

# Third Quarter Report

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Saskatchewan Telecommunications  
Holding Corporation

Third Quarter Report 2022/23  
For the Period Ending December 31, 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   |
|----------------------|----------------------|---------------------------------------|------------------------|
| <b>\$84.9M</b>       | <b>\$1,000.1M</b>    | <b>8.7%</b>                           | <b>\$266.3M</b>        |
| +0.5% vs. Q3 2021/22 | +2.6% vs. Q3 2021/22 | +0.3 percentage points vs. Q3 2021/22 | (27.3%) vs. Q3 2021/22 |

### CUSTOMER CONNECTIONS

| Broadband Internet                  | maxTV Service                       | Wireless                            | Fibre                               | Wireline Voice                      |
|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>+2.4%</b>                        | <b>(1.6%)</b>                       | <b>+1.5%</b>                        | <b>+8.5%</b>                        | <b>(6.1%)</b>                       |
| Subscriber Growth yr/yr             | Subscriber Decline yr/yr            | Subscriber Growth yr/yr             | Subscriber Growth yr/yr             | Subscriber Decline yr/yr            |
| <u>December 2022</u> <u>878,424</u> | <u>December 2022</u> <u>110,350</u> | <u>December 2022</u> <u>656,858</u> | <u>December 2022</u> <u>177,208</u> | <u>December 2022</u> <u>260,885</u> |
| December 2021    857,948            | December 2021    112,094            | December 2021    647,175            | December 2021    163,398            | December 2021    277,780            |
| 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 |         |        |          | Nine months ended |         |        |          |
|-----------------------------------|--------------------|---------|--------|----------|-------------------|---------|--------|----------|
|                                   | 2022               | 2021    | Change | % Change | 2022              | 2021    | Change | % Change |
|                                   |                    |         |        |          |                   |         |        |          |
|                                   |                    |         |        |          |                   |         |        |          |
| Revenue                           | \$354.5            | \$341.7 | \$12.8 | 3.7      | \$1,000.1         | \$975.0 | \$25.1 | 2.6      |
| Other income (expense)            | (1.4)              | 1.8     | (3.2)  | (177.8)  | 0.2               | 2.8     | (2.6)  | (92.9)   |
|                                   | 353.1              | 343.5   | 9.6    | 2.8      | 1,000.3           | 977.8   | 22.5   | 2.3      |
| Expenses                          | 314.4              | 307.8   | 6.6    | 2.1      | 892.7             | 873.0   | 19.7   | 2.3      |
| Results from operating activities | 38.7               | 35.7    | 3.0    | 8.4      | 107.6             | 104.8   | 2.8    | 2.7      |
| Net finance expense               | 8.0                | 7.3     | 0.7    | 9.6      | 22.7              | 20.3    | 2.4    | 11.8     |
| Net income                        | \$30.7             | \$28.4  | \$2.3  | 8.1      | \$84.9            | \$84.5  | \$0.4  | 0.5      |

Net income for the nine months ended December 31, 2022, was \$84.9 million, an increase of \$0.4 million (0.5%) from the same period in 2021/22.

Revenue for the nine months ended December 31, 2022, was \$1,000.1 million, an increase of \$25.1 million (2.6%) from the same period in 2021/22 primarily due to continued growth in wireless network services and equipment; fixed broadband and data services; and international software and consulting services. The increase was partially offset by reduced wireline communication services.

Expenses for the nine months ended December 31, 2022, were \$892.7 million, an increase of \$19.7 million (2.3%) from the same period in 2021/22. This increase was primarily due to increased goods and services purchased.

Net finance expense for the nine months ended December 31, 2022, was \$22.7 million, an increase of \$2.4 million (11.8%) over the same period in 2021/22. The increase was driven by an increase in interest expense resulting from higher net debt and higher interest rates, partially offset by capitalized interest on assets under construction.

# Management's Discussion and Analysis

February 9, 2023

## Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the third 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 February 9, 2023.

## Results of Operations

### Revenue

| Millions of dollars             | 2022    | 2021    | Change | % Change |
|---------------------------------|---------|---------|--------|----------|
| Three months ended December 31, | \$354.5 | \$341.7 | \$12.8 | 3.7      |
| Nine months ended December 31,  | 1,000.1 | 975.0   | 25.1   | 2.6      |

Revenue for the third quarter of 2022/23 was \$354.5 million, a \$12.8 million (3.7%) increase from the same period in 2021/22.

Year-to-date revenue was \$1,000.1 million, a \$25.1 million (2.6%) increase year-over-year. The increase was due to growth in wireless network services and equipment comprised of wholesale revenues resulting from increased network usage by customers of other carriers; a larger wireless retail subscriber base with a higher proportion of converged customers; and increased customer roaming. The increase was augmented by growth in fixed broadband and data services comprised of continued customer demand for higher bandwidth services and increased fibre accesses. Revenue from international software and consulting increased due to conversion projects. The increases were partially offset by lower wireline communication services due to the ongoing erosion of legacy voice revenues and reduced maxTV service revenue due to lower add-on services.

## Results of operations, continued

### Expenses

| Millions of dollars             | 2022    | 2021    | Change | % Change |
|---------------------------------|---------|---------|--------|----------|
| Three months ended December 31, | \$314.4 | \$307.8 | \$6.6  | 2.1      |
| Nine months ended December 31,  | 892.7   | 873.0   | 19.7   | 2.3      |

Expenses for the third quarter of 2022/23 were \$314.4 million, a \$6.6 million (2.1%) increase from the same period in 2021/22.

Year-to-date expenses were \$892.7 million, a \$19.7 million (2.3%) increase from the same period in 2021/22. Goods and services purchased, excluding direct expenses, increased by \$8.6 million due to increased software licenses and maintenance costs incurred to modernize internal and customer-facing systems in addition to a return to normal allowances for expected credit losses (ECL) compared to the fiscal year 2021/22 that saw lower ECL as a result of lower customer defaults than the established allowances. Direct expenses increased \$11.8 million primarily due to increased average device cost from premium device sales and increased customer premise equipment sales.

### Net finance expense

| Millions of dollars             | 2022  | 2021  | Change | % Change |
|---------------------------------|-------|-------|--------|----------|
| Three months ended December 31, | \$8.0 | \$7.3 | \$0.7  | 9.6      |
| Nine months ended December 31,  | 22.7  | 20.3  | 2.4    | 11.8     |

Net finance expense for the third quarter of 2022/23 was \$8.0 million, a \$0.7 million (9.6%) increase from the same period in 2021/22.

Year-to-date net finance expense was \$22.7 million, a \$2.4 million (11.8%) 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 by \$1.5 million due to an increase in interest expense resulting from higher outstanding debt partially offset by increased interest capitalized and decreased net interest expense on defined benefit liabilities.

## Financial Condition

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

| Millions of dollars                      | Increase<br>(decrease) | Explanation  |
|--|------------------------|--|
| <b>Assets</b>                            |                        |  |
| Cash                                     | <b>\$(20.6)</b>        | See Condensed Consolidated Statement of Cash Flows.  |
| Trade and other receivables              | <b>22.0</b>            | Primarily due to the timing of vendor credits.   |
| Inventories                              | <b>15.6</b>            | Timing of receipt of previously delayed wireless devices and customer premise equipment.                   |
| Prepaid expenses and other assets        | <b>(4.5)</b>           | Amortization of contract invoices for software and maintenance.  |
| Contract assets                          | <b>(1.4)</b>           | Amortization of contracts partially offset by new contracts.   |
| Contract costs                           | <b>(1.3)</b>           | Amortization of contracts partially offset by new contracts.   |
| Property, plant and equipment            | <b>92.1</b>            | Capital spending primarily on wireless and fibre projects, partially offset by depreciation and disposals. |
| Right-of-use assets                      | <b>(4.7)</b>           | Depreciation and retirements of assets.  |
| Intangible assets                        | <b>(5.7)</b>           | Retirement and amortization, partially offset by capital spending.   |
| Sinking funds                            | <b>12.5</b>            | Installments offset by market value losses.  |
| Other assets                             | <b>1.8</b>             | Increased customer financing of wireless devices.  |
|  | <b>\$105.8</b>         |  |
| <b>Liabilities and Province's equity</b> |                        |  |
| Bank indebtedness                        | <b>\$2.2</b>           | See Condensed Consolidated Statement of Cash Flows.  |
| Trade and other payables                 | <b>(10.5)</b>          | Primarily due to the timing of payments for capital spending in relation to goods received.                |
| Dividend payable                         | <b>(14.6)</b>          | Payment of dividends and lower dividends declared.   |
| Notes payable                            | <b>56.6</b>            | Increased short-term borrowing due to the timing of long-term debt issuances.                              |
| Contract liabilities                     | <b>(4.2)</b>           | Timing of revenue recognition.   |
| Lease liabilities                        | <b>(4.8)</b>           | Net repayment of lease liabilities.  |
| Other liabilities                        | <b>(1.6)</b>           | Amortization of government funding.  |
| Deferred income – government funding     | <b>(0.7)</b>           | <i>No significant change.</i>  |
| Long-term debt                           | <b>38.5</b>            | Debt issuances, partially offset by net amortization.  |
| Employee benefit obligations             | <b>(1.0)</b>           | <i>No significant change.</i>  |
| Provisions                               | <b>0.1</b>             | <i>No significant change.</i>  |
| Equity advance                           | <b>-</b>               | <i>No significant change.</i>  |
| Accumulated other comprehensive income   | <b>(7.2)</b>           | See Condensed Consolidated Interim Statement of Income and Other Comprehensive Income (Loss).              |
| Retained earnings                        | <b>53.0</b>            | Net income, less dividends declared.   |
|  | <b>\$105.8</b>         |  |

## Cash Flows

### Cash provided by operating activities

| Millions of dollars            | 2022    | 2021    | Change   | % Change |
|--------------------------------|---------|---------|----------|----------|
| Nine months ended December 31, | \$207.7 | \$257.8 | \$(50.1) | (19.4)   |

Cash provided by operating activities for the nine months ended December 31, 2022, was \$207.7 million, a decrease of \$50.1 million (19.4%) 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 |
|--------------------------------|---------|---------|-----------|----------|
| Nine months ended December 31, | \$258.3 | \$362.4 | \$(104.1) | (28.7)   |

Cash used in investing activities for the nine months ended December 31, 2022, was \$258.3 million, a decrease of \$104.1 million (28.7%) from the same period in 2021/22. The change was primarily due to reduced spending on spectrum licenses, partially offset by ongoing investment in fixed and wireless networks to improve the coverage, capacity, reliability, and speed of our networks.

### Cash provided by financing activities

| Millions of dollars            | 2022   | 2021   | Change   | % Change |
|--------------------------------|--------|--------|----------|----------|
| Nine months ended December 31, | \$27.8 | \$93.0 | \$(65.2) | (70.1)   |

Cash provided by financing activities for the nine months ended December 31, 2022, was \$27.8 million, a decrease of \$65.2 million (70.1%) primarily due to decreased net borrowing compared to the same period in 2021.

## Capital Resource Ratio

### Debt ratio

|            | December 31,<br>2022 | March 31,<br>2022 | Change |
|------------|----------------------|-------------------|--------|
| Debt ratio | 55.4%                | 54.6%             | 0.8    |

The debt ratio increased to 55.4%, an increase of 0.8 percentage points from March 31, 2022. The overall level of net debt increased by \$105.4 million during the period due to increased net borrowing.

Equity increased \$45.7 million in the third quarter of 2022/23 after recording a net income of \$84.9 million, other comprehensive loss of \$7.2 million, and declared dividends of \$32.0 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  | \$246.5 | \$203.4 | \$43.1   | 21.2     |
| Intangible assets              | 19.8    | 162.8   | (143.0)  | (87.8)   |
| Nine months ended December 31, | \$266.3 | \$366.2 | \$(99.9) | (27.3)   |

Total capital expenditures for the nine months ended December 31, 2022, were \$266.3 million, a decrease of \$99.9 million (27.3%) from the same period in 2021/22.

Spending on property, plant and equipment for the nine months ended December 31, 2022, was \$246.5 million, an increase of \$43.1 million (21.2%) 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 \$19.8 million, a decrease of \$143.0 million (87.8%) from the same period in 2021/22, primarily due to reduced spending on spectrum licenses.

For the remainder of 2022/23, capital expenditures 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, of \$106.5 million. At this time, SaskTel believes it will meet this target.

## 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 December 31, 2022, SaskTel's 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 Income (Loss)

(Unaudited)

| Thousands of dollars                                       | Note | Three months ended December 31, |           | Nine months ended December 31, |           |
|--|------|---------------------------------|-----------|--------------------------------|-----------|
|  |      | 2022                            | 2021      | 2022                           | 2021      |
| <b>Revenue</b>   | 3    | \$354,464                       | \$341,740 | \$1,000,090                    | \$975,044 |
| <b>Other income (expense)</b>                              |      | (1,402)                         | 1,807     | 186                            | 2,749     |
|  |      | <b>353,062</b>                  | 343,547   | <b>1,000,276</b>               | 977,793   |
| <b>Expenses</b>  |      |                                 |           |                                |           |
| Goods and services purchased                               |      | 166,958                         | 161,245   | 445,429                        | 424,918   |
| Salaries, wages and benefits                               |      | 87,161                          | 85,763    | 261,978                        | 261,459   |
| Internal labour capitalized                                |      | (6,588)                         | (6,251)   | (18,273)                       | (16,185)  |
| Depreciation - property, plant & equipment                 | 5    | 50,526                          | 50,442    | 149,613                        | 150,203   |
| Depreciation - right-of-use assets                         |      | 1,269                           | 1,667     | 4,544                          | 4,686     |
| Amortization   | 6    | 8,226                           | 8,489     | 25,105                         | 25,154    |
| Saskatchewan taxes   |      | 6,871                           | 6,454     | 24,306                         | 22,757    |
|  |      | <b>314,423</b>                  | 307,809   | <b>892,702</b>                 | 872,992   |
| <b>Results from operating activities</b>                   |      | <b>38,639</b>                   | 35,738    | <b>107,574</b>                 | 104,801   |
| <b>Net finance expense</b>                                 | 4    | <b>7,937</b>                    | 7,309     | <b>22,666</b>                  | 20,295    |
| <b>Net income</b>  |      | <b>30,702</b>                   | 28,429    | <b>84,908</b>                  | 84,506    |
| <b>Other comprehensive income (loss)</b>                   |      |                                 |           |                                |           |
| <b>Items that will be reclassified to net income</b>       |      |                                 |           |                                |           |
| Unrealized gains (losses) on sinking funds                 |      | (594)                           | 864       | (4,686)                        | 1,058     |
| <b>Items that will never be reclassified to net income</b> |      |                                 |           |                                |           |
| Net actuarial losses on employee benefit obligations       | 8    | (855)                           | (180)     | (2,563)                        | (542)     |
| <b>Total other comprehensive income (loss)</b>             |      | <b>(1,449)</b>                  | 684       | <b>(7,249)</b>                 | 516       |
| <b>Total comprehensive income</b>                          |      | <b>\$29,253</b>                 | \$29,113  | <b>\$77,659</b>                | \$85,022  |

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       |
|-------------------------------------|------------------|--|-------------------|--------------------|
| <b>Balance at April 1, 2022</b>     | <b>\$237,000</b> | <b>\$97,414</b>                        | <b>\$859,310</b>  | <b>\$1,193,724</b> |
| <b>Net income</b>                   | -                | -                                      | 84,908            | 84,908             |
| <b>Other comprehensive loss</b>     | -                | (7,249)                                | -                 | (7,249)            |
| <b>Total comprehensive income</b>   | -                | (7,249)                                | 84,908            | 77,659             |
| <b>Dividends declared</b>           | -                | -                                      | (31,958)          | (31,958)           |
| <b>Balance at December 31, 2022</b> | <b>\$237,000</b> | <b>\$90,165</b>                        | <b>\$912,260</b>  | <b>\$1,239,425</b> |

|                              |           |           |           |             |
|------------------------------|-----------|-----------|-----------|-------------|
| Balance at April 1, 2021     | \$237,000 | \$102,666 | \$848,866 | \$1,188,532 |
| Net income                   | -         | -         | 84,506    | 84,506      |
| Other comprehensive income   | -         | 516       | -         | 516         |
| Total comprehensive income   | -         | 516       | 84,506    | 85,022      |
| Dividends declared           | -         | -         | (67,523)  | (67,523)    |
| Balance at December 31, 2021 | \$237,000 | \$103,182 | \$865,849 | \$1,206,031 |

See Accompanying Notes

## Condensed Consolidated Interim Statement of Financial Position

| As at                                       |      | (Unaudited)          |                    |
|---|------|----------------------|--------------------|
| Thousands of dollars                        | Note | December 31,<br>2022 | March 31,<br>2022  |
| <b>Assets</b>                               |      |                      |                    |
| <b>Current assets</b>                       |      |                      |                    |
| Cash  |      | \$ -                 | \$20,628           |
| Trade and other receivables                 |      | 196,686              | 174,697            |
| Inventories                                 |      | 39,114               | 23,531             |
| Prepaid expenses and other assets           |      | 44,509               | 49,054             |
| Contract assets                             |      | 73,534               | 76,257             |
| Contract costs                              |      | 20,295               | 20,111             |
|   |      | <b>374,138</b>       | <b>364,278</b>     |
| <b>Contract assets</b>                      |      | <b>29,651</b>        | <b>28,316</b>      |
| <b>Contract costs</b>                       |      | <b>53,819</b>        | <b>55,292</b>      |
| <b>Property, plant and equipment</b>        | 5    | <b>2,179,914</b>     | <b>2,087,832</b>   |
| <b>Right-of-use assets</b>                  |      | <b>38,555</b>        | <b>43,225</b>      |
| <b>Intangible assets</b>                    | 6    | <b>394,217</b>       | <b>399,879</b>     |
| <b>Sinking funds</b>                        |      | <b>107,925</b>       | <b>95,447</b>      |
| <b>Other assets</b>                         |      | <b>11,079</b>        | <b>9,261</b>       |
|   |      | <b>\$3,189,298</b>   | <b>\$3,083,530</b> |
| <b>Liabilities and Province's equity</b>    |      |                      |                    |
| <b>Current liabilities</b>                  |      |                      |                    |
| Bank indebtedness                           |      | \$2,177              | \$ -               |
| Trade and other payables                    |      | 162,211              | 172,666            |
| Dividend payable                            |      | 11,867               | 26,467             |
| Notes payable                               |      | 259,024              | 202,468            |
| Contract liabilities                        |      | 54,183               | 58,291             |
| Lease liabilities                           |      | 6,310                | 6,578              |
| Other liabilities                           |      | 3,463                | 5,064              |
|   |      | <b>499,235</b>       | <b>471,534</b>     |
| <b>Contract liabilities</b>                 |      | <b>170</b>           | <b>249</b>         |
| <b>Deferred income – government funding</b> |      | <b>14,359</b>        | <b>15,057</b>      |
| <b>Long-term debt</b>                       | 7    | <b>1,386,053</b>     | <b>1,347,583</b>   |
| <b>Lease liabilities</b>                    |      | <b>33,924</b>        | <b>38,433</b>      |
| <b>Employee benefit obligations</b>         | 8    | <b>9,713</b>         | <b>10,665</b>      |
| <b>Provisions</b>                           |      | <b>6,419</b>         | <b>6,285</b>       |
|   |      | <b>1,949,873</b>     | <b>1,889,806</b>   |
| <b>Province of Saskatchewan's equity</b>    |      |                      |                    |
| Equity advance                              |      | 237,000              | 237,000            |
| Accumulated other comprehensive income      |      | 90,165               | 97,414             |
| Retained earnings                           |      | 912,260              | 859,310            |
|   |      | <b>1,239,425</b>     | <b>1,193,724</b>   |
|   |      | <b>\$3,189,298</b>   | <b>\$3,083,530</b> |

See Accompanying Notes

## Condensed Consolidated Interim Statement of Cash Flows

|   |      | (Unaudited)                    |                  |
|---|------|--------------------------------|------------------|
|   |      | Nine months ended December 31, |                  |
| Thousands of dollars  | Note | 2022                           | 2021             |
| <b>Operating activities</b>   |      |                                |                  |
| Net income  |      | \$84,908                       | \$84,506         |
| Adjustments to reconcile net income to cash provided by operating activities: |      |                                |                  |
| Depreciation and amortization   |      | 179,262                        | 180,043          |
| Net finance expense   | 4    | 22,666                         | 20,295           |
| Interest paid   |      | (41,804)                       | (34,244)         |
| Interest received   |      | 5,154                          | 5,473            |
| Amortization of government funding  |      | (1,733)                        | (4,384)          |
| Other   |      | 1,365                          | 2,559            |
| Net change in non-cash working capital  | 10   | (42,168)                       | 3,584            |
|   |      | <b>207,650</b>                 | <b>257,832</b>   |
| <b>Investing activities</b>   |      |                                |                  |
| Property, plant and equipment expenditures                                    |      | (245,553)                      | (199,903)        |
| Intangible assets expenditures - finite life                                  |      | (13,900)                       | (17,762)         |
| Intangible assets expenditures - indefinite life                              |      | -                              | (145,276)        |
| Net proceeds on disposal of assets  |      | 906                            | 499              |
| Government funding  |      | 257                            | -                |
|   |      | <b>(258,290)</b>               | <b>(362,442)</b> |
| <b>Financing activities</b>   |      |                                |                  |
| Proceeds from long-term debt  | 7    | 38,816                         | 251,527          |
| Net proceeds (repayment) of notes payable                                     |      | 56,556                         | (68,016)         |
| Payment of lease liabilities  |      | (4,651)                        | (4,170)          |
| Sinking fund instalments  |      | (16,328)                       | (11,550)         |
| Dividends paid  |      | (46,558)                       | (74,764)         |
|   |      | <b>27,835</b>                  | <b>93,027</b>    |
| <b>Decrease in cash</b>   |      | <b>(22,805)</b>                | <b>(11,583)</b>  |
| <b>Cash, beginning of period</b>  |      | <b>20,628</b>                  | <b>23,694</b>    |
| <b>Cash (bank indebtedness), end of period</b>                                |      | <b>\$(2,177)</b>               | <b>\$12,111</b>  |

See Accompanying Notes

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited) As at and for the nine months ended December 31, 2022

## 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 Reporting*. 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 February 9, 2023.

### 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.

## **Notes to Condensed Consolidated Interim Financial Statements (Unaudited) As at and for the nine months ended December 31, 2022**

### *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.

**Notes to Condensed Consolidated Interim Financial Statements (Unaudited)  
As at and for the nine months ended December 31, 2022**

**Note 3 – Revenue from contracts with customers**

| Thousands of dollars                           | Three months ended<br>December 31, |                  | Nine months ended<br>December 31, |                  |
|--|------------------------------------|------------------|-----------------------------------|------------------|
|  | 2022                               | 2021             | 2022                              | 2021             |
| <b>Revenue</b>                                 |                                    |                  |                                   |                  |
| Wireless network services and equipment        | \$177,189                          | \$169,052        | \$480,729                         | \$463,339        |
| Fixed broadband and data services              | 74,939                             | 71,537           | 223,179                           | 211,111          |
| Wireline communication services                | 41,406                             | 43,910           | 125,939                           | 134,791          |
| maxTV service                                  | 23,814                             | 25,156           | 72,208                            | 75,931           |
| Security monitoring services                   | 8,673                              | 8,570            | 26,009                            | 25,784           |
| Marketing services                             | 5,576                              | 5,943            | 17,264                            | 18,358           |
| Customer premise equipment                     | 7,291                              | 4,903            | 13,784                            | 12,596           |
| IT solutions services                          | 4,180                              | 3,425            | 11,685                            | 9,980            |
| International software and consulting services | 4,395                              | 2,129            | 11,482                            | 7,015            |
| Other services                                 | 7,001                              | 7,115            | 17,811                            | 16,139           |
|  | <b>\$354,464</b>                   | <b>\$341,740</b> | <b>\$1,000,090</b>                | <b>\$975,044</b> |

**Note 4 – Net finance expense**

| Thousands of dollars                         | Three months ended<br>December 31, |                | Nine months ended<br>December 31, |                 |
|--|------------------------------------|----------------|-----------------------------------|-----------------|
|  | 2022                               | 2021           | 2022                              | 2021            |
| <b>Recognized in consolidated net income</b> |                                    |                |                                   |                 |
| Interest on long-term debt                   | \$11,425                           | \$10,936       | \$33,981                          | \$29,727        |
| Interest on short-term debt                  | 1,886                              | 44             | 3,218                             | 189             |
| Interest capitalized                         | (2,309)                            | (1,290)        | (6,865)                           | (2,971)         |
| Interest on lease liabilities                | 216                                | 265            | 749                               | 767             |
| Net interest on defined benefit liability    | (858)                              | (222)          | (2,573)                           | (668)           |
| Accretion expense                            | 50                                 | 41             | 146                               | 122             |
| <b>Finance expense</b>                       | <b>10,410</b>                      | <b>9,774</b>   | <b>28,656</b>                     | <b>27,166</b>   |
| Sinking fund earnings                        | (720)                              | (478)          | (836)                             | (1,398)         |
| Interest income                              | (1,753)                            | (1,987)        | (5,154)                           | (5,473)         |
| <b>Finance income</b>                        | <b>(2,473)</b>                     | <b>(2,465)</b> | <b>(5,990)</b>                    | <b>(6,871)</b>  |
| <b>Net finance expense</b>                   | <b>\$7,937</b>                     | <b>\$7,309</b> | <b>\$22,666</b>                   | <b>\$20,295</b> |
| Interest capitalization rate                 |                                    |                | <b>3.06%</b>                      | 2.90%           |

## Notes to Condensed Consolidated Interim Financial Statements (Unaudited) As at and for the nine months ended December 31, 2022

### Note 5 – Property, plant and equipment

| Thousands of dollars                   | Plant and equipment | Buildings and improvements | Office furniture and equipment | Plant under construction | Land            | Total              |
|--|---------------------|----------------------------|--------------------------------|--------------------------|-----------------|--------------------|
| <b>Cost</b>                            |                     |                            |                                |                          |                 |                    |
| <b>Balance at April 1, 2022</b>        | <b>\$3,924,905</b>  | <b>\$652,415</b>           | <b>\$130,688</b>               | <b>\$141,940</b>         | <b>\$41,717</b> | <b>\$4,891,665</b> |
| Additions                              | 78,327              | -                          | 14,013                         | 154,047                  | 76              | 246,463            |
| Transfers                              | 100,198             | 16,840                     | 477                            | (117,515)                | -               | -                  |
| Retirements, disposals and adjustments | (138,287)           | (2,418)                    | (10,055)                       | -                        | -               | (150,760)          |
| <b>Balance at December 31, 2022</b>    | <b>\$3,965,143</b>  | <b>\$666,837</b>           | <b>\$135,123</b>               | <b>\$178,472</b>         | <b>\$41,793</b> | <b>\$4,987,368</b> |
| <hr/>                                  |                     |                            |                                |                          |                 |                    |
| 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        |
| <hr/>                                  |                     |                            |                                |                          |                 |                    |
| <b>Accumulated depreciation</b>        |                     |                            |                                |                          |                 |                    |
| <b>Balance at April 1, 2022</b>        | <b>\$2,516,266</b>  | <b>\$226,013</b>           | <b>\$61,554</b>                | <b>\$ -</b>              | <b>\$ -</b>     | <b>\$2,803,833</b> |
| Depreciation                           | 117,366             | 13,931                     | 18,316                         | -                        | -               | 149,613            |
| Retirements, disposals and adjustments | (134,407)           | (1,628)                    | (9,957)                        | -                        | -               | (145,992)          |
| <b>Balance at December 31, 2022</b>    | <b>\$2,499,225</b>  | <b>\$238,316</b>           | <b>\$69,913</b>                | <b>\$ -</b>              | <b>\$ -</b>     | <b>\$2,807,454</b> |
| <hr/>                                  |                     |                            |                                |                          |                 |                    |
| 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        |
| <hr/>                                  |                     |                            |                                |                          |                 |                    |
| <b>Carrying amounts</b>                |                     |                            |                                |                          |                 |                    |
| <b>At April 1, 2022</b>                | <b>\$1,408,639</b>  | <b>\$426,402</b>           | <b>\$69,134</b>                | <b>\$141,940</b>         | <b>\$41,717</b> | <b>\$2,087,832</b> |
| <b>At December 31, 2022</b>            | <b>\$1,465,918</b>  | <b>\$428,521</b>           | <b>\$65,210</b>                | <b>\$178,472</b>         | <b>\$41,793</b> | <b>\$2,179,914</b> |
| <hr/>                                  |                     |                            |                                |                          |                 |                    |
| 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:

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



**Notes to Condensed Consolidated Interim Financial Statements (Unaudited)  
As at and for the nine months ended December 31, 2022**

**Note 6 – Intangible assets**

| Thousands of dollars                   | Software         | Spectrum<br>licences | Under<br>development | Total            |
|--|------------------|----------------------|----------------------|------------------|
| <b>Cost</b>                            |                  |                      |                      |                  |
| <b>Balance at April 1, 2022</b>        | <b>\$299,194</b> | <b>\$267,280</b>     | <b>\$9,383</b>       | <b>\$575,857</b> |
| Acquisitions                           | 2,248            | 3,108                | 10,626               | 15,982           |
| Acquisitions – internally developed    | 3,222            | -                    | 650                  | 3,872            |
| Transfers                              | 2,029            | -                    | (2,029)              | -                |
| Retirements, disposals and adjustments | (33,738)         | -                    | -                    | (33,738)         |
| <b>Balance at December 31, 2022</b>    | <b>\$272,955</b> | <b>\$270,388</b>     | <b>\$18,630</b>      | <b>\$561,973</b> |
| <br>                                   |                  |                      |                      |                  |
| Balance at April 1, 2021               | \$304,612        | \$120,905            | \$8,750              | \$434,267        |
| Acquisitions                           | 5,300            | 146,375              | 13,739               | 165,414          |
| Acquisitions – internally developed    | 4,070            | -                    | 434                  | 4,504            |
| Transfers                              | 13,540           | -                    | (13,540)             | -                |
| Retirements, disposals and adjustments | (28,328)         | -                    | -                    | (28,328)         |
| Balance at March 31, 2022              | \$299,194        | \$267,280            | \$9,383              | \$575,857        |
| <br>                                   |                  |                      |                      |                  |
| <b>Accumulated amortization</b>        |                  |                      |                      |                  |
| <b>Balance at April 1, 2022</b>        | <b>\$175,978</b> | <b>\$ -</b>          | <b>\$ -</b>          | <b>\$175,978</b> |
| Amortization                           | 25,105           | -                    | -                    | 25,105           |
| Retirements, disposals and adjustments | (33,327)         | -                    | -                    | (33,327)         |
| <b>Balance at December 31, 2022</b>    | <b>\$167,756</b> | <b>\$ -</b>          | <b>\$ -</b>          | <b>\$167,756</b> |
| <br>                                   |                  |                      |                      |                  |
| 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        |
| <br>                                   |                  |                      |                      |                  |
| <b>Carrying amounts</b>                |                  |                      |                      |                  |
| <b>At April 1, 2022</b>                | <b>\$123,216</b> | <b>\$267,280</b>     | <b>\$9,383</b>       | <b>\$399,879</b> |
| <b>At December 31, 2022</b>            | <b>\$105,199</b> | <b>\$270,388</b>     | <b>\$18,630</b>      | <b>\$394,217</b> |
| <br>                                   |                  |                      |                      |                  |
| 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.

## Notes to Condensed Consolidated Interim Financial Statements (Unaudited) As at and for the nine months ended December 31, 2022

### 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  | 4.90%   | 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.

| Thousands of dollars                                | Nine months ended December 31, |            |
|---|--------------------------------|------------|
|   | 2022                           | 2021       |
| Actuarial gain (loss) on accrued benefit obligation | \$87,270                       | \$(10,346) |
| Return on plan assets excluding interest income     | (62,479)                       | 44,348     |
| Effect of asset ceiling limit                       | (27,354)                       | (34,544)   |
| Net actuarial loss on employee benefit obligations  | \$(2,563)                      | \$(542)    |

### 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.

## Notes to Condensed Consolidated Interim Financial Statements (Unaudited) As at and for the nine months ended December 31, 2022

### 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                                 | December 31, | March 31,   |
|---------------------------------------|--------------|-------------|
| Thousands of dollars                  | 2022         | 2022        |
| Long-term debt                        | \$1,386,053  | \$1,347,583 |
| Notes payable                         | 259,024      | 202,468     |
| Bank indebtedness                     | 2,177        | -           |
| Less: Sinking funds                   | (107,925)    | (95,447)    |
| Cash                                  | -            | (20,628)    |
| Net debt (a)                          | 1,539,329    | 1,433,976   |
| Province of Saskatchewan's equity (b) | 1,239,425    | 1,193,724   |
| Capitalization                        | \$2,778,754  | \$2,627,700 |
| Debt ratio                            | 55.4%        | 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

| Thousands of dollars  | Nine months ended December 31, |          |
|---|--------------------------------|----------|
|   | 2022                           | 2021     |
| Net change in non-cash working capital balances related to operations |                                |          |
| Trade and other receivables   | \$(21,989)                     | \$17,414 |
| Inventories   | (15,583)                       | 7,308    |
| Prepaid expenses  | 4,545                          | 6,112    |
| Contract assets   | 1,388                          | (6,896)  |
| Contract costs  | 1,289                          | (93)     |
| Trade and other payables  | (6,943)                        | (20,604) |
| Contract liabilities  | (4,187)                        | 254      |
| Other liabilities   | (1,602)                        | (486)    |
| Other   | 914                            | 575      |
|   | \$(42,168)                     | \$3,584  |

# Notes to Condensed Consolidated Interim Financial Statements (Unaudited) As at and for the nine months ended December 31, 2022

## 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 December 31, 2022, the Corporation had foreign currency derivatives outstanding with notional values of \$14.9 million (March 31, 2022 - \$37.8 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                                 | Classification<br>(a) | Fair value<br>hierarchy | December 31, 2022  |               | March 31, 2022     |               |
|---------------------------------------|-----------------------|-------------------------|--------------------|---------------|--------------------|---------------|
|                                       |                       |                         | Carrying<br>amount | Fair<br>value | Carrying<br>amount | Fair<br>value |
| Thousands of dollars                  |                       |                         |                    |               |                    |               |
| <b>Financial assets</b>               |                       |                         |                    |               |                    |               |
| Cash                                  | Amortized cost        | Level 1                 | \$ -               | \$ -          | \$20,628           | \$20,628      |
| Trade and other receivables           | Amortized cost        | N/A                     | 207,492            | 207,492       | 183,578            | 183,578       |
| Sinking funds                         | FVOCI                 | Level 2                 | 107,925            | 107,925       | 95,447             | 95,447        |
| Foreign exchange derivative asset     | FVTPL                 | Level 2                 | 693                | 693           | -                  | -             |
| <b>Financial liabilities</b>          |                       |                         |                    |               |                    |               |
| Bank indebtedness                     | Amortized cost        | Level 2                 | \$2,177            | \$2,177       | \$ -               | \$ -          |
| Trade and other payables              | Amortized cost        | N/A                     | 162,211            | 162,211       | 172,666            | 172,666       |
| Notes payable                         | Amortized cost        | Level 2                 | 259,024            | 259,024       | 202,468            | 202,468       |
| Long-term debt                        | Amortized cost        | Level 2                 | 1,386,053          | 1,171,482     | 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, bank indebtedness, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

## **Notes to Condensed Consolidated Interim Financial Statements (Unaudited) As at and for the nine months ended December 31, 2022**

### *Note 11 – Financial risk management, continued*

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.

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 December 31, 2022, due to the investment-grade assets held within the sinking funds and investment-grade counterparties to derivative instruments.

**Notes to Condensed Consolidated Interim Financial Statements (Unaudited)  
As at and for the nine months ended December 31, 2022**

*Note 11 – Financial risk management, continued*

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

| Periods ended December 31,<br>Thousands of dollars | Three months ended |         | Nine months ended |         |
|--|--------------------|---------|-------------------|---------|
|  | 2022               | 2021    | 2022              | 2021    |
| <b>Balance, beginning of period</b>                | <b>\$3,824</b>     | \$4,419 | <b>\$3,975</b>    | \$7,578 |
| Less: accounts written off                         | <b>(2,136)</b>     | (1,288) | <b>(5,180)</b>    | (4,484) |
| Recoveries   | <b>85</b>          | 526     | <b>980</b>        | 408     |
| Provisions for losses                              | <b>1,141</b>       | 135     | <b>3,139</b>      | 290     |
| <b>Balance, end of period</b>                      | <b>\$2,914</b>     | \$3,792 | <b>\$2,914</b>    | \$3,792 |