		551,667	571,882
		$1,688,043	$1,633,667

See Accompanying Notes

Condensed Consolidated Statement of Cash Flows

		(Unaudited)	
		Six months ended June 30,	
Thousands of dollars	Note	**2012**	2011
Operating activities			
Income from continuing operations		**$65,013**	$42,420
Adjustments to reconcile net income to cash provided by operations			
Depreciation and amortization		**88,388**	82,645
Contributions to defined benefit pension plans		**(121)**	(8,040)
Pension income of defined benefit plans		**(6,055)**	(3,877)
Net financing expense	4	**10,156**	7,621
Interest paid		**(14,184)**	(12,975)
Interest received		**942**	740
Amortization of government funding	9	**(2,497)**	(1,493)
Other		**5,190**	3,759
Net change in non- cash working capital	8b	**(42,868)**	(19,870)
		103,964	90,930
Investing activities			
Property, plant and equipment expenditures		**(93,447)**	(79,761)
Intangible assets expenditures		**(29,246)**	(17,673)
Government funding	9	**7,504**	-
		(115,189)	(97,434)
Financing activities			
Proceeds from long-term debt		**147,707**	-
Net repayment of notes payable		**(75,000)**	(21,200)
Sinking fund installments		**(1,100)**	(1,100)
Dividends paid		**(59,641)**	(52,372)
		11,966	(74,672)
Increase (decrease) in cash from continuing operations		**741**	(81,176)
Increase in cash from discontinued operations		**-**	64,393
Cash, beginning of period		**7,998**	18,913
Cash, end of period		**$8,739**	$2,130

See Accompanying Notes

Notes to Condensed Consolidated Financial Statements (Unaudited)
As at June 30, 2012

Note 1 – Basis of preparation

The unaudited condensed consolidated financial statements for June 30, 2012 should be read in conjunction with the Saskatchewan Telecommunications Holding Corporation's (the Corporation) December 31, 2011 audited consolidated financial statements. The condensed consolidated financial statements of the Corporation have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. These condensed consolidated financial statements do not include all of the information required for full annual financial statements.

The condensed consolidated financial statements for the six month period ended June 30, 2012 were approved by the Board of Directors on August 16, 2012.

a) Basis of measurement

The condensed consolidated 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 condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

c) Use of estimates and judgments

The preparation of the condensed consolidated 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 condensed consolidated financial statements includes the following:

- 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 unaudited condensed consolidated financial statements have been prepared in accordance with IFRS. The accounting policies used in the preparation of these unaudited condensed consolidated 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 unaudited condensed consolidated 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, 2011. The Corporation is assessing the impact of these pronouncements on its results and financial position. These include:

- IFRS 9 Financial Instruments (IFRS 9 (2010)) expands on IFRS 9 as issued in 2009. The 2010 version has a significant impact on financial liabilities designated under the fair value option. In addition, IFRS 9 (2010) retains virtually all of the classification and measurement guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 (2010) is effective for annual periods beginning on or after January 1, 2015.
- IFRS 10 Consolidations (IFRS 10) establishes a single control model to assess whether to consolidate an investee. The model focuses on exposure or rights to variability in returns versus the previous concept of benefits. IFRS 10 is effective for annual periods beginning on or after January 1, 2013.
- IFRS 11 Joint Arrangements (IFRS 11) redefines joint arrangements based on the control concept introduced in IFRS 10. Joint arrangements are classified depending on whether parties have rights to and obligations for underlying assets and liabilities. In addition the standard requires a single method of accounting for joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.
- IFRS 12 Disclosure of Interests in Other Entities (IFRS 12) combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.
- IFRS 13 Fair Value Measurement (IFRS 13) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.
- IAS 1 Presentation of Financial Statements (IAS 1) introduces changes to the presentation of items in other comprehensive income. IAS 1 is effective for annual periods beginning on or after July 1, 2012.
- IAS 19 Employee Benefits (IAS 19) was amended to require immediate recognition of actuarial gains and losses, as well as revising the basis for the calculation of net interest on the net defined benefit asset or liability. In addition, disclosure requirements have been expanded. IAS 19 is effective for annual periods beginning on or after January 1, 2013.
- IAS 27 Separate Financial Statements (IAS 27) was amended to create one standard that deals with separate financial statements. Requirements related to consolidated financial statements have been moved to IFRS 10, and requirements related to joint ventures and associates have been relocated to this standard. IAS 27 is effective for annual periods beginning on or after January 1, 2013.
- IAS 28 Investments in Associates and Joint Ventures (IAS 28) was amended to incorporate the accounting for joint ventures because the equity method is now applicable to both joint ventures and associates. IAS 28 is effective for annual periods beginning on or after January 1, 2013.

Note 3 – Revenue

	Three months ended June 30,		Six months ended June 30,	
Thousands of dollars	**2012**	2011	**2012**	2011
Services revenue				
Wireless	**$112,863**	$99,439	**$222,378**	$197,419
Max, internet and data services	**70,203**	62,845	**137,419**	124,282
Local service	**67,389**	69,197	**134,200**	137,545
Long distance services	**15,483**	16,199	**30,811**	32,129
Advertising and directory services	**4,825**	4,873	**9,933**	9,911
Security monitoring services	**5,030**	4,877	**9,992**	9,879
Telecommunication software	**1,892**	2,925	**4,579**	6,328
Other revenue	**12,658**	10,968	**26,095**	22,139
	290,343	271,323	**575,407**	539,632
Other income				
Net gain (loss) on retirement or disposal of property, plant and equipment	**339**	(1,044)	**331**	(1,459)
Amortization of government funding	**1,270**	770	**2,497**	1,493
Other	**2,745**	1,017	**2,704**	1,675
	4,354	743	**5,532**	1,709
	$294,697	$272,066	**$580,939**	$541,341

Note 4 – Net finance expense

Thousands of dollars	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Recognized in consolidated net income				
Interest expense on financial liabilities measured at amortized cost	**$8,121**	$6,813	**$15,861**	$13,673
Interest capitalized	**(1,644)**	(2,180)	**(3,401)**	(3,856)
Net interest expense	**6,477**	4,633	**12,460**	9,817
Net change in fair value of financial assets at fair value through net income	**-**	-	**1,639**	406
Finance expense	**6,477**	4,633	**14,099**	10,223
Interest income on unimpaired financial assets at fair value through net income	**(1,423)**	(984)	**(3,001)**	(1,862)
Net change in fair value of financial assets at fair value through net income	**(568)**	(938)	**-**	-
Interest income on loans and receivables	**(503)**	(416)	**(942)**	(740)
Finance income	**(2,494)**	(2,338)	**(3,943)**	(2,602)
Net finance expense	**$3,983**	$2,295	**$10,156**	$7,621
Interest capitalization rate			**5.33%**	5.92%

Note 5 – Discontinued operations

On January 4, 2011 the Corporation, through its subsidiaries, Saskatoon 2 Management Ltd. and Saskatoon 2 Properties Limited Partnership, sold its interest in the property known as Saskatoon Square for cash consideration of $34.4 million resulting in a gain of $27.0 million which was included in net income from discontinued operations in the Condensed Consolidated Statement of Income and Other Comprehensive Income.

In addition, on January 31, 2011, the Corporation, through its subsidiary Hospitality Network Canada Inc. (Hospitality Network), disposed of the net assets of Hospitality Network for cash consideration of $36.0 million, resulting in a gain of $3.7 million which was included in net income from discontinued operations in the Condensed Consolidated Statement of Income and Other Comprehensive Income. Active operations of Hospitality Network have ceased as of that date.

Note 6 – 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:

	2012	2011
March 31	**4.20%**	5.25%
June 30	**4.00**	5.00
September 30	**n/a**	5.00
December 31	**n/a**	4.30

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

	Three months ended June 30,		Six months ended June 30,	
Thousands of dollars	**2012**	2011	**2012**	2011
Actuarial loss on accrued benefit obligation	**$26,465**	$29,817	**$39,512**	$29,817
Actuarial loss on plan assets	**36,235**	3,130	**11,201**	3,130
Actuarial losses on employee benefit plans	**$62,700**	$32,947	**$50,713**	$32,947

Actuarial losses recognized directly in other comprehensive income

	Six months ended June 30,	
Thousands of dollars	**2012**	2011
Cumulative actuarial losses , January 1	**$178,931**	$43,033
Net actuarial loss recognized during the period	**50,713**	32,947
Cumulative actuarial losses, end of period	**$229,644**	$75,980

Note 7 – Commitments and contingencies

Commitments

As at June 30, 2012, the Corporation has committed to spend $177.8 million on property, plant, equipment and $2.6 million on intangible assets and $158.3 million related to future operations.

Note 8 – Additional financial information

a) Statement of Financial Position

As at Thousands of dollars	**June 30, 2012**	December 31, 2011
Trade and other receivables		
Customer accounts receivable	**$85,408**	$76,634
Accrued receivables - customer	**12,366**	23,820
Allowance for doubtful accounts	**(2,168)**	(2,472)
	95,606	97,982
High cost serving area subsidy	**4,538**	5,341
Other	**13,489**	6,597
	$113,633	$109,920
Inventories		
Inventories for resale	**$8,227**	$4,872
Materials and supplies	**2,297**	3,902
	$10,524	$8,774
Prepaid expenses		
Prepaid expenses	**$25,354**	$13,862
Deferred service connection charges	**3,858**	4,448
	$29,212	$18,310
Trade and other payables		
Trade accounts payable and accrued liabilities	**$66,183**	$94,027
Payroll and other employee-related liabilities	**29,774**	30,228
Other	**9,673**	7,878
	$105,630	$132,133
Services billed in advance		
Advance billings	**$48,336**	$42,378
Deferred customer activation and connection fees	**4,863**	6,435
Customer deposits	**6,305**	6,168
	$59,504	$54,981

Note 8 – Additional financial information, continued

b) Supplementary cash flow information

Thousands of dollars	Six months ended June 30, 2012	2011
Net change in non-cash working capital balances related to operations		
Trade and other receivables	**$(5,573)**	$5,385
Inventories	**(1,750)**	(4,253)
Prepaid expenses	**(10,903)**	(10,037)
Trade and other payables	**(28,498)**	(12,424)
Services billed in advance	**4,522**	1,347
Deferred revenues	**(258)**	(200)
Deferred expenses	**(408)**	312
	$(42,868)	$(19,870)

Note 9– Deferred income - government funding

In conjunction with the First Nations Service Improvement Project (FNSIP), the Corporation has received an additional $2.9 million during the period for funding of internet and cellular service to selected First Nations communities in Saskatchewan. To date $2.8 million has been applied to capital expenditures and $0.8 million has been applied to operating expenditures. The balance of the funded expenditures is planned for the balance of 2012.

In conjunction with Aboriginal Affairs and Northern Development (AAND), the Corporation has received $4.6 million for funding of internet service to selected First Nations schools in Saskatchewan. To date $0.1 million has been applied to capital expenditures and $0.03 million has been applied to operating expenditures. The balance of funded expenditures is planned for the balance of 2012, 2013 and 2014.

The funding has initially been classified as deferred income to be recognized as related expenses are incurred or amortized as assets related to the program are put into service. Funding related to operating expenditures has been included in the determination of net income for the relevant period. Funding related to capital expenditures has been deferred and is being amortized over the estimated useful life of the related assets.

As at			June 30, 2012			December 31, 2011
Thousands of dollars	**RIP**	**SCN**	**FNSIP**	**AAND**	**Total**	Total
Balance, beginning	**$44,582**	**$1,201**	**$262**	**$ -**	**$46,045**	$41,053
Funding received	**-**	**-**	**2,864**	**4,640**	**7,504**	10,769
	44,582	**1,201**	**3,126**	**4,640**	**53,549**	51,822
Amoritzation	**2,143**	**16**	**310**	**28**	**2,497**	5,777
Balance, ending	**$42,439**	**$1,185**	**$2,816**	**$4,612**	**$51,052**	$46,045

Note 10 – Long-term debt

On February 3, 2012 the Corporation, through its subsidiary Saskatchewan Telecommunications, issued $150.0 million of long term debt through the Province of Saskatchewan maturing on February 3, 2042 at a rate of 3.40%. The debt was issued at a discount of $2.4 million yielding an effective interest rate of 3.49%.

Note 11 – 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 year.

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 the Board. The Corporation uses targeted debt ratios to compile a weighted average debt to equity ratio for the consolidated entity. The budgeted ratio for 2012 is 47.9%.

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 Thousands of dollars	**June 30, 2012**	December 31, 2011
Total debt (a)	**$610,741**	$537,972
Less: Sinking funds	**80,906**	78,444
Cash and short-term investments	**8,739**	7,998
Net debt	**521,096**	451,530
Equity (b)	**781,311**	750,813
Capitalization	**$1,302,407**	$1,202,343
Debt ratio	**40.1%**	37.6%

a) Total debt includes long-term debt, long-term debt due within one year and notes payable
b) Equity includes equity advances and retained earnings at the end of the period excluding amounts recognized in other comprehensive income.

Note 12 – Related party transactions

The Corporation is indirectly controlled by the Government of Saskatchewan through its ownership of the Corporation's parent, CIC. Included in these condensed consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "government-related entities"). The Corporation has elected to take a partial exemption under IAS 24 Related Party Disclosures which allows government related entities to limit the extent of disclosures about related party transactions with government or other government related entities.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. For the six months ended June 30, 2012, the aggregate amount of the Corporation's transactions with other government-related entities are approximately 6.8% of revenues, 10.5% of operating expenses and 3.2% of property, plant and equipment expenditures.