SaskTel

Second Quarter Report

Saskatchewan Telecommunications Holding Corporation

Second Quarter Report 2022/23

For the Period Ending September 30, 2022

Saskatchewan Telecommunications Holding Corporation (the "Corporation", or "SaskTel") is a Saskatchewan Crown corporation. The Corporation's wholly-owned subsidiaries (Saskatchewan Telecommunications, SecurTek and SaskTel International) offer a wide array of products, services, and solutions to customers in Saskatchewan and around the world. The Corporation has a workforce of approximately 3,300 full-time equivalent employees (FTE's), making the Corporation one of Saskatchewan's largest employers.

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."*

Consolidated Highlights

FINANCIAL

Net Income	Revenue	Return on Equity	Capital Expenditures
$54.2M	$645.6M	8.2%	$177.5M
(3.4%) vs. Q2 2021/22	+1.9% vs. Q2 2021/22	(0.3) percentage points vs. Q2 2021/22	+33.2% vs. Q2 2021/22

CUSTOMER CONNECTIONS

Broadband Internet	maxTV Service	Wireless	Fibre	Wireline Voice
+2.9%	(2.2%)	+1.5%	+10.1%	(6.3%)
Subscriber Growth yr/yr	Subscriber Decline yr/yr	Subscriber Growth yr/yr	Subscriber Growth yr/yr	Subscriber Decline yr/yr

Broadband Internet		maxTV Service		Wireless		Fibre		Wireline Voice	
September 2022	**876,538**	**September 2022**	**110,453**	**September 2022**	**654,850**	**September 2022**	**174,374**	**September 2022**	**264,909**
September 2021	851,764	September 2021	112,907	September 2021	645,225	September 2021	158,359	September 2021	282,697
March 2022	863,358	March 2022	110,192	March 2022	647,765	March 2022	167,678	March 2022	273,856

Consolidated Net Income

Millions of dollars	Three months ended September 30, 2022	2021	Change	% Change	Six months ended September 30, 2022	2021	Change	% Change
Revenue	**$329.2**	$322.1	$7.1	2.2	**$645.6**	$633.3	$12.3	1.9
Other income	**(0.2)**	0.7	(0.9)	(128.6)	**1.6**	1.0	0.6	60.0
	329.0	322.8	6.2	1.9	**647.2**	634.3	12.9	2.0
Expenses	**289.5**	283.1	6.4	2.3	**578.3**	565.2	13.1	2.3
Results from operating activities	**39.5**	39.7	(0.2)	(0.5)	**68.9**	69.1	(0.2)	(0.3)
Net finance expense	**7.1**	6.6	0.5	7.6	**14.7**	13.0	1.7	13.1
Net income	**$32.4**	$33.1	$(0.7)	(2.1)	**$54.2**	$56.1	$(1.9)	(3.4)

Net income for the six months ended September 30, 2022, was $54.2 million, a decline of $1.9 million (3.4%) from the same period in 2021/22.

Revenue for the six months ended September 30, 2022, was $645.6 million, an increase of $12.3 million (1.9%) from the same period in 2021/22 primarily due to continued growth in wireless network services and equipment in addition to growth in fixed broadband and data services. The increase was partially offset by reduced wireline communication services.

Expenses for the six months ended September 30, 2022, were $578.3 million, an increase of $13.1 million (2.3%) from the same period in 2021/22. This increase was primarily due to increased goods and services purchased partially offset by reduced net salaries, wages and benefits.

Net finance expense for the six months ended September 30, 2022, was $14.7 million, an increase of $1.7 million (13.1%) over the same period in 2021/22. The increase was driven by an increase in interest expense resulting from higher outstanding debt and partially offset by capitalized interest on assets under construction.

Management’s Discussion and Analysis

November 3, 2022

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the second quarter of 2022/23. This discussion and analysis should be read in conjunction with SaskTel’s audited financial statements for the fiscal year ended March 31, 2022. 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 2021/22 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, 2022.

Results of Operations

Revenue

Millions of dollars	**2022**	2021	Change	% Change
Three months ended September 30,	**$329.2**	$322.1	$7.1	2.2
Six months ended September 30,	**645.6**	633.3	12.3	1.9

Revenue for the second quarter of 2022/23 was $329.2 million, a $7.1 million (2.2%) increase from the same period in 2021/22. Year-to-date revenue was $645.6 million, a $12.3 million (1.9%) increase year-over-year. The increase was due to growth in wireless network services and equipment comprised of wholesale revenues due to increased network usage by customers of other carriers; increased customer roaming; and a larger wireless retail subscriber base with a higher proportion of converged customers. The increase was augmented by increased fixed broadband and data services comprised of continued customer demand for higher bandwidth services and increased fibre accesses, and increased revenue from international software and consulting conversion projects. The increases were partially offset by lower wireline communication services due to the ongoing erosion of legacy voice revenues, reduced MaxTV service revenue due to lower add-on services, and decreased non-recurring business grade equipment sales.

Results of operations, continued

Expenses

Millions of dollars	2022	2021	Change	% Change
Three months ended September 30,	$289.5	$283.1	$6.4	2.3
Six months ended September 30,	578.3	565.2	13.1	2.3

Expenses for the second quarter of 2022/23 were $289.5 million, a $6.4 million (2.3%) increase from the same period in 2021/22. Year-to-date expenses were $578.3 million, a $13.1 million (2.3%) increase from the same period in 2021/22. Goods and services purchased, excluding direct expenses, increased by $7.9 million due to increased software licenses and maintenance costs incurred to modernize internal and customer-facing systems, increased advertising and marketing, and return to normal allowances for expected credit losses (ECL) compared to fiscal year 2021/22 that saw lower ECL as a result of lower customer defaults than the established allowances. Direct expenses increased primarily due to increased average device cost from premium device sales partially offset by lower sales volumes.

Net finance expense

Millions of dollars	2022	2021	Change	% Change
Three months ended September 30,	$7.1	$6.6	$0.5	7.6
Six months ended September 30,	14.7	13.0	1.7	13.1

Net finance expense for the second quarter of 2022/23 was $7.1 million, a $0.5 million (7.6%) increase from the same period in 2021/22. Year-to-date net finance expense was $14.7 million, a $1.7 million (13.1%) increase from the same period in 2021/22. Finance income decreased by $0.9 million primarily due to lower sinking fund earnings. Finance expenses increased $0.8 million due to an increase in interest expense resulting from higher outstanding debt partially offset by increased interest capitalized and net interest on defined benefit liabilities.

Financial Condition

Changes in the Corporation's assets, liabilities, and equity from March 31, 2022, to September 30, 2022, are discussed below:

Millions of dollars	Increase (decrease)	Explanation
Cash	**$(14.7)**	See condensed consolidated statement of cash flows.
Trade and other receivables	**(2.0)**	Timing of customer project work payments partially offset by increased customer receivables.
Inventories	**(1.8)**	Delayed receipts of wireless equipment due to global supply chain constraints.
Prepaid expenses and other assets	**(3.1)**	Amortization of contract invoices for software and maintenance.
Contract assets	**(11.3)**	Amortization of term contracts partially offset by new contracts.
Contract costs	**(2.0)**	Amortization of contract costs.
Property, plant and equipment	**61.7**	Capital spending primarily on wireless and fibre projects partially offset by depreciation, retirements, and disposals.
Right-of-use assets	**(2.1)**	Depreciation, retirements and adjustments of leased assets.
Intangible assets	**(3.9)**	Retirement and amortization of assets partially offset by capital spending.
Sinking funds	**7.1**	Installments offset by market value losses.
Other assets	**0.3**	No significant change.
Trade and other payables	**(9.5)**	Primarily due to timing of payments for capital spending in relation to goods received.
Dividend payable	**(25.0)**	Payment of dividends and lower dividends declared.
Notes payable	**1.6**	Increased short term borrowing needs.
Contract liabilities	**(1.2)**	Timing of revenue recognition related to contract liabilities.
Other liabilities	**(1.6)**	Amortization of previous funding to income.
Deferred income – government funding	**(0.6)**	No significant change.
Long-term debt	**38.6**	New debt issues and amortization.
Lease liabilities	**(1.9)**	Net repayment of lease liabilities.
Employee benefit obligations	**(0.8)**	No significant change.
Provisions	**0.1**	No significant change.
Equity	**28.3**	Total comprehensive income less dividends declared.

Cash Flows

Cash provided by operating activities

Millions of dollars	2022	2021	Change	% Change
Six months ended September 30,	$177.0	$212.7	$(35.7)	(16.8)

Cash provided by operating activities for the six months ended September 30, 2022, was $177.0 million, a decrease of $35.7 million (16.8%) compared to the same period in 2021/22 primarily due to decreased working capital.

Cash used in investing activities

Millions of dollars	2022	2021	Change	% Change
Six months ended September 30,	$172.9	$160.7	$12.2	7.6

Cash used in investing activities for the six months ended September 30, 2022, was $172.9 million, an increase of $12.2 million (7.6%) from the same period in 2021/22 primarily due to ongoing investment in fixed and wireless networks to improve the coverage, capacity, reliability, and speed of our networks.

Cash provided by (used in) financing activities

Millions of dollars	2022	2021	Change	% Change
Six months ended September 30,	$(18.8)	$42.5	$(61.3)	(144.2)

Cash used in financing activities for the six months ended September 30, 2022, was $18.8 million, a change of $61.3 million (144.2%) primarily due to decreased net borrowing compared to the same period in 2021.

Capital Resource Ratio

Debt ratio

	September 30, 2022	March 31, 2022	Change
Debt ratio	54.8%	54.6%	0.2

The debt ratio increased to 54.8%, an increase of 0.2 percentage points from March 31, 2022. The overall level of net debt increased by $47.8 million during the period due to increased net borrowing.

Equity increased $28.3 million in the second quarter of 2022/23 after recording a net income of $54.2 million, other comprehensive loss of $5.8 million, and declared dividends of $20.1 million.

The debt ratio is calculated as net debt divided by end-of-period capitalization. Net debt is defined as total debt, including total long-term debt, notes payable, and bank indebtedness, excluding lease liabilities, less sinking funds, and cash. Capitalization includes net debt, equity advances, accumulated other comprehensive income and retained earnings at the period end.

Capital Expenditures

Millions of dollars	**2022**	2021	Change	% Change
Property, plant and equipment	**$164.1**	$123.7	$40.4	32.7
Intangible assets	**13.4**	9.6	3.8	39.6
Six months ended September 30,	**$177.5**	$133.3	$44.2	33.2

Total capital expenditures for the six months ended September 30, 2022, were $177.5 million, an increase of $44.2 million (33.2%) from the same period in 2021/22.

Spending on property, plant and equipment for the six months ended September 30, 2022, was $164.1 million, an increase of $40.4 million (32.7%) from the same period in 2021/22. The increase was due to 5G wireless network modernization and ongoing investment in our existing infrastructure offset by reduced spending due to the completion of fibre network initiatives. Spending on intangible assets was $13.4 million, an increase of $3.8 million (39.6%) from the same period in 2021/22 due to investments in system modernization.

Capital expenditures in 2022/23 will focus on further investment in the core Saskatchewan network including 5G network modernization, FTTX, wireless network enhancements and basic network growth. This core network investment will ensure increased internet access speeds; enhanced maxTV service; 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 to improve our customer's experience today and create opportunities to provide additional enhancements and capabilities in the future.

2022/23 Outlook

The 2021/22 SaskTel Annual Report identified a consolidated net income target for the fiscal year ended March 31, 2023. At this time, SaskTel has revised its target from $106.5 million to $100.4 million based on performance to date combined with management's forward-looking forecast.

Risk Assessment

The 2021/22 Annual Report discussed the key strategic and core business risks and uncertainties facing SaskTel that may inhibit SaskTel from achieving goals and targets outlined in its Strategic Plan including the following areas: customer experience, broadband, digital transformation, workforce, and financial sustainability. Core Business Risks are 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 enterprise risk management is in place. This is an iterative process designed to identify, evaluate, mitigate and control, report, monitor, and assess key corporate risks. As of September 30, 2022, SaskTel' key risk profile remains unchanged from that disclosed in its annual report dated March 31, 2022.

Condensed Consolidated Interim Financial Statements

Condensed Consolidated Interim Statement of Income and Other Comprehensive Loss

(Unaudited)

Thousands of dollars	Note	Three months ended September 30, 2022	Three months ended September 30, 2021	Six months ended September 30, 2022	Six months ended September 30, 2021
Revenue	3	**$329,234**	$322,121	**$645,626**	$633,304
Other income (expense)		**(209)**	684	**1,588**	942
		329,025	322,805	**647,214**	634,246
Expenses					
Goods and services purchased		**144,987**	135,383	**278,471**	263,673
Salaries, wages and benefits		**83,580**	84,366	**174,817**	175,696
Internal labour capitalized		**(5,837)**	(4,860)	**(11,685)**	(9,934)
Depreciation - property, plant & equipment	5	**49,702**	51,464	**99,087**	99,761
Depreciation - right-of-use assets		**1,647**	1,466	**3,275**	3,019
Amortization	6	**8,301**	8,466	**16,879**	16,665
Saskatchewan taxes		**7,156**	6,832	**17,435**	16,303
		289,536	283,117	**578,279**	565,183
Results from operating activities		**39,489**	39,688	**68,935**	69,063
Net finance expense	4	**7,125**	6,607	**14,729**	12,986
Net income		**32,364**	33,081	**54,206**	56,077
Other comprehensive income (loss)					
Items that will be reclassified to net income					
Unrealized gains (losses) on sinking funds		**(90)**	(478)	**(4,092)**	194
Items that will never be reclassified to net income					
Net actuarial losses on employee benefit obligations	8	**(854)**	(181)	**(1,708)**	(362)
Total other comprehensive loss		**(944)**	(659)	**(5,800)**	(168)
Total comprehensive income		**$31,420**	$32,422	**$48,406**	$55,909

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	Retained earnings	Total equity
Balance at April 1, 2022	**$237,000**	**$97,414**	**$859,310**	**$1,193,724**
Net income	**-**	**-**	**54,206**	**54,206**
Other comprehensive loss	**-**	**(5,800)**	**-**	**(5,800)**
Total comprehensive income	**-**	**(5,800)**	**54,206**	**48,406**
Dividends declared	**-**	**-**	**(20,090)**	**(20,090)**
Balance at September 30, 2022	**$237,000**	**$91,614**	**$893,426**	**$1,222,040**

Balance at April 1, 2021	$237,000	$102,666	$848,866	$1,188,532
Net income	-	-	56,077	56,077
Other comprehensive loss	-	(168)	-	(168)
Total comprehensive income	-	(168)	56,077	55,909
Dividends declared	-	-	(42,076)	(42,076)
Balance at September 30, 2021	$237,000	$102,498	$862,867	$1,202,365

See Accompanying Notes

Condensed Consolidated Interim Statement of Financial Position

As at Thousands of dollars	Note	(Unaudited) September 30, 2022	March 31, 2022
Assets			
Current assets			
Cash		$5,939	$20,628
Trade and other receivables		172,657	174,697
Inventories		21,751	23,531
Prepaid expenses and other assets		45,914	49,054
Contract assets		69,673	76,257
Contract costs		19,721	20,111
		335,655	364,278
Contract assets		23,588	28,316
Contract costs		53,705	55,292
Property, plant and equipment	5	2,149,514	2,087,832
Right-of-use assets		41,134	43,225
Intangible assets	6	395,965	399,879
Sinking funds		102,521	95,447
Other assets		9,526	9,261
		$3,111,608	$3,083,530
Liabilities and Province's equity			
Current liabilities			
Trade and other payables		$163,191	$172,666
Dividend payable		1,451	26,467
Notes payable		204,047	202,468
Contract liabilities		57,140	58,291
Lease liabilities		6,183	6,578
Other liabilities		3,477	5,064
		435,489	471,534
Contract liabilities		176	249
Deferred income – government funding		14,500	15,057
Long-term debt	7	1,386,161	1,347,583
Lease liabilities		36,960	38,433
Employee benefit obligations	8	9,901	10,665
Provisions		6,381	6,285
		1,889,568	1,889,806
Province of Saskatchewan's equity			
Equity advance		237,000	237,000
Accumulated other comprehensive income		91,614	97,414
Retained earnings		893,426	859,310
		1,222,040	1,193,724
		$3,111,608	$3,083,530

See Accompanying Notes

Condensed Consolidated Interim Statement of Cash Flows

Thousands of dollars	Note	(Unaudited) Six months ended September 30, 2022	2021
Operating activities			
Net income		**$54,206**	$56,077
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization		**119,241**	119,445
Net finance expense	4	**14,729**	12,986
Interest paid		**(23,531)**	(17,450)
Interest received		**3,400**	3,486
Amortization of government funding		**(1,385)**	(2,922)
Other		**2,691**	2,284
Net change in non-cash working capital	10	**7,658**	38,792
		177,009	212,698
Investing activities			
Property, plant and equipment expenditures		**(164,097)**	(121,722)
Intangible assets expenditures - finite life		**(8,828)**	(9,771)
Spectrum deposit		**-**	(29,213)
Government funding		**39**	-
		(172,886)	(160,706)
Financing activities			
Proceeds from long-term debt	7	**38,816**	251,527
Net repayment of notes payable		**1,579**	(139,976)
Payment of lease liabilities		**(3,051)**	(2,758)
Sinking fund instalments		**(11,050)**	(11,050)
Dividends paid		**(45,106)**	(55,196)
		(18,812)	42,547
Increase (decrease) in cash		**(14,689)**	94,539
Cash, beginning of period		**20,628**	23,694
Cash, end of period		**$5,939**	$118,233

See Accompanying Notes

Note 1 – General information

Saskatchewan Telecommunications Holding Corporation (the "Corporation") is a corporation located in Canada. The address of the Corporation's registered office is 2121 Saskatchewan Drive, Regina, SK, S4P 3Y2. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Holding Corporation Act* and, as such, the Corporation and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan ("CIC"). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation.

One of the Corporation's subsidiaries, Saskatchewan Telecommunications is regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC") under the *Telecommunications Act* (Canada).

The Corporation markets and supplies a range of wireless, voice, entertainment, internet, data, equipment, marketing, security, software products, and consulting services.

Effective April 1, 2022, one of the Corporation's subsidiaries, Directwest Corporation ("Directwest") entity was dissolved with its total net assets transferred to Saskatchewan Telecommunications at the dissolution date. Directwest continues to operate as a division within Saskatchewan Telecommunications.

Note 2 – Basis of presentation

Statement of compliance
These unaudited condensed consolidated financial statements (the interim financial statements) have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reportin*g. These interim financial statements do not include all of the disclosures included in the Corporation's annual consolidated financial statements. 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. Accordingly, these interim financial statements should be read in conjunction with the Corporation's most recent annual consolidated financial statements.

These interim financial statements were approved by the Corporation's Board of Directors on November 3, 2022.

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

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

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

Note 2 – Basis of presentation, continued

Use of estimates and judgments
The preparation of the interim financial statements in conformity with 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. These estimates and assumptions are based on several factors, including historical experience, current events, and actions that the Corporation may undertake in the future, and other assumptions that the Corporation believes are reasonable under the circumstances. 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:

- Revenue recognition,
- Use of the straight-line basis of depreciation and amortization,
- Classification of intangible assets – indefinite life,
- Classification of financial instruments,
- Accounting for government funding,
- Lease liability and right-of-use asset recognition, and
- Accounting for provisions.

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:

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

Comparative information

Certain elements of the prior period comparative information have been reclassified to conform with the financial statement presentation adopted for the current period.

Application of new International Financial Reporting Standards, and amendments to standards and interpretations

Certain new standards, interpretations and amendments to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for annual accounting periods beginning after April 1, 2022, or later periods. There was no impact to the interim financial statements upon adoption of these new standards and amendments to the existing standards.

Note 3 – Revenue from contracts with customers

Thousands of dollars	Three months ended September 30, 2022	Three months ended September 30, 2021	Six months ended September 30, 2022	Six months ended September 30, 2021
Revenue				
Wireless network services and equipment	**$156,008**	$152,439	**$303,540**	$294,287
Fixed broadband and data services	**74,469**	70,364	**148,240**	139,574
Wireline communication services	**41,939**	44,724	**84,533**	90,881
maxTV service	**23,991**	24,721	**48,394**	50,775
Security monitoring services	**8,722**	8,617	**17,336**	17,214
Marketing services	**5,678**	6,061	**11,688**	12,415
IT solutions services	**3,877**	3,404	**7,505**	6,555
International software and consulting services	**4,318**	2,791	**7,087**	4,886
Customer premise equipment	**3,485**	4,462	**6,493**	7,693
Other services	**6,747**	4,538	**10,810**	9,024
	$329,234	$322,121	**$645,626**	$633,304

Note 4 – Net finance expense

Thousands of dollars	Three months ended September 30, 2022	Three months ended September 30, 2021	Six months ended September 30, 2022	Six months ended September 30, 2021
Recognized in consolidated net income				
Interest on long-term debt	**$11,428**	$9,533	**$22,556**	$18,791
Interest on short-term debt	**966**	82	**1,332**	145
Interest capitalized	**(2,485)**	(922)	**(4,556)**	(1,681)
Interest on lease liabilities	**266**	250	**533**	502
Net interest on defined benefit liability	**(858)**	(223)	**(1,715)**	(446)
Accretion expense	**49**	41	**96**	81
Finance expense	**9,366**	8,761	**18,246**	17,392
Sinking fund earnings	**(595)**	(679)	**(116)**	(920)
Interest income	**(1,646)**	(1,475)	**(3,401)**	(3,486)
Finance income	**(2,241)**	(2,154)	**(3,517)**	(4,406)
Net finance expense	**$7,125**	$6,607	**$14,729**	$12,986
Interest capitalization rate			**2.99%**	2.83%

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, 2022	**$3,924,905**	**$652,415**	**$130,688**	**$141,940**	**$41,717**	**$4,891,665**
Additions	**54,753**	**-**	**10,027**	**99,257**	**75**	**164,112**
Transfers	**24,407**	**13,645**	**2,277**	**(40,329)**	**-**	**-**
Retirements, disposals and adjustments	**(109,898)**	**(1,602)**	**(5,698)**	**-**	**-**	**(117,198)**
Balance at September 30, 2022	**$3,894,167**	**$664,458**	**$137,294**	**$200,868**	**$41,792**	**$4,938,579**
Balance at April 1, 2021	$3,704,946	$613,989	$133,101	$199,286	$41,275	$4,692,597
Additions	82,062	-	28,833	183,712	577	295,184
Transfers	198,817	42,153	88	(241,058)	-	-
Retirements, disposals and adjustments	(60,920)	(3,727)	(31,334)	-	(135)	(96,116)
Balance at March 31, 2022	$3,924,905	$652,415	$130,688	$141,940	$41,717	$4,891,665
Accumulated depreciation						
Balance at April 1, 2022	**$2,516,266**	**$226,013**	**$61,554**	**$ -**	**$ -**	**$2,803,833**
Depreciation	**77,942**	**9,073**	**12,072**	**-**	**-**	**99,087**
Retirements, disposals and adjustments	**(108,811)**	**(1,169)**	**(3,875)**	**-**	**-**	**(113,855)**
Balance at September 30, 2022	**$2,485,397**	**$233,917**	**$69,751**	**$ -**	**$ -**	**$2,789,065**
Balance at April 1, 2021	$2,412,628	$210,683	$68,895	$ -	$ -	$2,692,206
Depreciation	160,049	16,621	23,168	-	-	199,838
Retirements, disposals and adjustments	(56,411)	(1,291)	(30,509)	-	-	(88,211)
Balance at March 31, 2022	$2,516,266	$226,013	$61,554	$ -	$ -	$2,803,833
Carrying amounts						
At April 1, 2022	**$1,408,639**	**$426,402**	**$69,134**	**$141,940**	**$41,717**	**$2,087,832**
At September 30, 2022	**$1,408,770**	**$430,541**	**$67,543**	**$200,868**	**$41,792**	**$2,149,514**
At April 1, 2021	$1,292,318	$403,306	$64,206	$199,286	$41,275	$2,000,391
At March 31, 2022	$1,408,639	$426,402	$69,134	$141,940	$41,717	$2,087,832

Change in estimates

The Corporation conducted a depreciation study on property, plant and equipment, which resulted in changes in the expected useful lives of various pieces of equipment effective July 1, 2022. The effect of these changes on expected depreciation expense is as follows:

	Fiscal year ending, March 31				
Thousands of dollars	2023	2024	2025	2026	2027
Increase (decrease) in depreciation expense	$1,929	$2,021	$493	$149	$(1,169)

Note 6 – Intangible assets

Thousands of dollars	Software	Spectrum licences	Under development	Total
Cost				
Balance at April 1, 2022	**$299,194**	**$267,280**	**$9,383**	**$575,857**
Acquisitions	**1,803**	**2,209**	**7,173**	**11,185**
Acquisitions – internally developed	**1,838**	**-**	**353**	**2,191**
Transfers	**814**	**-**	**(814)**	**-**
Retirements, disposals and adjustments	**(31,083)**	**-**	**-**	**(31,083)**
Balance at September 30, 2022	**$272,566**	**$269,489**	**$16,095**	**$558,150**
Balance at April 1, 2021	$304,612	$120,905	$8,750	$434,267
Acquisitions	5,300	146,375	13,739	164,244
Acquisitions – internally developed	4,070	-	434	4,504
Transfers	13,540	-	(13,540)	-
Retirements, disposals and adjustments	(28,328)	-	-	(27,158)
Balance at March 31, 2022	$299,194	$267,280	$9,383	$575,857
Accumulated amortization				
Balance at April 1, 2022	**$175,978**	**$ -**	**$ -**	**$175,978**
Amortization	**16,879**	**-**	**-**	**16,879**
Retirements, disposals and adjustments	**(30,672)**	**-**	**-**	**(30,672)**
Balance at September 30, 2022	**$162,185**	**$ -**	**$ -**	**$162,185**
Balance at April 1, 2021	$170,255	$ -	$ -	$170,255
Amortization	33,673	-	-	33,673
Retirements, disposals and adjustments	(27,950)	-	-	(27,950)
Balance at March 31, 2022	$175,978	$ -	$ -	$175,978
Carrying amounts				
At April 1, 2022	**$123,216**	**$267,280**	**$9,383**	**$399,879**
At September 30, 2022	**$110,381**	**$269,489**	**$16,095**	**$395,965**
At April 1, 2021	$134,357	$120,905	$8,750	$264,012
At March 31, 2022	$123,216	$267,280	$9,383	$399,879

Note 7 – Long-term debt

On May 12, 2022, the Corporation issued $50.0 million of long-term debt at a discount of $10.8 million through the Saskatchewan Ministry of Finance. The debt issue has a coupon rate of 2.80%, an effective interest rate of 3.58%, and matures on December 2, 2052.

Note 8 – Employee benefit obligations

Other comprehensive loss results, in part, from changes to actuarial assumptions related to the assets and liabilities of the Corporation's employee benefit plan, 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:

	2022/23	2021/22
June 30	**4.70%**	3.10%
September 30	**4.80%**	2.80%
December 31	**n/a**	3.00%
March 31	**n/a**	3.90%

In addition to the other comprehensive loss 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 which has been partially offset by the impact of the asset ceiling limit.

	Six months ended September 30,	
Thousands of dollars	**2022**	2021
Actuarial gain (loss) on accrued benefit obligation	**$71,520**	$(32,079)
Return on plan assets excluding interest income	**(79,682)**	56,120
Effect of asset ceiling limit	**6,454**	(24,403)
Net actuarial loss on employee benefit obligations	**$(1,708)**	$(362)

Note 9 – 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 revenue 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 expenditures. 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 2022/23 is 54.3%.

The Corporation raises most of its capital requirements through internal operating activities, short-term debt, 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.

Note 9 – Capital management, continued

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	**September 30, 2022**	March 31, 2022
Long-term debt	**$1,386,161**	$1,347,583
Notes payable	**204,047**	202,468
Less: Sinking funds	**102,521**	95,447
Cash	**5,939**	20,628
Net debt (a)	**1,481,748**	1,433,976
Province of Saskatchewan's equity (b)	**1,222,040**	1,193,724
Capitalization	**$2,703,788**	$2,627,700
Debt ratio	**54.8%**	54.6%

a) Net debt excludes lease liabilities
b) Equity includes equity advances, accumulated other comprehensive income, and retained earnings at the end of the period.

Note 10 – Additional financial information

Non-cash working capital changes

	Six months ended September 30,	
Thousands of dollars	**2022**	2021
Net change in non-cash working capital balances related to operations		
Trade and other receivables	**$2,040**	$18,254
Inventories	**1,780**	10,795
Prepaid expenses	**3,140**	(2,603)
Contract assets	**11,312**	2,657
Contract costs	**1,977**	668
Trade and other payables	**(10,600)**	7,306
Contract liabilities	**(1,224)**	2,024
Other liabilities	**(804)**	(309)
Other	**37**	-
	$7,658	$38,792

Note 11 – 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. At September 30, 2022, the Corporation had foreign currency derivatives outstanding with notional values of $28.9 million (2021/22 - $30.9 million) and maturities up to June 30, 2023. The Corporation does not actively trade financial instruments.

Market risks

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates, and equity prices. These risks have not changed significantly from the prior period.

Fair value

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, 2022**		March 31, 2022	
Thousands of dollars	Classification (a)	Fair value hierarchy	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial assets						
Cash	Amortized cost	Level 1	**$5,939**	**$5,939**	$20,628	$20,628
Trade and other receivables	Amortized cost	N/A	**181,808**	**181,808**	183,578	183,578
Sinking funds	FVOCI	Level 2	**102,521**	**102,521**	95,447	95,447
Foreign exchange derivative asset	FVTPL	Level 2	**2,058**	**2,058**	-	-
Financial liabilities						
Trade and other payables	Amortized cost	N/A	**$163,191**	**$163,191**	$172,666	$172,666
Notes payable	Amortized cost	Level 2	**204,047**	**204,047**	202,468	202,468
Long-term debt	Amortized cost	Level 2	**1,386,161**	**1,188,479**	1,347,583	1,301,191
Foreign exchange derivative liability	FVTPL	Level 2	**-**	**-**	499	499

(a) Classification details are:
- FVOCI – fair value through other comprehensive income,
- FVTPL – fair value through profit or loss

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, 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.

Note 11 – Financial risk management, continued

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.
Not applicable (N/A) – Financial instruments are carried at values which approximate fair value.

There were no items measured at fair value using Level 3 inputs during 2021/22 or to date in 2022/23 and no items transferred between levels in 2021/22 or to date in 2022/23.

Investments carried at fair value through OCI
Investments carried at fair value through OCI are categorized as Level 2 in the hierarchy consist of 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.

Derivative financial instruments carried at fair value through profit or loss
The fair value of derivative financial instruments that are used to manage foreign currency exposure risks are estimated based upon quoted market prices in active markets for the same or similar financial instruments or current rates offered to the Corporation for financial instruments of similar maturity, as well as discounted future cash flows determined using current rates for similar financial instruments of similar maturities subject to similar risks (such fair value estimates being largely based on the Canadian dollar versus U.S. dollar forward exchange rate as at the statement of financial position dates).

Credit risk
Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk relates to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Corporation does not have material concentrations of credit risk. Current credit risk relates to trade and other receivables, device financing receivables, unbilled revenue, contract assets, sinking funds, interest receivable and counterparties to financial derivatives. The maximum exposure to credit risk is represented by the carrying amounts reported in the statement of financial position. There is minimal credit risk related to non-customer related financial instruments and derivative instruments at September 30, 2022, due to the investment-grade assets held within the sinking funds and investment-grade counterparties to derivative instruments.

Credit risk related to customer related financial instruments is primarily reflected in the allowance for doubtful accounts.

	Three months ended		Six months ended	
Periods ended September 30, Thousands of dollars	**2022**	2021	**2022**	2021
Balance, beginning of period	**$3,816**	$6,626	**$3,975**	$7,578
Less: accounts written off	**(1,464)**	(1,077)	**(3,044)**	(3,196)
Recoveries	**454**	(535)	**895**	(118)
Provisions for losses	**1,018**	(595)	**1,998**	155
Balance, end of period	**$3,824**	$4,419	**$3,824**	$4,419