SaskTel

Third Quarter Report

Contents:

Saskatchewan Telecommunications Holding Corporation

Third Quarter Report 2017/18

For the Period Ending December 31, 2017

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 marketing services. In addition, SaskTel International offers software solutions and project consulting in countries around the world.

SaskTel and our wholly-owned subsidiaries have a workforce of approximately 3,900 full time equivalent employees.

Our vision is "*Be the best at connecting people to their world.*" and our mission is *"To provide the best customer experience through our superior networks, exceptional service, advanced solutions and applications."*

Financial Highlights

Consolidated Net Income

	Three months ended December 31,				Nine months ended December 31,			
Millions of dollars	**2017**	2016	Change	% Change	**2017**	2016	Change	% Change
Revenue	**$317.0**	$319.8	$(2.8)	(0.9)	**$943.3**	$948.2	$(4.9)	(0.5)
Other income	**0.7**	(0.7)	1.4	200.0	**1.7**	2.3	(0.6)	(26.1)
	317.7	319.1	(1.4)	(0.4)	**945.0**	950.5	(5.5)	(0.6)
Expenses	**285.0**	294.5	(9.5)	(3.2)	**831.3**	842.8	(11.5)	(1.4)
Results from operating activities	**32.7**	24.6	8.1	32.9	**113.7**	107.7	6.0	5.6
Net finance expense	**8.4**	15.1	(6.7)	(44.4)	**26.3**	26.2	0.1	0.4
Net income	**$24.3**	$9.5	$14.8	155.8	**$87.4**	$81.5	$5.9	7.2

Net income for the nine months ended December 31, 2017 is $87.4 million, up $5.9 million (7.2%) from the same period in 2016/17. Revenues decreased to $943.3 million, down $4.9 million (0.5%) from the same period in 2016/17 primarily due to decreased wireline legacy service and equipment sale revenue and decreased marketing services revenues, partially offset by increased Internet, customer contribution, managed and emerging services and security monitoring revenues.

Expenses for the nine months ended December 31, 2017 decreased to $831.3 million, down $11.5 million from the same period in 2016/17. This decrease is primarily driven by decreased direct expenses, goods and services purchased and depreciation and amortization.

Net finance expense was $26.3 million, up $0.1 million over the same period in 2016/17, primarily driven by increased interest on long-term debt due to additional debt issued in late 2016/17 and early 2017/18, partially offset by sinking fund fair value fluctuations recognized in net income in 2016/17 that are now recognized in other comprehensive income (OCI) upon adoption of IFRS 9 effective April 1, 2017 (see *Note 2 – Basis of presentation*).

Management Discussion and Analysis

February 8, 2018

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the third quarter 2017/18. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the fiscal period ended March 31, 2017. 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 2016/17 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 8, 2018.

Results of Operations

Revenue

	2017	2016	Change	%
Three months ended December 31,	**$317.0**	$319.8	$(2.8)	(0.9)
Nine months ended December 31,	**$943.3**	$948.2	$(4.9)	(0.5)

Revenues for the third quarter are $317.0 million, down $2.8 million from the same period in 2016/17. Year-to-date revenues were $943.3 million which represents a $4.9 million decrease from 2016/17. This decrease is primarily driven by: decreased local and enhanced service, and long distance revenues as a result of customers moving from wireline to wireless services, commonly referred to as wireless substitution; decreased equipment sales due to provincial economic conditions; decreased wireless wholesale revenue as a result of a reduction in wholesale rates for certain carriers and decreased Marketing services revenue. These are partially offset by growth in Internet subscribers and increased revenue per subscriber; increased customer contributions for network access; increased *maxTV* entertainment services due to increased revenue per subscriber including increased pay-per-view subscription revenue; increased subscriber growth of the wireless customer base and increased revenue per customer; increased managed and emerging services revenue from increased accesses; and increased security monitoring services revenue due to increased subscribers.

Expenses

Millions of dollars	**2017**	2016	Change	%
Three months ended December 31,	**$285.0**	$294.5	$(9.5)	(3.2)
Nine months ended December 31,	**$831.3**	$842.8	$(11.5)	(1.4)

Expenses for the third quarter of 2017/18 decreased to $285.0 million, down $9.5 million from the same period in 2016/17. Year-to-date expenses of $831.3 million were $11.5 million lower than the same period in 2016/17 due to decreased direct expenses, goods and services purchased and depreciation and amortization. Direct expenses decreased $5.9 million as a result of decreased roaming rates, reduced wireless acquisition and retention costs and decreased customer premise equipment costs due to reduced equipment sales, partially offset by increased professional services and *maxTV* pay per view expenses. Goods and services purchased, excluding direct costs, decreased $2.1 million due to continued cost constraint related to general and administrative expenses. Depreciation and amortization decreased $3.2 million primarily due to CDMA assets becoming fully depreciated during the period and the change in the estimated useful lives of certain assets, partially offset by increased plant in service.

Net finance expense

Millions of dollars	**2017**	2016	Change	%
Three months ended December 31,	**$8.4**	$15.1	$(6.7)	(44.4)
Nine months ended December 31,	**$26.3**	$26.2	$0.1	0.4

Net finance expense for the third quarter of 2017/18 was $8.4 million, down $6.7 million from the same period in 2016/17. Year-to-date net finance expense increased to $26.3 million from $26.2 million in 2016/17. This is driven primarily by increased interest on new long-term debt issued in late 2016/17 and early 2017/18, partially offset by sinking fund fair value losses recognized in net income in the previous period that are recognized in OCI upon the adoption of IFRS 9 effective April 1, 2017.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	**2017**	2016	Change	%
Nine months ended December 31,	**$219.1**	$203.6	$15.5	7.6

Cash provided by operating activities for the nine months ended December 31, 2017 was up $15.5 million compared to the same period in 2016/17 primarily due to reduced working capital requirements partially offset by reduced net income after adjusting for the impact of non-cash adjustments.

Cash used in investing activities

Millions of dollars	**2017**	2016	Change	%
Nine months ended December 31,	**$200.1**	$216.1	$(16.0)	(7.4)

Cash used in investing activities in the nine months ended December 31, 2017 decreased to $200.1 million, down $16.0 million from the same period in 2016/17 primarily due to spending in the previous fiscal period on data centre functionality and the Mosaic stadium, delayed spending on wireless growth and reduced government funding, partially offset by increased spending on core facilities, network infrastructure and financial systems.

Capital Spending

Total capital expenditures for the first nine months of 2017/18 were $202.7 million, down $23.6 million from the same period in 2016/17.

SaskTel's net spending on property, plant and equipment for the first nine months of 2017/18 was $165.7 million, down $18.9 million from the same period in 2016/17 primarily due to spending on data centre functionality and the Mosaic Stadium infrastructure project in 2016/17 and reduced spending on wireless network expansion, partially offset by increased spending on core facilities and network infrastructure. SaskTel's net spending on intangible assets was $36.9 million, down $4.7 million from the same period in 2016/17.

Capital expenditures in 2017/18 will focus on further investment in the core Saskatchewan network including: Fibre to the Premise (FTTP), wireless network enhancements and basic network growth and enhancements. This core network investment will ensure: increased Internet access speeds; enhanced *maxTV* services; increased wireless bandwidth, resulting in increased roaming capacity and data speeds; as well as continued network growth and refurbishment. Expenditures will also enhance customer interface and expand service offerings.

Cash provided by (used in) financing activities

Millions of dollars	**2017**	2016	Change	%
Nine months ended December 31,	**$(22.1)**	$7.0	$(29.1)	*nmf*[1]

Cash used in financing activities in the nine months ended December 31, 2017 was $22.1 million compared to cash provided by financing activities of $7.0 million for the same period in 2016/17. This reduction is primarily due to the increased dividend requirement partially offset by increased net borrowing compared to 2016/17.

Liquidity and capital resource ratios

Debt ratio

	December 31, 2017	March 31, 2017
Debt ratio	**46.7%**	47.9%

The debt ratio decreased to 46.7%, down from 47.9% at March 31, 2017. The overall level of net debt increased $39.7 million during the period due to a net increase in outstanding debt and reduced cash balances partially offset by increased sinking funds.

Equity increased by $90.7 million to the end of the third quarter of 2017/18 after recording net income of $87.4 million, other comprehensive income of $85.7 million and dividends of $82.4 million which increased $59.9 million from 2016/17.

The debt ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt, including long-term debt, notes payable and the current portion of long-term debt, less sinking funds, and cash and short-term investments. Capitalization includes net debt, equity advances, accumulated other comprehensive income (loss) and retained earnings at the period end.

2017/18 Outlook

The 2016/17 SaskTel Annual Report identified a consolidated net income target for the fiscal year ending March 31, 2018 of $122.1 million. At this time SaskTel believes that it will meet this target.

Risk Assessment

The 2016/17 Annual Report discusses the risks and uncertainties in SaskTel's business environment focusing on both Strategic and Core Business Risks. The Strategic Risks include risks that may inhibit SaskTel from achieving its Strategic Plan including the following areas: customer, broadband, transformation, and profitability. The Core Business Risks focus on 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 risk management is in place. This is an iterative process designed to identify, evaluate, mitigate and control, report, monitor and assess key risks. SaskTel's key risk profile remains unchanged at December 31, 2017.

Condensed Consolidated Interim Statement of Income and Other Comprehensive Income

		(Unaudited)			
		Three months ended December 31,		Nine months ended December 31,	
Thousands of dollars	Note	**2017**	2016	**2017**	2016
Revenue	3	**$317,071**	$319,799	**$943,331**	$948,163
Other income	3	**724**	(692)	**1,742**	2,306
		317,795	319,107	**945,073**	950,469
Expenses					
Goods and services purchased		**147,829**	155,231	**420,215**	428,174
Salaries, wages and benefits		**95,447**	94,898	**281,802**	281,849
Internal labour capitalized		**(6,902)**	(6,627)	**(19,446)**	(19,127)
Depreciation	5	**38,601**	41,581	**118,879**	123,147
Amortization	6	**10,062**	9,445	**29,880**	28,778
		285,037	294,528	**831,330**	842,821
Results from operating activities		**32,758**	24,579	**113,743**	107,648
Net finance expense	4	**8,440**	15,111	**26,352**	26,182
Net income		**24,318**	9,468	**87,391**	81,466
Other comprehensive income					
Items that will be reclassified to net income					
Sinking fund market value gains		**3,190**	-	**1,891**	-
Items that will never be reclassified to net income					
Net actuarial gains on defined benefit pension plan	8	**87,047**	59,724	**83,861**	43,262
Total other comprehensive income		**90,237**	59,724	**85,752**	43,262
Total comprehensive income		**$114,555**	$69,192	**$173,143**	$124,728

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

See Accompanying Notes

Condensed Consolidated Interim Statement of Changes in Equity

	(Unaudited)			
Thousands of dollars	Equity advances	Accumulated other comprehensive income (loss) (restated see note 2)	Retained earnings (restated see note 2)	Total equity
Balance at April 1, 2017				
As previously reported	**$250,000**	**$(1,546)**	**$706,218**	**$954,672**
Impact of adoption of IFRS 9	**-**	**(5,198)**	**5,198**	**-**
As restated	**250,000**	**(6,744)**	**711,416**	**954,672**
Net income	**-**	**-**	**87,391**	**87,391**
Other comprehensive income	**-**	**85,752**	**-**	**85,752**
Total comprehensive income for the period	-	**85,752**	**87,391**	**173,143**
Dividends declared	**-**	**-**	**82,425**	**82,425**
Balance at December 31, 2017	**$250,000**	**$79,008**	**$716,382**	**$1,045,390**
Balance at April 1, 2016	$250,000	$(55,035)	$601,379	$796,344
Net income	-	-	81,466	81,466
Other comprehensive income	-	43,262	-	43,262
Total comprehensive income for the period	-	43,262	81,466	124,728
Dividends declared	-	-	22,500	22,500
Balance at December 31, 2016	$250,000	$(11,773)	$660,345	$898,572

See Accompanying Notes

Condensed Consolidated Interim Statement of Financial Position

As at Thousands of dollars	Note	(Unaudited) **December 31, 2017**	March 31, 2017
Assets			
Current assets			
Cash		**$7,911**	$11,067
Trade and other receivables	10a	**145,360**	144,990
Inventories	10a	**27,059**	25,462
Prepaid expenses	10a	**43,389**	51,371
		223,719	232,890
Property, plant and equipment	5	**1,736,276**	1,693,234
Intangible assets	6	**327,083**	318,832
Sinking funds		**153,173**	141,033
Other assets		**10,010**	8,542
		$2,450,261	$2,394,531
Liabilities and Province's equity			
Current liabilities			
Trade and other payables	10a	**$156,593**	$169,149
Dividend payable		**27,475**	7,500
Notes payable	10c	**124,335**	177,105
Other liabilities	10a	**65,079**	68,525
		373,482	422,279
Deferred revenue		**6,471**	8,055
Deferred income – government funding		**33,816**	38,237
Long-term debt	7, 10c	**953,395**	851,949
Employee benefit obligations	8	**37,707**	119,339
		1,404,871	1,439,859
Province of Saskatchewan's equity			
Equity advance		**250,000**	250,000
Accumulated other comprehensive income (loss)		**79,008**	(1,546)
Retained earnings	10c	**716,382**	706,218
		1,045,390	954,672
		$2,450,261	$2,394,531

See Accompanying Notes

Condensed Consolidated Interim Statement of Cash Flows

		(Unaudited)	
		Nine months ended December 31,	
Thousands of dollars	Note	**2017**	2016
Operating activities			
Net income		**$87,391**	$81,466
Adjustments to reconcile net income to cash provided			
by operating activities:			
Depreciation and amortization	5, 6	**148,759**	151,925
Net financing expense	4	**26,352**	26,182
Interest paid		**(35,011)**	(31,952)
Interest received		**4,399**	4,461
Amortization of government funding	3	**(4,293)**	(4,013)
Other		**117**	7,022
Net change in non-cash working capital	10b	**(8,661)**	(31,507)
		219,053	203,584
Investing activities			
Property, plant and equipment expenditures		**(165,715)**	(183,064)
Intangible assets expenditures		**(37,439)**	(39,158)
Government funding		**3,079**	6,150
		(200,075)	(216,072)
Financing activities			
Proceeds from long-term debt	10c	**101,127**	74,285
Net repayment of notes payable	10c	**(52,770)**	(38,009)
Sinking fund installments		**(8,041)**	(6,766)
Dividends paid	10c	**(62,450)**	(22,500)
		(22,134)	7,010
Decrease in cash		**(3,156)**	(5,478)
Cash, beginning of period		**11,067**	16,099
Cash, end of period		**$7,911**	$10,621

See Accompanying Notes

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the nine months ended December 31, 2017

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 (SaskTel) 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 services, security and software products and consulting services.

Note 2 – Basis of presentation

The unaudited condensed consolidated interim financial statements (hereinafter referred to as the interim financial statements) as at and for the nine months ended December 31, 2017 should be read in conjunction with the Saskatchewan Telecommunications Holding Corporation's (the Corporation) March 31, 2017 audited consolidated financial statements. The interim financial statements of the Corporation have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. These interim financial statements do not include all of the information required for full annual financial statements.

The interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accounting policies and methods of computation used in the preparation of these interim financial statements conform with those used in the Corporation's most recent annual consolidated financial statements, and have been applied consistently to all periods presented in these interim financial statements except as discussed in the "Application of new and revised International Financial Reporting Standards" section of this note.

The interim financial statements as at and for the nine-month period ended December 31, 2017 were approved by the Board of Directors on February 8, 2018.

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 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.

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. 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.

Note 2 – Basis of presentation, continued

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the interim financial statements includes the following:

- Use of the straight-line basis of depreciation and amortization,
- Classification of intangible assets – indefinite life,
- Classification of financial instruments, 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:

- Credit risk assessment of financial instruments,
- 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.

Application of new and revised International Financial Reporting Standards

IAS 7 Statement of cash flows

Effective April 1, 2017, the Corporation has adopted the disclosure requirements in *Disclosure Initiative (amendments to IAS 7)* in accordance with the provisions of the standard. Consequently, the Corporation has provided additional disclosure in relation to the changes in liabilities arising from financing activities for the fiscal year ended March 31, 2018. Comparative information has not been presented (see *Note 10c Additional financial information - Changes in liabilities arising from financing activities*).

IFRS 9 Financial instruments (2014)

Effective April 1, 2017, the Corporation has early adopted *IFRS 9 Financial Instruments* issued in July 2014 (IFRS 9) with a date of initial application of April 1, 2017. The Corporation has elected to adopt the standard retrospectively with impacts recorded in retained earnings as of April 1, 2017. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, the Corporation adopted consequential amendments to *IFRS 7 Financial Instruments: Disclosures* that are applied to disclosures about 2017/18 but generally have not been applied to comparative information.

The key changes to the Corporation's accounting policies resulting from its adoption of IFRS 9 are summarized below:

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies for financial liabilities.

Note 2 – Basis of presentation, continued

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The Corporation measures loss allowances at an amount equal to the lifetime ECL for financial assets measured at amortized cost and 12-month ECL for sinking fund investments at FVOCI, which have been determined to have a low credit risk at the reporting date.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). In all cases, the maximum period considered when estimating ECLs is the maximum contractual period over which the Corporation is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience and informed credit assessment, including forward-looking information. It is assumed that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Corporation considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realizing security (if any is held); or
- the financial asset is 90 days or more past due.

Assets measured at amortized cost (accounts receivable) are assessed based on business segment, an aging of the accounts within each segment and default probabilities within each segment. Based on this analysis, the application of the ECL model has not had a significant impact on impairment assessment for accounts receivable.

Assets measured at FVOCI (sinking funds) are assessed based on the credit risk rating of the investments held in the sinking funds. The Corporation considers a debt security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment grade'. The Corporation considers this to be AA or higher per DBRS or Aa or higher per Moody's. Investments held within the sinking funds are rated investment grade and there have been no defaults of assets held within the sinking fund. As a result, the application of the ECL model has not had a significant impact on impairment assessments.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 (2014) have been applied retrospectively in accordance with specific transition provisions of the standard. The impacts are outlined below:

Note 2 – Basis of presentation, continued

The following table summarizes the impact of transition to IFRS 9 on retained earnings and accumulated other comprehensive income at April 1, 2017.

Thousands of dollars	Impact of adopting IFRS 9 at April 1, 2017
Retained earnings	
Closing balance under IAS 39 (March 31, 2017)	**$706,218**
Reclassification of sinking funds as FVOCI	**5,198**
Opening balance under IFRS 9 (April 1, 2017)	**$711,416**
Accumulated other comprehensive loss	
Closing balance under IAS 39 (March 31, 2017)	**$(1,546)**
Reclassification of sinking funds as FVOCI	**(5,198)**
Opening balance under IFRS 9 (April 1, 2017)	**$(6,744)**

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held and the related cashflow characteristics.
- The designation and revocation of previous designations of certain financial assets as measured at FVTPL.

If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Corporation assumed that the credit risk on the asset had not increased significantly since its initial recognition.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Corporation's financial assets and financial liabilities as at April 1, 2017.

Thousands of dollars	Original classification under IAS 39[1]	New classification under IFRS 9[1]	Original carrying amount under IAS 39	New Carrying amount under IFRS 9
Financial Assets				
Cash	FVTPL	FVTPL	**$11,067**	**$11,067**
Trade and other receivables	LAR	Amortized cost	**144,990**	**144,990**
Sinking funds	FVTPL	FVOCI	**141,033**	**141,033**
Total financial assets			**$297,090**	**$297,090**
Financial liabilities				
Trade and other payables	OL	OL	**$169,149**	**$169,149**
Notes payable	OL	OL	**177,105**	**177,105**
Long-term debt	OL	OL	**851,949**	**851,949**
Foreign exchange contracts used for hedging	FVTPL	FVTPL	**64**	**64**
Total financial liabilities			**$1,198,267**	**$1,198,267**

[1] LAR – loans and receivables, FVOCI – fair value through other comprehensive income, FVTPL – fair value through profit or loss, OL – other liabilities.

Note 2 – Basis of presentation, continued

The application of IFRS 9 resulted in the reclassifications set out in the table above. The most significant reclassifications are explained below.

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. Based on application of the expected credit loss model, the allowance for doubtful accounts remains unchanged at April 1, 2017 on transition to IFRS 9.

Sinking fund investments previously classified as fair value through profit or loss are now classified at fair value through other comprehensive income. The Corporation intends to match the duration of the financial assets to the duration of the debt that the assets are funding and therefore the business model is to both hold to collect contractual cash flows (payments of principal and interest) as well as sale proceeds realized through matching of durations. Realized gains or losses are recorded in net income and unrealized gains and losses are recorded in OCI. Fair value gains in the amount of $1.9 million, recognized in OCI, would have been recognized in net income based on the IAS 39 classification of fair value through profit or loss.

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. These include:

Standard	Description	Impact	Effective Date
IFRS 15 Revenue from contracts with customers	This standard establishes principles to record revenues from contracts for the sale of goods or services, unless the contracts are in the scope of other IFRSs. Under IFRS 15, revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer, applying the following five steps: 1. Identify the contract with a customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations in the contract 5. Recognize revenue when (or as) the entity satisfies a performance obligation The new standard also provides guidance relating to contract costs and for the measurement and recognition of gains and losses on the sale of certain non-financial assets such as property and equipment. Additional disclosures will also be required under the new standard.	IFRS 15 will primarily impact the timing of revenue recognition, the classification of revenues between products and services, and accounting for costs to obtain and fulfil contracts. Under multiple-element arrangements, although the total revenue recognized during the term of a contract will be largely unaffected, the revenue allocated to a delivered item will no longer be limited to the non-contingent amount. This may accelerate the recognition of revenue ahead of the associated cash inflows and result in a corresponding contract asset recorded on the balance sheet, to be realized over the term of the customer contract. Significant judgments will need to be made when defining the enforceable rights and obligations of a contract, in determining whether a promise to deliver goods or services is considered distinct, and to determine when the customer obtains control of the distinct good or service. A detailed implementation plan is being established which will result in necessary system and process changes throughout 2017 and 2018 to determine the impact on the Corporation's 2018/19 financial statements and key performance metrics, and determine the impact on historical comparative information. As a result, it is not yet possible to determine the impact of the new standard on the Corporation's financial statements, however, the	Fiscal years beginning on or after January 1, 2018, applied retrospectively with certain practical expedients available. Early adoption is permitted. The Corporation has elected to adopt IFRS 15 retrospectively with the cumulative effect of all prior year impacts recognized in retained earnings on April 1, 2018 (the date of adoption).

Note 2 – Basis of presentation, continued

Standard	Description	Impact	Effective Date
IFRS 15 Revenue from contracts with customers, continued		Corporation anticipates the most significant impacts will be on wireless services. While total wireless revenues recognized from a customer contract will not likely change significantly, revenue recognition will be accelerated for certain customer contracts and a greater proportion of revenue will be reclassified as equipment revenue.	
IFRS 16 Leases	Under the new standard all leases will be brought onto companies' balance sheets. IFRS 16 also removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases.	IFRS 16 may affect the classification, measurement and valuation of leases. The Corporation is currently evaluating the impact of IFRS 16 on the financial statements.	Fiscal years beginning on or after January 1, 2019, applied retrospectively with certain practical expedients available. Early adoption is permitted.

Note 3 – Revenue and other income

	Three months ended December 31,		Nine months ended December 31,	
Thousands of dollars	**2017**	2016	**2017**	2016
Services revenue				
Wireless	**$127,564**	$128,263	**$382,453**	$381,486
maxTV, Internet and data	**86,791**	85,375	**262,226**	252,585
Local and enhanced	**48,820**	52,977	**150,017**	162,433
Equipment	**14,899**	16,008	**39,834**	45,402
Long distance	**8,921**	10,420	**28,464**	31,960
Marketing services	**8,032**	8,898	**25,651**	28,067
Security monitoring	**6,719**	6,187	**19,972**	18,042
International software and consulting	**2,306**	2,270	**6,819**	5,611
Other	**13,019**	9,401	**27,895**	22,577
	317,071	319,799	**943,331**	948,163
Other income				
Net loss on retirement or disposal of property, plant and equipment	**(905)**	(3,061)	**(2,637)**	(4,972)
Amortization of government funding	**1,512**	1,479	**4,293**	4,013
Other	**117**	890	**86**	3,265
	724	(692)	**1,742**	2,306
	$317,795	$319,107	**$945,073**	$950,469

Note 4 – Net finance expense

Thousands of dollars	Three months ended December 31, **2017**	2016	Nine months ended December 31, **2017**	2016
Recognized in consolidated net income				
Interest on long-term debt	**$11,094**	$10,124	**$32,962**	$30,187
Interest on short-term debt	**278**	324	**694**	1,047
Interest capitalized	**(1,369)**	(1,461)	**(3,760)**	(4,340)
Net interest expense	**10,003**	8,987	**29,896**	26,894
Sinking fund market value losses	**-**	6,858	**-**	1,582
Net interest on defined benefit liability	**1,020**	1,487	**3,062**	4,460
Finance expense	**11,023**	17,332	**32,958**	32,936
Sinking fund earnings	**(1,097)**	(757)	**(2,207)**	(2,292)
Interest income on loans and receivables	**(1,486)**	(1,464)	**(4,399)**	(4,462)
Finance income	**(2,583)**	(2,221)	**(6,606)**	(6,754)
Net finance expense	**$8,440**	$15,111	**$26,352**	$26,182
Interest capitalization rate			**4.29%**	4.02%

Note 5 – Property, plant and equipment

Thousands of dollars	Plant and equipment	Buildings and improvements	Office furniture and equipment	Plant under construction	Land	Total
Cost						
Balance at April 1, 2017	**$3,527,447**	**$512,386**	**$176,236**	**$145,736**	**$38,344**	**$4,400,149**
Additions	**57,003**	**3**	**7,614**	**101,083**	**25**	**165,728**
Transfers	**42,160**	**6,702**	**1,397**	**(50,259)**	**-**	**-**
Retirements and disposals	**(238,482)**	**(2,381)**	**(25,399)**	**-**	**(11)**	**(266,273)**
Balance at December 31, 2017	**$3,388,128**	**$516,710**	**$159,848**	**$196,560**	**$38,358**	**$4,299,604**
Balance at April 1, 2016	$3,384,440	$470,908	$157,951	$148,707	$37,507	$4,199,513
Additions	49,727	3,647	18,608	186,430	917	259,329
Transfers	148,534	38,808	2,075	(189,401)	(16)	-
Retirements and disposals	(55,254)	(977)	(2,398)	-	(64)	(58,693)
Balance at March 31, 2017	$3,527,447	$512,386	$176,236	$145,736	$38,344	$4,400,149
Accumulated depreciation						
Balance at April 1, 2017	**$2,433,054**	**$157,358**	**$116,503**	**$ -**	**$ -**	**$2,706,915**
Depreciation	**93,813**	**9,452**	**15,614**	**-**	**-**	**118,879**
Retirements and disposals	**(236,371)**	**(691)**	**(25,404)**	**-**	**-**	**(262,466)**
Balance at December 31, 2017	**$2,290,496**	**$166,119**	**$106,713**	**$ -**	**$ -**	**$2,563,328**
Balance at April 1, 2016	$2,359,252	$146,716	$99,207	$ -	$ -	$2,605,175
Depreciation	131,844	11,212	19,969	-	-	163,025
Retirements and disposals	(58,042)	(570)	(2,673)	-	-	(61,285)
Balance at March 31, 2017	$2,433,054	$157,358	$116,503	$ -	$ -	$2,706,915
Carrying amounts						
At April 1, 2017	**$1,094,393**	**$355,028**	**$59,733**	**$145,736**	**$38,344**	**$1,693,234**
At December 31, 2017	**$1,097,632**	**$350,591**	**$53,135**	**$196,560**	**$38,358**	**$1,736,276**
At April 1, 2016	$1,025,188	$324,192	$58,744	$148,707	$37,507	$1,594,338
At March 31, 2017	$1,094,393	$355,028	$59,733	$145,736	$38,344	$1,693,234

Effective July 1, 2017 the Corporation adjusted the useful lives of certain assets to coincide with the revised exit dates for the related technologies. The impacts are as follows:

	Fiscal year ending March 31,					
Millions of dollars	2018	2019	2020	2021	2022	2023 and beyond
Depreciation expense - increase (decrease)	$(6.0)	$(9.9)	$(10.6)	$(11.2)	$10.0	$27.7

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the nine months ended December 31, 2017

Note 6 – Intangible assets

Thousands of dollars	Goodwill	Software	Customer accounts	Spectrum licenses	Under development	Total
Cost						
Balance at April 1, 2017	**$5,976**	**$350,322**	**$108,171**	**$108,738**	**$21,497**	**$594,704**
Acquisitions	**-**	**5,997**	**8,828**	**-**	**18,255**	**33,080**
Acquisitions – internally developed	**-**	**1,525**	**-**	**-**	**2,328**	**3,853**
Transfers	**-**	**29,023**	**-**	**-**	**(29,023)**	**-**
Retirements, disposals and adjustments	**-**	**1,069**	**-**	**-**	**-**	**1,069**
Balance at December 31, 2017	**$5,976**	**$387,936**	**$116,999**	**$108,738**	**$13,057**	**$632,706**
Balance at April 1, 2016	$5,976	$324,737	$92,035	$108,738	$7,180	$538,666
Acquisitions	-	12,681	16,136	-	25,323	54,140
Acquisitions – internally developed	-	1,974	-	-	690	2,664
Transfers	-	11,696	-	-	(11,696)	-
Retirements and disposals	-	(766)	-	-	-	(766)
Balance at March 31, 2017	$5,976	$350,322	$108,171	$108,738	$21,497	$594,704
Accumulated amortization						
Balance at April 1, 2017	**$ -**	**$209,078**	**$66,794**	**$ -**	**$ -**	**$275,872**
Amortization	**-**	**24,062**	**5,818**	**-**	**-**	**29,880**
Retirements, disposals and adjustments	**-**	**(129)**	**-**	**-**	**-**	**(129)**
Balance at December 31, 2017	**$ -**	**$233,011**	**$72,612**	**$ -**	**$ -**	**$305,623**
Balance at April 1, 2016	$ -	$177,381	$60,231	$ -	$ -	$237,612
Amortization	-	31,826	6,563	-	-	38,389
Retirements and disposals	-	(129)	-	-	-	(129)
Balance at March 31, 2017	$ -	$209,078	$66,794	$ -	$ -	$275,872
Carrying amounts						
At April 1, 2017	**$5,976**	**$141,244**	**$41,377**	**$108,738**	**$21,497**	**$318,832**
At December 31, 2017	**$5,976**	**$154,925**	**$44,387**	**$108,738**	**$13,057**	**$327,083**
At April 1, 2016	$5,976	$147,356	$31,804	$108,738	$7,180	$301,054
At March 31, 2017	$5,976	$141,244	$41,377	$108,738	$21,497	$318,832

Note 7 – Long-term debt

On May 9, 2017, the Corporation issued $50.0 million of long-term debt at a premium of $0.7 million through the Saskatchewan Ministry of Finance. The debt issue has a coupon rate of 3.30%, an effective interest rate of 3.22%, and matures on June 2, 2048.

On December 7, 2017, the Corporation issued $50.0 million of long-term debt at a premium of $0.4 million through the Saskatchewan Ministry of Finance. The debt issue has a coupon rate of 2.65%, an effective interest rate of 2.56%, and matures on June 2, 2027.

Note 8 – Employee benefit obligations

Other comprehensive income results, in part, 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:

	2017/18	2016/17
June 30	**3.30%**	3.50%
September 30	**3.40%**	3.10%
December 31	**3.20%**	3.60%
March 31	**n/a**	3.50%

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

	Nine months ended December 31,	
Thousands of dollars	**2017**	2016
Actuarial gain on accrued benefit obligation	**$41,680**	$ -
Actuarial gain on plan assets	**42,181**	43,262
Actuarial gain on employee benefit plans	**$83,861**	$43,262

The actuarial gain on accrued benefit obligation of $41.7 million consists of three components; a change in the indexing assumption resulting in a gain of $50.8 million, a change in the discount rate assumption resulting in a loss of $35.3 million and a plan experience gain of $26.2 million.

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 revenues and still meet fixed payment obligations. The ratio is calculated as net debt divided by capitalization at the end of the period.

Note 9 – Capital management, continued

The Corporation reviews the debt ratio targets of all its subsidiaries on an annual basis to ensure consistency with industry standards. This review includes subsidiary corporations' plans for capital spending. The target debt ratios for subsidiaries are approved by their Boards. The Corporation uses targeted debt ratios to compile a weighted average debt to equity ratio for the consolidated entity. The budgeted ratio for 2017/18 is 51.2%.

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

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

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

The debt ratio is as follows:

As at Thousands of dollars	**December 31, 2017**	March 31, 2017
Long-term debt	**$953,395**	$851,949
Short-term debt	**124,335**	177,105
Less: Sinking funds	**153,173**	141,033
Cash	**7,911**	11,067
Net debt	**916,646**	876,954
Equity (a)	**1,045,390**	954,672
Capitalization	**$1,962,036**	$1,831,626
Debt ratio	**46.7%**	47.9%

a) Equity includes equity advances, accumulated other comprehensive income and retained earnings at the end of the period.

Note 10 – Additional financial information

a) Statement of Financial Position

As at Thousands of dollars	**December 31, 2017**	March 31, 2017
Trade and other receivables		
Customer accounts receivable	**$95,414**	$83,416
Accrued receivables - customer	**2,455**	3,597
Allowance for doubtful accounts	**(2,299)**	(2,384)
	95,570	84,629
High cost serving area subsidy	**2,605**	2,420
Other	**47,185**	57,941
	$145,360	$144,990

Note 10 – Additional financial information, continued

a) Statement of Financial Position, continued

As at Thousands of dollars	**December 31, 2017**	March 31, 2017
Inventories		
Inventories for resale	**$25,728**	$24,173
Materials and supplies	**1,331**	1,289
	$27,059	$25,462
Prepaid expenses		
Prepaid expenses	**$35,451**	$42,761
Deferred service connection charges	**2,764**	3,323
Short-term prepaid customer incentives	**5,174**	5,287
	$43,389	$51,371
Trade and other payables		
Trade accounts payable and accrued liabilities	**$118,930**	$127,374
Payroll and other employee-related liabilities	**28,416**	32,242
Other	**9,247**	9,533
	$156,593	$169,149
Other liabilities		
Advance billings	**$51,904**	$54,623
Deferred customer activation and connection fees	**3,877**	4,290
Current portion of deferred income - government funding	**5,675**	5,525
Customer deposits	**3,415**	4,023
Risk management liabilities	**208**	64
	$65,079	$68,525

Note 10 – Additional financial information, continued

b) Non-cash working capital changes

Thousands of dollars	Nine months ended December 31, 2017	2016
Net change in non-cash working capital balances related to operations		
Trade and other receivables	**$(3,425)**	$(24,931)
Inventories	**(1,597)**	4,255
Prepaid expenses	**7,982**	2,254
Trade and other payables	**(12,556)**	(10,351)
Other liabilities	**(3,446)**	(2,273)
Deferred revenue	**(1,584)**	(1,419)
Other	**5,965**	958
	$(8,661)	$(31,507)

c) Changes in liabilities arising from financing activities

	Liabilities		Equity	
Thousands of dollars	Long-term debt	Notes payable	Retained earnings	Total
Balance at April 1, 2017	$851,949	$177,105	$711,416	$1,740,470
Changes from financing cash flows				
Proceeds from loans and borrowings	101,127	481,000	-	582,127
Repayment of borrowings	-	(533,770)	-	(533,770)
Dividends paid	-	-	(62,450)	(62,450)
Total changes from financing cash flows	101,127	(52,770)	(62,450)	(14,093)
Other changes				
Liability related				
Amortization of net discount on long-term debt	319	-	-	319
Total liability-related other changes	319	-	-	319
Total equity-related other changes	-	-	67,416	67,416
Balance at December 31, 2017	$953,395	$124,335	$716,382	$1,794,112

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. The Corporation's financial risks have not changed significantly from the prior period. At December 31, 2017, the Corporation had foreign currency derivatives outstanding with face values of $12.6 million and maturities up to March 29, 2018. The Corporation does not actively trade 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, *Note 11 – Financial risk management, continued*

aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

As at			**December 31, 2017**		March 31, 2017	
Thousands of dollars	Classification (a)	Fair value hierarchy	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets						
Investments - sinking funds	FVOCI	Level 2	**$153,173**	**$153,173**	$141,033	$141,033
Financial liabilities						
Long-term debt	OL	Level 2	**$953,395**	**$1,078,921**	$851,949	$972,359
Derivative financial instruments						
Foreign exchange derivative liability	FVTPL	Level 2	**$(208)**	**$(208)**	$(64)	$(64)

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

Fair value hierarchy
When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, trade and other receivables, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.
Level 3 – Where valuation is based on unobservable inputs.

There were no items measured at fair value using level 3 during 2016/17 or 2017/18 and no items transferred between levels in 2016/17 or 2017/18.

Investments carried at fair value through OCI
Investments carried at fair value through OCI and categorized as level 2 in the hierarchy include sinking funds. The fair value of sinking funds is determined by the Saskatchewan Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect secondary pricing for these securities.

Long-term debt
The fair value of long-term debt is determined by the present value of future cash flows, discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

Derivative financial instruments
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 on current rates offered to us 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).

Note 12 – Comparative figures

Certain of the 2016/17 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current fiscal period.