SaskTel

Third
Quarter Report

Contents:

Saskatchewan Telecommunications Holding Corporation

Third Quarter Report 2010

For the Period Ending September 30, 2010

Saskatchewan Telecommunications Holding Corporation (SaskTel) is a Saskatchewan Crown corporation. SaskTel is the leading full service communications provider in Saskatchewan, offering a wide range of communications products and services including competitive voice, data, internet, entertainment, security monitoring, messaging, cellular, wireless data and directory services. In addition, SaskTel International offers software solutions and project consulting in countries around the world.

SaskTel and our wholly-owned subsidiaries have a workforce of approximately 4,700 permanent, part-time, casual, and temporary employees including all interns, co-op and summer students.

Our vision is "*To improve the lives of everyone we serve each and every time*" and our mission is *"We will go beyond in delivering innovative information, communication and entertainment solutions to our customers in Saskatchewan and other select markets. We will be a socially and environmentally responsible organization that delivers sound financial returns. Our focus is our Customer. Our strength is our People"*.

Financial Highlights

Consolidated Net Income

Millions of dollars	Three months ended September 30, 2010	2009	% Change	Nine months ended September 30, 2010	2009	% Change
Operating revenues	**$279.8**	$285.9	(2.1)	**$830.3**	$839.3	(1.1)
Operating expenses	**228.4**	235.8	(3.1)	**697.3**	709.4	(1.7)
Income from operations	**51.4**	50.1	2.6	**133.0**	129.9	2.4
Other items	**3.1**	1.5	106.7	**12.0**	4.1	192.7
Interest and related items	**(4.1)**	(4.1)	-	**(13.4)**	(15.3)	(12.4)
Income before the following	**50.4**	47.5	6.1	**131.6**	118.7	10.9
Gain on disposal of intangible assets	-	-	-	-	3.1	(100.0)
Income from continuing operations	**50.4**	47.5	6.1	**131.6**	121.8	8.0
Net earnings from discontinued operations	**0.8**	0.2	300.0	**2.9**	1.6	81.3
Net income	**$51.2**	$47.7	7.3	**$134.5**	$123.4	9.0

SaskTel's net income for the third quarter of 2010 was $51.2 million, up $3.5 million (7.3%) from the same period in 2009.

Year-to-date net income is $134.5 million, up $11.1 million from 2009. Operating revenues decreased by $9.0 million (1.1%) from the same period last year primarily due to decreased out-of-province revenues partially offset by growth in cellular and *Max*™ Entertainment services. Operating expenses decreased $12.1 million (1.7%) from the same period last year due to reduced out-of-province expenses, depreciation and restructuring charges partially offset by increases in direct expenses related to revenue growth and one-time items recorded in 2009. Other items increased due to Provincial Sales Tax (PST) refunds and increased Rural Infrastructure Program deferred revenue amortization.

Management Discussion and Analysis

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the third quarter 2010. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the year ended December 31, 2009. 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 2009 annual report. These interim statements have been prepared in accordance with the Canadian Institute of Chartered Accountants section 1751, "Interim Financial Statements." These interim statements have been approved by the SaskTel Board of Directors.

Results of Operations

Operating revenues

Millions of dollars	**2010**	**2009**	**Change**	**%**
Three months ended September 30,	**$279.8**	$285.9	$(6.1)	(2.1)
Year-to-date	**$830.3**	$839.3	$(9.0)	(1.1)

Operating revenues for the third quarter were $279.8 million, a decrease of $6.1 million from the same period in 2009. Year-to-date operating revenues were $830.3 million which represents a $9.0 million decrease from 2009. The decrease was driven primarily by out-of-province revenue reductions as a result of the divestiture of selected out-of-province assets in 2009, partially offset by increased cellular, *Max* Entertainment and internet revenues.

Operating expenses

Millions of dollars	**2010**	**2009**	**Change**	**%**
Three months ended September 30,	**$228.4**	$235.8	$(7.4)	(3.1)
Year-to-date	**$697.3**	$709.4	$(12.1)	(1.7)

Operating expenses were $228.4 million for the third quarter, down $7.4 million from the same period in 2009. Year-to-date expenses decreased to $697.3 million, down $12.1 million from 2009. The decrease was primarily due to reduced out-of-province expenses, restructuring charges and depreciation, partially offset by increased direct costs to support revenue growth in cellular, *Max* Entertainment and internet services and one-time items recorded in 2009.

Other items

Other items for the third quarter of 2010 were $3.1 million, $1.6 million higher than the same period in 2009. Year-to-date, other items were $12.0 million; $7.9 million higher than 2009 primarily due to PST refunds and increased Rural Infrastructure Program deferred revenue amortization.

Interest and related items

Interest and related items were $4.1 million for the third quarter in both 2009 and 2010. Year-to-date, interest and related costs were $13.4 million, down $1.9 million from 2009 due to increases in the fair value of financial instruments.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	2010	2009	Change	%
Three months ended September 30,	**$85.5**	$90.2	$(4.7)	(5.2)
Year-to-date	**$206.2**	$220.7	$(14.5)	(6.6)

Cash provided by operating activities in the first nine months was down $14.5 million when compared to the same period in 2009 due to reduced cash from operations and increased working capital requirements.

Cash used in investing activities

Millions of dollars	2010	2009	Change	%
Three months ended September 30,	**$90.9**	$60.0	$30.9	51.5
Year-to-date	**$213.8**	$107.0	$106.8	99.8

Cash used in investing activities increased by $30.9 million to $90.9 million in the third quarter of 2010 compared to the same period in 2009. Year-to-date cash used in investing activities increased by $106.8 million from the same period in 2009 to $213.8 million in 2010. The increase can primarily be attributed to the cellular network upgrade to Universal Mobile Telecommunications System (UMTS)/High Speed Packet Access (HSPA) technology, commonly known as 3G+, and the Saskatchewan Infrastructure Improvement Program, which is providing last mile broadband to 100% of rural Saskatchewan, cellular expansion to 98% of the population of Saskatchewan and backbone infrastructure upgrades to increase basic internet to 5 megabits per second.

Cash provided by (used in) financing activities

Millions of dollars	2010	2009	Change	%
Three months ended September 30,	**$9.1**	$(24.3)	$33.4	(137.4)
Year-to-date	**$11.1**	$(106.8)	$117.9	(110.4)

Cash provided by financing activities during the third quarter was $9.1 million compared to a use of cash of $24.3 million for the same period in 2009. Year-to-date cash provided by financing activities was $11.1 million compared to a use of cash of $106.8 million in 2009. During 2010, short-term borrowings increased by $48.2 million versus net repayment of $31.7 million for the same period in 2009. Long-term debt increased by a net amount of $58.7 million. This is the result of a new debt issue with net proceeds of $148.7 million and debt repayment of $90.0 million. In addition, sinking fund redemptions contributed $11.3 million. There was minimal long-term debt activity for the same period in 2009. In addition, SaskTel paid a dividend of $105.8 million to Crown Investments Corporation of Saskatchewan compared to $73.0 million for the same period in 2009.

Liquidity and capital resource ratios

Debt ratio

	September 30, 2010	December 31, 2009
Debt ratio	**30.8%**	24.4%

The debt ratio as at September 30, 2010 increased to 30.8% from 24.4% at December 31, 2009. The overall level of net debt increased $105.0 million due primarily to an increase in investing activities in 2010. In addition, retained earnings increased by $11.0 million to the end of the third quarter after recording net income of $134.5 million and dividends of $123.5 million.

2010 Outlook

The 2009 SaskTel Annual Report identified a consolidated net income target for 2010 of $118.3 million. At this time SaskTel believes that it will significantly exceed this target.

Risk Assessment

The 2009 Annual Report discusses the risks and uncertainties in SaskTel’s business environment. They include developments in technology and the economic and regulatory environments, challenges faced by the defined benefit pension plan, competitive activity, cost management initiatives and more. SaskTel’s basic risk profile remains unchanged as at September 30, 2010. Management continues to monitor individual risks as they change and evolve and employs the industry accepted risk management processes of identification, mitigation, transfer, assumption and control of key risks.

Future Accounting Changes - International Financial Reporting Standards (IFRS)

Canadian public companies including Government Business Enterprises (GBEs) will be required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), for fiscal years beginning on or after January 1, 2011. Effective January 1, 2011, SaskTel and its subsidiaries, as GBEs, will adopt IFRS as the basis for preparing consolidated financial statements. SaskTel will report financial results for the quarter ended March 31, 2011 prepared on an IFRS basis. SaskTel will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2010.

SaskTel and its subsidiaries, have virtually finalized an IFRS conversion project including selection of accounting policies and financial statement presentation formats and determination of the most significant impacts of IFRS on processes, systems, internal controls over financial reporting and disclosures, and future financial position and results of operations. As part of the IFRS implementation, SaskTel has made changes to certain processes and systems to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes.

SaskTel has provided a reconciliation of the Province's equity as at the date of transition, and estimated impacts on Key Performance Indicators. While this reconciliation does not represent an official adoption of IFRS, it provides an indication of the major differences identified to date, relative to SaskTel's historical financial statements. The possibility exists that the information provided may require adjustment before constituting the comparative information in the first complete set of 2011 IFRS interim financial statements prepared in accordance with IAS 34: "Interim Financial Reporting", because of revisions or changes to standards or interpretations on the application of a particular IFRS, or voluntary changes to IFRS 1 exemptions (mandatory exceptions and optional exemptions) or policies as selected by the Corporation.

Province's equity as at the date of transition:

Thousands of dollars	**January 1, 2010**
Province's equity under Canadian GAAP	$811,799
1. Employee benefits expenses	(193,560)
2. Deemed cost	109,280
3. Directly attributable costs	(44,770)
4. Borrowing costs	26,562
5. Revenue recognition	21,522
6. Prepaid publishing costs	(5,129)
7. Componentization	294
8. Capital provisions	(402)
Province's equity under IFRS	$725,596

1. Employee benefits expenses
   Canadian GAAP – Actuarial gains and losses are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. Unrecognized actuarial gains and losses below the corridor are deferred.

   IFRS – In accordance with SaskTel's IFRS1 election, actuarial gains and losses are recognized immediately into retained earnings.

2. Deemed cost
   Canadian GAAP – The measurement of capital assets is based on historical cost.

   IFRS – In accordance with SaskTel's IFRS1 election certain items of property, plant and equipment have been revalued to fair value at the date of transition to IFRS.

3. Directly attributable costs
   Canadian GAAP – SaskTel capitalized overheads attributable to construction and development activities, including general and administrative overhead costs.

   IFRS – Only directly attributable costs are capitalized to an item of property plant and equipment.

4. Borrowing costs
   Canadian GAAP – SaskTel was not required to capitalize borrowing costs related to qualifying assets.

   IFRS – SaskTel is required to retroactively capitalize borrowing costs on qualifying assets.

5. Revenue recognition
   Canadian GAAP – SaskTel recognized directory advertising revenues in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory.

   IFRS – Directory revenues are recognized when each directory is distributed to the public.

6. Prepaid publishing costs
   Canadian GAAP – Expenses directly related to directory publications were deferred and amortized over the life of the related directory.

   IFRS – Expenses are recognized when the related directory is distributed to the public.

7. Componentization
   Canadian GAAP – Certain asset components were recorded as normal repairs and maintenance due to their nature.

   IFRS – Under IFRSs these components are required to be recorded as assets and depreciated over the life of the component.

8. Capital provisions
   Canadian GAAP – Capital commitments related to healthcare contracts were recorded as incurred.

   IFRS – Capital commitments are accrued at the inception of the healthcare contract.

Key Performance Indicators

The indicators most impacted by SaskTel's adoption of IFRS are related to financial results and include revenue growth, net income, return on equity and the debt ratio.

Revenues will be impacted primarily by IFRS revenue recognition requirements to reduce sales revenues for subsidies provided to the consumer. The estimated annual impact for 2010 is a revenue reduction of $15 million. This revenue reduction is offset by a corresponding reduction in expenses.

Net income will be impacted by:

- interest and overhead capitalization policies,
- accounting for actuarial gains and losses, and
- changes in depreciation methodologies and estimated useful lives of certain assets.

Based on results for the first three quarters of 2010, the estimated annual impact on net income is not expected to be material.

Return on equity and the debt ratio will be impacted by the equity adjustments at the date of transition to IFRS. It is anticipated that both indicators will increase by approximately two percentage points due to the reduction of equity upon transition.

The IASB plans to make revisions to or replace existing IFRS standards that may impact these areas as well as other accounting issues. Some of the anticipated changes may be in effect prior to SaskTel's transition date, such that IFRS may differ at transition date from its current form. However, it is likely that the majority of the changes will be in effect subsequent to the date of transition; with the result that the impact to SaskTel of adopting IFRS will extend beyond its transitional year.

Consolidated Statement of Operations and Comprehensive Income

	(Unaudited)			
	Three months ended September 30,		**Nine months ended September 30,**	
Thousands of dollars	**2010**	2009	**2010**	2009
Operating revenues	**$279,799**	$285,853	**$830,307**	$839,313
Operating expenses				
Operations	**188,985**	193,828	**580,560**	579,953
Depreciation and amortization	**39,460**	42,147	**116,773**	125,470
Restructuring charges	**-**	(213)	**-**	3,963
	228,445	235,762	**697,333**	709,386
Income from operations	**51,354**	50,091	**132,974**	129,927
Other items	**3,140**	1,498	**11,967**	4,090
Interest and related items (Note 3)	**(4,048)**	(4,136)	**(13,358)**	(15,359)
Income before the following	**50,446**	47,453	**131,583**	118,658
Gain on disposal of intangible assets	**-**	-	**-**	3,073
Income from continuing operations	**50,446**	47,453	**131,583**	121,731
Net earnings from discontinued operations (Note 4)	**789**	286	**2,900**	1,630
Net income	**51,235**	47,739	**134,483**	123,361
Other comprehensive income	**-**	-	**-**	-
Comprehensive income	**$51,235**	$47,739	**$134,483**	$123,361

See Accompanying Notes

Consolidated Statement of Retained Earnings

	(Unaudited)			
	Three months ended September 30,		**Nine months ended September 30,**	
Thousands of dollars	**2010**	2009	**2010**	2009
Retained earnings, beginning of period	**$570,247**	$565,206	**$561,799**	$535,997
Net income	**51,235**	47,739	**134,483**	123,361
	621,482	612,945	**696,282**	659,358
Dividends	**48,725**	25,768	**123,525**	72,181
Retained earnings, end of period	**$572,757**	$587,177	**$572,757**	$587,177

See Accompanying Notes

Consolidated Statement of Financial Position

As at Thousands of dollars	(Unaudited) **September 30, 2010**	December 31, 2009
Assets		
Current assets		
Cash	**$9,191**	$2,904
Accounts receivable (Note 8a)	**88,315**	90,747
Inventories (Note 8a)	**8,837**	8,020
Prepaid expenses (Note 8a)	**18,063**	15,119
Current portion of sinking funds	**-**	10,519
Current assets of discontinued operations (Note 4)	**8,216**	8,822
	132,622	136,131
Property, plant and equipment	**3,114,791**	2,937,962
Less accumulated depreciation	**2,083,985**	2,013,067
	1,030,806	924,895
Intangible assets – finite life	**175,278**	165,120
Less accumulated amortization	**110,218**	98,250
	65,060	66,870
Long-lived assets of discontinued operations (Note 4)	**39,354**	38,932
Intangible assets – indefinite life	**65,981**	65,981
Goodwill	**6,076**	6,076
Sinking funds	**63,778**	57,744
Deferred pension costs	**126,556**	108,145
Other assets	**10,146**	12,006
	$1,540,379	$1,416,780
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 8a)	**$112,933**	$129,037
Notes payable	**56,900**	8,700
Dividend payable	**48,725**	31,026
Services billed in advance (Note 8a)	**58,235**	51,762
Current portion of long-term debt	**-**	90,109
Current liabilities of discontinued operations (Note 4)	**2,447**	2,674
	279,240	313,308
Non-current liabilities of discontinued operations (Note 4)	**5,687**	5,909
Deferred revenue	**8,130**	9,145
Deferred revenue – Government funding (Note 5)	**41,600**	42,400
Long-term debt (Note 6)	**382,965**	234,219
	717,622	604,981
Province of Saskatchewan's equity		
Equity advance	**250,000**	250,000
Retained earnings	**572,757**	561,799
	822,757	811,799
	$1,540,379	$1,416,780

See Accompanying Notes

Consolidated Statement of Cash Flows

	(Unaudited)			
	Three months ended September 30,		**Nine months ended September 30,**	
Thousands of dollars	**2010**	2009	**2010**	2009
Operating activities				
Income from continuing operations	**$50,446**	$47,453	**$131,583**	$121,731
Adjustments to reconcile net income to cash provided by operations				
Depreciation and amortization	**39,460**	42,147	**116,773**	125,470
Gain on disposal of intangible assets	**-**	-	**-**	(3,073)
Contributions to defined benefit pension plans	**(4,061)**	(2,010)	**(12,345)**	(6,161)
Pension income of defined benefit plans	**(2,023)**	(2,016)	**(6,070)**	(6,049)
Amortization of government funding	**(284)**	(95)	**(2,121)**	(168)
Sinking fund earnings	**(1,476)**	(895)	**(3,244)**	(2,425)
Change in fair value of financial instruments	**(1,199)**	(1,098)	**(2,431)**	(641)
Other	**(537)**	(374)	**(2,877)**	161
Net change in non-cash working capital (Note 8b)	**5,160**	7,086	**(13,093)**	(8,125)
	85,486	90,198	**206,175**	220,720
Investing activities				
Property, plant and equipment	**(86,189)**	(53,030)	**(204,864)**	(130,676)
Intangible assets	**(4,700)**	(6,925)	**(14,035)**	(21,365)
Redemption of preferred shares	**-**	-	**3,733**	-
Government funding (Note 5)	**-**	-	**1,321**	45,000
	(90,889)	(59,955)	**(213,845)**	(107,041)
Financing activities				
Proceeds from long-term debt	**148,670**	-	**148,670**	-
Repayment of long-term debt	**(90,004)**	(4)	**(90,013)**	(203)
Sinking fund redemption	**11,260**	-	**11,260**	-
Short-term borrowings (repayments)	**(15,300)**	-	**48,200**	(31,700)
Dividends paid	**(45,242)**	(23,207)	**(105,826)**	(73,025)
Sinking fund installments	**-**	(900)	**(1,100)**	(2,000)
Capital lease obligations	**-**	-	**-**	(22)
Financing leases	**(235)**	(197)	**(88)**	198
	9,149	(24,308)	**11,103**	(106,752)
Increase in cash from continuing operations	**3,746**	5,935	**3,433**	6,927
Increase in cash from discontinued operations	**401**	911	**2,672**	1,748
Cash, beginning of period	**11,271**	6,771	**9,313**	4,942
Cash, end of period	**$15,418**	$13,617	**$15,418**	$13,617
Comprised of:				
Cash of continuing operations			**$9,191**	$7,357
Cash of discontinued operations			**6,227**	6,260
			$15,418	$13,617

See Accompanying Notes

Note 1 – Interim financial statements

The unaudited interim consolidated financial statements should be read in conjunction with the Saskatchewan Telecommunications Holding Corporation's (the Corporation) December 31, 2009 audited consolidated financial statements. The interim consolidated financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles in Canada. The accounting policies and methods for interim reporting purposes are consistent with those used in the preparation of the Corporation's audited consolidated financial statements for the year ended December 31, 2009.

Note 2 – Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and underlying estimations of useful lives of depreciable assets and capitalization of labour and overhead, the carrying amount of goodwill and intangible assets and underlying estimates of future cash flow, the carrying amounts of accounts receivable and underlying provision for bad debts and the carrying amounts of deferred pension costs and underlying actuarial assumptions. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

The accounting policies used in the preparation of these interim financial statements conform with those used in the Corporation's most recent annual consolidated financial statements.

Note 3 – Interest and related items

	Three months ended September 30,		Nine months ended September 30,	
Thousands of dollars	**2010**	2009	**2010**	2009
Interest on long-term debt	**$6,790**	$6,139	**$19,101**	$18,465
Sinking fund earnings – held for trading	**(1,476)**	(895)	**(3,244)**	(2,425)
Change in fair value of sinking fund	**(1,199)**	(1,098)	**(2,431)**	(641)
Other interest income	**(67)**	(10)	**(68)**	(40)
	$4,048	$4,136	**$13,358**	$15,359

Note 4 – Discontinued operations

During the second quarter of 2010, the Corporation, approved plans whereby the operations of Hospitality Network Canada, Inc. (Hospitality Network) and Saskatoon 2 Properties Limited Partnership (Saskatoon Square) will be divested and the criteria for classification as discontinued operations have been met. In addition, the Corporation had previously classified the operations of DirectWest Canada, Inc. (DirectWest Canada) as discontinued operations in 2009.

Note 4 – Discontinued operations, continued

The results of the operations of these entities have been presented as discontinued operations in the Consolidated Statements of Operations and Cash Flows and the related assets and liabilities have been reported as assets of discontinued operations and liabilities of discontinued operations in the Consolidated Statement of Financial Position for all periods presented.

The results of discontinued operations are as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
Thousands of dollars	**2010**	2009	**2010**	2009
Revenues				
Hospitality Network	**$7,113**	$7,153	**$22,843**	$22,723
Saskatoon Square	**705**	656	**2,112**	1,946
DirectWest Canada	**-**	308	**-**	2,629
Total revenues	**$7,818**	$8,117	**$24,955**	$27,298
Net earnings				
Hospitality Network	**$757**	$740	**$2,653**	$2,839
Saskatoon Square	**32**	38	**247**	280
DirectWest Canada	**-**	(492)	**-**	(1,489)
Net earnings from discontinued operations	**$789**	$286	**$2,900**	$1,630

The assets and liabilities of discontinued operations are as follows:

	September 30, 2010			December 31, 2009			
Thousands of dollars	**Hospitality Network**	**Saskatoon Square**	**Total**	Hospitality Network	Saskatoon Square	DirestWest Canada	Total
Assets							
Cash	**$5,785**	**$442**	**$6,227**	$5,693	$315	$401	$6,409
Accounts receivable	**1,599**	**-**	**1,599**	1,968	77	42	2,087
Prepaid expenses	**310**	**80**	**390**	295	31	-	326
Current assets of discontinued operations	**$7,694**	**$522**	**$8,216**	$7,956	$423	$443	$8,822
Property, plant and equipment	**$17,778**	**$6,045**	**$23,823**	$16,978	$6,139	$-	$23,117
Intangible assets	**2,689**	**1,004**	**3,693**	2,916	1,061	-	3,977
Goodwill	**11,838**	**-**	**11,838**	11,838	-	-	11,838
Long-lived assets of discontinued operations	**$32,305**	**$7,049**	**$39,354**	$31,732	$7,200	$-	$38,932
Liabilities							
Accounts payable and accrued liabilities	**$1,976**	**$147**	**$2,123**	$1,927	$179	$262	$2,368
Services billed in advance	**-**	**16**	**16**	-	12	-	12
Current portion of long-term debt	**-**	**308**	**308**	-	294	-	294
Current liabilities of discontinued operations	**$1,976**	**$471**	**$2,447**	$1,927	$485	$262	$2,674
Long-term debt	**$-**	**$5,687**	**$5,687**	$-	$5,909	$-	$5,909
Long-term liabilities of discontinued operations	**$-**	**$5,687**	**$5,687**	$-	$5,909	$-	$5,909

Notes to Consolidated Financial Statements (Unaudited)
As at September 30, 2010

Note 4 – Discontinued operations, continued

The cash flows from discontinued operations are as follows:

Thousands of dollars	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Cash provided by (used in) operating activities				
Hospitality Network	**$2,034**	$1,624	**$5,462**	$4,964
Saskatoon Square	**291**	321	**1,142**	1,163
DirectWest Canada	-	481	-	(815)
Total cash provided by operating activities	**2,325**	2,426	**6,604**	5,312
Cash provided by (used in) investing activities				
Hospitality Network	**(1,844)**	(1,136)	**(3,446)**	(3,388)
Saskatoon Square	-	(205)	**(247)**	(560)
DirectWest Canada	-	-	-	3,210
Total cash used in investing activities	**(1,844)**	(1,341)	**(3,693)**	(738)
Cash provided by (used in) financing activities				
Hospitality Network	**(10)**	-	**(31)**	(33)
Saskatoon Square	**(70)**	(68)	**(208)**	(197)
DirectWest Canada	-	(106)	-	(2,596)
Total cash used in financing activities	**(80)**	(174)	**(239)**	(2,826)
Increase in cash from discontinued operations	**$401**	$911	**$2,672**	$1,748

Note 5 – Deferred revenue – Government funding

During the second quarter of 2009, the Corporation received $45,000,000 in funding from the Province of Saskatchewan through Crown Investments Corporation of Saskatchewan, as partial funding of the 2009 portion of the Rural Infrastructure Program (RIP). The funded expenditures have been completed and the funding has been applied as follows; $40,891,160 to capital expenditures and $4,108,840 to operating expenditures.

In addition, as part of the transfer of the satellite distribution and communication assets of Saskatchewan Communications Network Corporation (SCN) to the Corporation, the Province of Saskatchewan through the Ministry of Education has provided $1,321,230 in funding for distance education hardware upgrades. To date $22,965 has been applied to capital expenditures. Funded expenditures are planned for the balance of 2010 and early 2011.

Funding related to operating expenditures has been included in the determination of net income for the relevant period. Funding related to capital expenditures has been deferred and is being amortized over the estimated useful life of the related assets.

Note 5 – Deferred revenue – Government funding, continued

Thousands of dollars	September 30, 2010 RIP	SCN	Total	December 31, 2009 Total
Balance of deferred revenue - government funding, January 1	**$42,400**	**$-**	**$42,400**	$-
Funding received	**-**	**1,321**	**1,321**	45,000
	42,400	**1,321**	**43,721**	45,000
Applied to operating expenses	**1,509**	**-**	**1,509**	2,600
Amortization of deferred revenue	**612**	**-**	**612**	-
Total recognized in net income	**2,121**	**-**	**2,121**	2,600
Balance of deferred revenue – government funding, end of period	**$40,279**	**$1,321**	**$41,600**	$42,400

Note 6 – Long-term debt

On July 28, 2010 the Corporation issued $150,000,000 of long-term debt through the Province of Saskatchewan maturing on July 28, 2020 at a rate of 3.9%. The debt was issued at a discount of $1,330,500 yielding an effective interest rate of 4.01%.

Note 7 – Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The Plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, Plaintiffs' counsel in other provincial jurisdictions. On September 17, 2007, the Saskatchewan court certified the Plaintiffs' proceeding as a class action with respect to an allegation of unjust enrichment only. The appeal from this decision by the Corporation, together with all other defendants will be heard by the Court of Appeal on December 13 amd 14, 2010. On July 24, 2009 a second proceeding under the *Class Actions Act* (Saskatchewan) was issued against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The Corporation believes this second action involves substantially the same allegations as the 2004 claim and on December 23, 2009 the second action was conditionally stayed as an abuse of process by the Court of Queen's Bench. The Plaintiffs have applied to obtain leave of the Court of Appeal to appeal the stay of the second action. The Corporation continues to believe that it has strong defenses to the allegations and that legal errors were made by the Court in the certification proceeding of the 2004 claim and that it has strong defenses to the allegations contained in the 2009 action.

On June 26th, 2008, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireline, wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireline and wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning fees and charges paid for 9-1-1 service. The Plaintiffs seek unquantified damages from the defendant communications service providers. Thus far the claim has simply been issued by the Plaintiffs. The Corporation is not aware whether all the named defendant carriers have been served with the claim

Note 7 – Contingencies, continued

yet. The Corporation believes that it has strong defenses to the allegations that are made by the Plaintiffs in the claim and will be strongly defending and opposing the claims that have been made. On September 27, 2010 the Corporation was advised that a case management judge has been appointed in this matter.

Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Corporation's financial position or results of operations could result.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at September 30, 2010 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

Note 8 – Additional financial information

a) Balance sheet

Thousands of dollars	**September 30, 2010**	December 31, 2009
Accounts receivable		
Customer accounts receivable	**$73,955**	$77,838
Accrued receivables - customer	**4,763**	4,704
Allowance for doubtful accounts	**(4,120)**	(3,599)
	74,598	78,943
High cost serving area subsidy	**6,799**	5,446
Other	**6,918**	6,358
	$88,315	$90,747
Inventories		
Inventories for resale	**$5,991**	$6,106
Work in progress	**2,537**	1,641
Raw materials	**309**	273
	$8,837	$8,020
Prepaid expenses		
Prepaid expenses	**$12,997**	$9,396
Deferred service connection charges	**5,066**	5,723
	$18,063	$15,119
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	**$61,079**	$71,742
Payroll and other employee-related liabilities	**41,249**	47,498
Taxes payable	**5,430**	4,971
Interest payable	**4,527**	4,310
Other	**648**	516
	$112,933	$129,037

Note 8 – Additional financial information, continued

Thousands of dollars	**September 30, 2010**	December 31, 2009
Services billed in advance		
Advance billings	**$46,057**	$38,874
Deferred customer activation and connection fees	**7,216**	7,967
Customer deposits	**4,962**	4,921
	$58,235	$51,762

b) Supplementary cash flow information

	Three months ended September 30,		**Nine months ended September 30,**	
Thousands of dollars	**2010**	2009	**2010**	2009
Net change in non-cash working capital				
Accounts receivable	**$258**	$(4,774)	**$581**	$(4,258)
Inventories	**1,356**	1,719	**(817)**	1,160
Prepaid expenses	**3,677**	3,181	**(2,944)**	(2,337)
Accounts payable and accrued liabilities	**(3,579)**	7,493	**(16,260)**	(3,374)
Deferred revenue	**(79)**	(83)	**(1,015)**	(1,186)
Deferred expenses	**119**	152	**889**	887
Services billed in advance	**3,408**	(602)	**6,473**	983
	$5,160	$7,086	**$(13,093)**	$(8,125)
Interest Paid	**$6,497**	$5,904	**$18,781**	$18,188

Note 9 – Financial instruments

The Corporation’s financial instruments include cash, accounts receivable, sinking funds, accounts payable and accrued liabilities, notes payable, dividend payable and long-term debt, which by their nature are subject to risks.

a) Fair value

Fair values 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-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Note 9 – Financial instruments, continued

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

Thousands of dollars		**September 30, 2010**		December 31, 2009	
Financial Instruments	Classification[1]	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets					
Cash	HFT	**$9,191**	**$9,191**	$2,904	$2,904
Cash of discontinued operations	HFT	**6,227**	**6,227**	6,409	6,409
Accounts receivable	LAR	**88,315**	**88,315**	90,747	90,747
Accounts receivable – discontinued operations	LAR	**1,599**	**1,599**	2,087	2,087
Sinking funds	HFT	**63,778**	**63,778**	68,263	68,263
Financial Liabilities					
Accounts payable and accrued liabilities	OL	**112,933**	**112,933**	129,037	129,037
Accounts payable and accrued liabilities – discontinued operations	OL	**2,123**	**2,123**	2,368	2,368
Notes payable	OL	**56,900**	**56,900**	8,700	8,700
Dividend payable	OL	**48,725**	**48,725**	31,026	31,026
Long-term debt	OL	**382,965**	**487,762**	324,328	402,151
Long-term debt – discontinued operations	OL	**5,995**	**6,344**	6,203	6,624

[1] Classification details are:
AFS – available for sale
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

Determination of fair value

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 and short-term investments, accounts receivable, accounts payable and accrued liabilities, dividend payable 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 judgement 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.

	September 30, 2010			December 31, 2009		
Thousands of dollars	**Level 1**	**Level 2**	**Total**	Level 1	Level 2	Total
Sinking funds	-	**$63,778**	**$63,778**	-	$68,263	$68,263
Long-term debt	-	**$487,762**	**$487,762**	-	$402,151	$402,151
Long-term debt - discontinued operations	-	**6,344**	**6,344**	-	6,624	6,624
Total liabilities	-	**$494,106**	**$494,106**	-	$408,775	$408,775

Note 9 – Financial instruments, continued

b) Credit risk

The Corporation is exposed to credit risk through its accounts receivable and sinking fund assets. Credit risk related to sinking fund assets is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many consumer and business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary.

The aging of customer receivables from continuing operations and related to assets held for sale, which indicates potential impairment losses, are as follows:

Continuing operations	**September 30, 2010**	December 31, 2009
		Thousands of dollars
Current	**$57,871**	$57,523
30-60 days past billing date	**11,200**	12,853
61-90 days past billing date	**2,406**	4,346
Greater than 90 days past billing date	**2,478**	3,116
Total	**$73,955**	$77,838

Discontinued operations	**September 30, 2010**	December 31, 2009
		Thousands of dollars
Current	**$1,042**	$1,221
30-60 days past billing date	**122**	191
61-90 days past billing date	**92**	141
Greater than 90 days past billing date	**229**	2,023
Total	**$1,485**	$3,576

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the related allowance accounts are as follows:

Continuing operations	**September 30, 2010**	December 31, 2009
		Thousands of dollars
Allowance for doubtful accounts, opening balance	**$3,599**	$9,147
Transfer from held for sale	**1,783**	2,966
Accounts written off	**(8,897)**	(13,344)
Recoveries	**2,094**	4,118
Provision for losses	**5,541**	712
Allowance for doubtful accounts, closing balance	**$4,120**	$3,599

Note 9 – Financial instruments, continued

Discontinued operations	**September 30, 2010**	December 31, 2009 Thousands of dollars
Allowance for doubtful accounts, opening balance	**$1,807**	$1,106
Transfers to continuing operations	**(1,783)**	-
Accounts written off	-	(139)
Recoveries	-	5
Provision for losses (recovery)	**(5)**	835
Allowance for doubtful accounts, closing balance	**$19**	$1,807

Note 10 – Comparative figures

Certain of the 2009 figures have been reclassified to conform to the current period's presentation.