

First Quarter Report

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Saskatchewan Telecommunications
Holding Corporation

First Quarter Report 2004
For the Period Ending March 31, 2004

Saskatchewan Telecommunications Holding Corporation (the Corporation) is Saskatchewan's leading full service communications company providing competitive voice, data, internet, entertainment, web-hosting, text, and services over its digital network. The Corporation also provides cellular and wireless data services through SaskTel Mobility, security monitoring services through SecurTek, directory services through DirectWest, in-room communications services to the healthcare sector through Hospitality Network, telecommunications consulting services through SaskTel International and national telecommunications services through Navigata Communications. This growth and diversification is a key part of SaskTel's financial viability that allows the Corporation to deliver state-of-the-art

communications services to every corner of Saskatchewan. SaskTel is a highly innovative and competitive communications solutions provider for its customers worldwide, delivering sound financial returns and public policy benefits to the people of Saskatchewan.

With a workforce of approximately 4,000 employees living throughout Saskatchewan, SaskTel provides communication services to more than 425,000 customers living in 13 cities and 535 smaller communities (including 72 First Nations communities) and their surrounding rural areas and about 49,000 farms. SaskTel's subsidiaries also have points of presence throughout Canada and internationally.

Financial Highlights

Consolidated Net Income

Quarter ended March 31, (\$ in millions)	2004	2003	% Change
Operating revenue	\$228.8	\$220.5	3.8
Operating expenses	197.0	190.9	3.2
Income from operations	31.8	29.6	7.4
Other items	.5	.6	(16.7)
Interest and related costs	(8.6)	(8.2)	(4.9)
Gain on sale of investments	5.9	-	100.0
Net income	\$29.6	\$22.0	34.5

The Corporation's consolidated net income for the first quarter of 2004 was \$29.6 million, up \$7.6 million from the same period in 2003. This was driven primarily by the gains recognized on sale of investments and by increased revenues from non-traditional sources.

Management Discussion and Analysis

Forward - Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of the Corporation for the first quarter 2004. This discussion and analysis should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2003. Many 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 can not 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 the Corporation's 2003 annual report.

Results of Operations

Operating revenues

(\$ in millions)	2004	2003	Change	%
Quarter ended March 31,	\$228.8	\$220.5	\$8.3	3.8

Operating revenues for the first quarter of 2004 increased to \$228.8 million, up \$8.3 million from the same period in 2003. This is driven primarily by revenue increases in SaskTel Wireless (SaskTel Mobility) and Navigata Communications Ltd. (Navigata). SaskTel Wireline revenues are flat overall as increases in non-traditional services (entertainment, internet and enhanced features) were sufficient to offset declines in long distance, legacy data and National Subsidy Fund receipts.

Operating expenses

(\$ in millions)	2004	2003	Change	%
Quarter ended March 31,	\$197.0	\$190.9	\$6.1	3.2

Operating expenses for the first quarter of 2004 increased to \$197.0 million, up \$6.1 million from the same period in 2003. This was primarily driven by increased salaries & benefits and increased defined benefit pension plan expense. General operating expense increases were also incurred in SaskTel Mobility and Navigata to support their growing customer/revenue bases.

Interest and related costs

Interest and related costs for the first quarter of 2004 increased to \$8.6 million, up \$4 million from the same period in 2003. This was driven primarily by a foreign currency translation loss of \$1.1 million, resulting from the restatement of long term U.S. dollar denominated debt to reflect the weakened Canadian dollar. Increased short term investment earnings provided offset to this loss.

Non-recurring items

The Corporation recognized gains on sale of investments of \$5.9 million in the first quarter of 2004. A gain of \$2.3 million was recorded on the sale of 5,550,574 Astar United Communications Limited shares and a non-cash gain of \$3.6 million was recorded on the sale of 4.6% of Navigata Holdings Inc.

Liquidity and Capital Resources

Cash provided by (used in) operating activities

(\$ in millions)	2004	2003	Change	%
Quarter ended March 31,	\$64.2	\$63.1	\$1.1	1.7

Cash provided by operating activities in the first quarter of 2004 was \$64.2 million, up \$1.1 million from the same time period in 2003. Net income was \$7.6 million higher than 2003, however, a portion of this increase did not generate cash and a reduction was experienced in cash from working capital items.

Cash provided by (used in) financing activities

(\$ in millions)	2004	2003	Change	%
Quarter ended March 31,	(\$39.3)	(\$6.9)	(\$32.4)	(469.6)

Cash used in financing activities in the first quarter of 2004 was \$39.3 million, up \$32.4 million from the same period in 2003. Debt repayment activities required \$16.1 million in 2004, compared to \$1.6 million in 2003 and dividend payments were \$23.2 million in 2004 compared to \$5.3 million in 2003.

Cash provided by (used in) investing activities

(\$ in millions)	2004	2003	Change	%
Quarter ended March 31,	(\$21.2)	(\$26.6)	\$5.4	20.3

Cash used in investing activities in the first quarter of 2004 was \$21.2 million, down \$5.4 million from the same period in 2003. The Corporation increased spending on capital purchases, reduced spending on customer accounts and generated cash from disposals of investments (Note 3).

Capital spending

(\$ in millions)	2004	2003	Change	%
Quarter ended March 31,	\$24.1	\$21.8	\$2.3	10.56

The Corporation's net capital spending for the first quarter of 2004 was \$24.1 million, up \$2.3 million from the same period in 2003. Significant investment was made to support the telecommunications networks and meet customer demand. Additionally, SaskTel continued to invest capital to support growth and diversification, including established initiatives such as *Max* Interactive Services, cellular expansion and multimedia development as well as on new initiatives such as Voice Over Internet Protocol (VoIP).

Liquidity and capital resource ratios

Debt ratio %	2004	2003	Change	%
Quarter ended March 31,	36.7	40.2	(\$3.5)	(8.7)

The debt ratio after the first quarter of 2004 decreased to 36.7%, down from 40.2% at March 31, 2003 as the Corporation continues to self-finance its capital and dividend requirements. The overall level of debt decreased year over year by \$44.5 million due to a debt maturity in 2004 and to the net impacts of the 2003 and 2004 revaluations of U. S. dollar denominated long term debt.

Retained earnings increased by \$20.3 in the first quarter of 2004 after recording net income of \$29.6 million and dividends of \$9.2 million.

2004 Outlook

The 2003 SaskTel Annual Report identified a consolidated net income target for 2004 in the range of \$40 million to \$85 million. Results to March 31, 2004 are favourable, however, the Corporation's 2004 business plan anticipates significant expenditures in the latter part of the year. In particular, defined benefit pension plan expense and restructuring charges will be significant should the Corporation implement its planned early retirement program. Accordingly, the Corporation has considered these factors and continues to believe its 2004 net income will be within the target range.

Risk Assessment

The 2003 Annual Report discussed the risks and uncertainties in SaskTel's business environment. They included developments in the economic and regulatory environments, challenges faced by the defined benefit pension plan, competitive activity and more. This basic risk profile of the Corporation remains unchanged as at March 31, 2004. The Corporation continues to monitor individual risks as they change and evolve and employs the industry accepted risk management processes of identification, mitigation, transfer and assumption. Particular focus is being given to regulatory and industry developments in regards to Voice over Internet Protocol (VoIP) and competitive activity in internet and entertainment services.

Consolidated Statement of Operations

For the three months ended March 31, Thousands of dollars, (unaudited)	2004	2003
Operating revenues	\$228,766	\$220,485
Operating expenses		
Operating expenses	157,235	149,307
Contribution and carrier costs	2,693	3,980
Depreciation and amortization	37,075	37,588
	197,003	190,875
Income from operations	31,763	29,610
Other items	540	617
Interest and related costs	(8,650)	(8,200)
Income before the following	23,653	22,027
Gain on sale of investments (Note 3 and 4)	5,898	-
Net income	\$29,551	\$22,027

Consolidated Statement of Retained Earnings

For the three months ended March 31, Thousands of dollars, (unaudited)	2004	2003
Retained earnings, beginning of period	\$406,133	\$397,642
Net income	29,551	22,027
	435,684	419,669
Dividends	9,221	21,276
Retained earnings, end of period	\$426,463	\$398,393

See Accompanying Notes

Consolidated Statement of Financial Position

As at	March 31, 2004	December 31, 2003
Thousands of dollars, (unaudited)		
Assets		
Current assets		
Cash and short-term investments	\$94,400	\$90,579
Accounts receivable	94,564	92,833
Inventories	4,213	4,072
Prepaid expenses	10,064	10,381
	203,241	197,865
Property, plant and equipment	2,514,795	2,510,504
Less accumulated depreciation	1,613,131	1,595,825
	901,664	914,679
Customer accounts	41,306	40,710
Less accumulated amortization	11,184	10,109
	30,122	30,601
Investments	10,063	11,635
Goodwill (Note 3)	19,396	19,386
Other assets	61,790	61,603
	\$1,226,276	\$1,235,769
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities	\$110,830	\$115,636
Dividend payable	9,221	23,197
Service billed in advance	36,852	31,904
Current portion of long-term debt	20,218	35,678
	177,121	206,415
Long-term debt	372,015	372,547
	549,136	578,962
Non-controlling interest	684	669
Province of Saskatchewan's equity		
Equity advance	250,000	250,000
Cumulative translation adjustments	(7)	5
Retained earnings	426,463	406,133
	676,456	656,138
	\$1,226,276	\$1,235,769

See Accompanying Notes

Consolidated Statement of Cash Flows

For the three months ended March 31, Thousands of dollars, (unaudited)	2004	2003
Cash provided by (used in):		
Operating activities		
Net income	\$29,551	\$22,027
Items not affecting cash from operations (Note 5)	32,750	35,804
Other operating items (Note 6)	1,935	5,284
	64,236	63,115
Financing activities		
Repayment of long-term debt	(15,342)	(970)
Capital lease obligations	(714)	(663)
Dividends paid	(23,197)	(5,266)
	(39,253)	(6,899)
Investing activities		
Property, plant and equipment expenditures	(24,099)	(21,832)
Investments disposed of (acquired)	3,329	(784)
Customer accounts	(633)	(3,785)
Other assets	241	(208)
	(21,162)	(26,609)
Increase in cash	3,821	29,607
Cash and cash equivalents, beginning of period	90,579	34,367
Cash and cash equivalents, end of period	\$94,400	\$63,974
Comprised of:		
Cash	\$ -	\$5,023
Short-term investments	94,409	58,951
Bank indebtedness	(9)	-
	\$94,400	\$63,974
Interest Paid	\$8,707	\$8,707
<i>See Accompanying Notes</i>		

Notes to Consolidated Financial Statements

Note 1 – Interim financial statements

The interim consolidated statements of Saskatchewan Telecommunications Holding Corporation (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 financial statements for the year ended December 31, 2003, except as described under accounting changes in Note 2. The unaudited interim statements should be read in conjunction with the Corporation's December 31, 2003 audited financial statements.

Note 2 – Changes in accounting policy

Accounting changes

Effective January 1, 2004 the Corporation adopted the following accounting standards of the Canadian Institute of Chartered Accountants (CICA):

Impairment of long-lived assets

Effective January 1, 2004 the Corporation adopted the recommendations in section 3063 of the CICA Handbook, *Impairment of Long-Lived Assets*. Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value from its carrying value. Prior to January 1, 2004, the amount of the loss was determined by deducting the asset's net recoverable amount to future undiscounted net cash flows expected to be generated by the asset.

Adopting this section has not had a material effect on the Corporation's consolidated financial statements because no impairment of long-lived assets existed at March 31, 2004.

Asset retirement obligations

Effective January 1, 2004 the Corporation adopted the recommendations in section 3110 of the CICA Handbook, *Asset Retirement Obligations*. This section is effective for years beginning on or after January 1, 2004. The standard provides guidance on how to recognize and measure liabilities related to the legal obligations associated with the retirement of property, plant and equipment. Obligations are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over time.

Adopting this section has not had a material effect on the Corporation's consolidated financial statements because no significant asset retirement obligations exist.

Notes to Consolidated Financial Statements

Note 2 – Changes in accounting policy, continued

Disposal of long-lived assets and discontinued operations

Effective January 1, 2004 the Corporation adopted the recommendations in Section 3475 of the CICA Handbook, *Disposal of Long-Lived Assets and Discontinued Operations*. The new section provides guidance on how to recognize, measure, present and disclose long-lived assets that will be disposed of. Criteria are provided for classifying assets held for sale. It requires an asset classified as held for sale to be measured at the lower of its carrying value or fair value less disposal costs. The section also provides criteria for classifying a disposal of a business as discontinued operations and how to present and disclose discontinued operations and other disposals of long-lived assets.

Adopting this section had no material effect on the Corporation's consolidated financial statements.

Revenue recognition

Effective January 1, 2004 the Corporation adopted the recommendations included in the CICA Emerging Issues Committee Abstracts 141, 142 and 143 issued in December 2003 regarding revenue recognition and classification of certain revenues and expenses. These standards have been adopted on a prospective basis.

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenue from local telecommunications, data, internet, entertainment and security services are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Upfront or activation fees along with corresponding direct costs not in excess of the revenues are deferred and recognized over the average expected term of the customer relationship. Revenues from long distance and wireless airtime are recognized based on the usage or rate plans in the period service is provided. Revenues from equipment sales are recognized when the equipment is delivered to, and accepted by the customer. Directory revenues are recognized during the period the directory is in circulation. Revenues for longer term consulting contracts are recognized based on a percentage of completion. Payments received in advance are recorded as deferred revenue until the product or service is delivered.

Customer solutions may involve the delivery of multiple services and products that occur at different points and over different periods of time. The multiple services are separated into their respective accounting units and consideration is allocated among the accounting units. The relevant revenue recognition policies are applied to each accounting unit.

The Canadian Radio-television and Telecommunications Commission (CRTC) has established a National Subsidy Fund to subsidize Local Exchange Carriers (LEC's) like the Corporation, that provide service to residential customers located in high cost service areas (HCSA's). The CRTC has set the rate per line and band for all LEC's. The Corporation recognizes the revenue on an accrual basis by applying the rate to the number of residential network access lines served during the period in HCSA's.

Businesses acquired are accounted for under the purchase method and the results of operations have been included in consolidated earnings from the respective acquisition dates.

Notes to Consolidated Financial Statements

Note 3 – Acquisitions and disposals

Investments: consolidation method

During the three months ended March 31, 2004, the Corporation made an additional investment of \$.3 million in Retx, Inc. (Retx) to fund operations, increasing its ownership to 91.9%. No goodwill has been recorded on the transaction. Retx is an e-business service company providing transaction clearinghouse service and load management for the retail energy sector.

During the three months ended March 31, 2004, the Corporation made an additional investment of \$.2 million in Business Watch International Inc. (BWI), increasing its ownership to 94.6%. The Corporation's portion of the identifiable net assets as a result of the acquisition was \$.2 million of assets and \$.01 million of liabilities. Additional goodwill of \$0.01 million was acquired. BWI provides crime prevention computer software to police agencies, pawnbrokers, and other businesses engaged in the acquisition and resale of used goods.

Disposal: consolidation method

The Corporation completed a corporate reorganization of Navigata Holding, Inc., Navigata Communications Inc. and Navigata Holding Ltd. (formerly Dundurn Holding, Inc.). This resulted in the transfer of the assets and liabilities of Navigata Communications Inc. to Navigata Communications Ltd., which acts as the bare trustee for a partnership formed by Navigata Holding Ltd. and Navigata Holding, Inc., named Navigata Communications Partnership (partnership). After the reorganization, Navigata Holding Ltd. and Navigata Holding, Inc. own 95.4% and 4.6% respectively of the newly formed partnership.

On March 29, 2004, all of the shares of Navigata Holding, Inc. were sold for \$4.5 million to Monarch Cablesystems Ltd. The proceeds consisted of \$2.8 million of fibre optic cable facilities and a 0% interest bearing note receivable of \$1.7 million callable July 1, 2005 and due and payable on March 28, 2006. The 4.6% partnership interest is held as security on the note receivable. A non-cash gain of \$3.6 million was recorded on the transaction. The agreement also provides for future consideration of either \$1.4 million cash or \$2.8 million in fibre optic facilities depending on the occurrence of future events. As the timing and outcome of these future events is not determinable, any amount received will be recognized as a gain in the period of receipt.

Disposal: equity method

During the first quarter, SoftTracks Enterprises Ltd. completed a corporate reorganization separating into two legal entities, SoftTracks Enterprises Ltd. and 675161 British Columbia Ltd. In January 2004 the Corporation sold 10,033,874 shares of SoftTracks Enterprises Ltd. for proceeds of \$0.08 million. No gain or loss was recorded as a result of the transaction, and no value has been assigned to the 12,263,624 shares the Corporation still owns. The Corporation retains a 20.5% ownership in 675161 British Columbia Ltd.

Note 4 – Investments

During the first quarter, the Corporation disposed of 5,550,574 shares in Austar United Communications Limited for net proceeds of \$3.8 million resulting in a gain on sale of \$2.3 million.

Notes to Consolidated Financial Statements

Note 5 – Items not affecting cash from operations

For the three months ended March 31, (Thousands of dollars)	2004	2003
Depreciation and amortization	\$37,075	\$37,588
Pension expense (income) of defined benefit plans	1,003	(721)
Net share of loss from significantly influenced companies	31	401
Foreign currency translation losses	1,108	13
Sinking fund earnings	(690)	(1,148)
Gain on sale of investments	(5,898)	-
Other	121	(329)
	\$32,750	\$35,804

Note 6 – Other operating items

For the three months ended March 31, (Thousands of dollars)	2004	2003
Changes in non-cash working capital		
Accounts receivable	\$2,144	\$6,654
Inventories	(141)	(499)
Prepaid expenses	286	(1,489)
Accounts payable and accrued liabilities	(3,664)	(4,025)
Service billed in advance	5,138	4,643
Contributions to defined benefit pension plans	(1,828)	-
	\$1,935	\$5,284

Note 7 – Subsequent events

On May 6, 2004 Retx sold their operating assets, including computer equipment, furnishings, customer contracts and trademarks to an unrelated party for cash consideration of \$.2 million. The purchaser was granted an intellectual property license agreement under which Retx will receive royalty payments based on future revenues generated from the property. The purchaser will assume responsibility for delivery of services to fulfill all customer contracts. The Corporation's net income included net losses related to Retx of (\$.5) million and (\$.6) million for the quarters ending March 31, 2004 and March 31, 2003 respectively.