

# Third Quarter Report

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Saskatchewan Telecommunications  
Holding Corporation

Third Quarter Report 2004  
For the Period Ending September 30, 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 Monitoring Solutions Inc., directory services through DirectWest Publishing Partnership, in-room communications services to the healthcare sector through Hospitality Network Canada Partnership, telecommunications consulting services through Saskatchewan Telecommunications International, Inc. and national telecommunications services through Navigata Communications

Partnership. 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

Millions of dollars, (unaudited)	Three months ended September 30,			Nine months ended September 30,		
	2004	2003	% Change	2004	2003	% Change
Operating revenues	<b>\$234.0</b>	\$231.4	1.1	<b>\$697.0</b>	\$670.2	4.0
Operating expenses	<b>181.2</b>	192.7	6.0	<b>574.7</b>	579.9	0.9
Income from operations	<b>52.8</b>	38.7	36.4	<b>122.3</b>	90.3	35.4
Other items	<b>0.3</b>	0.3	-	<b>0.6</b>	0.9	(33.3)
Interest and related costs	<b>(1.0)</b>	(8.0)	87.5	<b>(19.8)</b>	(5.9)	(235.6)
Gain on sale of investments	<b>1.0</b>	0.1	<i>nmf</i> <sup>1</sup>	<b>7.9</b>	0.1	<i>nmf</i> <sup>1</sup>
Income from continuing operations	<b>53.1</b>	31.1	70.7	<b>111.0</b>	85.4	30.0
Income (loss) from discontinued operations	-	(0.7)	100.0	<b>(0.3)</b>	(1.6)	81.3
Net income	<b>\$53.1</b>	\$30.4	74.7	<b>\$110.7<sup>2</sup></b>	\$83.8	32.1

The Corporation's consolidated net income for the third quarter of 2004 is \$53.1 million, up \$22.7 million from the same period in 2003 and year-to-date net income is \$110.7 million, up \$26.9 million over 2003. Income from continuing operations increased in both the third quarter and year-to-date primarily due to increased revenues from non-traditional sources and reduced depreciation expense. Foreign currency translation gains in 2004 were \$2.5 million as compared to \$18.6 million in 2003. The Corporation recorded a gain on the sale of Astar United

<sup>1</sup> No meaningful figure (*nmf*)

<sup>2</sup> Please refer to 2004 Outlook on page 6.

Communications Limited shares and the sale of Navigata Holding, Inc. The discontinued operations relate to the sale of Retx Inc.'s operating assets.

Results to September 30, 2004 are favourable, however, significant incremental expenses will be incurred in the fourth quarter. In particular, restructuring charges and increased defined benefit pension plan expenses are estimated to be \$40.0 million as the Corporation implements the recently approved early retirement program (ERP).

## 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 third 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. 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 through the Audit Committee.

## Results of Operations

### Operating revenues

Millions of dollars	2004	2003	Change	%
Three months ended September 30,	\$234.0	\$231.4	\$2.6	1.1
Year-to-date	\$697.0	\$670.2	\$26.8	4.0

Operating revenues for the third quarter were \$234.0 million, an increase of \$2.6 million or 1.1% over the same period in 2003. SaskTel Wireless (SaskTel Mobility) revenues and revenues from diversified services and operations, including *Max<sup>TM</sup>* Interactive Services, Hospitality Network Canada Partnership, and Saskatoon 2 Management Ltd. contributed significantly to the increase. These were offset somewhat by decreases in traditional services and by changes in revenue recognition related to the Canadian Institute of Chartered Accountants, Emerging Issues Committee, Abstract 141 adopted during 2004.

Year-to-date operating revenues were \$697.0 million which represents a \$26.8 million (4.0%) increase over 2003 due to significant increases in diversified revenues.

## Operating expenses

Millions of dollars	2004	2003	Change	%
Three months ended September 30,	\$181.2	\$192.7	\$11.5	6.0
Year-to-date	\$574.7	\$579.9	\$5.2	0.9

Operating expenses were \$181.2 million during the third quarter, down \$11.5 million from the same period in 2003. This is primarily the result of depreciation rate adjustments implemented in the quarter and one-time adjustments to previously estimated expenses.

On a year-to-date basis, expenses decreased to \$574.7 million, down \$5.2 million from 2003.

## Interest and related costs

Interest and related costs for the third quarter of 2004 were \$1.0 million, down \$7.0 million from the same period in 2003. This was driven by foreign currency translation gains recorded on long-term debt repayable in U.S. funds. Gains of \$5.6 million were recorded in the third quarter of 2004 compared to gains of \$0.03 million in the third quarter of 2003.

Year-to-date interest and related costs increased \$13.9 million, primarily due to net foreign currency gains of \$2.5 million in the first nine months of 2004, compared to gains of \$18.6 million for the same period in 2003.

To mitigate foreign currency risk, the Corporation initiated a cross currency swap through the Province of Saskatchewan early in the fourth quarter, 2004 and is working with the Province to convert its U.S. debt (\$100.0 million) to equivalent Canadian funds. The swap will be recorded at the carrying value of the debt and sinking funds as of the date of the transaction. Under the conditions attached to the U.S. based debt, the Corporation was required to pay 1% of the debt outstanding into sinking funds annually. The sinking fund will be converted to Canadian dollars under the same terms and conditions that applied to the U.S. based debt.

## Gain on sale of investments

The Corporation recognized gains on sale of investments of \$1.0 million in the third quarter of 2004 and \$7.9 million year-to-date. During the third quarter a \$1.0 million gain on the sale of the Corporation's last 2,000,000 Austar United Communications (Austar) shares was recognized resulting in a year-to-date total gain of \$4.4 million on the sale of 9,550,574 shares. During the first nine months the Corporation also recorded a non-cash gain of \$3.6 million on the sale of Navigata Holdings Inc.

## Liquidity and Capital Resources

### Cash provided by operating activities

Millions of dollars	2004	2003	Change	%
Three months ended September 30,	\$46.5	\$63.3	\$(16.8)	(26.5)
Year-to-date	\$167.0	\$189.4	\$(22.4)	(11.8)

Cash provided by operating activities during the third quarter of 2004 was \$46.5 million, down \$16.8 million from the same period in 2003. Revenues from continuing operations were \$2.6 million higher during this period. Defined benefit pension plan funding increased \$24.8 million in the third quarter of 2004 as compared to the third quarter of 2003.

On a year-to-date basis, cash provided from operations was down \$22.4 million. Operating revenues were \$26.8 million higher, however defined benefit pension plan funding increased substantially, \$26.9 million more than during the first nine months of 2003. In addition working capital requirements increased \$26.2 million which was driven by higher accounts receivable due to increased revenue and decreased accounts payable to suppliers. The decrease in accounts payable is a result of lower spending on capital development projects in 2004 as compared to 2003.

### Cash used in financing activities

Millions of dollars	2004	2003	Change	%
Three months ended September 30,	<b>\$(42.6)</b>	\$(17.0)	\$(25.6)	(235.6)
Year-to-date	<b>\$(92.0)</b>	\$(46.1)	\$(45.9)	(99.6)

Cash used in financing activities during the third quarter was \$42.6 million compared to \$17.0 million for the same period in 2003. During the third quarter, 2004 long-term debt repayment was \$15.6 million compared to \$0.9 million in 2003 and dividend payments were \$4 million higher than in 2003. In the third quarter 2003, the Corporation purchased the Saskatoon Square building with debt financing of \$7 million.

Year-to-date cash used in financing activities was \$92.0 million compared to \$46.1 million in 2003. This increased use of cash was primarily driven by long-term debt repayment of \$31.2 million and dividend payments of \$58.8 million to Crown Investment Corporation of Saskatchewan (CIC) in 2004 compared to debt repayment of \$2.1 million and dividends of \$48.9 million for the same period in 2003.

### Cash used in investing activities

Millions of dollars	2004	2003	Change	%
Three months ended September 30,	<b>\$(16.7)</b>	\$(29.1)	\$12.4	42.6
Year-to-date	<b>\$(61.6)</b>	\$(95.6)	\$34.0	35.6

Cash used in investing activities decreased by \$12.4 million to \$16.7 million in the third quarter of 2004 compared to the same period in 2003. Year-to-date cash used in investing activities decreased by \$34.0 from the same period in 2003 to \$61.6 million in 2004. The decrease can be attributed to \$9.8 million received from the sale of Austar and Personal Inc. and a reduction in overall capital spending.

The Corporation's net capital spending for the third quarter of 2004 was \$26.3 million, down \$2.9 million from the same period in 2003. Net capital spending for the nine months ended September 30, 2004 was \$75.6 million, down \$15.1 million from the same period in 2003. These decreases are attributable to planned reductions in capital spending initiatives in the first nine months of 2004 and lower capital spending in Navigata. The focus of capital spending during the first nine months of 2004 was on investment to support the telecommunications networks and meet customer demand and on investment to support growth and diversification, including established initiatives such as *Max<sup>TM</sup>* Interactive Services and cellular expansion.

## Liquidity and capital resource ratios

Debt ratio %	2004	2003	Change	%
September 30,	34.3	38.3	4.0	10.4

The debt ratio after the third quarter of 2004 decreased to 34.3% from 38.3% at September 30, 2003 as the Corporation continues to self-finance its capital and dividend requirements. The overall debt level decreased from September 2003 to September 2004 by \$51.1 million predominantly due to repayment of debt.

Retained earnings increased by \$53.9 million in the first nine months of 2004 after recording net income of \$110.7 million and dividends declared of \$56.8 million. In 2003, retained earnings in the first nine months increased \$30.4 million after recording net income of \$83.8 million and dividends declared of \$53.4 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 September 30, 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 with the implementation of the recently approved ERP. These incremental expenses, to be recorded in the fourth quarter, are estimated to be \$40.0 million. Accordingly, the Corporation now anticipates the consolidated 2004 net income to be near the high end of the target range.

The ERP will help SaskTel achieve its cost reduction targets, while enabling the Corporation to manage its employee demographic profile within the changing labour market. The ERP program is planned to occur in three, two-year phases. Phase 1 will begin during the fourth quarter of 2004 and continue throughout 2005. Annual savings from the ERP are forecast to reach \$47 million per year upon full implementation in 2009.

## 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 September 30, 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. The Corporation is particularly focusing on regulatory and industry developments relating to Voice over Internet Protocol (VoIP) and competitive activity in internet and entertainment services.

## Consolidated Statement of Operations

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
<b>Operating revenues</b>	<b>\$233,998</b>	\$231,414	<b>\$697,029</b>	\$670,193
<b>Operating expenses</b>				
Operating expenses	144,317	150,565	457,665	453,797
Contribution and carrier costs	2,845	2,890	8,844	10,294
Depreciation and amortization	34,091	39,225	108,235	115,826
	<b>181,253</b>	192,680	<b>574,744</b>	579,917
<b>Income from operations</b>	<b>52,745</b>	38,734	<b>122,285</b>	90,276
<b>Other items</b>	<b>270</b>	251	<b>552</b>	907
<b>Interest and related costs</b>	<b>(1,005)</b>	(8,052)	<b>(19,801)</b>	(5,906)
<b>Income before the following</b>	<b>52,010</b>	30,933	<b>103,036</b>	85,277
<b>Gain on sale of investments</b> (Note 3 and 4)	<b>1,047</b>	131	<b>7,916</b>	131
<b>Income from continuing operations</b>	<b>53,057</b>	31,064	<b>110,952</b>	85,408
<b>Income (loss) from discontinued operations</b> (Note 5)	-	(650)	<b>(272)</b>	(1,596)
<b>Net income</b>	<b>\$53,057</b>	\$30,414	<b>\$110,680</b>	\$83,812

## Consolidated Statement of Retained Earnings

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
<b>Retained earnings, beginning of period</b>	<b>\$431,145</b>	\$407,345	<b>\$406,133</b>	\$397,642
<b>Net income</b>	<b>53,057</b>	30,414	<b>110,680</b>	83,812
	<b>484,202</b>	437,759	<b>516,813</b>	481,454
<b>Dividends</b>	<b>24,183</b>	9,671	<b>56,794</b>	53,366
<b>Retained earnings, end of period</b>	<b>\$460,019</b>	\$428,088	<b>\$460,019</b>	\$428,088

*See Accompanying Notes*

## Consolidated Statement of Financial Position

As at	September 30,	December 31,
Thousands of dollars, (unaudited)	2004	2003
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$102,915	\$90,410
Accounts receivable	101,613	92,759
Inventories	5,370	4,052
Prepaid expenses	10,812	10,330
Current assets of discontinued operations (Note 5)	201	314
	<b>220,911</b>	<b>197,865</b>
<b>Property, plant and equipment</b>		
Property, plant and equipment	2,540,664	2,510,119
Less accumulated depreciation	1,656,135	1,595,465
	<b>884,529</b>	<b>914,654</b>
<b>Customer accounts</b>		
Customer accounts	42,708	40,710
Less accumulated amortization	13,433	10,109
	<b>29,275</b>	<b>30,601</b>
<b>Investments</b>		
Investments	358	11,635
<b>Goodwill (Note 3)</b>		
Goodwill (Note 3)	19,406	19,386
<b>Other assets</b>		
Other assets	88,719	61,556
<b>Non-current assets of discontinued operations (Note 5)</b>		
Non-current assets of discontinued operations (Note 5)	23	72
	<b>\$1,243,221</b>	<b>\$1,235,769</b>
<b>Liabilities and Province's equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$101,130	\$114,798
Dividend payable	21,183	23,197
Service billed in advance	39,089	31,644
Current portion of long-term debt	4,004	35,678
Current liabilities of discontinued operations (Note 5)	311	1,098
	<b>165,717</b>	<b>206,415</b>
<b>Long-term debt</b>		
Long-term debt	366,601	372,547
	<b>532,318</b>	<b>578,962</b>
<b>Non-controlling interest</b>		
Non-controlling interest	909	669
<b>Province of Saskatchewan's equity</b>		
Equity advance	250,000	250,000
Cumulative translation adjustments	(25)	5
Retained earnings	460,019	406,133
	<b>709,994</b>	<b>656,138</b>
	<b>\$1,243,221</b>	<b>\$1,235,769</b>

See Accompanying Notes

## Consolidated Statement of Cash Flows

Thousands of dollars, (unaudited)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
<b>Cash provided by (used in):</b>				
<b>Operating activities</b>				
Income from continuing operations	\$53,057	\$31,064	\$110,952	\$85,408
Items not affecting cash from operations (Note 6)	28,102	38,138	99,655	94,518
Other operating items (Note 7)	(34,663)	(5,851)	(43,598)	9,482
	<b>46,496</b>	<b>63,351</b>	<b>167,009</b>	<b>189,408</b>
<b>Financing activities</b>				
Repayment of long-term debt	(15,564)	(892)	(31,157)	(2,130)
Proceeds from long-term debt	-	7,000	-	7,000
Capital lease obligations	(669)	(669)	(2,028)	(1,988)
Dividends paid	(26,390)	(22,419)	(58,808)	(48,937)
	<b>(42,623)</b>	<b>(16,980)</b>	<b>(91,993)</b>	<b>(46,055)</b>
<b>Investing activities</b>				
Property, plant and equipment expenditures	(26,329)	(29,294)	(75,611)	(90,694)
Businesses acquired	-	122	-	-
Investments disposed of (acquired)	9,894	860	15,268	(166)
Customer accounts	(701)	(760)	(2,005)	(5,261)
Other assets	410	(29)	751	500
	<b>(16,726)</b>	<b>(29,101)</b>	<b>(61,597)</b>	<b>(95,621)</b>
<b>Increase (decrease) in cash from continuing operations</b>	<b>(12,853)</b>	<b>17,270</b>	<b>13,419</b>	<b>47,732</b>
<b>Decrease in cash from discontinued operations (Note 5)</b>	<b>(225)</b>	<b>(123)</b>	<b>(936)</b>	<b>(1,337)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>116,140</b>	<b>63,615</b>	<b>90,579</b>	<b>34,367</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$103,062</b>	<b>\$80,762</b>	<b>\$103,062</b>	<b>\$80,762</b>
<b>Comprised of:</b>				
Bank indebtedness of continuing operations			\$(17,635)	\$(3,389)
Short-term investments of continuing operations			120,550	83,982
Cash and short-term investments of continuing operations			102,915	\$80,593
Cash of discontinued operations			147	169
			<b>\$103,062</b>	<b>\$80,762</b>
Interest Paid	\$7,830	\$8,707	\$25,262	\$27,341
<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 from 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 September 30, 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 and disposals: consolidation method

During the nine months ended September 30, 2004, the Corporation made an additional investment of \$.4 million in Business Watch International Inc. (BWI), increasing its ownership to 95.0%. The Corporation's portion of the identifiable net assets as a result of the acquisition was \$.4 million of assets and \$.001 million of liabilities. Additional goodwill of \$0.02 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.

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. owned 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.

During the nine months ended September 30, 2004, the Corporation made an additional investment of \$7.5 million in Navigata Communications Partnership increasing its ownership to 96.1%. The Corporation's portion of the identifiable assets as a result of the acquisition was \$7.5 million and liabilities of \$0.2 million. No goodwill was recorded on the transaction.

#### Disposal: equity method

During the first nine months, 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.

## Notes to Consolidated Financial Statements

### Note 4 – Investments

During the first nine months, the Corporation disposed of 9,550,574 shares in Austar United Communications Limited for net proceeds of \$6.9 million resulting in a gain on sale of \$4.4 million.

During the third quarter, the Corporation disposed of 1,223,491 shares in Persona Inc. for cash proceeds of \$8.3 million which was equivalent to the carrying value of the investment.

### Note 5 – Discontinued operations

On May 6, 2004 Retx, Inc. (Retx) sold their operating assets, including computer equipment, furnishings, customer contracts and trademarks to an unrelated party for cash consideration of \$.2 million. Retx continues to own patents granted in both the United States and Australia. 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. For reporting purposes, the results of operations of Retx have been presented as discontinued operations. Accordingly, prior period financial statements have been restated to reflect this change.

During the nine months ended September, 2004, the Corporation provided \$0.9 million to Retx to fund operations prior to the sale and the wind-down of operations. At September 30, 2004 the Corporation owned 92.1% of Retx.

The summarized statement of operations for discontinued operations is as follows:

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Operating revenues	\$14	\$443	\$217	\$1,269
Operating expenses	(42)	(1,240)	(854)	(3,219)
Other items	30	150	287	360
Interest and related costs	(2)	(3)	(2)	(6)
Gain on disposal	-	-	80	-
Net income (loss) from discontinued operations	\$ -	\$(650)	\$(272)	\$(1,596)

## Notes to Consolidated Financial Statements

### Note 6 – Items not affecting cash from operations

Thousands of dollars,	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Depreciation and amortization	\$34,079	\$39,243	\$108,225	\$116,048
Pension expense (income) of defined benefit plans	1,987	(150)	3,990	(450)
Net share of loss from significantly influenced companies	24	216	78	1,168
Foreign currency translation losses	(5,608)	(250)	(2,681)	(18,535)
Sinking fund earnings	(634)	(272)	(1,382)	(2,321)
Gain on sale of investments	(1,047)	(131)	(7,916)	(131)
Other	(699)	(518)	(659)	(1,261)
	<b>\$28,102</b>	<b>\$38,138</b>	<b>\$99,655</b>	<b>\$94,518</b>

### Note 7 – Other operating items

Thousands of dollars,	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Changes in non-cash working capital				
Accounts receivable	\$(1,005)	\$991	\$(4,979)	\$2,713
Inventories	(1,403)	(388)	(1,349)	(608)
Prepaid expenses	(282)	1,437	(2,974)	(747)
Accounts payable and accrued liabilities	(8,655)	(7,366)	(13,279)	5,186
Service billed in advance	2,053	60	7,636	4,711
Contributions to defined benefit pension plans	(25,371)	(585)	(28,653)	(1,773)
	<b>\$(34,663)</b>	<b>\$(5,851)</b>	<b>\$(43,598)</b>	<b>\$9,482</b>

## Notes to Consolidated Financial Statements

### Note 8 – Pension costs

The Corporation has two defined benefit pension plans providing pension benefits to its employees. The larger of the two plans is governed by Saskatchewan Telecommunications (SaskTel), which has been closed to new membership since 1977. The second plan is governed by Navigata Communications Ltd.

The table below shows the cost components of the defined benefit pension plans.

Thousands of dollars, (unaudited)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Current service cost - defined benefit plan	<b>\$(2,703)</b>	\$(1,897)	<b>\$(7,122)</b>	\$(5,691)
Interest cost	<b>(12,804)</b>	(12,478)	<b>(38,354)</b>	(37,433)
Expected return on pension plan assets	<b>14,026</b>	13,498	<b>41,431</b>	40,494
Amortization of net transitional asset	<b>2,913</b>	2,910	<b>8,740</b>	8,730
Amortization of past service costs	<b>(1,174)</b>	(1,026)	<b>(3,227)</b>	(3,079)
Amortization of actuarial loss	<b>(2,533)</b>	(1,093)	<b>(6,322)</b>	(3,278)
Pension cost	<b>\$(2,275)</b>	\$(86)	<b>\$(4,854)</b>	\$(257)

The Navigata Communications Ltd. defined benefit pension plan will terminate effective August 23, 2004, pending approval of the Office of the Superintendent of Financial Institutions (OSFI). Employee benefits cannot be paid to the employees until final approval has been granted by OSFI. Accordingly, no termination amounts have been recorded as of September 30, 2004.

### Note 9 – Contingencies

On August 9, 2004, a proceeding under the Class Actions Act (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including the Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, and breach of statutory obligations concerning system administration fees. The plaintiffs seek unquantified damages from the defendant wireless communications service providers. The Corporation believes that it has strong defenses to the allegations. It is not currently known whether the proceeding will be certified as a class action and the outcome of this matter is not determinable at this time.