

Third Quarter Report

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Saskatchewan Telecommunications
Holding Corporation

Third Quarter Report 2006
For the Period Ending September 30, 2006

Saskatchewan Telecommunications Holding Corporation (SaskTel) is a Crown corporation of Saskatchewan. Saskatchewan Telecommunications (Telco) is the leading full service communications provider in Saskatchewan, providing competitive voice, data, dial-up and high speed internet, entertainment and multimedia services, web hosting, text and messaging services, and cellular and wireless data services over its digital networks. The Corporation also provides 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 an out-of province

sales and service channel in Alberta and British Columbia through Navigata Communications.

SaskTel and its wholly-owned subsidiaries have a workforce of approximately 5,200 full-time, part-time and temporary employees. Saskatchewan Telecommunications (Telco) provides communication services to more than 425,000 customers in Saskatchewan living in 13 cities, 535 smaller 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			Nine months ended		
	September 30,			September 30,		
	2006	2005	% Change	2006	2005	% Change
Operating revenues	\$255.6	\$246.3	3.8	\$755.6	\$733.7	3.0
Operating expenses	213.9	204.6	4.5	658.4	621.8	5.9
Income from operations	41.7	41.7	0.0	97.2	111.9	(13.1)
Other items	1.1	0.6	83.3	4.4	3.1	41.9
Interest and related costs	(6.1)	(6.5)	(6.2)	(19.6)	(19.3)	1.6
Gain on sale of investments	-	-	<i>nmf</i> ¹	0.1	-	<i>nmf</i> ¹
Net income	\$36.7	\$35.8	2.5	\$82.1	\$95.7	(14.2)

The Corporation's consolidated net income for the third quarter of 2006 was \$36.7 million, up \$0.9 million from the same period in 2005 and year-to-date net income is \$82.1 million, down \$13.6 million from 2005. Expenses are up year-over-year both for the current quarter and year-to-date. Excluding the 2005 revenues recognized as a result of Telecom Decision CRTC 2005-6, Competitor Digital Network Services (CDN) (\$12.1 million), consolidated year-over-year net income was down \$1.5 million. This was driven by increased restructuring charges, partially offset by increased revenue from growth services, net of related expenses. Restructuring charges of \$26.0 million were incurred as part of the ongoing operational efficiency program, an increase of \$9.4 million from the same period in 2005.

¹ No meaningful figure (*nmf*)

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 2006. This discussion and analysis should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2005. 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 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 2005 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	2006	2005	Change	%
Three months ended September 30,	\$255.6	\$246.3	\$9.3	3.8
Year-to-date	\$755.6	\$733.7	\$21.9	3.0

Operating revenues for the third quarter were \$255.6 million, an increase of \$9.3 million or 3.8% over the same period in 2005. Year-to-date operating revenues were \$755.6 million which represents a \$21.9 million or 3.0% increase over 2005. Excluding the positive impact of the CDN decision on 2005 revenues, year-to-date operating revenues increased \$34.0 million or 4.6%. Increased revenues continue to be driven by growth services and operations, including SaskTel Wireless and *MaxTM* Interactive Services. The increases were partially offset by lower long distance revenues resulting from the introduction of new rate plans and rate reductions.

Operating expenses

Millions of dollars	2006	2005	Change	%
Three months ended September 30,	\$213.9	\$204.6	\$9.3	4.5
Year-to-date	\$658.4	\$621.8	\$36.6	5.9

Operating expenses were \$213.9 million during the third quarter, up \$9.3 million from the same period in 2005. Year-to-date, expenses increased to \$658.4 million, up \$36.6 million from 2005. Both for the current quarter and current year-to-date expenses increased to support revenue growth including SaskTel Wireless and *Max* Interactive Services. In addition to expenses related to customer growth, the Corporation recorded restructuring costs of \$26.0 million year to date, up \$9.4 million from the same period in 2005. Operational savings have been realized through both salary savings achieved through the Early Retirement Program and operational efficiencies.

Interest and related costs

Interest and related costs for the third quarter of 2006 were \$6.1 million, down \$0.4 million from the same period in 2005. Year-over-year interest costs have remained relatively constant, up \$0.4 million to \$19.6 million.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	2006	2005	Change	%
Three months ended September 30,	\$57.5	\$58.9	\$(1.4)	(2.4)
Year-to-date	\$156.8	\$132.9	\$23.9	18.0

Cash provided by operating activities during the third quarter of 2006 was \$57.5 million, down \$1.4 million from the same period in 2005. Cash generated by operations decreased \$1.0 million in the third quarter of 2006 compared to 2005 and working capital requirements increased \$0.4 million.

Cash provided by operating activities for the first nine months increased \$23.9 million compared to the same period in 2005. While cash from operations decreased \$16.6 million, working capital changes resulted in an increase in cash of \$40.5 million compared to the same period in 2005. The working capital increase was primarily related to accounts receivable. The accounts receivable balance at December 31, 2004 included \$50.9 million of rebates applied to customer accounts as part of the Corporation's contract with Crown Investments Corporation to administer the Lowest Cost Utility Program. This resulted in artificially low cash receipts in the first nine months of 2005 as compared to the first nine months of 2006.

Cash used in financing activities

Millions of dollars	2006	2005	Change	%
Three months ended September 30,	\$(23.7)	\$(27.5)	\$3.8	(13.8)
Year-to-date	\$(53.1)	\$(82.4)	\$29.3	(35.6)

Cash used in financing activities during the third quarter was \$23.7 million compared to \$27.5 million for the same period in 2005. During the third quarter of 2006 the corporation repaid \$10.5 million in long-term debt compared to \$1.0 during the same period of 2005. Year-to-date cash used in financing activities was \$53.1 compared to \$82.4 million in 2005. The Corporation repaid \$25.0 million in long-term debt and paid dividends of \$25.8 million to Crown Investments Corporation of Saskatchewan during the first nine months of 2006 compared to debt repayment of \$2.1 million and dividends of \$78.1 million in the same period of 2005.

Cash used in investing activities

Millions of dollars	2006	2005	Change	%
Three months ended September 30,	\$(68.8)	\$(43.2)	\$(25.6)	59.3
Year-to-date	\$(167.6)	\$(97.8)	\$(69.8)	71.4

Cash used in investing activities increased by \$25.6 million to \$68.8 million in the third quarter of 2006 compared to the same period in 2005. Year-to-date cash used in investing activities was \$167.6 million, an increase of \$69.8 million over the same period in 2005. The third quarter and year-to-date increases are attributable to an increase in overall capital spending.

The Corporation's net capital spending for the third quarter of 2006 was \$68.1 million, up \$26.8 million from the same period in 2005. Net capital spending for the nine months ended September 30, 2006 was \$165.5 million, up \$72.0 million from the same period in 2005. Capital spending has increased significantly from 2005 as a result of the Next Generation Access Infrastructure (NGAI) program that SaskTel is undertaking to provide greater bandwidth to customers. In addition, there has been a significant amount of capital invested to support the telecommunications network and meet customer demand. 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) and CommunityNet II, a program to expand SaskTel's high speed internet.

Liquidity and capital resource ratios

Debt ratio

Millions of dollars

As at September 30,	2006	2005	Change	%
Long-term debt	\$330.3	\$361.9	(\$31.6)	(8.7)
Less cash and short-term investments	33.3	94.2	(60.9)	(64.7)
Net debt	297.0	267.7	29.3	10.9
Equity	709.7	697.3	12.4	1.8
Capitalization	\$1,006.7	\$965.0	\$41.7	4.3
Debt ratio	29.5%	27.7%	1.8	<i>nmf</i>

The debt ratio after the third quarter of 2006 increased to 29.5% from 27.7% at September 30, 2005 as the Corporation continues to self-finance its capital and dividend requirements. The overall level of net debt increased \$29.3 million due to a reduction in cash and short-term investments partially offset by repayment of long-term debt. In addition, retained earnings increased by \$12.4 million.

2006 Outlook

The 2005 SaskTel Annual Report identified a consolidated net income target for 2006 of \$70.5 million. Results to September 30, 2006 are favourable, driven primarily by favourable long distance and access revenues due to delays in competition, and favourable cellular accesses, partially offset by related cellular customer acquisition costs. The Corporation anticipates increased competitive pressures and increased restructuring charges through the remainder of 2006, however, at this time the Corporation believes the 2006 net income will meet the established target.

Risk Assessment

The 2005 Annual Report discussed the risks and uncertainties in SaskTel's business environment. It included developments in the economic and regulatory environments, challenges faced by the defined benefit pension plan, competitive activity and more. The Corporation constantly monitors and manages key risks as they evolve, employing an enterprise-wide risk management process of risk identification, mitigation, transfer and assumption. A key focus for SaskTel is on risks associated with the relatively new internet protocol (IP) environment. These risks manifest themselves in the technology (industry network reliability, degree of redundancy, and authorized access), the regulatory environment (CRTC VoIP and Local Forbearance decisions), and internal process simplification (cost containment). The anticipated impacts of this relatively new IP environment have been included in the assumptions for the planning process. Mitigation includes, most specifically, significant capital spending on IP technologies, continued regulatory lobbying and consistent focus on cost containment.

Consolidated Statement of Operations

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Operating revenues	\$255,577	\$246,375	\$755,551	\$733,734
Operating expenses				
Operations	175,917	166,081	518,917	494,286
Depreciation and amortization	37,935	38,506	113,369	110,929
Restructuring charges (Note 2)	-	60	26,003	16,584
	213,852	204,647	658,289	621,799
Income from operations	41,725	41,728	97,262	111,935
Other items	1,106	583	4,404	3,085
Interest and related costs	(6,092)	(6,472)	(19,641)	(19,244)
Income before the following	36,739	35,839	82,025	95,776
Gain on sale of investments (Note 3)	-	-	114	-
Net income	\$36,739	\$35,839	\$82,139	\$95,776

Consolidated Statement of Retained Earnings

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Retained earnings, beginning of period	\$435,467	\$421,655	\$415,067	\$408,632
Net income	36,739	35,839	82,139	95,776
	472,206	457,494	497,206	504,408
Dividends	12,500	10,190	37,500	57,104
Retained earnings, end of period	\$459,706	\$447,304	\$459,706	\$447,304

See Accompanying Notes

Consolidated Statement of Financial Position

As at Thousands of dollars, (unaudited)	September 30, 2006	December 31, 2005
Assets		
Current assets		
Cash and short-term investments	\$33,285	\$97,079
Accounts receivable	95,234	100,380
Inventories	7,357	6,832
Prepaid expenses	21,209	14,651
	157,085	218,942
Property, plant and equipment		
Property, plant and equipment	2,737,382	2,640,616
Less accumulated depreciation	1,806,414	1,766,147
	930,968	874,469
Intangible assets		
Intangible assets	50,058	47,195
Less accumulated amortization	21,248	17,534
	28,810	29,661
Investments		
Investments	778	748
Goodwill		
Goodwill	18,359	18,953
Other assets		
Other assets	82,029	70,892
	\$1,218,029	\$1,213,665
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities	\$108,606	\$136,845
Dividend payable	12,500	815
Services billed in advance	43,959	42,009
Current portion of long-term debt	22,848	38,320
	187,913	217,989
Deferred revenue		
Deferred revenue	12,684	9,539
Long-term debt		
Long-term debt	307,417	320,742
	508,014	548,270
Non-controlling interest		
Non-controlling interest	309	328
Province of Saskatchewan's equity		
Equity advance	250,000	250,000
Retained earnings	459,706	415,067
	709,706	665,067
	\$1,218,029	\$1,213,665

See Accompanying Notes

Consolidated Statement of Cash Flows

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Cash provided by (used in):				
Operating activities				
Income from operations	\$36,739	\$35,839	\$82,139	\$ 95,776
Items not affecting cash (Note 4)	36,213	38,149	130,339	133,290
Other operating items (Note 5)	(15,487)	(15,095)	(55,663)	(96,212)
	57,465	58,893	156,815	132,854
Financing activities				
Repayment of long-term debt	(10,533)	(1,040)	(24,964)	(2,064)
Capital lease obligations	(636)	(763)	(2,280)	(2,194)
Dividends paid	(12,500)	(25,709)	(25,815)	(78,129)
	(23,669)	(27,512)	(53,059)	(82,387)
Investing activities				
Property, plant and equipment expenditures	(68,053)	(41,300)	(165,504)	(93,538)
Proceeds on sale of investments	-	-	574	-
Investments acquired	-	(1,400)	-	(3,036)
Customer accounts	(715)	(865)	(2,620)	(2,150)
Other assets	-	323	-	928
	(68,768)	(43,242)	(167,550)	(97,796)
Decrease in cash	(34,972)	(11,861)	(63,794)	(47,329)
Cash and cash equivalents, beginning of period	68,257	106,024	97,079	141,492
Cash and cash equivalents, end of period	\$33,285	\$ 94,163	\$33,285	\$ 94,163
Comprised of:				
Cash			\$3,279	\$4,974
Short-term investments			30,006	89,189
Cash and short-term investments			\$33,285	\$ 94,163
Interest Paid	\$6,935	\$6,830	\$22,421	\$22,316
<i>See Accompanying Notes</i>				

Notes to Consolidated Financial Statements, September 30, 2006

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, 2005. The unaudited interim statements should be read in conjunction with the Corporation's December 31, 2005 audited financial statements.

Note 2 – Restructuring charges

During the period, \$26.0 million was recorded to restructuring charges. The charges relate to phase two of a proposed three-phase voluntary Early Retirement Program (ERP) for Saskatchewan Telecommunications.

The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. The second phase began in December of 2005 and will be completed during 2007. In the first nine months of 2006, 93 employees elected to receive a package that includes a cash allowance and immediate pension benefits.

Thousands of dollars, (unaudited),	2006	2005
Balance in accounts payable and accrued liabilities at January 1	\$8,670	\$8,989
Restructuring charges	26,003	16,584
Less:		
Cash payments	10,106	9,711
Special termination benefits cost	21,076	12,288
Balance in accounts payable and accrued liabilities at September 30	\$3,491	\$3,574

Note 3 – Acquisitions and disposals

On January 10, 2006 the Corporation purchased, through its subsidiary DirectWest Corporation, the directory assets of THE Telephone Book COMPANY Inc. as follows:

Thousands of dollars, (unaudited)	
Total consideration	\$350
Total tangible assets	113
Total intangible assets	244
Total liabilities	(7)
Net assets acquired	\$350

During the first quarter the Corporation disposed of its majority interest in Business Watch International Inc. for cash proceeds of \$574,228 resulting in a gain on sale of \$113,865.

Notes to Consolidated Financial Statements, September 30, 2006

Note 3 – Acquisitions, continued

Effective May 1, 2006, the Corporation integrated the majority of the operations and net assets of Navigata Communications Partnership with those of Saskatchewan Telecommunications. As part of the integration the balance of outstanding partnership units were sold to the former partner in exchange for cash proceeds of \$100,000 resulting in a nominal gain.

Note 4 – Items not affecting cash from operations

Thousands of dollars,	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Depreciation and amortization	\$37,935	\$38,506	\$113,369	\$110,929
Pension expense (income) of defined benefit plans	(134)	1,288	683	6,049
Special termination benefits cost	-	-	21,076	12,288
Net share of loss from significantly influenced companies	33	93	(4)	20
Sinking fund earnings	(791)	(1,055)	(1,553)	(2,792)
Gain on sale of investments	-	-	(114)	-
Service recognition defined benefit program curtailment	-	-	-	7,452
Other	(830)	(683)	(3,118)	(656)
	\$36,213	\$38,149	\$130,339	\$133,290

Note 5 – Other operating items

Thousands of dollars,	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Changes in non-cash working capital				
Accounts receivable	\$(3,481)	\$(2,332)	\$5,092	\$(39,216)
Inventories	98	(1,124)	(524)	(3)
Prepaid expenses	3,873	18	(6,558)	(6,458)
Accounts payable and accrued liabilities	(7,916)	(2,393)	(29,486)	(26,806)
Deferred revenue	1,235	1,127	3,117	3,029
Deferred expenses	(998)	(863)	(2,475)	(2,348)
Services billed in advance	547	(139)	1,950	3,455
Contributions to defined benefit pension plans	(8,845)	(9,389)	(26,779)	(27,865)
	\$(15,487)	\$(15,095)	\$(55,663)	\$(96,212)

Notes to Consolidated Financial Statements, September 30, 2006

Note 6 – Pension costs

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

Thousands of dollars, (unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Current service cost - defined benefit plan	\$(1,606)	\$(1,726)	\$(5,294)	\$(5,634)
Interest cost	(13,129)	(12,136)	(39,182)	(38,156)
Expected return on pension plan assets	14,887	14,283	44,660	42,877
Special termination benefits cost	-	-	(21,076)	(12,288)
Amortization of net transitional asset	2,916	2,913	8,748	8,739
Amortization of past service costs	(1,055)	(1,233)	(3,165)	(3,711)
Amortization of actuarial loss	(1,590)	(3,388)	(4,771)	(10,164)
Impact of settlement	(1,228)	-	(2,416)	-
Pension cost	\$(805)	\$(1,287)	\$(22,496)	\$(18,337)

Effective April 5, 2006, the Corporation received approval from the Office of the Superintendent of Financial Institutions to settle the Navigata Communications Inc. Pension Plan, governed by Navigata Communications Partnership. Management is in the process of settlement, the cost of which is recognized when payment occurs, in accordance with generally accepted accounting principles. To date, \$2.4 million of the cost has been recognized as a component of pension cost.

Service recognition defined benefit program

The service recognition defined benefit program provided a retiring allowance of two days salary per year of service which is payable on retirement. Based on the Collective Agreement between Saskatchewan Telecommunications and the Communications, Electrical and Paperworkers Union of Canada, ratified April 22, 2005, the service recognition defined benefit program was curtailed effective March 19, 2005. Employees will no longer earn two days pay per year of service, however will continue to earn incremental pay increases for the earned service until retirement. Key assumptions used as inputs to the actuarial calculations are:

	2006	2005
Discount rate	4.60%	5.20%
Expected salary increase	3.00%	3.40%
Estimated average remaining employee service life	14.1 years	14.6 years

Notes to Consolidated Financial Statements, September 30, 2006

Note 6 – Pension costs, continued

Current year benefit cost

Thousands of dollars, (unaudited)	Three months ended		Nine months ended	
	September, 30,		September 30,	
	2006	2005	2006	2005
Defined benefit service cost	\$347	\$325	\$1,041	\$447
Impact of curtailment	-	-	-	7,452
	\$347	\$325	\$1,041	\$7,899

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 the 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 July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Corporation believes that it has strong defenses to the allegations. Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of the corporation could result.

Note 8 – Rate regulation

Direct Connect and Access Tandem Services

Direct Connect and Access Tandem are inter-connection services sold to long distance competitors. On April 27, 2006 the Canadian Radio-television and Telecommunications Commission (CRTC) issued Telecom Decision CRTC 2006-22 and Telecom Decision CRTC 2006-23 approving final rates for Direct Connect and Access Tandem Services. These rates are retroactive to June 1, 2002 for Access Tandem Services and to December 17, 2003 for Direct Connect Services. As a result of these decisions, adjustments were made to previously accrued liabilities to reflect the retroactive application of the final rates. This had a positive impact to 2006 net income of \$2,078,000.

Note 9 – Comparative figures

Certain of the 2005 figures have been reclassified to conform to the current year's presentation.