SaskTel

Second Quarter Report

Contents:

Saskatchewan Telecommunications Holding Corporation

Second Quarter Report 2013
For the Period Ending June 30, 2013

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

	Three months ended June 30,			Six months ended June 30,		
Millions of dollars	**2013**	2012	% Change	**2013**	2012	% Change
Revenue	**$292.6**	$290.2	0.8	**$582.5**	$575.2	1.3
Other income	**5.4**	3.6	50.0	**5.7**	4.8	18.8
	298.0	293.8	1.4	**588.2**	580.0	1.4
Expenses	**272.8**	255.6	6.7	**540.3**	510.7	5.8
Results from operating activities	**25.2**	38.2	(34.0)	**47.9**	69.3	(30.9)
Net finance expense	**11.2**	6.8	64.7	**19.7**	15.7	25.5
Net income	**$14.0**	$31.4	(55.4)	**$28.2**	$53.6	(47.4)

Net income for the six months ended June 30, 2013 is $28.2 million, down $25.4 million (47.4%) from the same period in 2012. Revenues increased to $582.5 million, up $7.3 million (1.3%) from the same period in 2012 primarily due to increased wireless revenue from customer growth and increased data usage, and *maxTV*™ revenues resulting from increased customer accesses and increased revenue per customer.

Expenses for the six months ended June 30, 2013 increased to $540.3 million, up $29.6 million from the same period in 2012. This increase is primarily driven by increased contract, software licenses and maintenance, consulting and direct expenses. Depreciation and amortization has increased $1.1 million due to increased plant in service. Net finance expense was $19.7 million, up $4.0 million over the same period in 2012. This is driven by increased borrowing and a decrease in the fair value of the sinking funds compared to the same period in 2012.

Management Discussion and Analysis

August 15, 2013

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the second quarter 2013. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the year ended December 31, 2012. 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 2012 annual report. These interim statements have been prepared in accordance with the International Financial Reporting Standard IAS 34, "Interim Financial Reporting". These interim statements have been approved by the SaskTel Board of Directors on August 15, 2013.

Results of Operations

Revenue

Millions of dollars	**2013**	2012	Change	%
Three months ended June 30,	**$292.6**	$290.2	$2.4	0.8
Year-to-date	**$582.5**	$575.2	$7.3	1.3

Revenues for the second quarter were $292.6 million, up $2.4 million from the same period in 2012. Year-to-date revenues were $582.5 million which represents a $7.3 million increase from 2012. This increase is primarily due to: increased wireless revenue from customer growth and increased data usage; increased *maxTV* revenues resulting from increased customer accesses and increased revenue per customer; increased Internet revenues due to high speed Internet customer growth, partially offset by decreases in SaskTel International revenues, and access and enhanced services revenue, due to residential and Centrex access decreases related to competition and wireless replacement.

Other income

Millions of dollars	**2013**	2012	Change	%
Three months ended June 30,	**$5.4**	$3.6	$1.8	50.0
Year-to-date	**$5.7**	$4.8	$0.9	18.8

Other income for the second quarter of 2013 increased to $5.4 million up $1.8 million from the same period in 2012. Year-to-date other income was $5.7 million, $0.9 million higher than the same period in 2012 primarily due to increased amortization of government funding partially offset by one-time refunds and adjustments recognized in the same period in 2012.

Expenses

Millions of dollars	**2013**	2012	Change	%
Three months ended June 30,	**$272.8**	$255.6	$17.2	6.7
Year-to-date	**$540.3**	$510.7	$29.6	5.8

Expenses for the second quarter of 2013 increased to $272.8 million, up $17.2 million from the same period in 2012. Year-to-date expenses of $540.3 million were $29.6 million higher than the same period in 2012 primarily due to a $20.0 million increase in goods and services purchased. This increase is primarily to support the growth areas of wireless and *maxTV*, as well as increased contract, software licenses and maintenance, consulting costs, and salaries and benefits due to salary restructuring and economic increases.

Net finance expense

Millions of dollars	**2013**	2012	Change	%
Three months ended June 30,	**$11.2**	$6.8	$4.4	64.7
Year-to-date	**$19.7**	$15.7	$4.0	25.5

Net finance expense for the second quarter of 2013 was $11.2 million up $4.4 million over the same period in 2012. Year-to-date net finance expense increased to $19.7 million from $15.7 million in 2012. This is driven by increased borrowing to fund the construction program and decreases in the fair value of the sinking funds compared to the same period in 2012.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	**2013**	2012	Change	%
Six months ended June 30,	**$108.9**	$104.0	$4.9	4.7

Cash provided by operating activities for the six months ended June 30, 2013 increased $4.9 million compared to the same period in 2012 primarily due to decreased working capital requirements, partially offset by decreased income from operations.

Cash used in investing activities

Millions of dollars	**2013**	2012	Change	%
Six months ended June 30,	**$128.3**	$115.1	$13.2	11.5

Cash used in investing activities in the six months ended June 30, 2013 increased to $128.3 million, up $13.2 million from the same period in 2012. SaskTel's net spending on property, plant and equipment for the first six months of 2013 was $110.2 million, up $16.8 million from the same period in 2012 primarily due to increased spending on Fibre to the Premises as well as enhancements to the 4G and LTE wireless networks, partially offset by government funding in the amount of $8.5 million related to the First Nations Service Improvement Project and Aboriginal Affairs and Northern Development funding for First Nations schools and health facilities. SaskTel's net spending on intangible assets was $26.6 million, down $2.6 million from the same period in 2012 primarily due to reduced spending on Customer Relationship Management software.

Capital expenditures for the balance of 2013 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 enhancements to the 4G cellular network, continued cellular network upgrade to LTE technology, network growth and refurbishment, further investment in *maxTV* Interactive Services, and improved high speed internet quality.

Cash provided by financing activities

Millions of dollars	**2013**	2012	Change	%
Six months ended June 30,	**$31.6**	$11.9	$19.7	165.5

Cash provided by financing activities in the six months ended June 30, 2013 increased to $31.6 million, up $19.7 million from the same period in 2012. This is primarily due to increased short term borrowings and reduced dividend payments, partially offset by reduced long term borrowing compared to 2012.

Liquidity and capital resource ratios

Debt ratio

	June 30, 2013	December 31, 2012
Debt ratio	**46.5%**	43.5%

The debt ratio increased to 46.5%, up from 43.5% at December 31, 2012. The December 31, 2012 debt ratio has been restated for the impact of the adoption of IAS 19 as discussed in Note 2 of the financial statements. Previously it was reported as 42.0%.

The overall level of net debt increased $66.3 million during the period due to increased short-term debt, partially offset by increased cash.

Retained earnings decreased by $8.3 million to the end of the second quarter of 2013 after recording net income of $28.2 million and dividends of $36.5 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 but excludes amounts included in accumulated other comprehensive loss.

2013 Outlook

The 2012 SaskTel Annual Report identified a consolidated net income target for 2013 of $93.8 million. At this time, SaskTel is projecting a net income of $78.6 million.

Risk Assessment

The 2012 Annual Report discusses the risks and uncertainties in SaskTel's business environment. They include developments in the technological, economic and regulatory environments, competitive activity and cost management initiatives. SaskTel's basic risk profile remains unchanged as at June 30, 2013. 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 Interim Statement of Income and Other Comprehensive Income

		(Unaudited)			
		Three months ended June 30,		Six months ended June 30,	
		2013	2012	**2013**	2012
Thousands of dollars	Note		(Restated - Note 2)		(Restated - Note 2)
Revenue	4	**$292,594**	$290,251	**$582,499**	$575,221
Other income	4	**5,390**	3,562	**5,749**	4,740
		297,984	293,813	**588,248**	579,961
Expenses					
Goods and services purchased		**143,582**	132,430	**277,620**	257,629
Salaries, wages and benefits		**90,776**	84,692	**183,751**	173,838
Depreciation	7	**37,289**	38,745	**74,819**	78,614
Amortization		**7,097**	5,381	**15,392**	10,492
Internal labour capitalized		**(5,964)**	(5,600)	**(11,243)**	(9,923)
		272,780	255,648	**540,339**	510,650
Results from operating activities		**25,204**	38,165	**47,909**	69,311
Net finance expense	5	**11,199**	6,767	**19,723**	15,723
Net income		**14,005**	31,398	**28,186**	53,588
Other comprehensive income (loss)					
Net actuarial gains (losses) on defined benefit pension plan	6	**49,872**	(56,987)	**48,448**	(39,288)
Total comprehensive income (loss)		**$63,877**	**$(25,589)**	**$76,634**	**$14,300**

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 loss (Restated - Note 2)	Retained earnings (Restated - Note 2)	Total equity
Balance at January 1, 2013	**$250,000**	**$(169,390)**	**$498,247**	**$578,857**
Net income	**-**	**-**	**28,186**	**28,186**
Other comprehensive income	**-**	**48,448**	**-**	**48,448**
Total comprehensive income for the period	**-**	**48,448**	**28,186**	**76,634**
Dividends	**-**	**-**	**36,495**	**36,495**
Balance at June 30, 2013	**$250,000**	**$(120,942)**	**$489,938**	**$618,996**
Balance at January 1, 2012	$250,000	$(154,352)	$476,234	$571,882
Net income	-	-	53,588	53,588
Other comprehensive loss	-	(39,288)	-	(39,288)
Total comprehensive income (loss) for the period	-	(39,288)	53,588	14,300
Dividends	-	-	34,515	34,515
Balance at June 30, 2012	$250,000	$(193,640)	$495,307	$551,667

See Accompanying Notes

Condensed Consolidated Interim Statement of Financial Position

As at Thousands of dollars	Note	June 30, 2013	(Unaudited) December 31, 2012 (Restated - Note 2)	January 1, 2012 (Restated - Note 2)
Assets				
Current assets				
Cash		**$15,667**	$3,466	$7,998
Trade and other receivables	12a	**107,424**	129,776	109,920
Inventories	12a	**15,444**	8,570	8,774
Prepaid expenses	12a	**29,235**	23,101	18,894
		167,770	164,913	145,586
Property, plant and equipment	7	**1,370,030**	1,335,155	1,232,019
Intangible assets	8	**221,634**	210,520	168,875
Sinking funds		**86,574**	86,695	78,444
Other assets		**10,646**	12,760	10,317
		$1,856,654	$1,810,043	$1,635,241
Liabilities and Province's equity				
Current liabilities				
Trade and other payables	12a	**$134,413**	$158,874	$132,133
Dividend payable		**15,395**	22,881	44,834
Notes payable		**163,800**	85,600	105,000
Other liabilities	12a	**66,237**	63,362	60,140
		379,845	330,717	342,107
Deferred revenue		**7,623**	8,067	8,940
Deferred income – government funding	9	**49,635**	47,985	41,470
Employee benefit obligations		**219,532**	263,536	237,870
Long-term debt		**581,023**	580,881	432,972
		1,237,658	1,231,186	1,063,359
Commitments	11			
Province of Saskatchewan's equity				
Equity advance		**250,000**	250,000	250,000
Accumulated other comprehensive loss		**(120,942)**	(169,390)	(154,352)
Retained earnings		**489,938**	498,247	476,234
		618,996	578,857	571,882
		$1,856,654	$1,810,043	$1,635,241

See Accompanying Notes

Condensed Consolidated Interim Statement of Cash Flows

Thousands of dollars	Note	(Unaudited) Six months ended June 30, 2013	2012 (Restated - Note 2)
Operating activities			
Net income		**$28,186**	$53,588
Adjustments to reconcile net income to cash provided by operations			
Depreciation and amortization		**90,211**	89,106
Contributions to defined benefit pension plan		**-**	(121)
Pension expense of defined benefit plans		**167**	-
Net financing expense	5	**19,723**	15,723
Interest paid		**(16,698)**	(14,184)
Interest received		**926**	1,129
Amortization of government funding	9	**(6,845)**	(2,497)
Other		**4,609**	3,639
Net change in non-cash working capital	12b	**(11,416)**	(42,417)
		108,863	103,966
Investing activities			
Property, plant and equipment expenditures		**(110,161)**	(93,381)
Intangible assets expenditures		**(26,629)**	(29,246)
Government funding		**8,509**	7,504
		(128,281)	(115,123)
Financing activities			
Proceeds from long-term debt		**-**	147,639
Net proceeds (repayment) of notes payable		**78,200**	(75,000)
Sinking fund installments		**(2,600)**	(1,100)
Dividends paid		**(43,981)**	(59,641)
		31,619	11,898
Increase in cash		**12,201**	741
Cash, beginning of period		**3,466**	7,998
Cash, end of period		**$15,667**	$8,739

See Accompanying Notes

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the six months ended June 30, 2013

Note 1 – Basis of preparation

The condensed consolidated interim financial statements as at and for the six months ended June 30, 2013 should be read in conjunction with the Saskatchewan Telecommunications Holding Corporation's (the Corporation) December 31, 2012 audited consolidated financial statements. The condensed consolidated 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. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

The condensed consolidated interim financial statements as at and for the six months ended June 30, 2013 were approved by the Board of Directors on August 15, 2013.

a) Basis of measurement

The condensed consolidated 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 condensed consolidated 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 condensed consolidated 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 condensed consolidated interim 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 – Application of revised International Financial Reporting Standards

a. Amendments to IAS 19 Employee Benefits (IAS 19)

The amendments to IAS 19 require that all actuarial gains and losses be recognized immediately in other comprehensive income (OCI) and that the calculation of interest income or expense on the defined benefit obligation and assets be based on the net defined benefit obligation or asset and the discount rate that is used to measure the defined benefit obligation. The calculated amount is required to be disclosed as a net interest income or expense amount. Historically, the Corporation had calculated and separately disclosed; the interest expense on the defined benefit obligation based on the discount rate that is used to measure the defined benefit obligation, and interest income on the defined benefit assets based on the long term expected rate of return on plan assets. The Corporation has chosen to recognize the net interest expense or income as a component of net finance expense and has chosen to report OCI in accumulated other comprehensive income. The new standard also requires additional disclosures.

The Corporation has applied the provisions of IAS 19 retrospectively, in accordance with the transition provisions of the standard.

The impacts of the application of amendments to IAS 19 are as follows:

Impact on net income

Thousands of dollars	Three months ended June 30, 2012	Six months ended June 30, 2012	Year ended December 31, 2012
Increase in salaries, wages and benefits	$2,835	$5,673	$11,808
Increase in net finance expense	2,877	5,753	11,547
Decrease in net income	$5,712	$11,426	$23,355

Impact on other comprehensive income

Thousands of dollars	Three months ended June 30, 2012	Six months ended June 30, 2012	Year ended December 31, 2012
Increase in other comprehensive income	$5,712	$11,426	$23,355

Impact on equity as at January 1, 2012

Thousands of dollars	As previously reported	Adjustments	As restated
Accumulated other comprehensive loss increase	$ -	$(154,352)	$(154,352)
Retained earnings increase	$321,882	154,352	476,234
Total effect on equity	$321,882	$ -	$321,882

Note 2 – Application of revised International Financial Reporting Standards, continued

Impact on equity as at December 31, 2012

Thousands of dollars	As previously reported	Adjustments	As restated
Accumulated other comprehensive loss increase	$ -	$(169,390)	$(169,390)
Retained earnings increase	$328,857	169,390	498,247
Total effect on equity	$328,857	$ -	$328,857

b. Other new standards

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2013, have been applied in preparing these condensed consolidated interim financial statements:

- IFRS 10, Consolidated Financial Statements and IAS 27, Separate Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Interests in Other Entities
- IFRS 13, Fair Value Measurement
- Amendments to IAS 1, Presentation of Financial Statements
- Amendments to IAS 28, Investments in Associates and Joint Ventures
- Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities and IFRS 7, Disclosures

The adoption of these standards had no material impact on the condensed consolidated interim financial statements. The new disclosure requirements will be provided in the 2013 annual consolidated financial statements.

Note 3 – Summary of significant accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with IFRS. The accounting policies used in the preparation of these condensed consolidated interim financial statements conform with those used in the Corporation’s most recent annual consolidated financial statements except as stated in Note 2 **–** Application of revised International Financial Reporting Standards, and have been applied consistently to all periods presented in these condensed consolidated 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, 2013. The Corporation has assessed that there will not be a significant impact of these pronouncements on its results and financial position.

These include:

- IFRS 9 Financial Instruments (IFRS 9 (2012)) amends IFRS 9 (2010) and IFRS 7 to defer the effective date of IFRS 9 and provide additional disclosures about initial adoption of IFRS 9. IFRS 9 (2012) is effective for annual periods beginning on or after January 1, 2015.

Note 4 – Revenue

Thousands of dollars	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Services revenue				
Wireless	**$115,032**	$112,863	**$229,473**	$222,378
maxTV, Internet and data services	**73,061**	70,203	**144,669**	137,419
Local service	**64,084**	67,389	**128,539**	134,200
Long distance services	**14,654**	15,483	**29,433**	30,811
Advertising and directory services	**4,894**	4,825	**10,195**	9,933
Security monitoring services	**5,080**	4,938	**10,112**	9,806
Telecommunication software	**1,791**	1,892	**3,605**	4,579
Other revenue	**13,998**	12,658	**26,473**	26,095
	292,594	290,251	**582,499**	575,221
Other income				
Net gain (loss) on retirement or disposal of property, plant and equipment	**(156)**	339	**(926)**	331
Amortization of government funding	**5,615**	1,270	**6,845**	2,497
Other	**(69)**	1,953	**(170)**	1,912
	5,390	3,562	**5,749**	4,740
	$297,984	$293,813	**$588,248**	$579,961

Note 5 – Net finance expense

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Thousands of dollars		(Restated - Note 2)		(Restated - Note 2)
Recognized in consolidated net income				
Interest expense on financial liabilities measured at amortized cost	**$8,433**	$8,121	**$16,852**	$15,861
Interest capitalized	**(2,272)**	(1,644)	**(3,861)**	(3,401)
Net interest expense	**6,161**	6,477	**12,991**	12,460
Net change in fair value of financial assets at fair value through profit or loss	**4,373**	-	**5,534**	1,639
Net interest on defined benefit liability	**2,468**	2,877	**4,937**	5,753
Finance expense	**13,002**	9,354	**23,462**	19,852
Interest income on unimpaired financial assets at fair value through profit or loss	**(1,355)**	(1,423)	**(2,813)**	(3,001)
Net change in fair value of financial assets at fair value through profit or loss	**-**	(568)	**-**	-
Interest income on loans and receivables	**(448)**	(596)	**(926)**	(1,128)
Finance income	**(1,803)**	(2,587)	**(3,739)**	(4,129)
Net finance expense	**$11,199**	$6,767	**$19,723**	$15,723
Interest capitalization rate			**4.78%**	5.33%

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:

	2013	2012
March 31	**3.80%**	4.20%
June 30	**4.00**	4.00
September 30	**n/a**	3.80
December 31	**n/a**	3.80

Note 6 – Employee benefit obligations, continued

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 decrease in the employee benefit obligations for the period.

	Three months ended June 30,		Six months ended June 30,	
Thousands of dollars	**2013**	2012	**2013**	2012
Actuarial gain (loss) on accrued benefit obligation	**$26,667**	$(26,465)	**$26,667**	$(39,513)
Actuarial gain (loss) on plan assets	**23,205**	(30,522)	**21,781**	225
Actuarial gains (losses) on employee benefit plans	**$49,872**	$(56,987)	**$48,448**	$(39,288)

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the six months ended June 30, 2013

Note 7 – 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, 2013	**$2,814,117**	**$411,044**	**$119,612**	**$143,554**	**$34,254**	**$3,522,581**
Additions	**19,522**	**1,474**	**5,742**	**85,768**	**40**	**112,546**
Transfers	**59,608**	**7,729**	**169**	**(68,228)**	**722**	**-**
Retirements and disposals	**(8,037)**	**-**	**(1,506)**	**-**	**-**	**(9,543)**
Balance at June 30, 2013	**$2,885,210**	**$420,247**	**$124,017**	**$161,094**	**$35,016**	**$3,625,584**
Balance at January 1, 2012	$2,642,439	$393,522	$97,609	$115,742	$32,468	$3,281,780
Additions	48,670	12	20,445	193,902	1,010	264,039
Transfers	146,079	17,579	1,565	(166,090)	867	-
Retirements and disposals	(23,071)	(69)	(7)	-	(91)	(23,238)
Balance at December 31, 2012	$2,814,117	$411,044	$119,612	$143,554	$34,254	$3,522,581
Accumulated depreciation						
Balance at January 1, 2013	**$2,009,398**	**$115,465**	**$62,563**	**$ -**	**$ -**	**$2,187,426**
Depreciation for the period	**60,830**	**4,607**	**9,382**	**-**	**-**	**74,819**
Retirements and disposals	**(6,659)**	**-**	**(32)**	**-**	**-**	**(6,691)**
Balance at June 30, 2013	**$2,063,569**	**$120,072**	**$71,913**	**$ -**	**$ -**	**$2,255,554**
Balance at January 1, 2012	$1,902,085	$106,685	$40,991	$ -	$ -	$2,049,761
Depreciation for the year	127,061	8,828	17,759	-	-	153,648
Retirements, disposals and adjustments	(19,748)	(48)	3,813	-	-	(15,983)
Balance at December 31, 2012	$2,009,398	$115,465	$62,563	$ -	$ -	$2,187,426
Carrying amounts						
At January 1, 2013	**$804,719**	**$295,579**	**$57,049**	**$143,554**	**$34,254**	**$1,335,155**
At June 30, 2013	**$821,641**	**$300,175**	**$52,104**	**$161,094**	**$35,016**	**$1,370,030**
At January 1, 2012	$740,354	$286,837	$56,618	$115,742	$32,468	$1,232,019
At December 31, 2012	$804,719	$295,579	$57,049	$143,554	$34,254	$1,335,155

At June 30, 2013 the Corporation had property, plant and equipment that was fully depreciated and still in use with a cost of $1.6 billion (December 31, 2012 – $1.6 billion).

Note 8 – Intangible assets

Thousands of dollars	Goodwill	Software	Customer accounts	Spectrum licenses	Under development	Total
Cost						
Balance at January 1, 2013	**$5,976**	**$170,996**	**$67,539**	**$65,981**	**$32,980**	**$343,472**
Acquisitions	**14**	**11,987**	**1,427**	**-**	**4,208**	**17,636**
Acquisitions – internally developed	**-**	**451**	**-**	**-**	**8,422**	**8,873**
Transfers	**-**	**7,527**	**-**	**-**	**(7,527)**	**-**
Balance at June 30, 2013	**$5,990**	**$190,961**	**$68,966**	**$65,981**	**$38,083**	**$369,981**
Balance at January 1, 2012	$5,976	$110,578	$62,099	$65,981	$33,158	$277,792
Acquisitions	-	28,210	5,440	-	14,929	48,579
Acquisitions – internally developed	-	465	-	-	16,781	17,246
Transfers	-	31,888	-	-	(31,888)	-
Retirements and disposals	-	(145)	-	-	-	(145)
Balance at December 31, 2012	$5,976	$170,996	$67,539	$65,981	$32,980	$343,472
Accumulated amortization						
Balance at January 1, 2013	**$ -**	**$89,801**	**$43,151**	**$ -**	**$ -**	**$132,952**
Amortization for the period	**-**	**13,267**	**2,128**	**-**	**-**	**15,395**
Balance at June 30, 2013	**$ -**	**$103,068**	**$45,279**	**$ -**	**$ -**	**$148,347**
Balance at January 1, 2012	$ -	$70,416	$38,501	$ -	$ -	$108,917
Amortization for the year	-	19,530	4,650	-	-	24,180
Retirements and disposals	-	(145)	-	-	-	(145)
Balance at December 31, 2012	$ -	$89,801	$43,151	$ -	$ -	$132,952
Carrying amounts						
At January 1, 2013	**$5,976**	**$81,195**	**$24,388**	**$65,981**	**$32,980**	**$210,520**
At June 30, 2013	**$5,990**	**$87,893**	**$23,687**	**$65,981**	**$38,083**	**$221,634**
At January 1, 2012	$5,976	$40,162	$23,598	$65,981	$33,158	$168,875
At December 31, 2012	$5,976	$81,195	$24,388	$65,981	$32,980	$210,520

At June 30, 2013 the Corporation had intangible assets that were fully amortized and still in use with a cost of $50.9 million (December 31, 2012 – $44.5 million).

Note 9 – Deferred income – government funding

In conjunction with the Aboriginal Affairs and Northern Development (AAND) funding agreement, the Corporation has received additional funding of $7.5 million during the period for internet service to selected First Nations schools and health facilities in Saskatchewan as well as $1.0 million in conjunction with the First Nations Service Improvement Project (FNSIP).

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.

As at			June 30, 2013			December 31, 2012
Thousands of dollars	**RIP**	**SCN**	**FNSIP**	**AAND**	**Total**	Total
Balance, beginning	**$40,297**	**$1,132**	**$6,844**	**$4,514**	**$52,787**	$46,045
Funding	**-**	**-**	**984**	**7,525**	**8,509**	11,417
	40,297	**1,132**	**7,828**	**12,039**	**61,296**	57,462
Amortization	**2,143**	**36**	**288**	**4,378**	**6,845**	4,675
	38,154	**1,096**	**7,540**	**7,661**	**54,451**	52,787
Current portion	**4,285**	**45**	**486**	**-**	**4,816**	4,802
Balance, ending	**$33,869**	**$1,051**	**$7,054**	**$7,661**	**$49,635**	$47,985

Note 10 – Fair value of financial instruments

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

As at		June 30, 2013		December 31, 2012	
Thousands of dollars	Classification (a)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets					
Investments - sinking funds	FVTPL	**$86,574**	**$86,574**	$86,695	$86,695
Financial liabilities					
Long-term debt	OL	**$581,023**	**$683,446**	$580,881	$720,763

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

Note 10 – Fair value of financial instruments, continued

Determination of fair value

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 2012 or 2013.

There were no items transferred between levels in 2012 or 2013.

As at	**June 30, 2013**			December 31, 2012		
Thousands of dollars	**Level 1**	**Level 2**	**Total**	Level 1	Level 2	Total
Sinking funds	**$ -**	**$86,574**	**$86,574**	$ -	$86,695	$86,695
Long-term debt	**$ -**	**$683,446**	**$683,446**	$ -	$720,763	$720,763

Note 11 – Commitments

At June 30, 2013, the Corporation has committed to spend $108.7 million (December 31, 2012 - $134.2 million) on property, plant, equipment and $1.6 million (December 31, 2012 - $1.3 million) on intangible assets and $78.9 million (December 31, 2012 - $116.7 million) related to future operations.

Note 12 – Additional financial information

a) Statement of Financial Position

As at Thousands of dollars	**June 30, 2013**	December 31, 2012	January 1, 2012
Trade and other receivables			
Customer accounts receivable	**$89,216**	$91,798	$76,634
Accrued receivables - customer	**12,426**	25,543	23,820
Allowance for doubtful accounts	**(2,639)**	(2,711)	(2,472)
	99,003	114,630	97,982
High cost serving area subsidy	**2,715**	2,726	5,341
Other	**5,706**	12,420	6,597
	$107,424	$129,776	$109,920
Inventories			
Inventories for resale	**$11,473**	$6,371	$4,872
Materials and supplies	**3,971**	2,199	3,902
	$15,444	$8,570	$8,774
Prepaid expenses			
Prepaid expenses	**$22,347**	$16,165	$13,862
Deferred service connection charges	**4,300**	4,392	4,448
Short-term prepaid customer incentives	**2,588**	2,544	584
	$29,235	$23,101	$18,894
Trade and other payables			
Trade accounts payable and accrued liabilities	**$91,290**	$119,843	$90,932
Payroll and other employee-related liabilities	**32,594**	32,929	30,228
Other	**10,529**	6,102	10,973
	$134,413	$158,874	$132,133
Other liabilities			
Advance billings	**$49,572**	$46,358	$42,962
Deferred customer activation and connection fees	**5,353**	5,481	6,435
Current portion of deferred income - government funding	**4,816**	4,802	4,575
Customer deposits	**6,496**	6,721	6,168
	$66,237	$63,362	$60,140

Note 12 – Additional financial information, continued

b) Supplementary cash flow information

Thousands of dollars	Six months ended June 30, 2013	2012
Net change in non-cash working capital balances related to operations		
Trade and other receivables	**$22,166**	$(5,573)
Inventories	**(6,874)**	(1,750)
Prepaid expenses	**(6,134)**	(11,342)
Trade and other payables	**(24,473)**	(28,049)
Services billed in advance	**2,861**	4,963
Deferred revenue	**(444)**	231
Long-term prepaid customer incentives	**1,192**	(489)
Deferred expenses	**290**	(408)
	$(11,416)	$(42,417)

Note 13 – 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 2013 is 46.5% (48.1% adjusted for IAS 19 Employee benefits adoption).

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

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

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

Note 13 – Capital management, continued

The debt ratio is as follows:

As at Thousands of dollars	**June 30, 2013**	December 31, 2012 (Restated - Note 2)	January 1, 2012 (Restated - Note 2)
Total debt (a)	**$744,823**	$666,481	$537,972
Less: Sinking funds	**86,574**	86,695	78,444
Cash and short-term investments	**15,667**	3,466	7,998
Net debt	**642,582**	576,320	451,530
Equity (b)	**739,938**	748,247	726,234
Capitalization	**$1,382,520**	$1,324,567	$1,177,764
Debt ratio	**46.5%**	43.5%	38.3%

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 but excludes accumulated other comprehensive loss.