# Quarter 2 Financial Report
# For the period ended June 30, 2014



CIC Crown Investments Corporation of Saskatchewan

# Introduction

Crown Investments Corporation of Saskatchewan (CIC) is the Provincial Government's holding corporation for its commercial Crown corporations. CIC has invested equity in its subsidiary corporations and collects dividends from these corporations.

The purpose of the following discussion is to provide users of CIC's financial statements with an overview of its financial health. This narrative on CIC's 2014 second quarter financial results should be read in conjunction with the December 31, 2013 audited consolidated and separate financial statements. The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those disclosed in CIC's December 31, 2013 audited consolidated financial statements, except as described in Note 3 to the unaudited condensed consolidated interim financial statements.

To facilitate greater transparency and accountability, CIC prepares two different sets of financial statements: CIC's consolidated financial statements that report on the commercial Crown sector; and CIC's separate financial statements that reflect its role as a holding corporation for the Province.

## CIC Consolidated Financial Statements

CIC's consolidated financial statements include CIC's results consolidated with the results of its subsidiary corporations. The unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and include:

- Financial results of subsidiary Crown corporations:

  SaskEnergy Incorporated (SaskEnergy)
  Saskatchewan Gaming Corporation (SGC)
  Saskatchewan Government Insurance (SGI)
  Saskatchewan Opportunities Corporation (SOCO)
  Saskatchewan Power Corporation (SaskPower)
  Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications (collectively SaskTel)
  Saskatchewan Transportation Company (STC)
  Saskatchewan Water Corporation (SaskWater)

- Financial results of wholly-owned subsidiary share capital corporations:

  CIC Asset Management Inc. (CIC AMI)
  CIC Economic Holdco Ltd.
  First Nations and Métis Fund Inc. (FNMF)
  Saskatchewan Immigrant Investor Fund Inc. (SIIF)

- Costs incurred by its wholly-owned non-profit subsidiary Gradworks Inc.;
- Dividends paid by CIC to the General Revenue Fund (GRF); and
- CIC's operating costs, public policy expenditures and interest earned on cash, cash equivalent, short-term investment balances and equity earnings on equity accounted investees.

Consolidated earnings represent the total earnings in the Crown sector, taking into consideration the elimination of all inter-group transactions (i.e. revenues and expenses between Crown corporations and dividends paid by Crown corporations to CIC).

## CIC Separate Financial Statements

CIC's separate financial statements are used to determine CIC's capacity to pay dividends to the Province's GRF. The unaudited condensed separate interim financial statements have been prepared in accordance with IAS 27 - *Separate Financial Statements* and IAS 34 - *Interim Financial Reporting* at the request of the Saskatchewan Legislative Assembly. These financial statements are intended to isolate the Corporation's cash-flow, capital and operating support for certain subsidiary corporations. These financial statements include:

- Dividends from subsidiary Crown corporations (SaskTel, SaskEnergy, SGI, SGC, and SOCO);
- Dividends from the Corporation's investment in Information Services Corporation.
- Dividends paid by CIC to the GRF;
- Grants to subsidiary corporations; and
- CIC's interest revenue on cash and short-term investment balances and operating costs.

# Consolidated Financial Statements

## Management's Discussion and Analysis

### Forward-Looking Information

Throughout the quarterly report, and particularly in the following discussion, are forward-looking statements. These statements can be recognized by terms such as "outlook", "expect", "anticipate", "project", "continue" or other expressions that relate to estimations or future events. By their nature, forward-looking statements require assumptions based on current information, management experience and historical performance. Forward-looking information is subject to uncertainties, and, as a result, forward-looking statements are not a guarantee about the future performance of CIC and its subsidiary corporations.

Readers should not place undue reliance on forward-looking statements, as a number of factors could cause actual results to differ materially from estimates, predictions and assumptions. Other factors that can influence performance include, but are not limited to: weather conditions, commodity markets, general economic and political conditions, interest and exchange rates, performance and competition in the Crown sector, and the regulatory environment. Given these uncertainties, assumptions contained in forward-looking statements may or may not occur.

### Major Lines of Business

CIC is involved in a broad array of industries through various forms of investment. A number of investments are held as wholly-owned subsidiaries, while others are associates, joint ventures and joint operations, held through CIC's wholly-owned subsidiaries.

Management's Discussion & Analysis (MD&A) highlights the primary factors that have an impact on the consolidated financial results and operations of CIC. It should be read in conjunction with CIC's unaudited condensed consolidated interim financial statements and supporting notes for the period ended June 30, 2014. These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 - *Interim Financial Reporting*.

The unaudited condensed consolidated interim financial statements do not include all the disclosures included in CIC's annual audited consolidated financial statements. Accordingly, these unaudited condensed consolidated interim financial statements should be read in conjunction with CIC's December 31, 2013 audited consolidated financial statements. The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those disclosed in CIC's December 31, 2013 audited consolidated financial statements, except as described in Note 3 to the unaudited condensed consolidated interim financial statements.

## Major Lines of Business (continued)

For purposes of CIC's consolidated MD&A, "CIC" and "the Corporation" refers to the consolidated entity. The following table lists wholly-owned subsidiaries, including the respective business line, which CIC consolidates in its financial statements:

| Type | Investment | Major Business Line |
|---|---|---|
| Utilities | Saskatchewan Power Corporation (SaskPower) | Electricity |
| | Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications (collectively SaskTel) | Telecommunications |
| | SaskEnergy Incorporated (SaskEnergy) | Natural Gas Storage and Delivery |
| | Saskatchewan Water Corporation (SaskWater) | Water and Wastewater Management |
| Insurance | Saskatchewan Government Insurance (SGI) | Property and Casualty Insurance |
| Entertainment | Saskatchewan Gaming Corporation (SGC) | Entertainment |
| Investment and Economic Growth | CIC Asset Management Inc. (CIC AMI) | Investments |
| | Saskatchewan Opportunities Corporation (SOCO) | Research Parks |
| | Saskatchewan Immigrant Investor Fund (SIIF) | Construction Loans |
| Transportation | Saskatchewan Transportation Company (STC) | Passenger and Freight Transportation |

| Subsidiary Corporation Earnings (Losses) (millions of dollars) (unaudited) | For the six months ended June 30 2014 | June 30 2013 (Restated) |
|---|---|---|
| **SaskPower** | $ **80.8** | $ 136.2 |
| **SaskTel** | **49.3** | 38.6 |
| **SaskEnergy** | **45.6** | 53.5 |
| **SGI** | **29.3** | 24.7 |
| **SGC** | **11.9** | 11.4 |
| **SaskWater** | **2.8** | 2.4 |
| **SOCO** | **1.8** | 2.1 |
| **STC** | **0.7** | (0.3) |
| **SIIF** | **0.5** | - |
| **CIC AMI** | **(2.4)** | (0.3) |
| **CIC (separate), Consolidation Adjustments and Other**[1] | **(12.5)** | (6.2) |
| **Net earnings** | $ **207.8** | $ 262.1 |

[1] Consolidation adjustments reflect the elimination of all inter-entity transactions, such as grants from CIC to Crown Corporations, revenues and expenses between Crown corporations and dividends paid by Crown corporations to CIC.

The Corporation's consolidated net earnings for the six months ended June 30, 2014 were $207.8 million (2013 - $262.1 million) or $54.3 million lower than the same period in 2013. The main contributors were SaskPower and SaskEnergy to the net earnings decline, but this was partially offset by an earnings improvement at SaskTel.

### Revenue

Revenue for the first six months of 2014 was $2,616.4 million (2013 - $2,414.5 million) or a $201.9 million increase over the same period in 2013 primarily related to:

- A $104.5 million increase in SaskEnergy revenue primarily due to an increase in gas marketing activity and higher gas prices. Also, SaskEnergy experienced higher revenue from increased sales volumes due to weather being 18.0 per cent colder than normal and 5.0 per cent colder than the same period in 2013, a September 1, 2013 delivery rate increase and growth in customers;
- An $55.4 million increase in SaskPower revenue primarily due to a system-wide average interim rate increase of 5.5 per cent that became effective January 1, 2014 and an increase of 373 gigawatt hours (GWh) in sales volumes to Saskatchewan customers compared to the same period in 2013, partially offset by lower export sales volume;
- An $18.4 million increase in SaskTel revenue driven by growth of the wireless customer base and increased usage of wireless data services, increase in internet subscribers, and increased customers and revenue per customer for *Max*™. This was partially offset by a decrease in long distance, and local and enhanced service as a result of customers moving from wireline to wireless; and
- A $19.3 million increase in SGI revenue primarily from increases in Saskatchewan net premiums from commercial auto, agriculture, personal auto and personal line premiums and increases in Alberta net premiums driven by business automobiles. This was slightly offset by lower Ontario premiums due to a decline in auto policies.

### Expenses

Expenses for the first six months of 2014 were $2,283.4 million (2013 - $2,025.7 million) or a $257.7 million increase from the same period in 2013 primarily related to:

- A $117.5 million increase in SaskEnergy expenses mainly related to increases in gas marketing activity at SaskEnergy, a higher average cost of natural gas sold which increased to $3.92 per Gigajoule (GJ) during the first six months of 2014 compared to $3.39 per GJ during the same period in 2013, and higher natural gas purchases attributed to the weather being 5.0 per cent colder than the same period in 2013;
- An increase of $110.3 million in SaskPower expenses primarily related to a change in the mix of power generation from less expensive coal to higher priced natural gas, higher salaries and benefits, increased maintenance costs, an impairment loss from the decision to replace advanced metering infrastructure meters with legacy meters, and increased depreciation as a result of significant capital investments;
- An increase of $21.3 million in SGI expenses primarily driven by increases in claims incurred, commissions and premium taxes; and
- A increase of $12.4 million in SaskTel expenses primarily related to an increase in salaries, wages and benefits resulting from economic increases and depreciation as a result of significant capital investments.

This is slightly offset by a $8.6 million decrease in CIC AMI expenses primarily a result of $2.8 million in impairment losses on investments during the first six months of 2014 compared to $12.4 million in impairment losses during the same period in 2013.

## Capital Spending

In the first six months of 2014, property, plant and equipment, intangible asset and investment property purchases were $799.2 million (2013 - $758.6 million). Major 2014 capital expenditures included:

- $577.8 million at SaskPower related to the Boundary Dam Integrated Carbon Capture and Storage Demonstration Project, renewing other generation assets such as repowering the Queen Elizabeth Power Station and a major overhaul of Boundary Dam Power Station Unit #4, connecting customers to the electric system, increasing capacity and sustaining transmission and distribution infrastructure, Service Delivery Renewal projects and Information Technology projects;
- $115.2 million at SaskTel on growth initiatives such as Fibre to the Premises, upgrades to the 4G and Long Term Evolution wireless networks, further investment in *Max*™, and improved high speed internet quality; and
- $79.6 million at SaskEnergy primarily on system expansion to meet growth and enable more natural gas to be imported from Alberta and add operational flexibility, as well as capital to ensure the safety and integrity of its extensive distribution and transmission systems.

In the first six months of 2014, investment purchases were $593.9 million (2013 - $662.6 million), a decrease of $68.7 million. The majority of the decrease is related to:

- A $134.0 million decrease in purchases at SGI attributed to efforts to manage its short and long-term investment portfolio asset mix during the period; and
- A $18.0 million decrease at CIC AMI as investment purchases in the first six months of 2013 were related to bond investments to match the environmental liability.

Partially offset by:

- A $76.7 million increase in purchases of investments related to CIC Separate, which is mostly the result of reclassifications of cash between cash and cash equivalents and short-term investments. Short-term money market investments are classifed as cash and cash equivalents if the maturity of the investment is 90 days or less and classified as short-term investments if the maturity date is 91 days or more; and
- A $7.2 million increase in purchases by SIIF reflecting new loans to builders and developers under the HeadStart on a Home program.

Consolidated debt at June 30, 2014 was $7,023.3 million (December 31, 2013 - $6,624.0 million), an increase of $399.3 million. The increase in debt is primarily due to:

- A $381.1 million increase in SaskPower debt to fund a portion of its $577.8 million in capital expenditures during the period;
- A $45.1 million increase in SaskTel debt to fund a portion of its $115.2 million in capital expenditures during the period; and
- A $18.4 million increase in SIIF debt reflecting further amounts received from the Government of Canada's Immigrant Investor Program which is used in the Saskatchewan's HeadStart on a Home program.

This was partially offset by a $38.2 million decrease in SaskEnergy debt reflecting a reduction in its notes payable partially offset by debt to fund its capital expenditures during the period.

## Liquidity

CIC and its subsidiary Crowns finance capital requirements through internally generated cash flow and borrowing. The GRF borrows in capital markets on behalf of Crowns. The GRF has sufficient access to capital markets for anticipated borrowing requirements.

| Province of Saskatchewan Credit Ratings on Long-Term Debt as at June 30, 2014 | |
|---|---|
| Moody's Investor Service | Aa1 |
| Standard & Poor's | AAA |
| Dominion Bond Rating Service | AA |

## Liquidity and Capital Resources

| **Cash Flow Highlights**<br>(millions of dollars)<br>(unaudited) | **For the six months ended**<br>**June 30**<br>**2014** | June 30<br>2013<br>(Restated) |
|---|---|---|
| Net cash from operating activities | $ **513.2** | $ 553.2 |
| Net cash used in investing activities | **(926.6)** | (500.6) |
| Dividends paid | - | (164.8) |
| Repayment of equity advances | - | (143.0) |
| Debt proceeds received | **1,032.7** | 215.0 |
| Debt repaid | **(56.3)** | (5.3) |
| (Decrease) increase in notes payable | **(581.4)** | 93.4 |
| Other financing activities | **(12.3)** | (5.7) |
| Change in cash and cash equivalents | $ **(30.7)** | $ 42.2 |

## Operating, Investing and Financing Activities

Net cash from operating activities for the six months ended June 30, 2014 was $513.2 million (2013 - $553.2 million) or a decrease of $40.0 million. The decrease relates to:

- A $54.3 million decrease to net earnings; and
- A $60.0 million increase in interest paid, attributed to higher consolidated debt balances.

This was partially offset by:

- A $14.1 million increase in adjustments to reconcile net earnings to cash from operating activities (see details in Note 11 to the unaudited condensed consolidated interim financial statements); and
- A $55.9 million increase from changes in non-cash working capital balances.

Net cash used in investing activities for the six months ended June 30, 2014 was $926.6 million (2013 - $500.6 million). The $426.0 million increase in cash outflows is primarily related to:

- A $235.4 million decrease in cash from an increase in purchase of investments and a decrease in proceeds from sale and collection of investments related to CIC Separate, which is mostly the result of reclassifications of cash between cash and cash equivalents and short-term investments. Short-term money market investments are classifed as cash and cash equivalents if the maturity of the investment is 90 days or less and classified as short-term investments if the maturity date is 91 days or more;

## Operating, Investing and Financing Activities (continued)

- A decrease of $78.3 million in cash at CIC AMI and a decrease of $67.5 million in cash at SGI primarily related to a decrease in proceeds from sale and collection of investments partially offset by a decrease in purchase of investments due to turning over its investment portfolio to change its asset mix during the period; and
- A $40.6 million increase in capital expenditures.

Net cash from financing activities for the six months ended June 30, 2014 was $382.7 million versus a $10.4 million cash outflow for the same period in 2013. The incremental cash inflow of $393.1 million was due to:

- A $820.3 million increase in debt proceeds from the GRF; and
- No repayment of equity advances to the GRF, compared to a $143.0 million repayment of equity advances to the GRF for the same period in 2013; and
- No dividend payments to the GRF, compared to a $164.8 million in dividends to the GRF for the same period in 2013.

These cash inflows were partially offset by:

- A $674.8 million decrease in cash from repayments of notes payable; and
- A $60.2 million increase in cash outflows from debt repaid and other financing activities.

## Debt Management

CIC and its subsidiary Crowns prudently manage debt to maintain and enhance financial flexibility. The CIC Board has approved debt targets for CIC and its commercial subsidiaries that take into account their individual circumstances and industry benchmarks.

## Outlook

The Corporation's outlook related to net earnings is highly dependent upon the performance and management of the subsidiary corporations. Earnings expectations are also subject to many variables including: weather conditions, commodity markets, general economic and political conditions, interest and exchange rates, performance and competition, and the regulatory environment.

The Corporation projects continued strong operating performance. Net earnings are largely driven by utility Crowns that have relatively stable operating environments, stable or growing customer demand, and rates that are set in accordance with commercial principles. The Corporation anticipates significant ongoing challenges including maintaining and expanding utility infrastructure at SaskPower and SaskEnergy, as well as keeping pace with industry technological change at SaskTel. Significant capital expenditures in these companies are expected in the medium term.

In addition, continued volatility in financial markets may further affect valuation of pension liabilities, portfolio investments, and natural gas price management instruments.

Crown Investments Corporation of Saskatchewan
Condensed Consolidated Interim Statement of Financial Position
As at
(thousands of dollars)
(unaudited)

| | Note | **June 30 2014** | December 31 2013 (Restated Note 3) | January 1 2013 (Restated Note 3) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current | | | | |
| Cash and cash equivalents | | **$ 367,365** | $ 412,583 | $ 328,027 |
| Short-term investments | | **347,147** | 229,918 | 448,188 |
| Accounts receivable | | **748,314** | 745,250 | 690,328 |
| Restricted cash and cash equivalents | | **134,743** | 124,014 | 70,940 |
| Derivative financial assets | | **40,630** | 36,361 | 56,428 |
| Inventories | | **399,059** | 412,430 | 411,662 |
| Prepaid expenses | | **145,589** | 129,627 | 125,412 |
| Assets held-for-sale | 6 | **-** | 4,554 | - |
| | | **2,182,847** | 2,094,737 | 2,130,985 |
| Restricted cash and cash equivalents | | **4,823** | 4,823 | 4,872 |
| Long-term investments | | **1,358,009** | 1,274,792 | 1,230,124 |
| Investments in equity accounted investees | | **141,052** | 143,864 | 85,914 |
| Property, plant and equipment | | **11,508,844** | 11,043,249 | 9,112,247 |
| Investment property | | **172,303** | 173,128 | 175,694 |
| Intangible assets | | **384,666** | 383,821 | 328,531 |
| Other assets | | **16,463** | 18,350 | 23,609 |
| | | **$ 15,769,007** | $ 15,136,764 | $ 13,091,976 |
| **LIABILITIES AND PROVINCE'S EQUITY** | | | | |
| Current | | | | |
| Bank indebtedness | | **$ -** | $ 14,462 | $ 5,724 |
| Trade and other payables | | **839,073** | 838,231 | 716,784 |
| Derivative financial liabilities | | **81,969** | 102,157 | 96,767 |
| Notes payable to General Revenue Fund | | **880,395** | 1,461,802 | 1,149,319 |
| Deferred revenue | | **501,638** | 479,454 | 439,677 |
| Provisions | | **191,287** | 194,288 | 150,645 |
| Current portion of finance lease obligations | | **7,568** | 7,341 | 5,680 |
| Long-term debt due within one year | | **12,163** | 61,994 | 157,701 |
| Liabilities held-for-sale | 6 | **-** | 57 | - |
| | | **2,514,093** | 3,159,786 | 2,722,297 |
| Provisions | | **552,158** | 521,596 | 464,683 |
| Finance lease obligations | | **1,136,418** | 1,137,138 | 436,690 |
| Long-term debt | | **6,130,746** | 5,100,250 | 4,402,718 |
| Employee future benefits | | **348,560** | 281,726 | 641,238 |
| Other liabilities | | **135,707** | 120,543 | 103,077 |
| | | **10,817,682** | 10,321,039 | 8,770,703 |
| Province of Saskatchewan's Equity | | | | |
| Equity advances | | **908,889** | 908,889 | 1,051,839 |
| Contributed surplus | | **85** | 125 | 125 |
| Retained earnings | | **4,010,462** | 3,802,660 | 3,597,189 |
| Accumulated other comprehensive income (loss) | 8 | **31,889** | 104,051 | (327,880) |
| | | **4,951,325** | 4,815,725 | 4,321,273 |
| | | **$ 15,769,007** | $ 15,136,764 | $ 13,091,976 |
| Commitments and contingencies | 9 | | | |

(See accompanying notes)

Crown Investments Corporation of Saskatchewan
Condensed Consolidated Interim Statement of Comprehensive (Loss) Income
For the Period
(thousands of dollars)
(unaudited)

| | Note | **2014 April 1 to June 30** | **2014 January 1 to June 30** | 2013 April 1 to June 30 (Restated Note 3) | 2013 January 1 to June 30 (Restated Note 3) |
|---|---|---|---|---|---|
| **INCOME FROM OPERATIONS** | | | | | |
| Revenue | | **$ 1,251,070** | **$ 2,616,438** | $ 1,194,406 | $ 2,414,520 |
| Other income | | **901** | **1,764** | 5,531 | 5,937 |
| | | **1,251,971** | **2,618,202** | 1,199,937 | 2,420,457 |
| **EXPENSES** | | | | | |
| Operating | | **711,734** | **1,348,270** | 623,742 | 1,178,311 |
| Salaries, wages and short-term employee benefits | | **225,190** | **454,533** | 216,650 | 432,849 |
| Employee future benefits | | **9,920** | **20,044** | 8,556 | 18,296 |
| Depreciation and amortization | | **173,473** | **343,443** | 157,381 | 313,151 |
| (Gain) loss on disposal of property, plant and equipment | | **(1,060)** | **1,146** | 2,719 | 2,946 |
| Impairment losses | 10 | **41,146** | **41,146** | 4,453 | 11,818 |
| Research and development | | **16** | **89** | 185 | 331 |
| Provision for decommissioning and environmental remediation | | **1,000** | **1,000** | - | - |
| Saskatchewan taxes and fees | | **41,719** | **73,701** | 35,942 | 67,956 |
| | | **1,203,138** | **2,283,372** | 1,049,628 | 2,025,658 |
| **RESULTS FROM OPERATING ACTIVITIES** | | **48,833** | **334,830** | 150,309 | 394,799 |
| Finance income | | **47,185** | **95,269** | 9,301 | 39,271 |
| Finance expenses | | **(116,712)** | **(225,504)** | (108,984) | (194,850) |
| **NET FINANCE EXPENSES** | | **(69,527)** | **(130,235)** | (99,683) | (155,579) |
| **(LOSS) EARNINGS FROM OPERATIONS** | | **(20,694)** | **204,595** | 50,626 | 239,220 |
| Share of net earnings from equity accounted investees | | **1,157** | **3,121** | 2,049 | 7,503 |
| **(LOSS) EARNINGS FROM CONTINUING OPERATIONS** | | **(19,537)** | **207,716** | 52,675 | 246,723 |
| Net (loss) earnings from discontinued operations | 6 | **(1,236)** | **(815)** | 4,927 | 10,484 |
| Net earnings on sale of equity accounted investees | | **261** | **901** | 7,051 | 4,927 |
| **NET (LOSS) EARNINGS** | | **(20,512)** | **207,802** | 64,653 | 262,134 |
| **OTHER COMPREHENSIVE (LOSS) INCOME** | | | | | |
| Defined benefit plan actuarial (losses) gains | | **(19,098)** | **(65,147)** | 99,593 | 122,635 |
| Share of changes in comprehensive income recognized by associates | | **1** | **2** | - | 3 |
| Unrealized (loss) gain on cash flow hedges | | **(6,653)** | **(6,253)** | 25,514 | 34,613 |
| Realized gain on cash flow hedges | | **-** | **-** | - | 9,192 |
| Amounts amortized to net earnings and included in net finance expenses | | **(379)** | **(764)** | (69) | (76) |
| **OTHER COMPREHENSIVE (LOSS) INCOME** | | **(26,129)** | **(72,162)** | 125,038 | 166,367 |
| **TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO THE PROVINCE OF SASKATCHEWAN** | | **$ (46,641)** | **$ 135,640** | $ 189,691 | $ 428,501 |

(See accompanying notes)

Crown Investments Corporation of Saskatchewan
Condensed Consolidated Interim Statement of Changes in Equity
For the Period
(thousands of dollars)
(unaudited)

| | Attributable to the Province of Saskatchewan | | | | |
|---|---|---|---|---|---|
| | Equity Advances | Contributed Surplus | Retained Earnings (Restated Note 3) | Accumulated Other Comprehensive Income (Loss) (Note 8) | Total Equity (Restated Note 3) |
| Balance at January 1, 2013 | $ 1,051,839 | $ 125 | $ 3,597,189 | $ (327,880) | $ 4,321,273 |
| Total comprehensive income | - | - | 262,134 | 166,367 | 428,501 |
| Repayment of equity advances to GRF | (142,950) | - | - | - | (142,950) |
| Dividends to GRF | - | - | (164,829) | - | (164,829) |
| Other | - | - | - | - | - |
| Balance at June 30, 2013 | $ 908,889 | $ 125 | $ 3,694,494 | $ (161,513) | $ 4,441,995 |
| | | | | | |
| Balance at July 1, 2013 | $ 908,889 | $ 125 | $ 3,694,494 | $ (161,513) | $ 4,441,995 |
| Total comprehensive income | - | - | 304,716 | 265,564 | 570,280 |
| Dividends to GRF | - | - | (196,550) | - | (196,550) |
| Other | - | - | - | - | - |
| Balance at December 31, 2013 | $ 908,889 | $ 125 | $ 3,802,660 | $ 104,051 | $ 4,815,725 |
| | | | | | |
| **Balance at January 1, 2014** | **$ 908,889** | **$ 125** | **$ 3,802,660** | **$ 104,051** | **$ 4,815,725** |
| **Total comprehensive income (loss)** | **-** | **-** | **207,802** | **(72,162)** | **135,640** |
| **Dividends to GRF** | **-** | **-** | **-** | **-** | **-** |
| **Other** | **-** | **(40)** | **-** | **-** | **(40)** |
| **Balance at June 30, 2014** | **$ 908,889** | **$ 85** | **$ 4,010,462** | **$ 31,889** | **$ 4,951,325** |

(See accompanying notes)

Crown Investments Corporation of Saskatchewan
Condensed Consolidated Interim Statement of Cash Flows
For the Period
(thousands of dollars)
(unaudited)

| | Note | **2014 January 1 to June 30** | 2013 January 1 to June 30 (Restated Note 3) |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net earnings | | **$ 207,802** | $ 262,134 |
| Adjustments to reconcile net earnings to cash from operating activities | 11 | **468,691** | 454,614 |
| | | **676,493** | 716,748 |
| Net change in non-cash working capital balances related to operations | | **70,916** | 15,054 |
| Interest paid | | **(233,934)** | (173,933) |
| Cash provided by operating activities from continuing operations | | **513,475** | 557,869 |
| Cash used in operating activities from discontinued operations | 6 | **(297)** | (4,651) |
| Net cash from operating activities | | **513,178** | 553,218 |
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **13,576** | 13,280 |
| Dividends received | | **3,327** | 1,352 |
| Purchase of investments | | **(593,854)** | (662,572) |
| Proceeds from sale and collection of investments | | **459,330** | 922,680 |
| Purchase of property, plant and equipment | | **(763,270)** | (710,220) |
| (Costs related to) proceeds from sale of property, plant and equipment | | **(1,692)** | 272 |
| Purchase of intangible assets | | **(34,369)** | (46,721) |
| Purchase of investment property | | **(1,583)** | (1,650) |
| Increase in restricted cash and cash equivalents | | **(10,754)** | (25,381) |
| Decrease in other assets | | **2,649** | 8,412 |
| Net cash used in investing activities | | **(926,640)** | (500,548) |
| **FINANCING ACTIVITIES** | | | |
| (Decrease) increase in notes payable | | **(581,407)** | 93,363 |
| Increase in other liabilities | | **17,656** | 16,995 |
| Debt proceeds from GRF | | **1,015,410** | 195,120 |
| Debt repayments to GRF | | **(50,000)** | - |
| Debt proceeds from other lenders | | **17,334** | 19,832 |
| Debt repayments to other lenders | | **(6,311)** | (5,272) |
| Sinking fund instalments | | **(36,337)** | (22,702) |
| Sinking fund redemptions | | **6,361** | - |
| Repayment of equity advances to GRF | | **-** | (142,950) |
| Dividend paid to GRF | | **-** | (164,829) |
| Net cash provided by (used in) financing activities | | **382,706** | (10,443) |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS DURING PERIOD** | | **(30,756)** | 42,227 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | | **398,121** | 322,303 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | | **$ 367,365** | $ 364,530 |
| Cash and cash equivalents consists of: | | | |
| Cash and cash equivalents from continuing operations | | **$ 367,365** | $ 348,511 |
| Bank indebtedness from continuing operations | | **-** | (5,064) |
| | | **367,365** | 343,447 |
| Cash and cash equivalents from discontinued operations | | **-** | 21,083 |
| | | **$ 367,365** | $ 364,530 |

(See accompanying notes)

(thousands of dollars)

## 1. General information

Crown Investments Corporation of Saskatchewan (CIC) is a corporation domiciled in Canada. The address of CIC's registered office and principal place of business is 400 - 2400 College Avenue, Regina, SK, S4P 1C8. The condensed consolidated interim financial statements of CIC comprise CIC and its subsidiaries (collectively referred to as "CIC" or "the Corporation") and CIC's interest in associates, joint ventures and joint operations with principal activities as described in Note 4 a).

The results included in these condensed consolidated interim financial statements should not be taken as indicative of the performance to be expected for a full year due to the seasonal nature of corporate operations.

## 2. Basis of preparation

### a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 - *Interim Financial Reporting.* The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and accordingly should be read in conjunction with the December 31, 2013 audited consolidated financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on September 3, 2014.

### b) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian Dollars, which is CIC's functional currency.

## 3. Changes in accounting policy and adoption of other standards

### a) Revenue recognition

Effective January 1, 2014, the Corporation changed its revenue recognition policy related to advertising and directory services. Revenues are now recognized over the term of the contract, previously revenue was recognized when directories were issued. The change was made as the new policy more reliably reports and better reflects the marketing strategy and resulting revenues from these services. The impact of the change in accounting policy is as follows:

**Condensed Consolidated Interim Statement of Financial Position**

| | December 31 2013 | January 1 2013 |
|---|---|---|
| Decrease in accounts receivable | $ (18,738) | $ (19,183) |
| Increase in prepaid expenses | 2,839 | 2,860 |
| Decrease in total assets | $ (15,899) | $ (16,323) |
| Increase in deferred revenue | $ 2,303 | $ 2,544 |
| Decrease in retained earnings | (18,202) | (18,867) |
| Decrease in total liabilities and Province's equity | $ (15,899) | $ (16,323) |

**Condensed Consolidated Interim Statement of Comprehensive Income**

| | 2013 January 1 to June 30 | 2013 January 1 to December 31 |
|---|---|---|
| Increase in revenue | $ 11,761 | $ 686 |
| Increase in operating expense | (1,073) | (84) |
| (Increase) decrease in salaries, wages and short-term employee benefits | (312) | 63 |
| Increase in total comprehensive income | $ 10,376 | $ 665 |

(thousands of dollars)

**3. Changes in accounting policy and adoption of other standards (continued)**

**b) IFRS 13, *Fair Value Measurement***

Effective January 1, 2013, the Corporation prospectively adopted IFRS 13, *Fair Value Measurement*. This new standard establishes a single framework for measuring fair value. Under IFRS 13, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (an exit price). The fair value measurement of certain electricity contracts was revised upon adoption of the new standard. The impact of applying the new standard is as follows:

**Condensed Consolidated Interim Statement of Comprehensive Income**

| | 2013 April 1 to June 30 | 2013 January 1 to June 30 |
|---|---|---|
| (Decrease) increase in revenue | $ (1,155) | $ 4,095 |
| Increase in total comprehensive income | $ (1,155) | $ 4,095 |

**c) New standards and amendments**

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2014, have been applied in preparing these interim condensed consolidated financial statements:

- IFRIC 21, *Levies*
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*
- Amendments to IAS 32 *Financial Instruments: Presentation*
- Amendments to IAS 36 *Impairment of Assets*
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*

The adoption of these standards had no material impact on the condensed consolidated interim financial statements.

## 4. Significant accounting policies

The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those disclosed in CIC's December 31, 2013 audited consolidated financial statements, except as described in Note 3.

The accounting policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements and have been consistently applied by CIC's subsidiaries.

### a) Basis of consolidation

**Subsidiaries**

Saskatchewan provincial Crown corporations are either designated as subsidiary Crown corporations of CIC or created as CIC Crown corporations under *The Crown Corporations Act, 1993* (the Act). The Act assigns specific financial and other responsibilities regarding these corporations to CIC.

In addition to the Crown corporations listed below, CIC also consolidates the accounts of Gradworks Inc., a wholly-owned non-profit subsidiary, and the following wholly-owned share capital subsidiaries: CIC Asset Management Inc.; First Nations and Métis Fund Inc.; CIC Economic Holdco Ltd.; and Saskatchewan Immigrant Investor Fund Inc., all of which are domiciled in Canada.

Unaudited condensed separate interim financial statements for CIC have been prepared to show the financial position and results of operations of the corporate entity. In addition, condensed interim financial statements for each of the undernoted Crown corporations, which are consolidated in these financial statements, are prepared and released publicly:

| Wholly-owned subsidiaries domiciled in Canada | Principal activity |
|---|---|
| SaskEnergy Incorporated (SaskEnergy) | Natural gas storage and delivery |
| Saskatchewan Gaming Corporation (SGC) | Entertainment |
| Saskatchewan Government Insurance (SGI) | Property and casualty insurance |
| Saskatchewan Opportunities Corporation (SOCO) | Research parks |
| Saskatchewan Power Corporation (SaskPower) | Electricity |
| Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications (collectively SaskTel) | Telecommunications |
| Saskatchewan Transportation Company (STC) | Passenger and freight transportation |
| Saskatchewan Water Corporation (SaskWater) | Water and wastewater management |

**Associates and joint ventures (investments in equity accounted investees)**

Associates are those entities in which CIC has significant influence, but not control, over strategic financial and operating decisions. Significant influence is presumed to exist when CIC holds between 20.0 and 50.0 per cent of the voting power of another entity.

Joint ventures are those entities over whose activities CIC has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions; and provide CIC with rights to the net assets of the arrangement.

Associates and joint ventures are accounted for using the equity method and are recognized initially at cost. CIC's investment includes any goodwill identified at acquisition, net of accumulated impairment losses. The condensed consolidated interim financial statements include CIC's share of the total comprehensive income and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of CIC, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When CIC's share of losses exceeds its interest in equity accounted investees, the carrying amount of that interest is reduced and the recognition of further losses is discontinued except to the extent that CIC has an obligation or has made payments on behalf of the investee.

## 4. Significant accounting policies (continued)

### a) Basis of consolidation (continued)

**Joint operations**

Joint operations are those entities over whose activities CIC has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions; and provide CIC with rights to the assets, and obligations for the liabilities, related to the arrangement. CIC has classified its 50.0 per cent interest in the Kisbey Gas Gathering and Processing Facility, the Totnes Natural Gas Storage Facility and the Cory Cogeneration Station as joint operations.

The condensed consolidated interim financial statements include CIC's proportionate share of joint operation assets, incurred liabilities, income and expenses.

**Special purpose entities**

CIC has established certain special purpose entities (SPEs) for trading and investment purposes. CIC does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with CIC and the SPE's risks and rewards, CIC concludes that it controls the SPE. SPEs controlled by CIC were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in CIC receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

CIC has two SPEs, Meadow Lake Pulp Limited Partnership and 212822 Saskatchewan Ltd. These SPEs are not material to CIC's consolidated results.

**Transactions eliminated on consolidation**

Inter-group balances and transactions, and any unrealized income and expenses arising from inter-group transactions, are eliminated in preparing the condensed consolidated interim financial statements. Unrealized gains arising from transactions with investments in equity accounted investees are eliminated against the investment to the extent of CIC's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### b) New standards not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended June 30, 2014, and have not been applied in preparing these condensed consolidated interim financial statements.

**IFRS 4, *Insurance Contracts***

In June 2013, the IASB published a revised exposure draft (2013 ED) on the accounting for insurance contracts which builds on the previous consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. A final standard is expected in 2015 with implementation not expected before 2018.

## 4. Significant accounting policies (continued)

### b) New standards not yet adopted (continued)

**IFRS 9, *Financial Instruments***

IFRS 9 was issued by the IASB on November 12, 2009 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standards are to be applied prospectively.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. Under IFRS 9, financial assets will generally be measured initially at fair value plus particular transaction costs, and subsequently at either amortized cost or fair value. In October 2010, the IASB issued additions to IFRS 9 relating to accounting for financial liabilities. Under the new requirements, an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's credit risk in other comprehensive income, rather than within net earnings. This standard is effective for annual periods beginning on or after January 1, 2018. The Corporation does not intend to early adopt this standard but is reviewing it to determine the potential impact, if any, on the consolidated financial statements.

**IFRS 15, *Revenue from Contracts with Customers***

On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers.* The new standard contains a single model that applies to contracts with customers and two approaches to recognising revenue, at a point of time or over time. The standard includes a model that features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. Also, new estimates and judgemental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers and does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS standards. The new standard is effective for fiscal years ending on or after December 31, 2017 and is available for early adoptions. The Corporation intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The Corporation is in the process of assessing the impact of the adoption of the standard.

***Annual Improvements Cycles***

In 2012, the IASB issued two exposure drafts for *Annual Improvements Cycles* 2010 - 2012 and 2011 - 2013, which include minor amendments to a number of IFRS. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are all effective for annual periods beginning July 1, 2014. The Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The Corporation is in the process of assessing the impact of the amendments.

## 5. Status of CIC

CIC was established by Order in Council 535/47 dated April 2, 1947, and is continued under the provisions of *The Crown Corporations Act, 1993*. CIC is an agent of Her Majesty in Right of the Province of Saskatchewan and as a provincial Crown corporation is not subject to federal and provincial income taxes. Certain associates, joint ventures, joint operations and subsidiaries are not provincial Crown corporations and are subject to federal and provincial income taxes.

## 6. Discontinued operations and assets held-for-sale

The Corporation had previously classified several natural gas storage assets as well as distribution assets of its subsidiary, Swan Valley Gas Corporation, as held for sale. During the second quarter of 2014, the Corporation sold these assets resulting in a gain on sale of $3.1 million.

In March 2014, the Corporation announced that it had entered into an agreement to sell the shares of its 75 per cent owned subsidiary, the Insurance Company of Prince Edward Island (ICPEI), to a third party for a purchase price equal to ICPEI's book value as at the transaction closing date of June 30, 2014. The ICPEI operations represented a separate line of business for the Corporation in the Maritimes. Following receipt of regulatory approval, the sale closed on June 30, 2014 for total proceeds of $8.8 million representing the book value as at June 30, 2014, resulting in no gain or loss on the sale. ICPEI has been treated as a discontinued operation.

(thousands of dollars)

**6. Discontinued operations and assets held-for-sale (continued)**

Effective April 1, 2014, the Corporation entered into an agreement with a third party that resulted in the transfer of bio processing operations to that party. As part of the agreement, all processing equipment and inventory will be sold to the third party. The Corporation retained ownership of the building housing the processing facility which will be leased to the third party through a long term lease arrangement.

Assets classified as held-for-sale are comprised of the following:

| | **June 30 2014** | December 31 2013 |
|---|---|---|
| Property, plant and equipment | **$ -** | $ 6,362 |
| Amounts written down on transfer | **-** | (1,808) |
| | **$ -** | $ 4,554 |

Liabilities classified as held-for-sale are comprised of the following:

| | **June 30 2014** | December 31 2013 |
|---|---|---|
| Other liabilities | **$ -** | $ 57 |
| | **$ -** | $ 57 |

The impact of discontinued operations on net earnings and cash flows was comprised of the following:

| | **2014 January 1 to June 30** | 2013 January 1 to June 30 |
|---|---|---|
| Revenue | **$ 12,059** | $ 50,952 |
| Operating expenses | **13,257** | 20,235 |
| Salaries, wages and short-term employee benefits | **404** | 12,521 |
| Employee future benefits | **-** | 759 |
| Depreciation and amortization | **4** | 3,078 |
| Research and development | **-** | 4,346 |
| Expenses | **13,665** | 40,939 |
| Results from operating activities | **(1,606)** | 10,013 |
| Finance income | **950** | 679 |
| Finance expense | **(159)** | (208) |
| Net finance expense | **791** | 471 |
| Net (loss) earnings from discontinued operations | **$ (815)** | $ 10,484 |
| Cash (used in) provided by operating activities | **(5,396)** | 11,565 |
| Cash provided by (used in) investing activities | **7,395** | (1,724) |
| Cash used in financing activities | **(2,296)** | (14,492) |
| Net change in cash and cash equivalents | **$ (297)** | $ (4,651) |

(thousands of dollars)

## 7. Equity advances and capital disclosures

CIC does not have share capital. However, CIC has received advances from the GRF to form its equity capitalization. The advances are an equity investment in CIC by the GRF.

Due to its ownership structure, CIC has no access to capital markets for equity. Equity advances in CIC are determined by the shareholder on an annual basis. Dividends to the GRF are determined through the Saskatchewan provincial budget process on an annual basis.

CIC 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 CIC's capital structure. CIC 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 CIC'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.

CIC reviews the debt ratio targets of all its subsidiary Crown corporations on an annual basis to ensure consistency with industry standards. This review includes subsidiary Crown corporations' plans for capital spending. The target debt ratios for subsidiary Crown corporations are approved by the CIC Board. CIC uses targeted debt ratios to compile a weighted average debt ratio for the CIC Crown sector. The target ratio for 2014 is 57.1 per cent.

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

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

The debt ratio is as follows:

| | **June 30 2014** | December 31 2013 (Restated Note 3) |
|---|---|---|
| Total debt (a) | **$ 7,023,304** | $ 6,624,046 |
| Less: Sinking funds | **(623,882)** | (551,161) |
| Net debt | **6,399,422** | 6,072,885 |
| Equity (b) | **4,919,436** | 4,711,674 |
| Capitalization | **$ 11,318,858** | $ 10,784,559 |
| Debt ratio | **56.5%** | 56.3% |

a) Total debt includes long-term debt, long-term debt due within one year and notes payable.

b) Equity includes equity advances, contributed surplus and retained earnings.

## 8. Accumulated other comprehensive income (loss)

| | **June 30 2014** | December 31 2013 |
|---|---|---|
| Items that may be reclassified to net earnings: | | |
| Foreign currency translation adjustments | **$ 1** | $ 1 |
| Unrealized gains on cash flow hedges | **74** | 103 |
| Realized gains on cash flow hedges | **39,760** | 46,748 |
| Share of changes in comprehensive income recognized by associates | **(1)** | (3) |
| | **39,834** | 46,849 |
| Items that will not be reclassified to net earnings: | | |
| Defined benefit plan actuarial (losses) gains | **(7,945)** | 57,202 |
| | **$ 31,889** | $ 104,051 |

(thousands of dollars)

## 9. Commitments and contingencies

CIC has various legal matters pending which, in the opinion of management, will not have a material effect on CIC's consolidated financial position or results of operations. Should the ultimate resolution of actions differ from management's assessments and assumptions, a material adjustment to CIC's financial position or results of operations could result.

## 10. Impairment losses

Subsequent to the period end, the Corporation recorded an impairment loss of $38.1 million as a result of shareholder direction, which was announced on July 30, 2014. The Corporation was directed to replace all installed Advanced Metering Infrastructure meters with legacy meters. The loss is included in impairment losses on the Condensed Consolidated Statement of Comprehensive Income.

## 11. Condensed consolidated interim statement of cash flows

| | Note | **2014 January 1 to June 30** | 2013 January 1 to June 30 (Restated Notes 3 and 6) |
|---|---|---|---|
| **Adjustments to reconcile net earnings to cash provided from operating activities** | | | |
| Depreciation and amortization | | **$ 343,443** | $ 313,151 |
| Future income tax expense (recovery) | | **23** | (12) |
| Share of earnings from investments in equity accounted investees | | **(3,121)** | (7,503) |
| Net (loss) earnings from discontinued operations | | **815** | (10,484) |
| Net gain from sale of investments in equity accounted investees | | **(901)** | (4,927) |
| Defined benefit pension plan expense | | **674** | 704 |
| Unrealized gains on derivative financial instruments | | **(30,681)** | (7,085) |
| Inventory recoveries | | **(12,188)** | (1,191) |
| Loss on disposal of property, plant and equipment | | **1,146** | 2,946 |
| Impairment losses | 10 | **41,146** | 11,818 |
| Net finance expenses | | **130,235** | 155,579 |
| Other non-cash items | | **(1,900)** | 1,618 |
| | | **$ 468,691** | $ 454,614 |

(thousands of dollars)

**12. Fair value of financial instruments**

Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of inputs used in the valuation.

Level 1 - Quoted prices are readily available from an active market.
Level 2 - Inputs, other than quoted prices included in level 1 that are observable either directly or indirectly.
Level 3 - Inputs are not based on observable market data.

CIC's financial instruments are categorized within this hierarchy as follows:

| | | June 30 2014 | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Cash and cash equivalents | **$ 367,365** | **$ -** | **$ -** | **$ 367,365** |
| Restricted cash and cash equivalents | **139,566** | **-** | **-** | **139,566** |
| Notes payable | **880,395** | **-** | **-** | **880,395** |
| Investments carried at fair value through profit or loss | **497,806** | **997,238** | **100,879** | **1,595,923** |
| Investments - amortized cost | **-** | **53,726** | **-** | **53,726** |
| Loans and receivables – Immigrant Investor Program | **-** | **51,332** | **-** | **51,332** |
| Finance lease obligations | **-** | **1,256,831** | | **1,256,831** |
| Long-term debt | **-** | **7,312,030** | | **7,312,030** |
| Physical natural gas contracts - net | **-** | **(13,190)** | **-** | **(13,190)** |
| Natural gas price swaps - net | **-** | **(30,223)** | **-** | **(30,223)** |
| Physical electricity forwards - net | - | **8,040** | **-** | **8,040** |
| Electricity contracts for differences - net | **-** | **134** | **-** | **134** |
| Foreign exchange forward contracts - net | **-** | **124** | **-** | **124** |
| Bond forwards - net | **-** | **(6,224)** | **-** | **(6,224)** |

**13. Comparative figures**

Certain of the 2013 comparative figures have been reclassified to conform to the current period's presentation.

# Separate Financial Statements

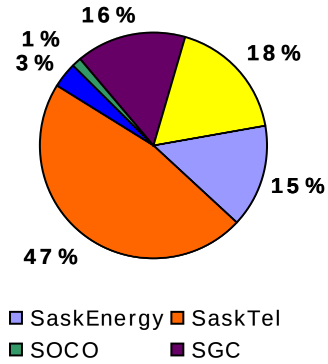
## Management's Discussion and Analysis

CIC is the Provincial Government's holding company for its commercial Crowns. CIC has invested equity in its subsidiary Crown corporations and collects dividends from these corporations based on their profitability and financial condition. CIC also owns a 31 per cent interest in Information Services Corporation (ISC) a publicly traded entity.

This narrative on CIC's separate June 30, 2014 second quarter results should be read in conjunction with the December 31, 2013 audited separate financial statements.

For the purposes of this narrative on CIC's separate financial results, "CIC" refers to the holding company.

**Dividend Revenue**




### Financial Results

| CIC Separate Second Quarter Earnings (thousands of dollars) (unaudited) | For the six months ended June 30 2014 | June 30 2013 |
|---|---|---|
| Dividend revenue from subsidiary corporations | **$ 64,452** | $ 80,320 |
| Add: Finance and other revenue | **1,816** | 1,253 |
| Less: Operating, salaries and other expenses | **(5,831)** | (7,438) |
| Grants to subsidiary corporations | **(8,519)** | (7,640) |
| Total Separate Earnings | **$ 51,918** | $ 66,495 |

### Net Earnings

Net earnings for the first six months of 2014 were $51.9 million (2013 - $66.5 million), a decrease of $14.6 million from the same period in 2013. The decrease is primarily due to a decrease in dividend revenue of $15.9 million and an increase in grants to subsidiary corporations of $0.9 million. These decreases in revenue were partially offset by an increase in finance and other revenue of $0.6 million and a decrease in operating, salaries and other expenses of $1.6 million for the same period of 2013.

### Dividend Revenue

Dividend revenue for the six months ended June 30, 2014 was $64.4 million (2013 - $80.3 million). The $15.9 million decrease was due to decreased dividends from ISC ($9.2 million) due to the sale of 69.0 per cent of ISC in July 2013, SaskTel ($6.2 million), SaskEnergy ($4.2 million) and SOCO ($0.3 million) offset by increased dividends from SGI ($4.0 million).

For the first six months of each year, dividends from subsidiary Crown corporations are based on 50 per cent of their forecasted dividend for the year. The forecasted dividend is calculated under CIC's dividend policy, which applies a percentage payout of net earnings based on the overall financial health of the subsidiary Crown and its need for capital investment. These dividend targets are subject to change during the year if there is a significant change in circumstances. For the current year, the dividend at SaskTel is based on 90 per cent of net earnings, SGC is based on 80 per cent of net earnings, SGI is based on 77 per cent of net earnings, SOCO is based on 90 per cent of net earnings and SaskEnergy is based on 38 per cent of operating earnings. CIC AMI's dividend is calculated on cash availability, which is determined at year end.

### Operating, Salaries and Benefits and Other Expenses

Operating, salaries and benefits and other expenses were $5.8 million for the six months ended June 30, 2014 (2013 - $7.4 million). These expenses decreased by $1.6 million primarily due to decreased consulting costs due to the 2013 ISC sale.

### Grants to Subsidiary Corporations

During the first six months of 2014, CIC provided $8.5 million (2013 - $7.6 million) in grants to subsidiary corporations. STC received $7.1 million (2013 - $6.0 million) in grants to support ongoing operations. SaskEnergy received $1.2 million (2013 - $1.3 million) to fund the EnerGuide for Houses program. Gradworks Inc., received $0.2 million (2013 - $0.3 million) to fund its internship program.

CIC projects public policy and grant funding expenditures to be as follows: $16.1 million to support ongoing operations at STC; $1.2 million of funding to SaskEnergy for the EnerGuide for Houses program and $0.4 million of operating grants to Gradworks.

### Liquidity and Capital Resources

| **Cash Flow Highlights**<br>(millions of dollars)<br>(unaudited) | For the six months ended<br>**June 30**<br>**2014** | June 30<br>2013 |
|---|---|---|
| Net cash from operations | **$ 69.7** | $ 124.2 |
| Net cash (used in) from investing activities | **(75.6)** | 157.3 |
| Net cash used in financing activities | **-** | (307.7) |
| Net change in cash | **$ (5.9)** | $ (26.2) |

### Liquidity

CIC finances its capital requirements through internally-generated cash flow and through borrowing from the GRF. The GRF borrows on CIC's behalf in capital markets.

### Operating, Investing and Financing Activities

Cash from operations for the six months ended June 30, 2014 was $69.7 million (2013 - $124.2 million). The $54.5 million decrease was due mainly to lower net earnings of $14.6 million and a decrease in other non-cash working capital balances related to operations of $39.3 million, due mainly to lower dividends receivable in 2014 compared to 2013.

Cash used in investing activities for the six months ended June 30, 2014 was $75.6 million (2013 - cash from $157.3 million). The difference from period to period is due to reclassifications of cash between cash and cash equivalents and short-term investments. Short-term money market investments are classified as cash and cash equivalents if maturity of the investment is 90 days or less and classified as short-term investments if maturity date is 91 days or more.

Cash used in financing activities was Nil (2013 - $307.7 million). In 2013, financing activities consisted of an equity repayment to the GRF of $142.9 million and dividends paid to the GRF of $164.8 million. CIC is forecasting a dividend to the GRF of $206.0 million in 2014. This amount is expected to be paid in the 4th quarter.

### Debt Management

CIC as a legal entity has no debt. Currently, CIC does not expect to borrow in 2014.

### Outlook and Key Factors Affecting Performance

The key factor affecting CIC's earnings is the level of net earnings and in turn dividends from commercial subsidiary Crown corporations. The CIC Board determines dividends from a commercial subsidiary after allocating cash for reinvestment within the Crown to sustain operations, to grow and to diversify, and for debt reduction if necessary.

CIC regularly assesses the appropriateness of the carrying value for its investments, and writes down an investment if it judges there to be a permanent impairment in carrying value. CIC regularly reviews its investments with private sector partners to determine the appropriateness of retention or sale.

Crown Investments Corporation of Saskatchewan
Condensed Separate Statement of Financial Position
As at
(thousands of dollars)
(unaudited)

| | Note | **June 30 2014** | December 31 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Current | | | |
| Cash and cash equivalents | | **$ 252,478** | $ 258,356 |
| Short-term investments | | **110,414** | 30,000 |
| Interest and accounts receivable | | **921** | 818 |
| Dividends receivable | | **31,328** | 51,828 |
| | | **395,141** | 341,002 |
| Equity advances to Crown corporations | 5 | **1,192,918** | 1,194,918 |
| Investments in share capital corporations | | **45,697** | 46,837 |
| Equipment | | **271** | 314 |
| | | **$ 1,634,027** | $ 1,583,071 |
| **LIABILITIES AND PROVINCE'S EQUITY** | | | |
| Current | | | |
| Interest and accounts payable | | **$ 1,821** | $ 2,783 |
| Province of Saskatchewan's Equity | | | |
| Equity advances | | **908,889** | 908,889 |
| Retained earnings | | **723,317** | 671,399 |
| | | **1,632,206** | 1,580,288 |
| | | **$ 1,634,027** | $ 1,583,071 |

(See accompanying notes)

Crown Investments Corporation of Saskatchewan
Condensed Separate Statement of Comprehensive Income
For the Period
(thousands of dollars)
(unaudited)

| | Note | **2014 April 1 to June 30** | **2014 January 1 to June 30** | 2013 April 1 to June 30 | 2013 January 1 to June 30 |
|---|---|---|---|---|---|
| **INCOME FROM OPERATIONS** | | | | | |
| Dividend | 6 | **$ 32,413** | **$ 64,452** | $ 36,044 | $ 80,320 |
| Other income | | **125** | **129** | 45 | 47 |
| | | **32,538** | **64,581** | 36,089 | 80,367 |
| **EXPENSES** | | | | | |
| Operating | | **1,255** | **2,803** | 2,229 | 3,868 |
| Salaries and short term employee benefits | | **1,388** | **2,766** | 1,656 | 3,263 |
| Future employee benefit expense | | **85** | **208** | 103 | 247 |
| Depreciation and amortization | | **25** | **49** | 27 | 55 |
| | | **2,753** | **5,826** | 4,015 | 7,433 |
| **EARNINGS FROM OPERATIONS** | | **29,785** | **58,755** | 32,074 | 72,934 |
| Finance income | | **866** | **1,687** | 441 | 1,206 |
| Finance expenses | | **(2)** | **(5)** | (2) | (5) |
| **NET FINANCE INCOME** | | **864** | **1,682** | 439 | 1,201 |
| **EARNINGS BEFORE PUBLIC POLICY INITIATIVES** | | **30,649** | **60,437** | 32,513 | 74,135 |
| Grants to subsidiary corporations | 7 | **(4,158)** | **(8,519)** | (2,838) | (7,640) |
| **NET EARNINGS** | | **26,491** | **51,918** | 29,675 | 66,495 |
| **OTHER COMPREHENSIVE INCOME** | | **-** | **-** | - | - |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE PROVINCE OF SASKATCHEWAN** | | **$ 26,491** | **$ 51,918** | $ 29,675 | $ 66,495 |

(See accompanying notes)

Crown Investments Corporation of Saskatchewan
Condensed Separate Statement of Changes in Equity
For the period
(thousands of dollars)
(unaudited)

| | **2014 January 1 to June 30** | 2013 January 1 to June 30 |
|---|---|---|
| **RETAINED EARNINGS** | | |
| Retained earnings - beginning of period | **$ 671,399** | $ 702,320 |
| Total comprehensive income | **51,918** | 66,495 |
| Dividend to General Revenue Fund | **-** | (164,829) |
| Retained earnings - end of period | **723,317** | 603,986 |
| **EQUITY ADVANCE** | | |
| Equity advances - beginning of period | **908,889** | 1,051,839 |
| Equity advances received | **-** | - |
| Equity advances repaid | **-** | (142,950) |
| Equity advances - end of period | **908,889** | 908,889 |
| **EQUITY ATTRIBUTED TO THE PROVINCE OF SASKATCHEWAN** | **$ 1,632,206** | $ 1,512,875 |

(See accompanying notes)

Crown Investments Corporation of Saskatchewan
Condensed Separate Statement of Cash Flows
For the Period
(thousands of dollars)
(unaudited)

| | Note | **2014 January 1 to June 30** | 2013 January 1 to June 30 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net earnings | | **$ 51,918** | $ 66,495 |
| Items not affecting cash from operations | | | |
| Amortization of discounts and premiums | | **-** | 123 |
| Depreciation and amortization | | **49** | 55 |
| Net finance income | | **(1,682)** | (1,201) |
| | | **50,285** | 65,472 |
| Net change in non-cash working capital balances related to operations | 8 | **19,435** | 58,771 |
| Interest paid | | **(5)** | (5) |
| Net cash from operating activities | | **69,715** | 124,238 |
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **1,687** | 1,206 |
| Purchase of investments | | **-** | (3,750) |
| (Increase) decrease in short-term investments | | **(80,414)** | 159,475 |
| Proceeds from retraction of equity advances | 5 | **2,000** | - |
| Purchase of equipment | | **(6)** | (20) |
| Repayment of due from CIC Economic Holdco Ltd. | | **1,140** | 427 |
| Net cash (used in) from investing activities | | **(75,593)** | 157,338 |
| **FINANCING ACTIVITIES** | | | |
| Repayment of equity advances | | **-** | (142,950) |
| Dividend paid to General Revenue Fund | | **-** | (164,829) |
| Net cash used in financing activities | | **-** | (307,779) |
| **NET CHANGE IN CASH DURING PERIOD** | | **(5,878)** | (26,203) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | | **258,356** | 173,836 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | | **$ 252,478** | $ 147,633 |

(See accompanying notes)

## 1. General information

Crown Investments Corporation of Saskatchewan (CIC) is a corporation domiciled in Canada. The address of CIC's registered office and principal place of business is 400 - 2400 College Avenue, Regina, SK, S4P 1C8. CIC was established to act as a holding corporation for the Province's commercial Crown sector. CIC develops broad corporate policy, directs investments for its subsidiaries and provides dividends to the Province's General Revenue Fund (GRF). A list of CIC's subsidiaries is contained in Note 3.

## 2. Basis of preparation

### a) Statement of compliance

The condensed separate interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 - *Interim Financial Reporting*. The policies set out have been consistently applied to all the periods presented unless otherwise noted. CIC's condensed separate interim financial statements are prepared at the request of the Legislative Assembly of Saskatchewan. The condensed separate interim financial statements do not include all of the information required for full annual financial statements, and accordingly should be read in conjunction with the December 31, 2013 audited separate financial statements.

The condensed separate interim financial statements were authorized for issue by the CIC Board of Directors on September 3, 2014.

### b) Functional and presentation currency

These condensed separate interim financial statements are presented in Canadian Dollars, which is CIC's functional currency.

## 3. Status of Crown Investments Corporation of Saskatchewan

The Government Finance Office was established by Order in Council 535/47 dated April 2, 1947, and was continued under the provision of *The Crown Corporations Act, 1993* (the Act), as CIC. CIC is an agent of Her Majesty in Right of the Province of Saskatchewan and as a provincial Crown corporation is not subject to federal and provincial income taxes.

The Act assigns specific financial and other responsibilities to CIC regarding Crown corporations designated or created as subsidiary Crown corporations of CIC under the Act. The following wholly-owned Crown corporations have been designated or created by Order in Council:

SaskEnergy Incorporated
Saskatchewan Gaming Corporation
Saskatchewan Government Insurance
Saskatchewan Opportunities Corporation
Saskatchewan Power Corporation
Saskatchewan Telecommunications
Saskatchewan Telecommunications Holding Corporation
Saskatchewan Transportation Company
Saskatchewan Water Corporation

In addition to the above Crown corporations, CIC is the sole member of Gradworks Inc., a non-profit corporation and the sole shareholder of CIC Asset Management Inc. (CIC AMI), First Nations and Métis Fund Inc. (FNMF), Saskatchewan Immigrant Investor Fund Inc. (SIIF), and CIC Economic Holdco Ltd., which are wholly-owned share capital subsidiaries.

All subsidiary Corporations are domiciled in Canada.

(thousands of dollars)

## 4. Summary of significant accounting policies

The accounting policies and methods of computation used in the preparation of these condensed separate interim financial statements are consistent with those disclosed in CIC's December 31, 2013 audited separate financial statements.

CIC's condensed separate interim financial statements do not consolidate the activities of its subsidiaries. Other than this exception, the accounting policies have been consistently applied by CIC's subsidiary corporations.

CIC prepares condensed consolidated interim financial statements. The unaudited condensed consolidated interim financial statements have been authorized by the CIC Board of Directors on September 3, 2014. CIC's condensed consolidated interim financial statements should be referenced for further information.

## 5. Equity advances to Crown corporations

Equity advances to Crown corporations are as follows:

| | **June 30 2014** | December 31 2013 |
|---|---|---|
| Saskatchewan Power Corporation | **$ 660,000** | $ 660,000 |
| Saskatchewan Telecommunications Holding Corporation | **250,000** | 250,000 |
| Saskatchewan Opportunities Corporation (a) | **118,687** | 120,687 |
| Saskatchewan Government Insurance | **80,000** | 80,000 |
| SaskEnergy Incorporated | **71,531** | 71,531 |
| Saskatchewan Water Corporation | **8,700** | 8,700 |
| Saskatchewan Gaming Corporation | **4,000** | 4,000 |
| | **$ 1,192,918** | $ 1,194,918 |

(a) On June 27, 2014, CIC retracted $2.0 million (2013 - Nil) in equity advances from Saskatchewan Opportunities Corporation.

## 6. Dividend revenue

Dividend revenue consists of the following:

| | **2014 January 1 to June 30** | 2013 January 1 to June 30 |
|---|---|---|
| Saskatchewan Telecommunications Holding Corporation | **$ 30,330** | $ 36,495 |
| Saskatchewan Government Insurance | **11,500** | 7,500 |
| Saskatchewan Gaming Corporation | **10,080** | 10,128 |
| SaskEnergy Incorporated | **9,460** | 13,680 |
| Information Services Corporation | **2,170** | 11,330 |
| Saskatchewan Opportunities Corporation | **912** | 1,187 |
| | **$ 64,452** | $ 80,320 |

(thousands of dollars)

## 7. Grants to subsidiary corporations

| | **2014 January 1 to June 30** | 2013 January 1 to June 30 |
|---|---|---|
| Saskatchewan Transportation Company | **$ 7,100** | $ 6,000 |
| SaskEnergy Incorporated | **1,199** | 1,369 |
| Gradworks Inc. | **220** | 271 |
| | **$ 8,519** | $ 7,640 |

## 8. Net change in non-cash working capital balances related to operations

| | **2014 January 1 to June 30** | 2013 January 1 to June 30 |
|---|---|---|
| (Increase) decrease in interest and accounts receivable | **$ (103)** | $ 516 |
| Decrease in dividends receivable | **20,500** | 58,481 |
| Decrease in interest and accounts payable | **(962)** | (226) |
| | **$ 19,435** | $ 58,771 |